

WARWICKSHIRE COUNTY COUNCIL

# WARWICKSHIRE RECOVERY & INVESTMENT FUND

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Business Operational Plan 2021 - 2026  
MAY 2021



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# 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:

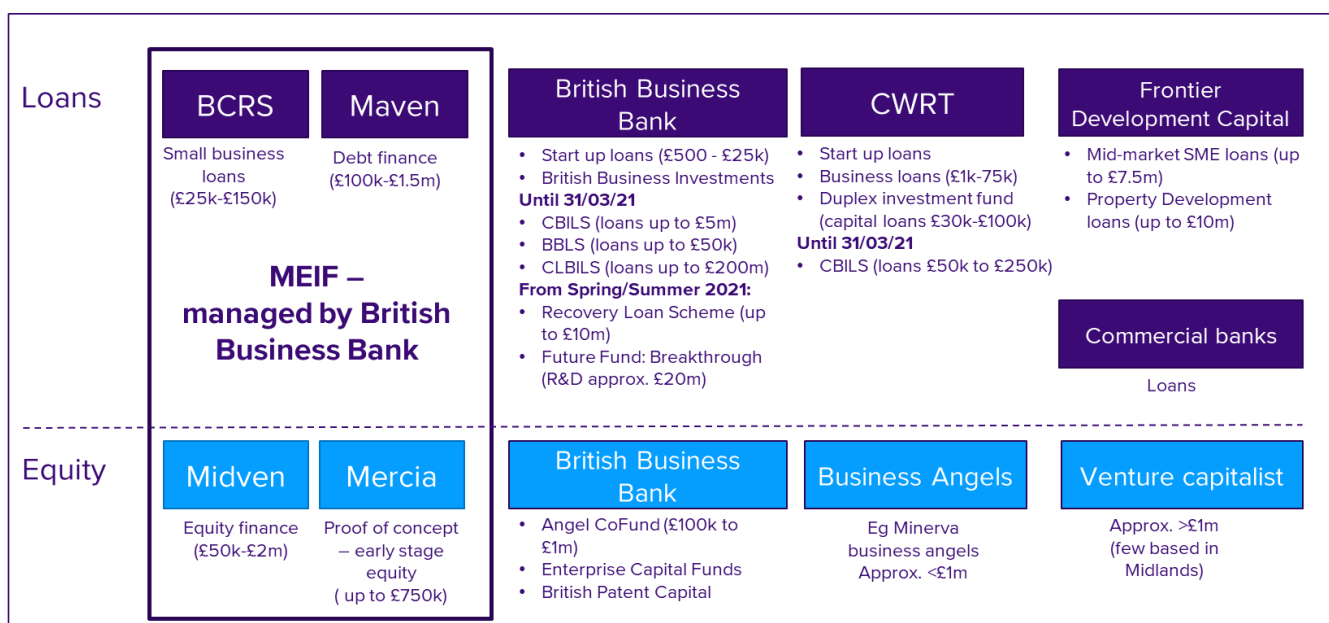
- Business Investment Growth;
- Local Communities & Enterprise; and
- Property & Infrastructure.

## 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;

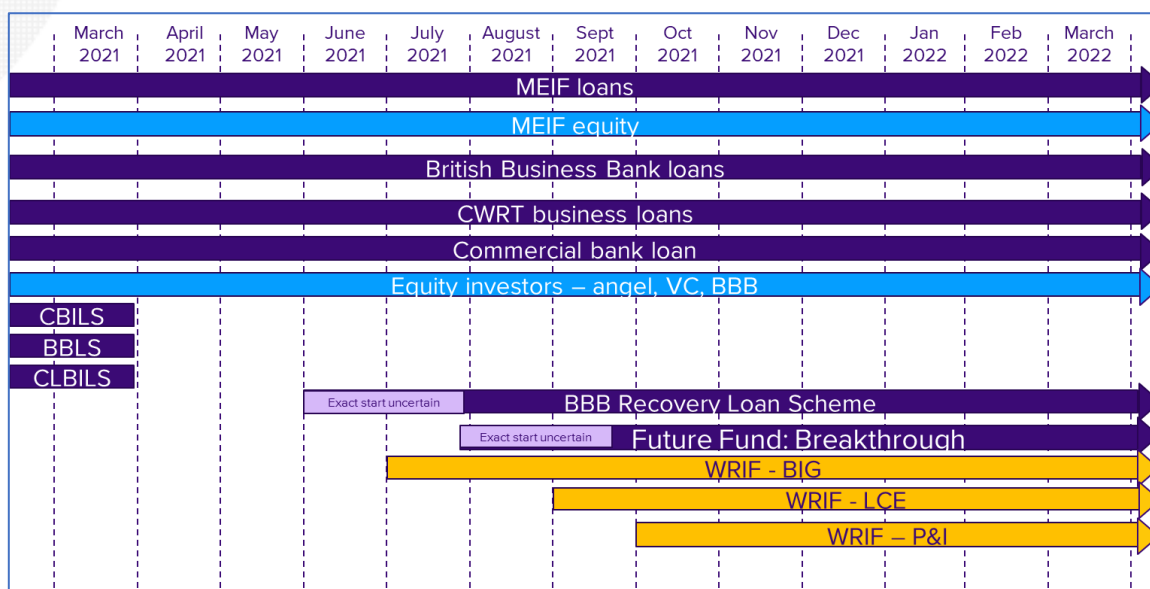
- Limited appetite for finance from social enterprises and an indication that supporting business/investor readiness for these business types in the short term would enable investment and growth in the medium term;
- Ongoing demand for finance, particularly from those businesses that have not accessed 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
<b>Support business and grow the economy;</b> 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
<b>Increase the rate of employment;</b> 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
<b>Provides employment land and premises;</b> 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
<b>Enables Carbon reduction;</b> 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
<b>Increases Social Value;</b> 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**



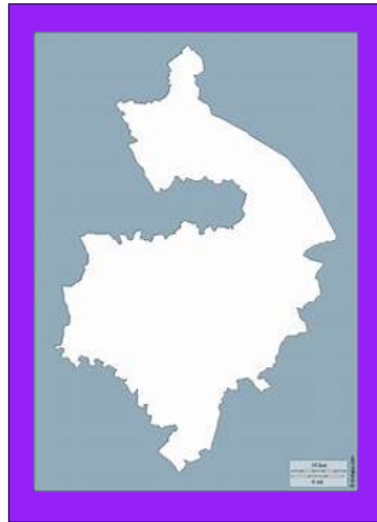
Companies supported  
**12**



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:

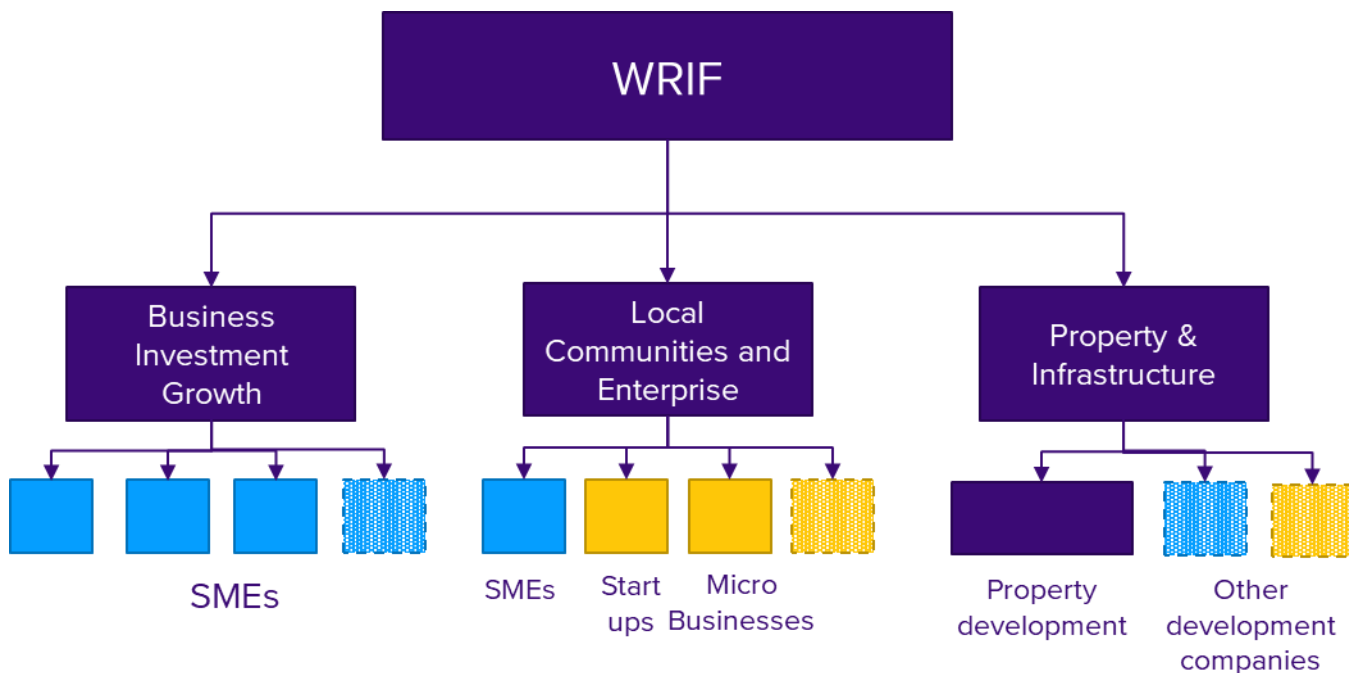
Key target	Indicative outcomes (per biz case)	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Amount invested	<b>£140m</b>	£22m	£32m	£32m	£32m	£22m	£0m	£0m	<b>£140m</b>
Companies supported (number of investments)	<b>118</b>	12	23	23	23	21	0	0	<b>102</b>
Jobs created	<b>2,500 - 3,400</b>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

