Appendix 2

Warwickshire County Council

Warwickshire Recovery & Investment Fund (“WRIF”)

Business Plan 2022/23-2026/27

1. Introduction and Purpose

1.1 The purpose of the Business Plan is to set out the objectives and activities for the Warwickshire Recovery and Investment Fund (“**WRIF**”) over the period 2022/23-2026/27. The WRIF is comprised of 3 funds or “pillars” which are detailed further in the WRIF Investment Strategy:

- Business Investment Growth (“**BIG**”) £90m - capital investments only
- Property & Infrastructure Fund (“**PIF**”) £40m – capital investments only
- Local Communities & Enterprise (“**LCE**”) £10m – revenue or capital investments

1.2 This is the second Business Plan for the WRIF. The first Business Plan, reported last year, included detailed commentary about the setup of the fund and its management and operation.

1.3 This update focuses on changes and developments and does not reproduce material where there has been no change. The following elements of the original business plan remain unchanged and whilst they remain in effect, they are not reproduced in this document:

- Management Processes (section 3 of the original business plan);
- Operational Processes (section 4 of the original business plan);
- Performance Management Framework (section 6 of the original business plan);
- Toolkit (section 9 of the original business plan).

1.4 Warwickshire County Council has an objective of supporting the Warwickshire economy to ensure it remains vibrant and is supported by the right jobs, training, skills, and infrastructure. The WRIF was designed to support the recovery of the local economy from the effects of Covid. There have been a number of developments in the behaviour and impact of Covid over the last year, however the fundamental position remains the same that the economy is challenged and the WRIF is in a position to support businesses within the county, and businesses wanting to set up in or move to the county, and it can help to increase the number, range, and quality of jobs available to its residents.

1.5 Market engagement was undertaken in the development of the original Business Plan and the intention is to review activity each year and adjust the plan in light of experience. Activity in 2021/22 has been focused on setting up the funds and therefore at the time of writing this Business Plan the WRIF is yet to build up a portfolio of experience and intelligence of its own. Therefore, the original 5-year profile is being adjusted to reflect investment activity beginning in the last quarter of 2021/22. The next Business Plan is then expected to be informed by activity and experience during 2022/23.

2. Outcomes and Benefits

2.1 The objectives and principles of the WRIF were updated in the WRIF Investment Strategy (reported to Cabinet in February 2022). These are reproduced in Annex 1 and 2. The WRIF will also give a particular priority focused 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.

2.2 The WRIF will consider quantifiable benefits of the following nature:

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

2.3 The WRIF is expected to deliver the following approximate outcomes:

Outcomes	Estimate
Jobs created	2500-3400
Jobs safeguarded	2700-3900
Annual regional GVA (£m)	110-160
Number of businesses supported	228
Private-sector leverage (£m)	78-104
Public sector leverage (£m)	26-35
Land and development enabled (ha)	15-23

2.4 The table below provides an updated profile of expected benefits:

Key Targets		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Amount invested	£m	2.6	32.0	32.0	32.0	32.0	9.4	-	140.0
Companies supported		6	46	46	45	45	40	-	228
Jobs created		-	100	967	670	653	467	153	3,010
Jobs safeguarded		39	740	740	740	680	351	-	3,290
Value of leverage		-	4	39	30	29	19	9	130
GVA uplift	£m	-	3	31	31	30	28	9	132
Amount of development enabled	ha	-	-	2	5	5	5	2	19

2.5 The profile has been updated for the following:

- Targets are reprofiled by 11 months to reflect the revised launch dates of the BIG and LCE funds (except in the case of the amount of development enabled where the figures are small and not materially changed and hence remain the same).

- The number of businesses supported has been increased due to the average loan on the BIG and LCE funds being expected to be of a smaller value than the original plan. The average BIG loan is assumed to be £4m instead of £5.25m and the average LCE loan is expected to be £50k instead of £116k.

2.6 Some benefits materialise after the final year of investing hence the profile extends to 2027/28.

2.7 There may be significant benefits that cannot be quantified or directly associated with an investment, for example increases in the council tax base or business rates income, knock-on supply chain benefits, community well-being, reductions in those not in education, employment, or training ("NEET"), etc. Where measurable these investment specific benefits can be captured and reported for each investment and the programme overall as they emerge.

