

Cabinet

25 January 2022

Warwickshire Recovery and Investment Fund Investment Strategy

Recommendation(s)

That Cabinet approves the Warwickshire Recovery and Investment Fund Investment Strategy attached at Appendix 2.

1. Executive Summary

- 1.1 The Warwickshire Recovery and Investment Fund (WRIF) was set up in 2021/22 with the purpose of providing additional finance to support and encourage the local economy and local employment in the face of the prevailing economic challenges.
- 1.2 The Objectives of the WRIF are to:
 1. Fill gaps in and provide additional access to finance that helps businesses in Warwickshire start, grow and scale up; or helps businesses locate to the county. Businesses located just outside of the county may be considered for finance, if there are clear benefits to Warwickshire subject to compliance with any applicable legal and/or financial frameworks;
 2. Leverage additional resources or funding for the county through the investment and support of key growth businesses;
 3. Secure an ongoing financial return, commensurate with risk;
 4. Make investments that deliver benefits and social value to the residents and communities of Warwickshire in both the short term (0-12 months) and medium term (1-5 years);
 5. Support investments that make a contribution towards meeting net zero carbon goals; and
 6. Support the delivery of the Council's strategic goals and priorities as set out in the Warwickshire Council Plan 2025, COVID 19 Recovery Plan, Economic Strategy, Commercial Strategy and Place Shaping Programme.
 7. To help to make Warwickshire an accessible and competitive location for businesses.
- 1.3 The WRIF is a £140m fund made up of 3 "pillars" which are summarised below and detailed in Annex A of the strategy document..
 1. The Business Improvement Growth Fund (£90m) designed to support larger and more established businesses with local growth plans.

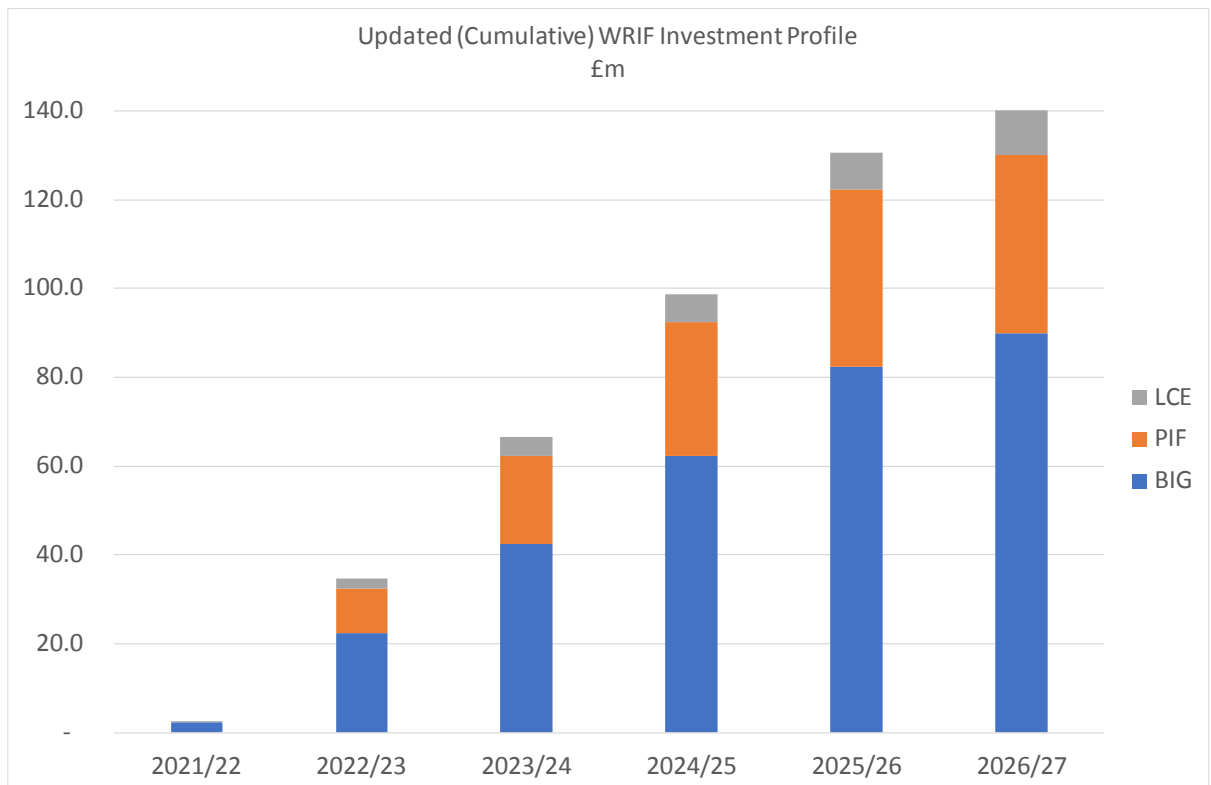
2. The Property Infrastructure Fund (£40m) designed to forward fund infrastructure investment.
 3. The Local Communities Enterprise Fund (£10m) designed to provide small business loans.
- 1.4 The WRIF is governed by an Investment Strategy (IS) and Business Plan. The purpose of this report is to seek approval of the for an updated WRIF Investment Strategy for 2022/23. The updated 2022/23 WRIF Business Plan will be presented to Cabinet for approval by the end of March 2022.