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
<p><b>WRIF portfolio</b> 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.</p> <p>Offering businesses access to specific and tailored pre- and post-investment support programmes and ensure they are both business and investor ready.</p>	<p>Providing access to finance to aid business recovery and growth that will support the economic recovery of the County.</p>	<p><b>Portfolio priorities:</b></p> <ul style="list-style-type: none"> <li>Investment in priority sectors or any sector or industry or business type that creates or safeguards skilled or entry level jobs</li> <li>Securing inward investment – can or will leverage additional resources or funding</li> <li>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</li> </ul>

Element	Description	Priorities
		<ul style="list-style-type: none"> <li>Support for 'green' / sustainable technologies or industries</li> </ul>
<p><b>Business Investment Growth Pillar</b>  <i>Finance for growing businesses with sound prospects.</i></p> <p><i>Aimed at enabling growth and supporting medium – longer term economic recovery.</i></p>	<p><b>Business Growth Fund</b>  <i>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</i></p> <p><i>Predominantly Debt finance although some consideration will be given to equity-based investment opportunities.</i></p> <p>Focus on established and growing businesses.</p> <p>Businesses located in Warwickshire or expanding/relocating into the County where large injections of capital are often needed to continue growth.</p>	<p>Focused on Medium Sized Enterprises (50-250 employees), but open to smaller or larger businesses on a case by case basis</p> <p><b>Future Growth Sectors:</b></p> <ul style="list-style-type: none"> <li>Automotive Technology</li> <li>Digital Creative &amp; Digital Technologies</li> <li>Future of Mobility</li> <li>Low carbon technologies</li> </ul> <p><b>Other key priority sectors:</b></p> <ul style="list-style-type: none"> <li>Advanced manufacturing</li> <li>Culture, Tourism &amp; Hospitality</li> <li>Modern methods of construction</li> <li>Health &amp; Wellbeing</li> <li>Agri-tech and rural based businesses</li> <li>Businesses in the supply chain that support delivery of the Council's priority outcomes for people, for example public health, social care and education.</li> </ul>
<p><b>Local Communities &amp; Enterprise Pillar</b>  <i>Aimed at addressing the short-term impact of the pandemic.</i></p> <p><i>Focus on new, sustainable and growing SMES.</i></p>	<p><b>Small Business Fund</b>  <i>Debt Finance for growth, support and development projects.</i></p>	<p>Focused on start-ups, micro and small businesses (less than 50 employees)</p> <p><b>Building on our strengths:</b></p> <ul style="list-style-type: none"> <li>Advanced manufacturing &amp; engineering</li> <li>Digital Creative &amp; Digital Technologies</li> <li>Culture, Tourism &amp; Hospitality</li> <li>Low carbon technologies</li> </ul> <p><b>Other key priority sectors:</b></p> <ul style="list-style-type: none"> <li>Retail</li> <li>Community based enterprises</li> <li>Creative industries</li> <li>Health &amp; wellbeing</li> <li>Social care or other supply markets to the Council</li> </ul>
<p><b>Property &amp; Infrastructure Pillar</b>  <i>Focus on enabling and accelerating development of</i></p>	<p><b>Property &amp; Infrastructure Fund</b>  <i>Providing loans to forward fund infrastructure, invest</i></p>	<p>Flexible fund to help bring forward new employment land and commercial space</p> <p><b>Creating space for future growth:</b></p>

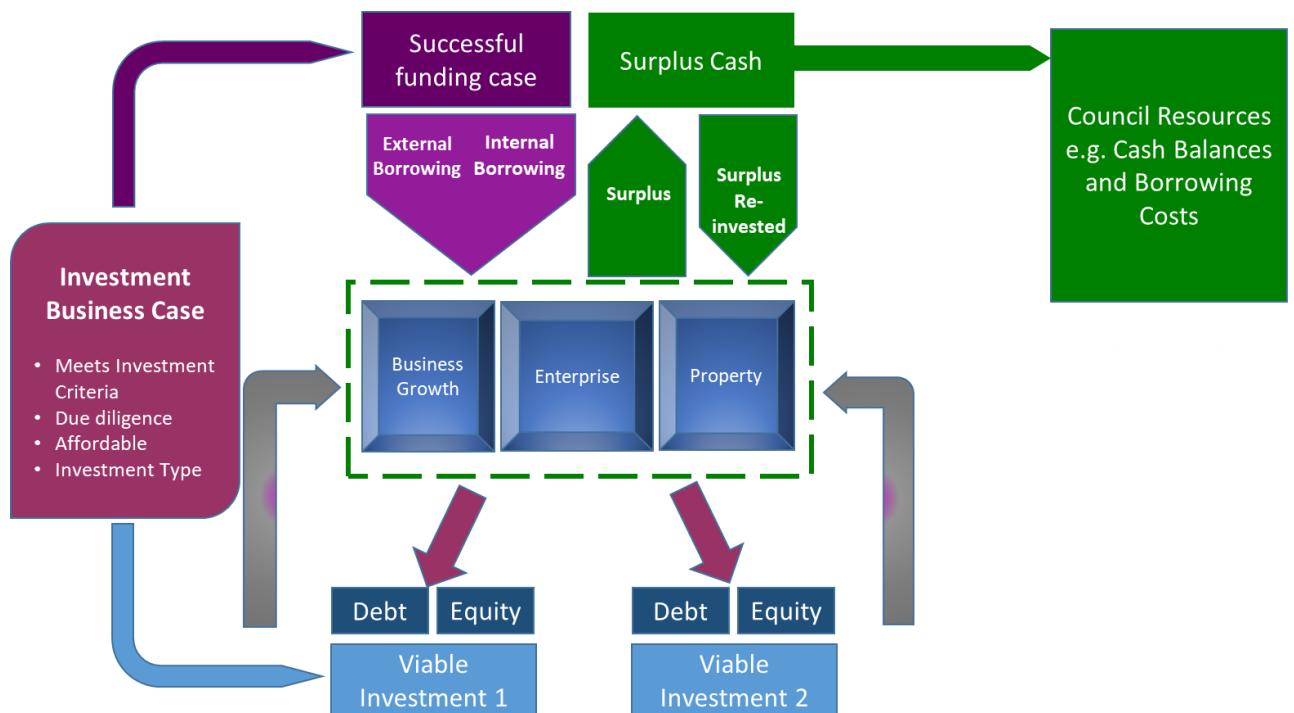
Element	Description	Priorities
<i>property and site-specific infrastructure schemes.</i>	<i>in commercial site and premises and to unlock development consistent with the needs of key sectors and/or wider ambitions for economic recovery.</i>	<ul style="list-style-type: none"> <li>Automotive technology</li> <li>Digital Creative &amp; Digital Technologies</li> <li>Future of Mobility</li> <li>Low carbon technologies</li> <li>R&amp;D and innovation facilities</li> <li>New start-up, incubator and accelerator space</li> </ul> <p><b>Other key priorities:</b></p> <ul style="list-style-type: none"> <li>New/upgraded spaces within our town centres, incl. retail, hospitality, culture, leisure, health &amp; wellbeing, community-based enterprises, co-working/flexible work space</li> <li>Health &amp; social care facilities</li> </ul>

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	<ul style="list-style-type: none"> <li>Predominantly Debt plus a small proportion of Equity products, once established</li> </ul>
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	<ul style="list-style-type: none"> <li>Predominantly debt - commercial loans</li> <li>Management Buy Outs/ Acquisitions / Refinancing</li> <li>Once established, small number of investment opportunities will be considered for equity based investment</li> </ul>
Local Communities & Enterprise Pillar [£10m]	Small Business Fund [£10m]	<£500k (Approx. 10-30 per year. Higher volume, lower value loans)	Up to 5 years	<ul style="list-style-type: none"> <li>Small Business Loans</li> </ul>
Property & Infrastructure Pillar [£40m]	Property & Infrastructure Fund [£40m] For investments	<£40m	Up to 10 years	<ul style="list-style-type: none"> <li>Commercial loans</li> <li>Equity investment</li> <li>Corporate guarantees</li> <li>Joint Ventures</li> </ul>

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
<ul style="list-style-type: none"> <li>• 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</li> <li>• Knowledge of the existing market and sectors operating in the county will support identification of need and demand to inform the Investment Strategy</li> <li>• Annual confirmation of the Investment Strategy will allow the WRIF to respond to market pressures/demand</li> <li>• Existing relationships with Funds and Fund Managers operating within the region</li> <li>• The Fund is a flexible approach that allows different recipients/beneficiaries and different benefits to be targeted to ensure delivery of objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of internal skills and experience in managing an investment fund</li> <li>• Time it will take to establish the Fund against pressing need for short term financial support</li> <li>• Challenges in achieving balance of work for Fund Management / Council (business as usual).</li> <li>• Costs to establish and operate the WRIF</li> <li>• Limited knowledge in how to market/ advertise the Fund</li> <li>• Risk appetite will restrict the potential investment products that can be offered</li> <li>• Focus on recovery increases the risk of default</li> <li>• Requirements to ensure that State Aid (now public subsidy) rules are considered</li> </ul>