2.8 Work will also be undertaken in 2022/23 on targets for carbon reduction. The Fund will expect all investees to seek to minimise carbon footprint, however, there is the potential for carbon impact to vary very significantly from one activity to another because although the WRIF will expect all companies to be climate-conscious some companies and some business sectors have more potential to impact than others.

3. Investing Profile

3.1 As set out in the updated WRIF Investment Strategy, the investment profile has been adjusted to reflect investment activity beginning in Quarter 4 of 2021/22.

Table 1: WRIF Gross Investment Profile

£m Pillar	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Maximum Total
BIG	2.4	20.0	20.0	20.0	20.0	7.6	90.0
PIF	0.0	10.0	10.0	10.0	10.0	0.0	40.0
LCE	0.2	2.0	2.0	2.0	2.0	1.8	10.0
Total	2.6	32.0	32.0	32.0	32.0	9.6	140.0

3.2 This sets out the planned profile of investing, and the important feature of this is that although the start of investment activity is moved back, fundamentally investment is still spread over five years (maintaining a spread of investing over time is one of the mechanisms for managing exposure to risk).

3.3 At the same time as mitigating risks, it is beneficial for the WRIF to have some flexibility to respond to variations in opportunity and demand and therefore whilst the above table sets out the targets for gross investing, the WRIF Investment Strategy also sets out maximum investing limits in any individual year which are higher than the target profile. This means if there is exceptional demand or exceptionally good reasons to invest more than the plan, this will be possible. Where this happens, the remaining profile of investment will be adjusted downwards because the total size of the fund (£140m) is a hard limit that will remain the same.

Table 2: WRIF Investing Limits

£m Pillar	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Capital Limit (BIG and PIF)	n/a	50.0	50.0	50.0	50.0	40.0
Revenue Limit (LCE)	n/a	3.0	3.0	3.0	3.0	3.0

3.4 The BIG and PIF funds are for capital investment only. Capital investments may be treated as capital in the Council's accounts and therefore their funding may be from capital or revenue sources and any costs may be spread out over time. Revenue investments present a higher risk profile, there tends not to be any assets to secure against revenue loans, they must be resourced from revenue funding, and any adverse issues would impact fully on the revenue account. This is why the revenue plans and limits are significantly lower than the capital plans and limits.

3.5 The gross investment profile sets out the pace at which investments are made. The other aspect of the investing profile is the pace at which investments are repaid and this in turn drives the total amount of investment in place over time which also drives risk exposure.

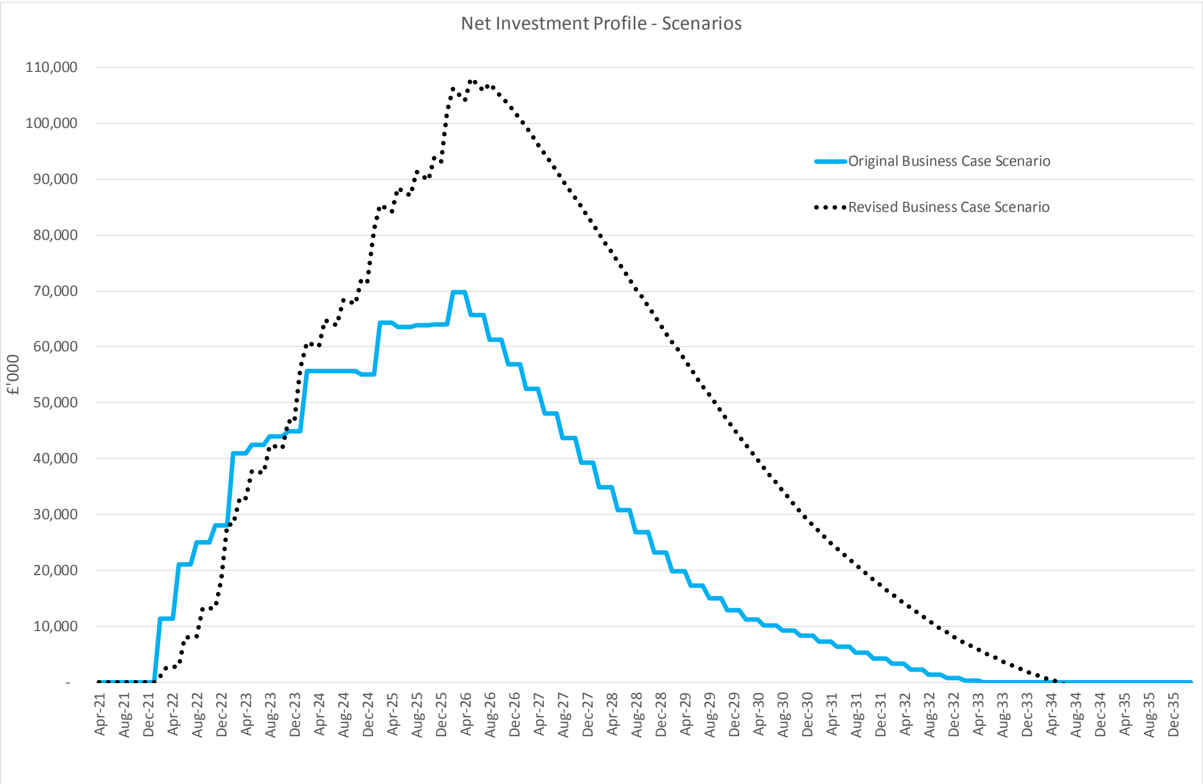
3.6 Repayment profiles are less predictable because each loan duration and repayment profile will depend on the circumstances. BIG and PIF loans could be for up to 10 years and LCE loans could be for up to 5 years. A revised example debt profile has been modelled reflecting that the known interest in the BIG fund indicates that loans may typically be of a longer duration than the original plan assumed, and reflecting PIF and LCE investments of a duration closer to the average of what is possible rather than assuming durations will be shorter than the average. Sections 3.7-3.9 below set out this profile, explaining what it could mean for peak debt and how it can be managed.