2. Activity in 2021/22

- 2.1 The WRIF was profiled to involve investments being made over a five-year period. WRIF activity during Quarter 1 to Quarter 3 of 2021/22 has been focused on implementing and setting up the operations of the fund. Investment activity is expected to begin in Quarter 4 of 2021/22. WRIF activity in 2021/22 is summarised below:
1. Staffing – recruitment has been completed to various posts through 2021.
 2. Investment Panel – became operational from July 2021.
 3. Financial consultant contract (Arlingclose) became operational from September 2021.
 4. Independent Investment Advisor contract (Camdor Global Advisers) became operational from December 2021.
 5. Business Investment Growth (BIG) Fund Opportunities – there has been liaison with 17 companies to date, 3 opportunities have reached business case stage, and 1 opportunity reaches Cabinet stage in January 2022.
 6. Local Communities and Enterprise (LCE) Fund – the fund manager contract was awarded in January 2022 to Coventry and Warwickshire Reinvestment Trust. The fund is expected to launch in Quarter 4 of 2021/22.
 7. Property and Infrastructure Fund (PIF) – the fund advisor contract is currently at contract tender stage.

3. Investment Profile

- 3.1 The investment profile has been reprofiled to reflect the current position, with some anticipated investing showing in Quarter 4 of 2021/22. The duration of the investing period is being kept to 5 years and therefore is shown extending into 2026/27. The review of the WRIF IS for 2023/24 will be informed by the volume and nature of investing activity in 2022/23 and by experience of the further impact of Covid and other economic developments.



4. Strategy Updates

- 4.1 Appendix 1 summarises the key updates to the WRIF Investment Strategy. The main changes are to update the investment profile having regard to 2021/22 activity (but keeping the total fund size the same), creating some flexibility/headroom to allow the possibility to take advantage of more opportunities in any given year should they arise (and then reprofile later years downwards to keep within the total fund limit), and the inclusion of a new ethical investing policy. The full and updated WRIF Investment Strategy is set out at Appendix 2.

5. Financial Implications

- 5.1 The WRIF fund is in total £140m, to be invested mostly via senior and secured loans, but with the potential for other forms of investment.
- 5.2 An updated Business Plan will revise the details of the financial forecast and be presented to Cabinet for approval by March 2022.
- 5.3 The WRIF is expected to operate on normal commercial terms. Administration costs will be covered by fees, and the Council's cost of borrowing and default losses will be covered by appropriate interest rates being charged. In addition, the BIG and PIF funds will seek to make an appropriate net return on investment that would provide further cover for costs and losses.
- 5.4 There are two overarching financial risks to the financial position of the WRIF that could result in pressure on the Medium Term Financial Strategy:

- That investment losses experienced are more than expected (the main drivers being if investment risk is not accurately assessed or managed).
- That the costs of operating the WRIF are not fully recovered (the main driver being if total investment activity is lower than planned resulting in not enough fee income being generated).

5.5 The nature of the WRIF is to invest in companies where alternative sources of finance may be less available, and where companies are facing more challenging circumstances. Investing entails a risk that some or all of any given investment may not be repaid, for example through a default on a loan, or through a fall in the value of an equity stake. However the governance arrangements for the WRIF are designed to mitigate risk, and the original business case expects a small surplus to be made that provides a mitigation against losses. The commercial risk reserve also provides some risk mitigation.