<ul style="list-style-type: none"> <li>• The Fund supports and delivers local economic benefit to the businesses in which the WRIF invests and the county as a whole</li> <li>• Can deliver benefits to Warwickshire, for a nil revenue impact on the Authority</li> <li>• Designed to meet existing and unmet demand not being addressed by the current investment market</li> <li>• Potential to leverage additional funding</li> <li>• Access to a range of different funding sources</li> <li>• A mixed economy of Fund Management provides for a slim, low cost organisation to support delivery of the WRIF</li> <li>• Compliance with Public Works Loan Board requirements</li> </ul>	
<p><b>Opportunities</b></p>	<p><b>Threats</b></p>
<ul style="list-style-type: none"> <li>• Flexibility of Investment Strategy to reflect demand for finance</li> <li>• Allows the Council to focus on emerging high growth areas and corporate priorities (e.g. the climate emergency)</li> <li>• Current and unmet demand for finance</li> <li>• Potential to leverage additional funding / investment</li> <li>• Provide skills transfer / diversification through investment activities and liaison with external Fund Managers</li> <li>• Potential to deliver a variety of different benefits and to different beneficiaries</li> <li>• To expand and/or extend the Fund if deemed successful</li> </ul>	<ul style="list-style-type: none"> <li>• Reputational risk</li> <li>• Changes in Market demand</li> <li>• Increases in interest rates and/or reduction in rate of returns for the Council</li> <li>• Impact of Public Subsidy guidance on attractiveness of Fund</li> <li>• Risk of default or asset valuation reductions causing financial losses</li> <li>• Legislative changes and/or borrowing restrictions which could be unfavourable to the WRIF</li> <li>• Potential capacity of Council staff to deliver internally managed elements of the Fund</li> <li>• Need to create ethical walls with existing Business &amp; Skills team/other areas of the Council</li> <li>• Lack of appetite from external fund managers</li> </ul>

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.

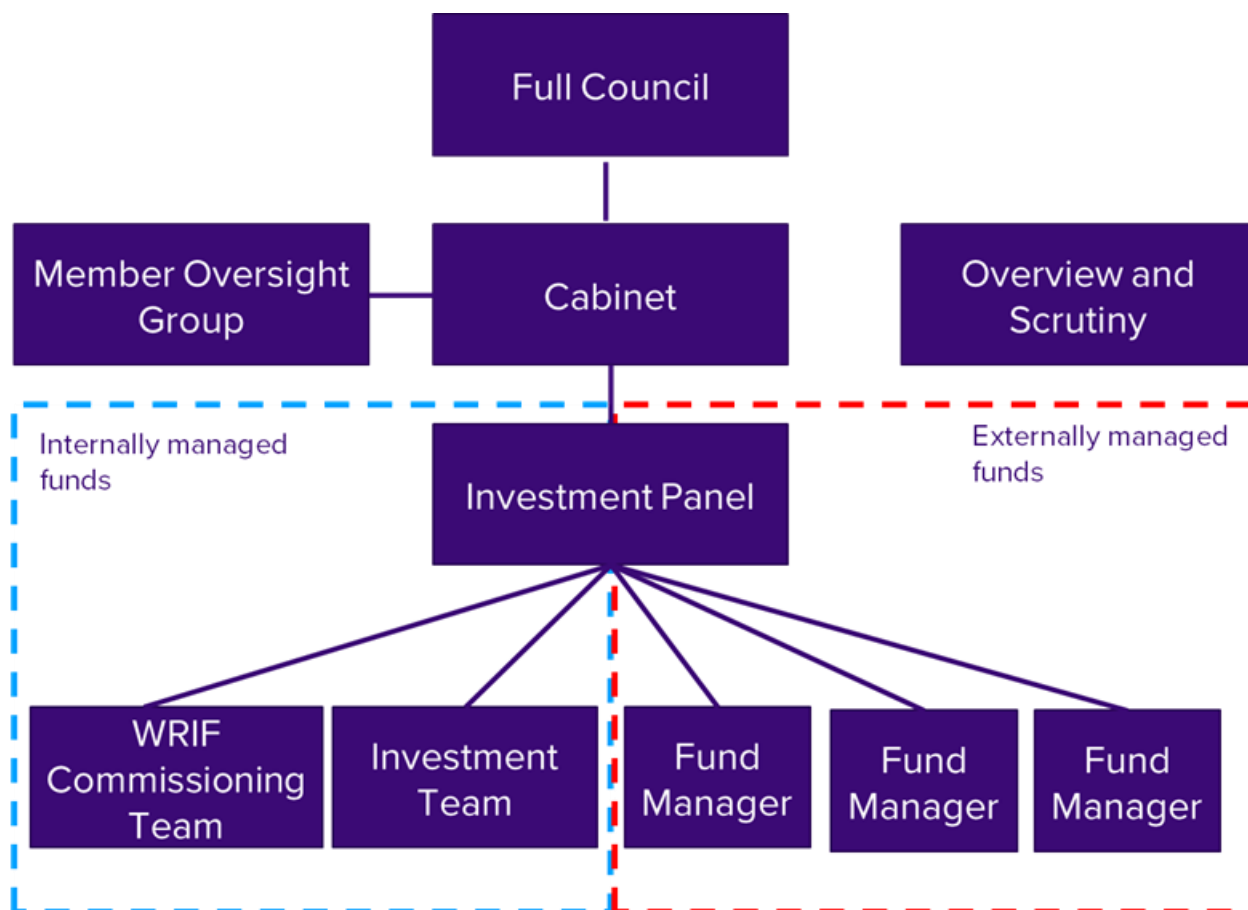
- Establishing a robust due diligence and governance process to ensure viable investments that demonstrate alignment with the achievement of objectives are recommended for approval;
- Regular monitoring of market demand to identify any changes and update the Investment Strategy accordingly;
- Regular 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	<ul style="list-style-type: none"> <li>Approval of MTFs, budget, Treasury Management Strategy and Investment Strategy</li> </ul>
Cabinet	<ul style="list-style-type: none"> <li>To approve the annual Business Plan</li> <li>To review previous year's performance</li> <li>To recommend the WRIF budget for subsequent years</li> <li>To agree priorities for external fund managers, provided they are consistent with the Council's Investment Strategy</li> <li>To approve and agree amendments to the WRIF Investment Strategy</li> <li>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</li> </ul>

Group	Role
Council	<ul style="list-style-type: none"> <li>To approve WRIF funding</li> <li>To approve the Council's overarching Investment Strategy and Treasury Management Strategy and their controls and protocols that the WRIF must operate within</li> </ul>
Overview & Scrutiny Committee	<ul style="list-style-type: none"> <li>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</li> </ul>
Audit & Standards Committee	<ul style="list-style-type: none"> <li>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</li> </ul>
Member Oversight Group	<ul style="list-style-type: none"> <li>To consider and provide representations on the direction, scope and priorities of the WRIF Investment Strategy</li> <li>To have oversight of the fund's performance on policy and financial grounds, assessing delivery of the annual business plan</li> <li>To develop a greater understanding and build expertise and skills in the analysis of the investment market and investment opportunities</li> </ul>
Investment Panel	<ul style="list-style-type: none"> <li>To recommend the approval of the annual Business Plan to Cabinet</li> <li>To agree proposed updates to the WRIF Investment Strategy and priorities for external Fund Managers and make recommendations to Cabinet</li> <li>To approve which opportunities are to proceed to Investment Business Case stage, following the sift process</li> <li>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</li> <li>To monitor performance of individual investments and portfolio and take corrective action where necessary</li> <li>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</li> <li>To monitor benefits realisation</li> </ul>
WRIF Commissioning Team (within Economy & Skills)	<ul style="list-style-type: none"> <li>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</li> <li>To provide input into the annual Business Plan</li> <li>To develop overall performance framework and undertake contract management of external Fund Managers</li> <li>To source investment opportunities</li> <li>To provide the 'front door' first point of contact for applicants to the WRIF</li> <li>To promote and signpost potential applicants</li> <li>To work with businesses in advance of submitting funding/investment requests</li> <li>To provide and coordinate business support programmes</li> </ul>

Group	Role
	<ul style="list-style-type: none"> <li>• To sift and evaluate opportunities in line with the Investment Strategy</li> <li>• To prepare Investment Business Cases for Investment Panel consideration</li> <li>• Manage the pool of external advisors called off via a new dynamic purchasing system (DPS) for business support services as required</li> <li>• To write reports to the Member Oversight Group on pipeline of investment approvals and those rejected or referred for further support.</li> </ul>
WRIF Investment Team (within Finance)	<ul style="list-style-type: none"> <li>• To lead and coordinate the preparation of the annual Business Plan for Investment Panel approval</li> <li>• To lead and coordinate preparation of the annual refresh of the Investment Strategy</li> <li>• To establish the Investment Panel and have an ongoing role in monitoring governance arrangements to ensure they remain robust</li> <li>• To lead on and coordinate the due diligence process to inform individual investment business cases</li> <li>• To support the Investment Panel in evaluating opportunities, by undertaking due diligence and providing a report on the overall investment portfolio</li> <li>• To monitor progress and performance of investments and portfolio, including on risk (for internally managed investments)</li> <li>• To manage the financing of investments (e.g. via internal and external borrowing)</li> <li>• To oversee and manage accounting requirements</li> <li>• Manage the pool of external advisors as required</li> <li>• Maintain the WRIF Risk Register and own responsibility for relevant mitigating actions</li> </ul>
External Fund Managers	<ul style="list-style-type: none"> <li>• To source investment opportunities</li> <li>• To sift and evaluate opportunities in line with the Investment Strategy and contract, including undertaking due diligence</li> <li>• To make investments</li> <li>• To monitor and regularly report on progress and performance of investments and portfolio</li> <li>• To provide open access to information and performance data to WCC</li> </ul>