3.7 The table below shows the original repayment assumptions and a revised repayment model to illustrate the sensitivity of the financial plan to repayment assumptions:

	Original Modelling Assumption (approximate – the original model is scenario based)	Example Revised Assumption
BIG	Repayment is over approximately 3.5 years on average, last repayment 7 years after last investment	Weighted average duration of 5 years with a small amount of loans out to 10 years
PIF	Repayment is over approximately 3.5 years on average, last repayment 7 years after last investment	Weighted average duration of 6 years with a small amount of loans out to 10 years
LCE	Repayment is over approximately 2.5 years on average, last repayment is 2 years after last investment	Weighted average duration of 3 years with one fifth of loans out to 5 years

3.8 The revised scenario results in a significantly greater "peak debt" as illustrated in the following chart:

Chart 1: Net Investment Profile Scenarios



3.9 This chart illustrates a couple of potential scenarios, however it is within the control of the WRIF to control peak debt by considering the availability of debt funding as one of the factors that is considered when investing. If a significant number of longer duration loans are proposed that drive significantly increased peak debt a number of levers are available to manage the position including:

- Approving or rejecting individual bids based on the resources available;
- Adjusting the "offer" to future bidders – i.e. reducing the maximum duration or maximum loan amount available to future bidders;
- Adjusting the remaining total amount of investment to a lower figure; and
- Delaying further investments.

4. Financial Plan

4.1 The financial plan has been updated to reflect the revised profile and updated assumptions about costs. The WRIF is expected to cover its costs and generate a financial return based on the following principles:

Cost	Source of Funding	Risks
The Council's own cost of borrowing	Recovered by a part of the interest rate charged matching our cost of borrowing	Interest rate risk is possible but can be mitigated by making decisions about whether the Council borrows at fixed or variable rates and whether it invests at fixed or variable rates and by controlling the duration or its borrowing and investments.
Expected losses from defaults	Recovered through the interest rate charged including a credit risk factor	If default experience is higher than anticipated a net loss would occur and conversely if default experience is lower than anticipated a surplus would occur.
Expected net financial return	Recovered through the interest rates charged	The BIG and PIF funds are expected to make a net positive financial return. The LCE is expected to break even. Any net positive return from the BIG and PIF funds is a first source of mitigation to cover losses or administration costs that are greater than expected.
Administration costs	Recovered through fees, e.g. arrangement fees, early and late payment fees, monitoring fees, etc	Some costs are relatively fixed so underactivity on investing would lead to under recovery of some costs.

4.2 There are two key financial risks:

- That default activity is greater than anticipated and greater than the risks reflected in interest rates charged, leading to a net loss.

- That investing activity is lower than anticipated leading to an under recovery of fees to cover administration costs.

