Appendix 5

Warwickshire County Council

Warwickshire Recovery & Investment Fund ("WRIF")

Business Plan 2023/24-2026/27

1. Introduction and Purpose

1.1 The purpose of the Business Plan is to set out the 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**") £50m - capital investments
- Business Investment Growth ("**BIG**") £4m – revenue investments
- Property & Infrastructure Fund ("**PIF**") £40m – capital investments only
- Local Communities & Enterprise ("**LCE**") £10m – revenue or capital investments

1.2 This update focuses on changes and developments and does not reproduce material where there has been no change.

1.3 An internal review of WRIF activity and demand has been undertaken and the scale and shape of the WRIF is being amended in light of this. In particular the BIG Fund is being reduced in size and a revenue element is being introduced, and the governance of the PIF Fund is being refined to reflect demand and industry norms.

2. Outcomes and Benefits

2.1 The objectives and principles of the WRIF are set out in the WRIF Investment Strategy. The WRIF will 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 benefits targets have been updated to reflect experience to date and to reflect intelligence from benchmarks. The main changes to benefits targets are:

- To increase the target investment cost per job created to align more closely with benchmarks.
- To reduce the leverage targets as experience is indicating that leveraged investments are less common than expected.

2.4 Having regard to the revised size of the Fund the following target ranges are set for the full value of the fund.

Outcomes	Estimate
Jobs created	1497-2074
Jobs safeguarded	1822-2629
Private-sector leverage (£m)	12-17
Public sector leverage (£m)	4-6
Land and development enabled (ha)	15-23

2.5 The table below provides an updated profile of target benefits for the amounts still to be invested:

Projected outcomes	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Jobs created	280	282	285	356	273	273
Jobs safeguarded	493	495	500	630	-	-
Leverage (£m)	4	4	4	4	-	-
Land remediated (hectares)	5	5	5	5	-	-

2.6 Whilst these are the targets, actual activity may vary significantly. It is expected that for example that the average cost per job protected may vary by +/-15% considering the range of benchmarks. The profile has been updated for the following:

2.7 The targets reflect the revised fund size and investment profile (the benefits of jobs created is expected to lag and so appear over a longer timescale than other benefits).

2.8 The WRIF will also monitor benefits in terms of Gross Value Added and the number of businesses supported but will not set targets in these areas as predicting these benefits is more difficult.

2.9 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.

2.10 Targets for carbon reduction is a consideration for the Fund however metrics and mechanisms to measure this are not mature and so targets are not yet being set. 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 The updated investment profile is set out below:

Table 1: WRIF Gross Investment Profile

£m Pillar	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
BIG (Capital)	0.4	3.1	10.0	10.0	10.0	16.5	50.0
BIG (Revenue)	0.0	0.0	1.1	1.1	1.1	0.7	4.0
PIF (Capital)	0.0	0.0	10.0	10.0	10.0	10.0	40.0
LCE (Revenue)	0.0	1.3	2.0	2.1	2.1	2.3	10.0
Total	**0.4**	**4.4**	**23.1**	**23.2**	**23.4**	**29.5**	**104.0**

3.2 The revised profile has the following features:

- BIG Fund capital is reduced from £90m to £50m, reflecting less demand for this fund than expected.
- A revenue BIG fund of £4m is introduced, reflecting more demand for revenue funding, but also recognising that revenue investing is higher risk than capital, hence the amount added here is significantly less than the amount of capital taken out.
- The profiles have regard to actual activity in 2021/22 and forecast activity in 2022/23.
- All investing ends at the same time in 2026/27. This enables the Fund to have the best opportunity to manage (i.e. reduce) fixed costs and transition from investment making to monitoring efficiently. It also provides the Council with a clean policy break, allowing resources to be redirected as appropriate, unencumbered by an expectation that the default would be to continue with the same fund or policy that by that time will be 5 years old.

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 (£104m) is a hard limit that will remain the same.

Table 2: WRIF Investing Limits

£m Pillar	2023/24	2024/25	2025/26	2026/27
Capital Limit (BIG and PIF)	40.0	40.0	40.0	40.0
Revenue Limit (LCE and BIG)	5.0	5.0	5.0	5.0

3.4 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 immediately on the revenue account in full. 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 loans could be for up to 10 years and PIF and LCE loans could be for up to 5 years. A revised example debt profile has been modelled these profiles, and the expected "peak debt" is expected to be approximately £79m in 2026. This is a significant reduction on the peak debt forecast from last year (which was approximately £109m in 2026) and the reduction is primarily driven by the reduction in the size of the BIG fund.

3.7 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 investments are proposed that by their nature 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;
- Requiring faster payback profiles from 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 / Opportunities
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. There will be the opportunity to earn arbitrage income if the Council is able to borrow at better rates than its standard external cost of borrowing.

Cost	Source of Funding	Risks / Opportunities
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. 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 have the option to make a net positive financial return of up to 3%. The LCE is targeting break even. Any net positive return from the BIG and PIF funds is a first source of mitigation to cover losses or to cover 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 could lead to under recovery of some costs. However, fee rates will be kept under review and can be varied as new investments are made, in light of the circumstances.

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; and
- 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; and
- 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).