### 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) Internal Resources**

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

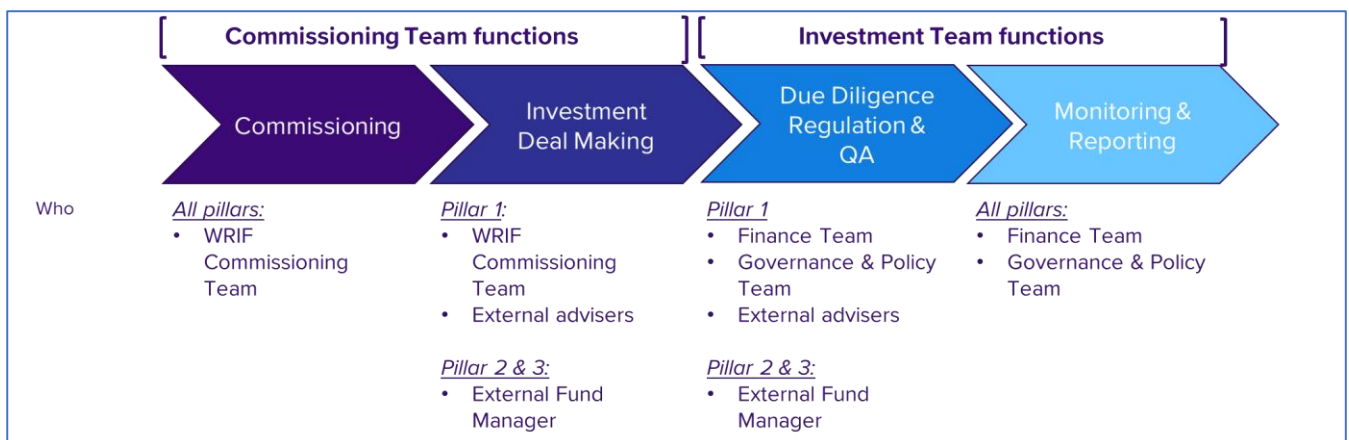
<b>Council Team</b>	<b>FTE</b>	<b>£ / p.a. plus on costs</b>	
<b><u>WRIF Commissioning Team (Economy &amp; Skills)</u></b>			
Business Growth Manager	1	£	18,000.00
Business Advisor	1	£	48,700.00
Plus Advisor Pool		£	100,000.00
<b><u>WRIF Investment Team (Finance)</u></b>			
Treasury Manager	0.65	£	42,900.00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

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) External Fund Management**

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

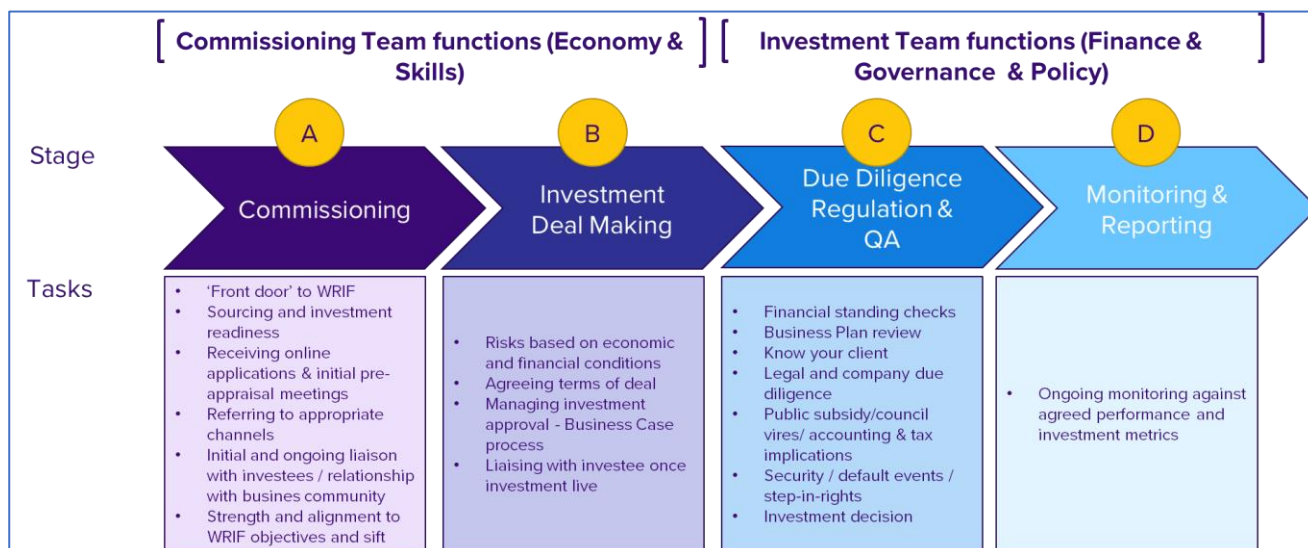
4.1 This section sets out the operational processes that will be followed in operating the WRIF.

## 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



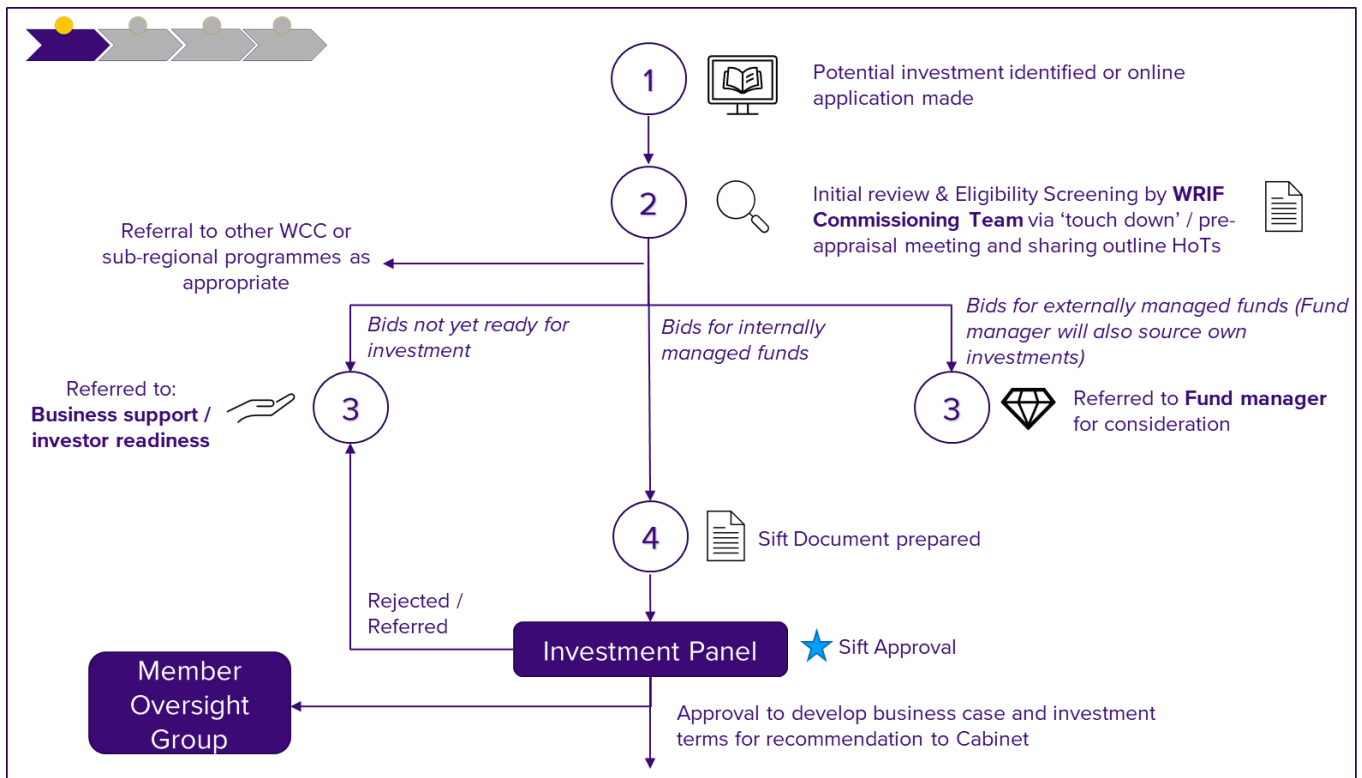
4.4 The process for investments is consistent across all 3 pillars; but for those managed externally, stages B, C, and D (with monitoring by the internal team additionally) above will be carried out by a Fund Manager. For PIF and BIG pillars investment decisions will be made by Cabinet. There is an interface 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:

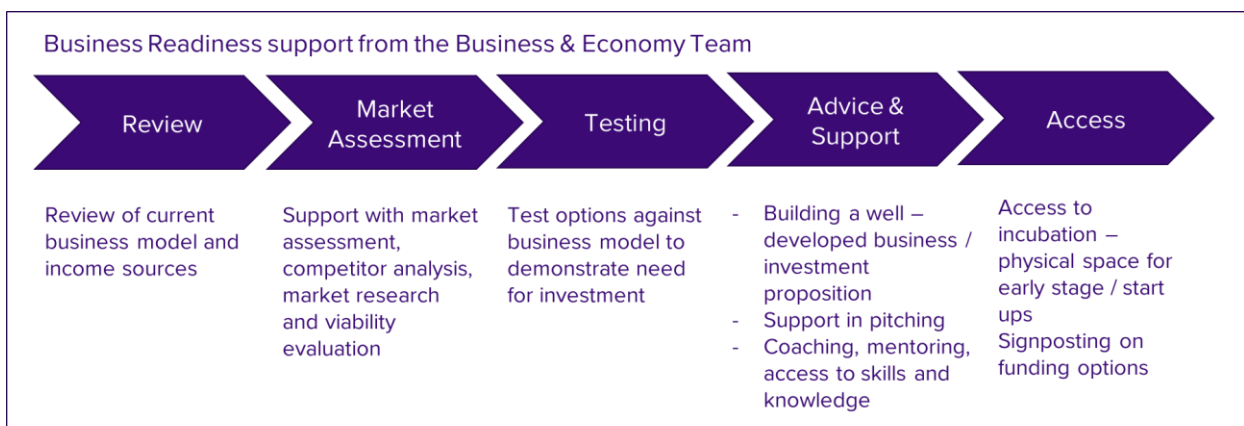
- **Stage 1 Potential investment identified/applied**– Potential investment identified by the WRIF Commissioning Team or an application is made online to the WRIF (see Appendix 5 for application form). The intention is that the Council will engage with businesses before submitting detailed information 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 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*



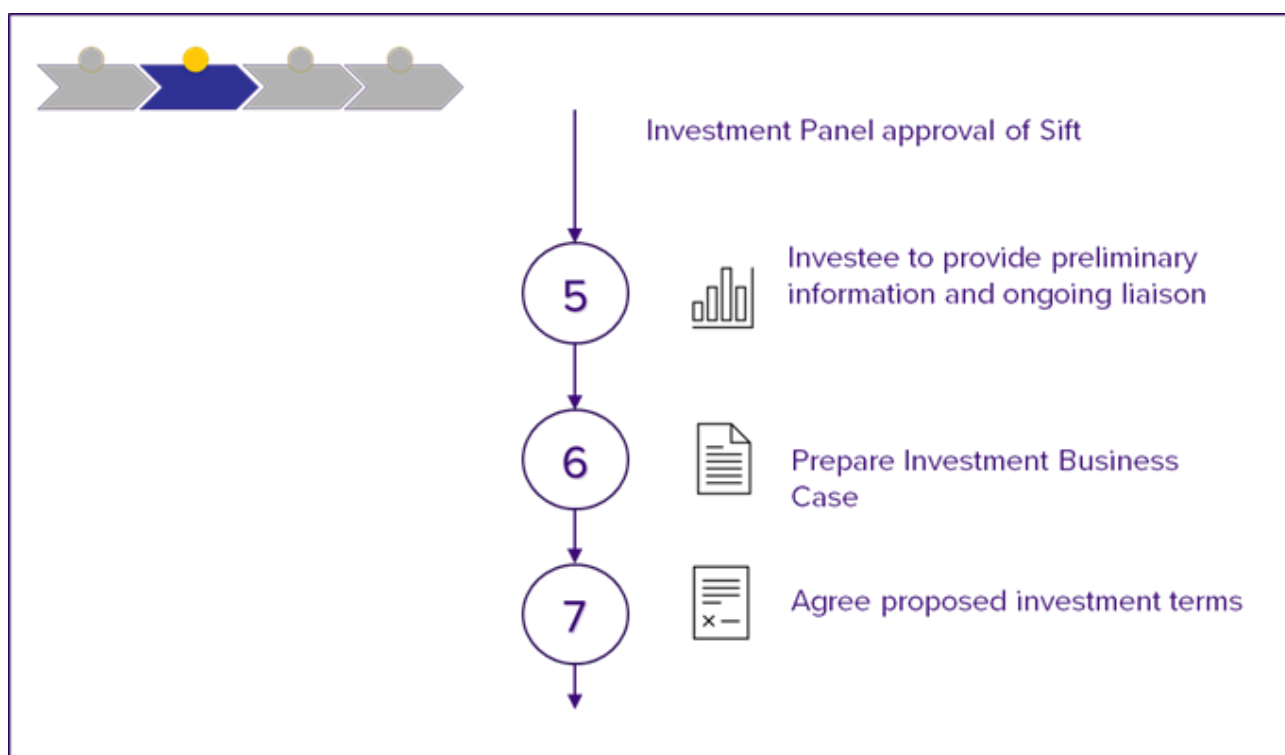


4.9 The quantity and type of business advice and support will be dependent upon the individual needs of the investee. This will vary significantly and will be customised to meet the requirements of each client. The Economy & Skills team will access resources as required, including via existing business 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:

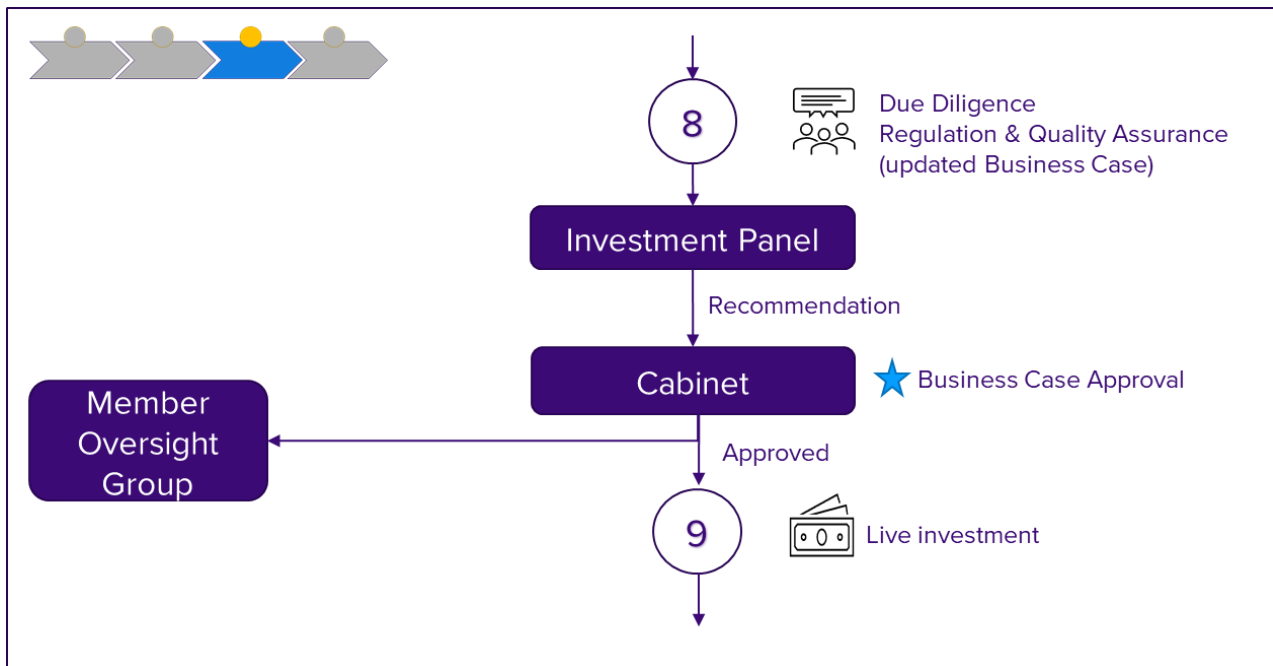
- **Stage 5 Information gathering** – the WRIF Commissioning Team will liaise with the investee to review the preliminary information and secure further clarification and documentation as required.
- **Stage 6 Investment Business Case** – An investment business case is prepared by the Commissioning Team 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



