

Cabinet

10 March 2022

Warwickshire Recovery Investment Fund Business Plan

Recommendation(s)

That Cabinet approves the updated Warwickshire Recovery Investment Fund Business Plan for 2022/23-2026/27 and notes the key changes as summarised in Appendix 1.

1. Executive Summary

- 1.1 The Warwickshire Recovery 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 A report was presented to Cabinet in February 2021 setting out the WRIF Investment Strategy. This report follows on and presents the updated WRIF Business Plan for 2022/23-2026/27.
- 1.3 The WRIF is a £140m fund made up of three pillars which are summarised below:
 - The Business Investment Growth (BIG) Fund (£90m capital investments) designed to support larger and more established businesses with local growth plans.
 - The Property and Infrastructure (PIF) Fund (£40m capital investments) designed to forward fund infrastructure investment.
 - The Local Communities and Enterprise (LCE) Fund (£10m capital or revenue investments) designed to provide small business loans.
- 1.4 The Objectives of the WRIF are reproduced below for ease of reference:
 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;*
6. *Support the delivery of the Council's strategic goals and priorities as set out in the Warwickshire Council Plan, COVID 19 Recovery Plan, Economic Strategy, Commercial Strategy and Place Shaping Programme; and*
7. *To help to make Warwickshire an accessible and competitive location for businesses.*

1.5 The original Business Plan set out the proposals for the WRIF and significant detail around its operation. For clarity this update to the Business Plan focuses on new developments for 2022/23 onwards and does not reproduce those aspects of operations that are not changing. However, members' attention is drawn to the original Business Plan 2021-2026 which is set out at Appendix 3 for reference.

1.6 The changes to the plan are summarised in Appendix 1.

2. Financial Implications

2.1 The WRIF fund is £140m in total, to be invested mostly via loans secured against assets and "senior" lending which means lending that has the highest priority (after secured loans) for being repaid in comparison to other lending that a company may have, but also with the potential for other forms of investment.

2.2 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.

2.3 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 or earlier 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 insufficient fee income being generated).
- 2.4 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 and commercial terms set for investments for the WRIF are designed to mitigate and manage these risks. In addition, the original business case expected a small surplus to be made that provides a mitigation against losses.
- 2.5 The commercial risk reserve also provides some risk mitigation, both for WRIF and the Warwickshire Property and Development Group.
- 2.6 This report does not materially change or affect the considerations regarding the Council's fiduciary duties which were taken into account when the establishment of the WRIF received final Cabinet approval (see Cabinet report dated 17th June 2021). A due diligence exercise, which includes consideration of fiduciary duties will be undertaken for each new investment proposed.

3. Environmental Implications

- 3.1 Environmental implications are a consideration for investment decisions. The WRIF Investment Strategy includes a specific Ethical Investing Policy.

4. Supporting Information

- 4.1 None.

5. Timescales associated with the decision and next steps

- 5.1 Subject to approval the updated WRIF Business Plan will come into effect from 1st April 2022.

Appendices

1. Appendix 1 – summary of changes to the WRIF Business Plan
2. Appendix 2 – WRIF Business Plan 2022/23-2026/27
3. Appendix 3 – WRIF Business Plan 2021-2026

Background Papers

1. None.

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

Local Member(s): n/a

Other members: n/a

Summary of WRIF Business Plan Updates

Appendix 1

Section	Summary of Update	Commentary
2.4 Outcomes and benefits	Benefit profiles have been updated	<p>The profiles have been adjusted to reflect the updated expected investment start dates.</p> <p>The number of companies supported have been increased as the average investment value for BIG and LCE investments is expected to be smaller than the original plan</p> <p>Carbon reduction targets are to be developed</p>
3.1 Investing profiles	Investing profile has been updated	Profiles are adjusted to reflect the updated BIG and LCE start dates. However, the overall profile remains to invest over a 5year period from start to finish.
3.6 Repayment profiles	Expected repayment duration has been lengthened	The updated financial plan assumes a scenario where the average duration of investments is longer than the original plan. This scenario would mean a higher peak debt and higher risk, but also a likelihood of higher overall returns if defaults remain within expected parameters.
4.1 Financial Plan	Sets out how income and expenditure are matched	<p>Interest charged covers the Council's cost of borrowing and the investing risk it is taking.</p> <p>A net return of 3% is targeted for the BIG and PIF funds and the LCE fund is expected to break even (i.e. no net return is targeted for the LCE fund).</p> <p>Administration costs are covered by fees.</p>
4.4 Financial plan	Updated for revised investing profile	Profiles updated for loan principal, costs/fees, and interest.
5.1 Risk	Risk appetite	<p>A risk appetite has been developed and is supported by the Investment Panel.</p> <p>A new risk register is in operation by the Investment Panel.</p>
6.1 Key activities	Highlights key activities for 2022/23	<p>This sets out a number of activities:</p> <ul style="list-style-type: none"> • Implementing portfolio monitoring • Commissioning periodic independent reviews • Decommissioning the WRIF Project Board • Reviewing the Investment Panel terms of reference • Reviewing the pipeline/approval process • Reviewing activity to inform the 2023/24 business plan