4.3 There are a number of mitigations for these risks including:

- Monitoring activity an experience and adjusting investing behaviour over time, for example to reduce the investing limits, change the target risk profile, etc.
- Adjusting fees over time to have regard to changes in costs and changes in activity rates.
- Any net surplus from activities being a first source of cover for net losses or costs.
- The commercial risk reserve being a source of cover.

4.4 The tables below summarise the next 5 years in terms of investment principal, fees, and interest (with the current year included for completeness).

Financial Plan 2022/23-2026/27

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Total Lending	2,600.0	32,000.0	32,000.0	32,000.0	32,000.0	9,400.0
Total Repayments	- 31.7	- 1,538.4	- 4,605.0	- 7,644.2	- 11,622.5	- 16,182.8
Net Change In Lending	2,568.3	30,461.6	27,395.0	24,355.8	20,377.5	- 6,782.8
Cumulative Net Investing	**2,568.3**	**33,030.0**	**60,424.9**	**84,780.7**	**105,158.2**	**98,375.4**

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Administration Costs	- 538.1	- 949.6	- 984.2	- 1,021.2	- 1,052.1	- 714.2
Fees Recovered	83.1	1,275.9	1,350.6	1,420.5	1,486.5	678.1
Net Costs	- 455.0	326.4	366.5	399.4	434.4	- 36.1
Cumulative Net (Expenditure) / Income	**- 455.0**	**- 128.6**	**237.9**	**637.2**	**1,071.7**	**1,035.6**

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Interest Paid by Borrowers	16.8	824.0	2,518.9	3,952.2	5,190.6	5,789.4
Cost of Capital	- 5.8	- 215.2	- 664.5	- 1,045.9	- 1,376.6	- 1,537.2
Credit Loss	- 2.6	- 134.2	- 366.8	- 555.1	- 708.2	- 778.7
Net Return	8.4	474.6	1,487.6	2,351.2	3,105.8	3,473.4
Cumulative Net Return / (Loss)	**8.4**	**483.0**	**1,970.6**	**4,321.8**	**7,427.6**	**10,901.0**

4.5 Cumulative net lending peaks in 2025/26 and reduces thereafter with debt forecast to reach to zero by 2036/37.

4.6 Administration costs are a combination of internal staffing costs and external consultancy and service provider costs in order to provide the correct capacity and expertise at best value. Administration costs are recovered in part through up front fees and in part through monitoring fees and specific fees for specific circumstances through the duration of the loan. The Council's arrangement fees are currently expected to average at under 4% of the value of gross investments made, and monitoring fees are expected to average at 1% p.a. or less of the investment principal outstanding.

4.7 Costs are most significant over the first 5 years whilst investing decisions are being made. Beyond this point no further investments are planned but administration costs will continue as portfolio management and monitoring activity will continue. Over the life of the fund administration costs are planned to be covered by fees. The net fee income accumulated by 2026/27 contributes towards the covering the costs in the later stages of the Fund where income will be lower.

4.8 Interest income is higher than the original plan in part as it is modelled on longer average investment durations which increases the peak debt and so increases the amount of principal that is earning interest, and in part as it is updated to reflect anticipated credit risk. However, this is only an indication of returns in one scenario. The fund targets a net return of 3% p.a. on the BIG and PIF funds and does not target a net return on the LCE fund, rather the LCE fund is targeted to break even.

4.9 The first call on any net surplus relating to the WRIF (be it arising from fees or interest rates) will be to replenish the commercial risk reserve to the point where the WRIF has repaid all drawdowns from the reserve.

5. Risk

5.1 There are risks entailed in the delivery of the WRIF. Risks are managed by mitigating actions and it is accepted that some risk is necessary in order to access the opportunity to deliver the benefits of supporting and protecting the local economy.

5.2 The WRIF Investment Panel has a risk appetite statement and utilises risk register to monitor and manage risk as a standing item at Investment Panel meetings. Key risks and mitigating actions are summarised below.