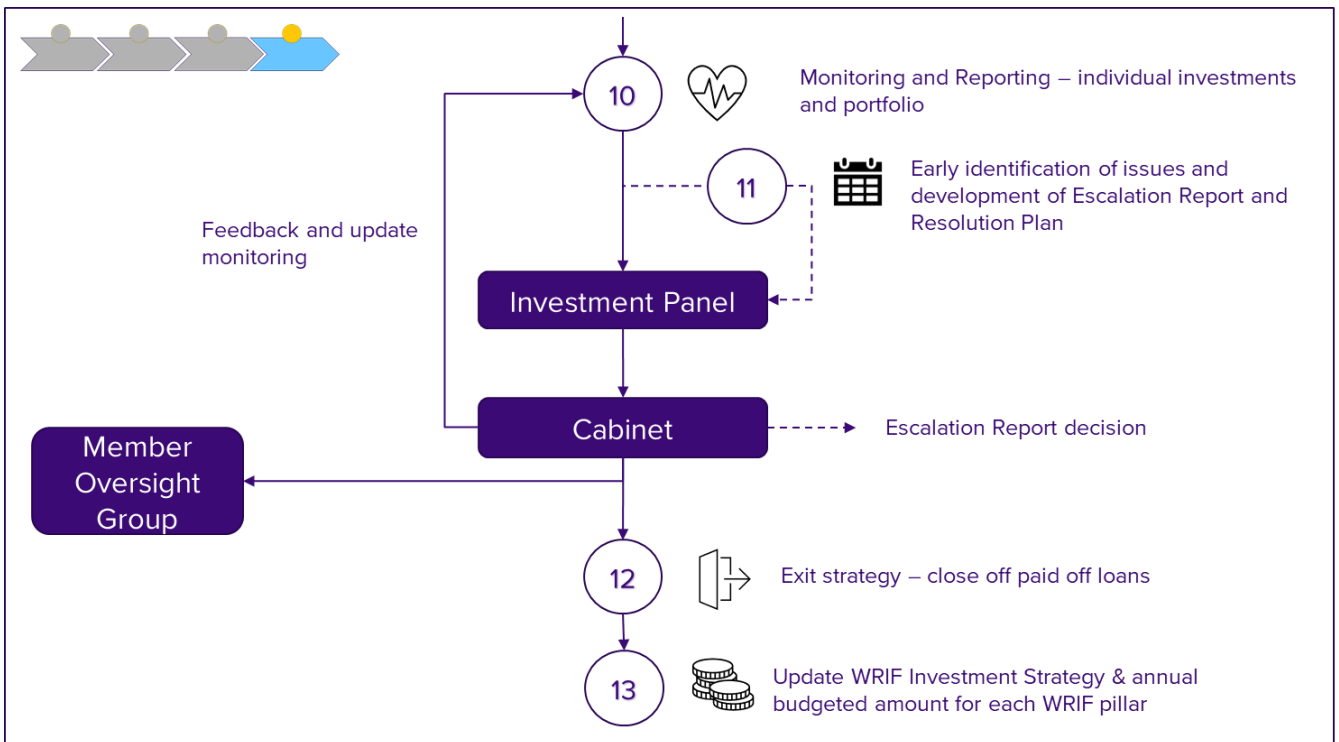
- Stage 8 Due Diligence** – Due diligence, investment challenge and regulation is carried out by the Investment Team- Finance and Governance & Policy Teams plus external advisors as required. This will comprise additional financial standing checks; Business Plan review; know your client; legal and company 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 depend 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.

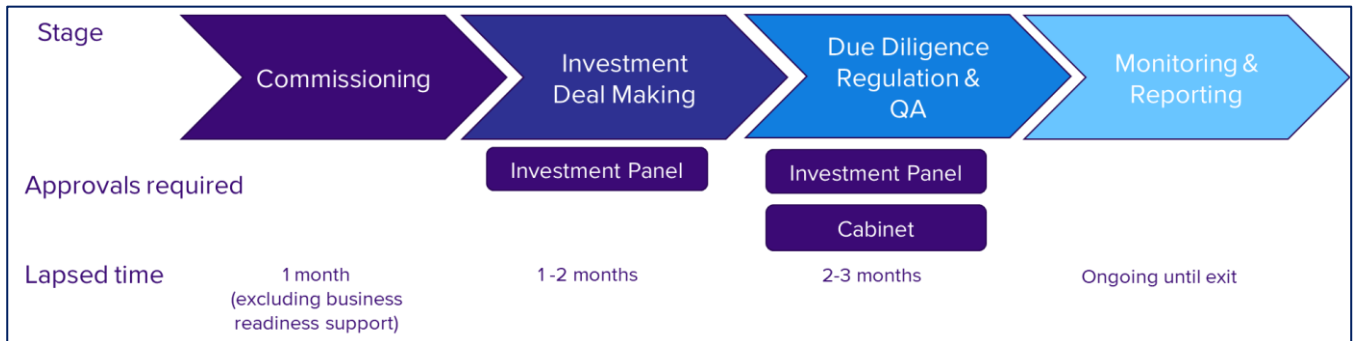
4.15 Members have oversight of these three approval stages through the Member Oversight Group where decisions can be challenged.

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:

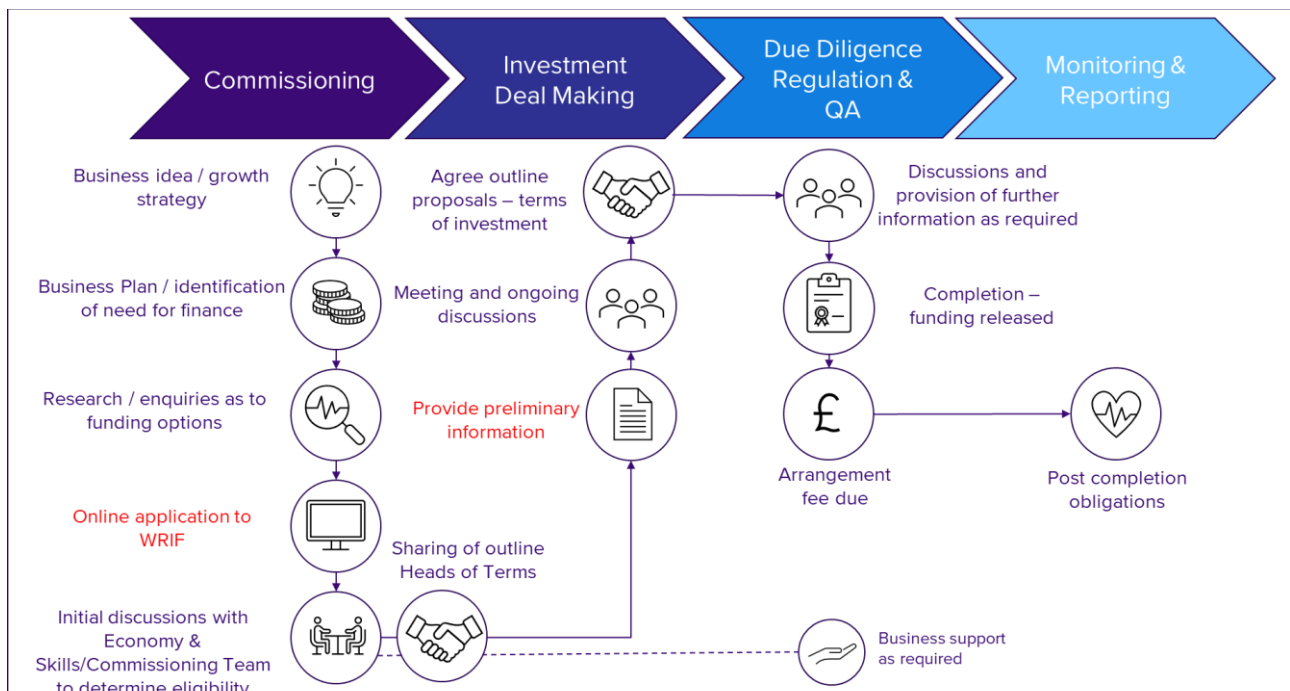
Figure 7: Approximate timescales for investment decisions



### 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.

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

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



<b>Pillar</b>	<b>Total £m</b>	<b>21/22 £m</b>	<b>22/23 £m</b>	<b>23/24 £m</b>	<b>24/25 £m</b>	<b>25/26 £m</b>
BIGI	90	20	20	20	20	10
LC&E	10	2	2	2	2	2
P&I	40	0	10	10	10	10
<b>Total</b>	<b>140</b>	<b>22</b>	<b>32</b>	<b>32</b>	<b>32</b>	<b>22</b>
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.

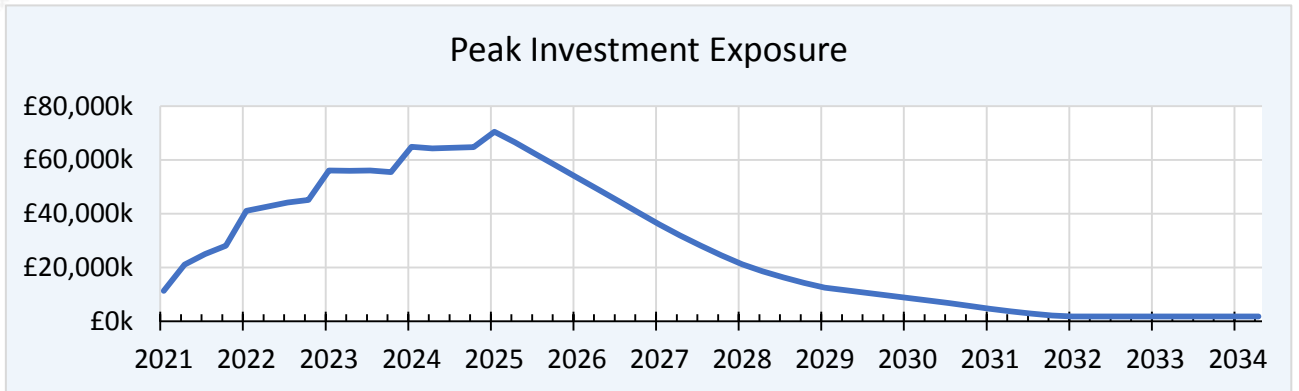
5.9 The form on investment will be defined by the rules set out in the Council's Treasury Management Strategy and the accompanying non-treasury Investment Strategy.