Table 3: Financial Plan 2023/24-2026/27

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Total Lending	400.0	3,800.0	23,700.0	23,200.0	23,400.0	29,500.0
Total Repayments	-	- 97.3	- 1,008.8	- 3,387.7	- 7,860.0	- 12,900.7
Net Change In Lending	400.0	3,702.7	22,691.2	19,812.3	15,540.0	16,599.3
Cumulative Net Investing	**400.0**	**4,102.7**	**26,794.0**	**46,606.3**	**62,146.2**	**78,745.6**

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Administration Costs	- 522.9	- 551.8	- 991.9	- 1,047.5	- 1,115.9	- 1,169.7
Fees Recovered	10.7	204.9	1,200.2	1,362.3	1,542.6	1,879.1
Net Costs	- 512.2	- 346.9	208.3	314.7	426.7	709.4
Cumulative Net (Expenditure) / Income	**- 512.2**	**- 859.1**	**- 650.8**	**- 336.1**	**90.6**	**800.1**

£'000	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Interest Paid by Borrowers	1.2	81.0	1,264.4	2,918.9	4,306.2	5,341.0
Cost of Capital	-	- 30.6	- 431.5	- 984.3	- 1,449.3	- 1,797.4
Credit Loss	- 0.2	- 21.7	- 174.8	- 362.2	- 515.7	- 622.6
Net Return	1.0	28.6	658.1	1,572.4	2,341.2	2,921.0
Cumulative Net Return / (Loss)	**1.0**	**29.6**	**687.7**	**2,260.1**	**4,601.3**	**7,522.3**

4.5 Cumulative net lending peaks in 2026/27 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 upfront 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 administration costs will continue at a lower level as portfolio management and monitoring activity continues. Over the life of the fund administration costs are planned to be covered by fees. Fees are structured to be slightly front-loaded, i.e. 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, and some capacity to cope with volatility in demand and early repayments built in.

4.8 The strategy enables the option to recoup a net return of up to 3% p.a. on the BIG and PIF funds, however there is discretion as to whether to take this option on a given opportunity, weighing up the pros and cons of the return against its impact on the risk of success in delivering the primary objectives of the fund which are non-financial. No net return is targeted or expected from the LCE fund.

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 Overall, the risks presented by the WRIF to the Council, and the risks of not achieving objectives are assessed to be slightly lower than they were in 2022/23 but there are a number of factors moving risks in both directions. The changes and their impact upon the WRIF are summarised in the table below.

How Risks are Changing

Factors that reduce risks	Factors that increase risks
• Reducing the BIG capital fund from £90m to £50m • Reducing the maximum duration of PIF loans from 10 years to 5 years • Removing equity investment as an option for PIF investments • The adverse impacts of Covid receding • The organisation and its WRIF infrastructure gaining and applying experience	• Creating a £4m revenue BIG fund • Inflation • The cost of living crisis • Lower international confidence in the UK • The government reducing the flexibilities allowed to local authorities in response to some local authorities taking inappropriate risks

5.3 The WRIF Investment Panel has a risk appetite statement which has been reviewed by Officers. No changes are recommended and the risk appetite statement is reproduced below:

Risk Appetite	Risks In This Category	*Risk Appetite Definition*
Averse		Avoidance of risk and uncertainty is a key organisational objective
Minimalist	Regulatory	Uncertainty is to be avoided unless essential; only prepared to accept the possibility of very limited financial loss
Cautious	Governance Reputational	Tolerance for risk taking is limited to events where there is little chance of significant downside impact
Open	Financial BIG PIF	Tolerance for decisions with potential for significant risk, but with appropriate steps to minimise exposure
Hungry	LCE	Eager to pursue options offering potentially higher rewards despite greater inherent risk

5.4 The Fund is prepared to take certain risks in order to access the opportunity to deliver it objectives, and the risk appetite sets out that certain types of risk are less acceptable, in particular regulatory, governance, and reputational risks. The highest risk appetite is in relation to the LCE Fund which entails lending to higher risk counterparties (that tend to be smaller entities, start-ups with less track record, that want revenue funding, etc). The Fund acknowledges that in order to protect jobs and economic activity in this space it is necessary to take greater risks.

5.5 The Fund 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 • Managing pace to align with resources available if required
Significant Credit Loss	• Spreading the investments made over time • 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	• Management of the LCE Fund Manager • Management of the PIF Fund Advisor • Continual improvement of the 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

Risk	Mitigating Actions
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 are planned for 2023/24.

Ref	Title	Description	Due Date
1	PIF investment governance	Implement the updated PIF governance arrangements	April 2023
2	BIG investment governance	Consideration of whether to amend the investment governance process for the BIG fund in a similar way to the PIF	April 2023
3	Independent review	Commission the 6 monthly independent / external review	May 2023 November 2023
4	Investment panel terms of reference review	Checking that the terms of reference remain fit for purpose and amend as appropriate	July 2023
5	2023/24 business plan review	Update of the financial plan and expected benefits / outcomes in light of investing experience during 2023/24	December 2023
6	Review of communications	Considering the perception of the fund and promoting its unique selling points (including promotion of the wider support WCC can provide or enable)	July 2023
7	Consider co-investment opportunities	Develop stronger links to other finance providers for co-investment and/or cross-referrals	Ongoing

6.2 During 2022/23 the planned external reviews of activity were not implemented, in part due to the fact that activity levels remained low which would put limits on the benefits of any review and in part due to capacity issues, with WRIF capacity being prioritised towards ensuring the servicing of the Investment Panel, and the consideration of BIG investment bids. As the fund is at an early stage the total investment activity to date is relatively low there would have been limits on the activity that a review could comment on, however the external reviews will be given a higher priority in 2023/24.