Risk	Mitigating Actions
Resources and Expertise	• Procurement of external advisors and consultants as appropriate. • Recruitment of specialist staff • Staff training plan • Managing pace to align with resources if required
Significant Credit Loss	• Spreading the investments made over time (5 years) • Diversification, for example across different business sectors, locations, types of business, and fund types • Setting limits on the amount of investment per fund • Most investment is to be capital not revenue in nature • Having a preference for securitised loans and senior debt lending (senior debt is debt with the highest priority (after secured loans) to be repaid in comparison to any other lending a company may have). • Ensuring interest rates charged reflect the credit risk being taken • Ensuring appropriate due diligence of opportunities • Ensuring appropriate terms exist in loan agreements • Commercial risk reserve available as cover for some losses • Building any lessons learned into revised practice over time • BIG and PIF investing decisions have to be recommended by the Investment Panel and approved by Cabinet

Risk	Mitigating Actions
Economic	• Use of fund investment limits to control maximum exposure to risk • Access to a range of financing options • Use of fixed or variable rate loans as appropriate • Stress testing of the business plans of potential borrowers considering foreseeable economic developments • Considering broadly the economic position and outlook when monitoring the investment portfolio and when making investing decisions (for example considering economic cycle risk) • Being able to stop further investments at any time
Investment Objectives Not Met	• Sensitivity/stress testing analysis at the fund development stage • Diversification across a range of different investments with different risk/return profiles • Annual review of WRIF Investment Strategy • Annual Review of WCC Investment Strategy • Accepting the risk/opportunity that other lenders may step in and reduce the need for WRIF to invest • Reviews of market need developments
BIG, PIF, and LCE Fund Specific Risks	• Procurement of LCE Fund Manager • Procurement of PIF Fund Advisor • Continual improvement of bid assessment processes for BIG investments.
Governance	• Formal forward planning of Investment Panel business • Engagement with internal audit for advisory support as appropriate • Engagement of relevant external consultants/experts • Risk management being a standing item at the Investment Panel • Periodic review of the adequacy of WRIF arrangements (commissioned for Section 151 Officer) • Annual review of WRIF Strategy and WCC Investment Strategy, including review of the controls and flexibilities • Formal training plan for the Investment Panel • Appointment of Independent Investment Adviser to support the Investment Panel • Member oversight and scrutiny, for example from the Member Oversight Group, Audit and Standards Committee, etc as required
Fraud and Money Laundering	• Adoption of the protocols of the Council's Anti Money Laundering AML) Policy • AML checks being a standard part of the due diligence checklist for investment assessment • AML training for officers and those charged with governance • Procurement of a specialist AML checks provider for more complex checks • Periodic internal audits of WRIF activity

6. Key Activities

6.1 In addition to the expected investing and “business as usual” activity the following actions will be progressed in 2022/23.

Ref	Title	Description	Due Date
1	Implement portfolio monitoring arrangements	As the three pillars become active the monitoring of the portfolio overall will activate	April 2022
2	Independent review	Commission the 6 monthly independent / external review	May 2022 November 2022
3	Decommission the WRIF Project Board	Mainstream any remaining (minor) project activity under the auspices of the Investment Panel	June 2022
4	Investment panel terms of reference review	Checking that the terms of reference remain fit for purpose and amend as appropriate	July 2022
5	Review of investment pipeline/approval process	To identify any efficiencies and improvements in light of experience	September 2022
6	2023/24 business plan review	Update of the financial plan and expected benefits / outcomes in light of investing experience during 2022/23	December 2022

Annex 1

WRIF Objectives

The objectives for 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;

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; and

7. Help to make Warwickshire an accessible and competitive location for businesses.

Annex 2

WRIF Principles

The main principles of how the Fund will operate are:

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1. To increase the Council's ability to offer space tailored to meet the needs of existing businesses wanting to grow in Warwickshire and to attract new business to Warwickshire resulting in enhanced employment opportunities. The Council as a result will have a greater location incentive to keep and attract business to Warwickshire
2. To enable development in the County, facilitating new employment, land and commercial premises and which could also include investing in or building commercial sites and premises when the need is confirmed and contract arrangements are in place with the organisation needing the premises
3. Support businesses based within Warwickshire and looking to grow or looking to re- locate in the county. Businesses located just outside of the county may be considered for finance, if there are clear benefits to Warwickshire in providing this support, subject to compliance with any applicable legal and/or financial frameworks;
4. 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;
5. Manage risk and target full recovery of investments;
6. Provide a flexible tool to consider and enable a range of opportunities for supporting business;
7. 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;
8. 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;
9. 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;
10. 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;
11. 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;
12. To amplify and complement the existing investment landscape and other

recovery packages;

13. Provide funding within the limits and requirements set out in the council's non-treasury Investment Strategy;
14. Ensure that compliance with all relevant codes is considered and met ahead of any contractual arrangements being entered into;
15. Generating appropriate net financial returns and generating income sufficient to cover costs.