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:

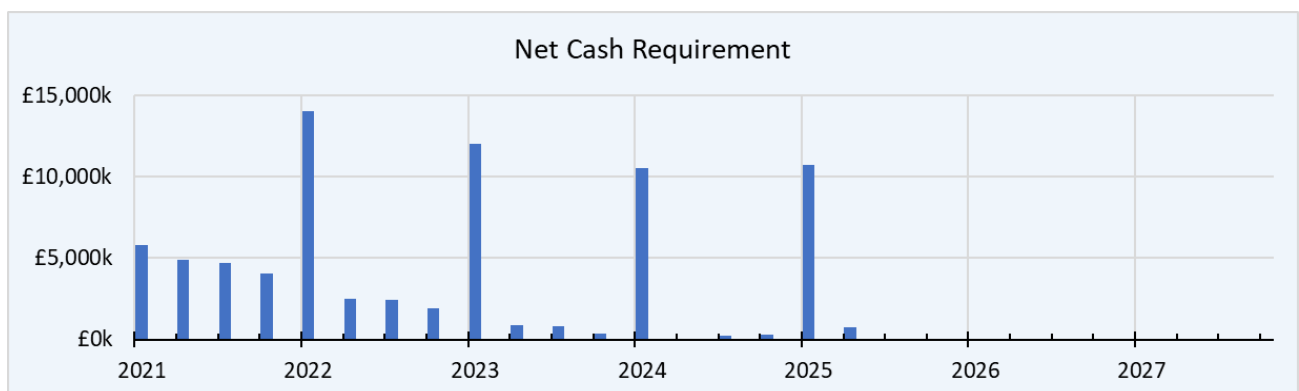


5.12 Based on this profile the peak exposure is £70.6m in October 2025.

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.

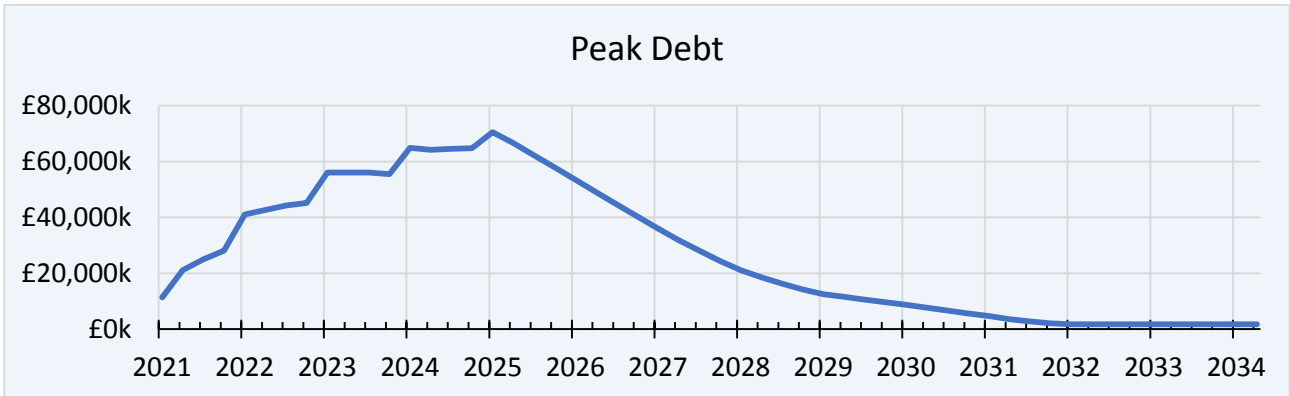
5.15 Using this profile, the estimated cash requirements of the WIRF are set out in the figure below. These figures will be continually monitored based on the market appetite for investment. Any changes would need to fit within the approved Treasury Management and Investment Strategies, to be put to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

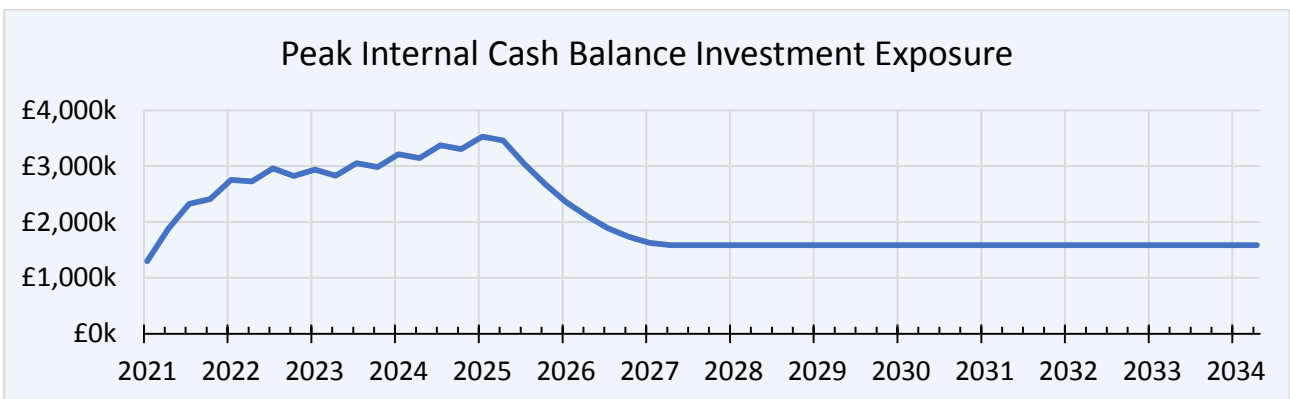
5.17 The figure below sets out the peak borrowing figure based on the activities of these two funds. The maximum borrowing of these two pillars is in October 2025 at £67m.



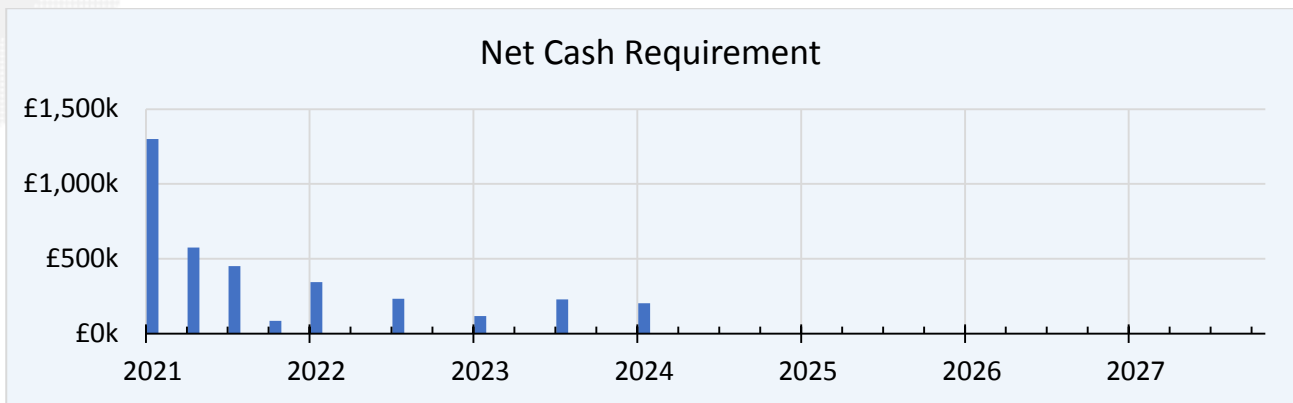
**Use of Internal Cash balances**

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	394	1,679	2,667	3,324	3,838	
Received							

Fees	110	110	110	110	59	
<b>Total Income</b>	<b>504</b>	<b>1,789</b>	<b>2,777</b>	<b>3,434</b>	<b>3,989</b>	
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	
<b>Total Costs</b>	<b>761</b>	<b>1,481</b>	<b>2,044</b>	<b>2,358</b>	<b>2,610</b>	
<b>Profit / Loss</b>	<b>-212</b>	<b>308</b>	<b>733</b>	<b>1,076</b>	<b>1,328</b>	

## 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
<b>Net Revenue</b>	<b>£5.9m</b>	<b>£3.8m</b>	<b>-£0.7m</b>	<b>-£0.8m</b>	<b>£3.6m</b>
<b>Net Revenue (NPV)</b>	<b>£4.6m</b>	<b>£3.2m</b>	<b>-£0.6m</b>	<b>-£0.6m</b>	<b>£2.7m</b>

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
<b>Total</b>	<b>£240,000 estimate</b>

### 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						
<b>Management resources</b>							
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
<b>Total Costs</b>	<b>£ 298,100</b>	<b>£ 563,700</b>	<b>£ 563,700</b>	<b>£ 563,700</b>	<b>£ 563,700</b>	<b>£ 280,000</b>	<b>£ 2,832,900</b>
Balance against BC allowance	£ 149,900	-£ 115,700	-£ 115,700	-£ 115,700	-£ 115,700	£ 280,000	-£ 32,900
<i>Cumulative</i>		£ 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
------------	----------------------------	--------------------------------	---------------------------

<b>Downside Risk (NPV) (5%)</b>	£2.1m	£1.4m	-£2.7m	£2.7m
<b>Upside Potential (NPV) (95%)</b>	£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:

	<b>Total WRIF</b>	<b>Business Growth</b>	<b>Com.&amp; Ent. Equity</b>	<b>Com.&amp; Ent. Mezz</b>	<b>Com.&amp; Ent. Senior</b>	<b>Property &amp; Infrastructure</b>
% Chance of Positive NPV	<b>99%</b>	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 Framework