6. Environmental Implications

6.1 Environmental implications are a consideration for investment decisions. This was set out in the original investment strategy and is strengthened by the addition of a specific Ethical Investing Policy which has been added as a new section (refer to Appendix 2 Section 4).

6.2 Investments having a positive regard for climate risk will be more positively received, and investments where there is an opportunity to influence carbon generation/mitigation in a positive direction will also be more likely to be considered.

6.3 The fund will remain mindful that it is sometimes investing in smaller organisations that may not have the capacity to service the same climate risk activity and reporting requirements as large organisations, and therefore our expectations in this respect will be proportionate to the capacity of the bidder.

7. Supporting Information

7.1 None.

8. Timescales associated with the decision and next steps

8.1 The WRIF Investment Strategy sits underneath and must be aligned to the overall Warwickshire County Council Investment Strategy and Treasury Management Strategy. Those two strategies are being presented elsewhere on this agenda for consideration and they form a component of the set of wider medium-term financial strategy reports. Those strategies, subject to

being approved/recommended by Cabinet, are then reported to full Council in February for final approval.

8.2 Subject to approval the WRIF IS would come into effect on the 1st April 2022.

Appendices

1. Appendix 1 – Summary of WRIF Investment Strategy Updates
2. Appendix 2 – WRIF Investment Strategy 2022/23

Background Papers

1. None.

	Name	Contact Information
Report Author	Chris Norton, Emily Reaney	chrisnorton@warwickshire.gov.uk, emilyreaney@warwickshire.gov.uk
Assistant Director	Andy Felton	andrewfelton@warwickshire.gov.uk
Strategic Director	Strategic Director for Resources	robpowell@warwickshire.gov.uk
Portfolio Holder	Portfolio Holder for Finance and Property	peterbutlin@warwickshire.gov.uk

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

Local Member(s):

Other members:

Summary of WRIF Investment Strategy Updates

Appendix 1

Section	Summary of Update	Commentary
1.Introduction	Updated regarding the economic impact of Covid	The current strategy references Covid impacts including supply chain issues, labour shortages, unemployment, and suppressed economic activity. The updated strategy reflects that the impact of Covid has been volatile and changing in nature, and that new economic challenges are continually emerging, for example inflation risk.
2.1 Objectives	Clarify scope regarding the WRIF providing additional financing opportunities to businesses	Updates the scope/remit of the WRIF to clearly include providing additional access to finance for local investments. This maximises the scope for the Fund to achieve its objectives without adversely affecting the risk profile.
2.1 Objectives Objective 7	Additional objective regarding making Warwickshire accessible and a competitive location for businesses	An objective has been added in respect of making Warwickshire a competitive location for businesses.
2.2 Principles Principle 15	The relative priority of financial returns is clarified	The principle of generating appropriate net financial returns and covering costs has been made explicit, and the principle of generating financial returns has been placed at the end of the list of principles to reflect that the primary of objectives of the WRIF are not to do with generating financial returns.
4. Ethical Investing Policy	A new ethical investing policy introduces	A new section dedicated to ethical investing has been introduced. The proposed wording has been guided by the Investment Panel and reviewed and commented on by the Member Oversight Group.
6. Eligibility Criteria (final bullet point of the section)	Due diligence checks	Due diligence checks are illustrated with some examples, e.g. anti-money laundering.
7.1 Investment Criteria – Economic and Social Value	Targets / metrics unchanged	Planned metrics will be updated in the 2022/23 WRIF Business Plan and aligned with the updated investment profile. These will be presented to Cabinet for approval before the end of March 2022.
8.1 Investment Planned Profile	Investment profile updated	An updated planned profile is set out, reprofiling to reflect expected activity in 2021/22. The investment profile will be reviewed in light of 2022/23 activity and updated for the 2023/24 strategy. The profile is summarised in Section 3 of this covering report above.
8.2. Investment Limits	Investing limits created	This sets out maximum investment levels per year that are higher than the investment profile targets to provide some headroom and flexibility to take advantage of opportunities that arise in year. However the total WRIF fund remains £140m so investing more in one year means less will be available in later years.
Appendix A BIG Fund	Funding criteria update	Amended to clarify that funding is for capital expenditure only by removing reference to working capital. This is because working capital (revenue) expenditure is a significantly different risk profile and causes different financial risks and impacts on the Council. The Council's ability to take revenue investing risks is significantly lower than its ability to take capital investing risks. It is possible to keep this position under review.