# Management

- 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	Lapse d time	Strategic alignment	Risks	Resources	Other	Current status
Investment #1	BIG	Company #1	£1.5m	Commercial loan	01/04/2021	60 days	Green	Yellow	Yellow	Red	Business case approved (cabinet)
Investment #2	BIG	Company #2	£750k	Commercial loan	10/04/2021	30 days	Green	Yellow	Green	Green	Pre-business case approval
Investment #3	BIG	Company #3	£500k	Commercial loan	15/05/2021	15 days	Yellow	Red	Green	Green	Sift approved (Investment panel)
Investment #4	BIG	Company #4	£2.45m	Commercial loan	02/06/2021	5 days	Green	Yellow	Yellow	Yellow	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						
<b>Rejection rate</b>		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 Date	Start Date	Target End Date
<b>Set Up</b>				
Approvals	Cabinet Approval to launch Fund	June 21		
	Investment Strategy Approved	June 21		
	Procurement Strategy	June 21		
	Budget approval for Year 1	June 21		
	WCC Investment and Treasury Management Strategies approved by Council	July 21		
Governance	Investment Panel established	July 21		
	Member Oversight Group established	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	May 21		August 21
	External pool of advisors	March 21		June 21
Website	Internal Council webpage	April 21		April 21
	External webpage	tbc		
<b>Launch</b>				
Launch	Press Release	Summer 21		
	Website live			
	PDF brochure			
Individual Fund launch	BIG	July 21		
	LCE	September 21		
	PIF	October 21		
<b>Operation - Established Investment Activity</b>				
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	
<b>Monitoring &amp; Reporting</b>			
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.

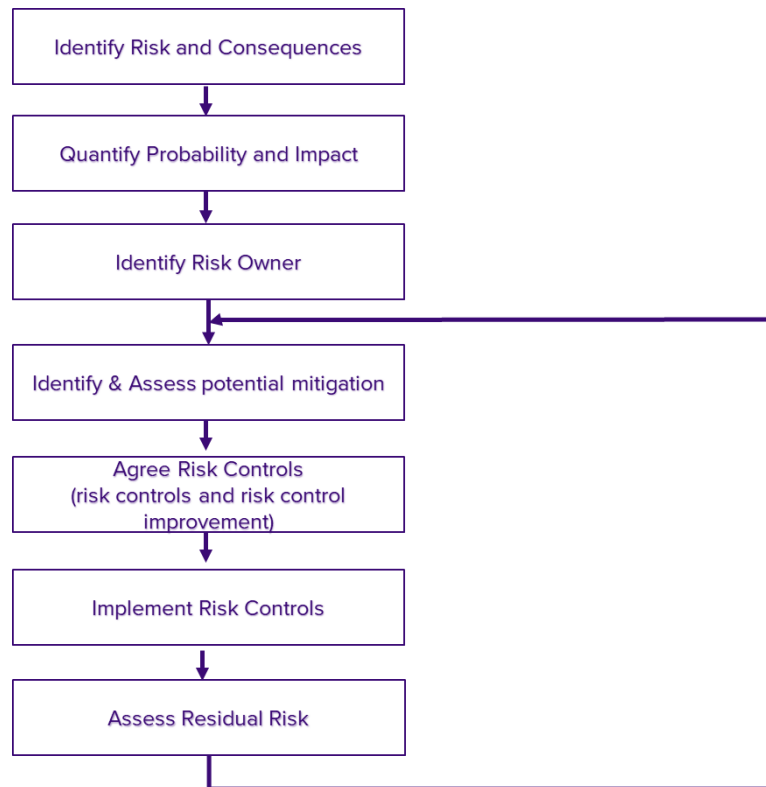
## RISK STRATEGY

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
1 <sup>st</sup> Line of Defence  Management controls and general internal controls	<ul style="list-style-type: none"> <li>• Investment Strategy – criteria to guide decision making</li> <li>• Delegated authority – financial limits on decision making</li> <li>• Best practice – HMT Green Book business case proforma process to guide decision making</li> <li>• Investment Panel – ‘Stop/Go’ gateway decision making - governance to review, veto and obtain quorum on decisions – membership to include external ‘expert’ advisors</li> </ul>	Economy & Skills Service

	<ul style="list-style-type: none"> <li>• Annual review and update of Investment Strategy and Business Plan with ‘stop/continue’ approval via Cabinet</li> <li>• Annual report to full Council</li> </ul>	
<p>2<sup>nd</sup> Line of Defence</p> <p>Functions which oversee or specialise in compliance or the management of risk</p>	<ul style="list-style-type: none"> <li>• Due diligence process on individual investments with support from external ‘expert’ advisors</li> <li>• Specialist advice available via framework to ‘call off’ as required to support investment business case decision making</li> <li>• Member Oversight Group – to oversee governance and monitor progress against Business Plan targets</li> </ul>	<p>Strategic Finance &amp; Treasury Management Services</p> <p>Legal Services</p> <p>Procurement</p> <p>HR</p> <p>Risk Management</p>
<p>3<sup>rd</sup> Line of Defence</p> <p>Functions that provide independent assurance</p>	<ul style="list-style-type: none"> <li>• Internal audit &amp; regular QA process via peer review to review performance of portfolio on min. 6monthly basis</li> <li>• Overview and Scrutiny Committee</li> <li>• Oversight of accounts by Audit and Standards Committee</li> <li>• Engagement with external auditors</li> <li>• External specialist review report(s) on performance and investments commissioned by the Council’s Section 151 Officer.</li> </ul>	<p>Internal Audit</p> <p>External Audit</p> <p>Overview and Scrutiny</p>

8.12 In addition to the 3 lines of defence, further assurances are provided by what is sometimes referred to as a 4<sup>th</sup> 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:

<b>At portfolio/fund level</b>	<b>For individual investments</b>
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
<b>COVID-19</b>	Coronavirus disease 2019 (COVID-19) is a contagious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).
<b>SME</b>	Small Medium Sized Enterprises
<b>Mixed Economy</b>	Delivery of the Fund's objectives lie with both internal and external fund managers
<b>Mezzanine Finance</b>	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
<b>Corporate Guarantee</b>	Where the Council uses its corporate strength to provide security for a financial liability
<b>Parent Company Guarantee (PCG)</b>	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.
<b>Interest Cover Ratio</b>	Net Income / Interest Expenditure in a given year
<b>Debt Service Cover Ratio</b>	Net Income / (Interest Expenditure + Principal Repayment) in a given year
<b>Net Present Value</b>	The sum of the discounted cash flow. If discount rate = x% then the discount factor for Year 1 = $1 / (1 + x)^1$ , Year 2 = $1 / (1 + x)^2$ , Year 3 = $1 / (1 + x)^3$ , Year n = $1 / (1 + x)^n$
<b>Internal Rate of Return</b>	Rate of return in a given cash flow. Another definition is the discount rate at which the NPV = 0.
<b>Yield on Cost:</b>	Net Income / Total Capital Expenditure
<b>Profit on Cost:</b>	Profit / all investment cost
<b>Loan to value/loan to cost ratios</b>	LTV: Outstanding Debt Principal (Debt Amount) / Asset
<b>Value LTC:</b>	Outstanding Debt Principal (Debt Amount) / Total Capital Expenditure
<b>Debt investment</b>	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
<b>Equity investment</b>	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.
<b>Monte Carlo Simulation</b>	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	
<b>Strategy and Direction</b>			
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
<b>Funding &amp; Finance</b>			
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
<b>Governance</b>			
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
<b>Communication, Engagement &amp; Marketing</b>			
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 - August 2021	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
<i>Risk heading</i>	<i>Brief summary of the risk</i>	<i>What will happen if the risk is not controlled</i>	<i>Rate 1 (low) to 5 (high)</i>	<i>Rate 1 (low) to 5 (high)</i>	<i>Impact x probability (Address highest first)</i>	<i>What can be done to lower or eliminate the impact or probability</i>	<i>Who is responsible</i>
<b>Governance</b>	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 difficulty 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
<b>Finance and Funding</b>	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
<b>Debt monitoring and recovery</b>	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
<b>Exceed Fund estimates</b>	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
<b>Investment Objectives</b>	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
<i>Risk heading</i>	<i>Brief summary of the risk</i>	<i>What will happen if the risk is not controlled</i>	<i>Rate 1 (low) to 5 (high)</i>	<i>Rate 1 (low) to 5 (high)</i>	<i>Impact x probability (Address highest first)</i>	<i>What can be done to lower or eliminate the impact or probability</i>	<i>Who is responsible</i>
		Inability to deliver against objectives and benefits/outcomes					
<b>Local Government regulation</b>	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
<b>The Political environment</b>	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
<b>CIPFA guidance</b>	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
<b>PWLB restrictions</b>	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
<b>Subsidy Control regulations</b>	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
<b>Resource and skills</b>	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
<b>Benefit realisation</b>	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
<i>Risk heading</i>	<i>Brief summary of the risk</i>	<i>What will happen if the risk is not controlled</i>	<i>Rate 1 (low) to 5 (high)</i>	<i>Rate 1 (low) to 5 (high)</i>	<i>Impact x probability (Address highest first)</i>	<i>What can be done to lower or eliminate the impact or probability</i>	<i>Who is responsible</i>
<b>Reputation</b>	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.	
<b>Investment Performance</b>	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
<b>Market interest</b>	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

## 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.