

Title of report: Recovery and Investment Fund

Meeting: Cabinet

Meeting date: Thursday 29 July 2021

Report by: Acting Deputy Chief Executive, Chief finance officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

Purpose

To recommend to Cabinet the approval in principle of the establishment of a Covid 19 Recovery and Investment Fund to support Herefordshire businesses.

This is recommended to investigate providing additional targeted funding opportunities for local business growth in support of delivering the County Plan. Any funding provided will be in addition to the support that is already established and available.

Recommendation(s)

That:

- a) Cabinet approve further investigation into the establishment of a recovery and investment fund to support Herefordshire businesses post Covid 19.**
- b) Cabinet approve the principles and objectives of investment for a Herefordshire Recovery and Investment fund as detailed in paragraph 13.**
- c) Cabinet authorises the Acting Deputy Chief Executive, Chief Finance Officer, to develop the scheme details based on the principles set out within this report and report back with the final proposals.**

Alternative options

1. To not approve the establishment of a recovery and investment fund. This could be seen as a missed opportunity to support local businesses to recover and grow following the economic impact of the international pandemic Covid 19.

Key considerations

2. The Government has put forward an unprecedented package of support for businesses throughout the pandemic including the Coronavirus Job Retention Scheme, a range of government-guaranteed business loans and a significant package of direct business grants for businesses that are required to close, or which are severely affected by the restrictions put in place to tackle Covid-19 and save lives.
3. The Covid pandemic has created both a health emergency and an economic one. Practically all businesses and enterprises in Herefordshire are affected. Herefordshire Council is able to take a leading role in supporting the economy, support its growth and recovery, and address the challenges of responding to the current climate emergency.
4. Within Herefordshire large parts of our economy have been instructed to close for the majority of the last 16 months such as hospitality, tourism, culture, leisure and non-essential retail. There has been a significant onward impact on the supply chain to these sectors. Agriculture, manufacturing and construction sectors have also faced significant challenges in adjusting to different working environments, supply chain disruption and changing customer needs. The county has seen significant increases in those claiming unemployment benefits and thousands of local people furloughed through the Job Retention Scheme.
5. As national restrictions are reducing, Cabinet is asked to consider the creation of a Herefordshire Business Recovery and Investment Fund. The fund could help local businesses support the Council's strategic County Plan ambitions particularly in light of the economic impacts arising from the Covid 19 pandemic. The fund is anticipated to support key sectors through specialist land, buildings and facilities, enabling adjustments within sectors to respond to new opportunities such as green technology and transport, and adaptations in working patterns.
6. Access to bank finance becomes more problematic for business during crisis episodes. This is a combination of reduced supply of lending by banks coupled with suppressed demand from businesses who face uncertainty. Managing finances is likely to become hugely important for small companies, especially new start-ups.
7. Barriers to accessing finance change at different stages of business development. As part of its Covid response Government has provided access to a range of new funds that aim to provide a financial bridge to recovery (such as the Coronavirus Business Interruption Loan Scheme, the Bounce Back loan scheme and the Future Fund), but these are limited in scale.
8. It is not possible to forecast the specific demand for finance from businesses in the current climate without further investigation. Businesses may already be quite indebted because of taking on loans or credit to ensure survival during the pandemic, and so may be reluctant to take on more debt. Demand for equity investment has been traditionally low, through a mixture of limited supply of such finance and lack of

knowledge/expertise from local businesses to access these. The changing economic position and business funding requirements is likely to affect and change this which would lead to more demand.

9. Equity may become more attractive as a response to the Covid pandemic, or hybrid finance schemes such as mezzanine finance or convertible loans. Research will better assess demand for different products. In addition, how they sit alongside new and existing finance schemes offered by the market and Government.
10. A Herefordshire Recovery and Investment Fund could raise funds and provide further provision of finance to enable investments that could help support local businesses in key growth sectors that create jobs, underpin social enterprise, tackle climate change and unlock land. The Herefordshire Recovery and Investment Fund could aim to provide access to finance for businesses and for social investment, but also provide a return that itself that would be available for reinvestment.
11. The Herefordshire Recovery and Investment Fund should therefore focus on investment in sound, growing businesses, including some of the fund targeted at social enterprises. This social business aspect is important in that it can help mitigate future costs for the Council as well as be seen as an investment. Successful investment in this area would be a combination of returns and mitigated future costs. The Herefordshire Recovery and Investment Fund would also help support the delivery of the ambitions in the Herefordshire County Plan.
12. As the economy evolves, some sectors will contract and others will expand. The recovery fund will only work if it is enabling the growing sectors to create new jobs. This fund, if successful, will have a number of example beneficial financial impacts for Herefordshire directly as well as the broader national public purse as shown below, in addition to the significant social benefits and wellbeing benefits from being in work and feelings of contributing to society:
 - Increased council tax receipts
 - Increase the gross rateable value for non-domestic rates
 - Reduced reliance on benefit payments
 - Increased income and corporation tax receipts
 - Increased investment in Herefordshire
 - Increased spending on Council services
 - Increased investment in Herefordshire to recover the economy
13. It is important that the Cabinet agree the principles and objectives of the fund to enable further work to be appropriately tasked. Suggestions are provided below:

Fund Principles

- Support the councils aspiration for the county to become carbon neutral by 2030
- Promote biodiversity within Herefordshire

- Support new and growing small and medium sized businesses with sound prospects creating jobs and social value
- To be developed from detailed analysis of the local economy and strategic sectors

Fund Objectives

- Job creation
 - Provision of support for environmentally and economically sustainable businesses
 - Provision of support for social enterprises and local solutions
 - Delivery of both short and medium-term options
 - Delivery of potential return on investment and not grants
 - Targets full recovery of investments
 - Clear linkages to active support and advice to businesses
14. To complete this investigation a small project team needs to be created to identify the demand for this potential support and to deliver the Herefordshire Recovery and Investment Fund project if agreed. It is proposed that this team is led by an independent experienced programme director with access to external specialist advice as required. The focus of the project team will be to:
- Expand on the key objectives of the fund in line with Cabinet requirements to have an emphasis on addressing climate change.
 - Create rules and procedures needed to achieve good governance.
 - Manage risk, client and contractor relationships and impact on wider council policies and strategies; to include the risks and mitigation action associated with providing financial support.
 - Detail operational procedures for the Fund; this will include researching community banking and circle / crowd funding.
 - Detail criteria by which to assess funding options including how to impact assess the fund.
 - Advise on due diligence including any legal and/or regulatory requirements
 - Advise on monitoring arrangements required including investment recovery mechanisms
 - Advise on establishing the Fund and relevant launch documentation
 - Ensure that existing Herefordshire business support and advice programmes support the Herefordshire Recovery and Investment Fund
 - Develop a set of metrics to manage the fund

- Support with the structuring of funding packages
- Advise on the need for ongoing specialist support
- Provide financial modelling support to establish and monitor the fund

15. A further report will be presented to Cabinet to approve the establishment of the Herefordshire Recovery and Investment Fund, expected demand and associated costs and its operating arrangements, once the approval in principle has been received and the initial work listed above has been undertaken.

Community impact

16. A recovery and investment fund will enable financial support to be provided to local businesses and social enterprises ensuring a positive community impact through the creation and retention of local jobs and services.

Environmental Impact

17. Herefordshire Council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.

18. There is an opportunity to support the rebuilding of the Herefordshire economy in a way that is greener and more sustainable than before. Through our recovery and future economic growth activity, we will look to embed and promote a low carbon approach, helping both new businesses exploit the new economic opportunities that are being created and existing businesses to become more sustainable.

19. It is expected that the development of the business case for each request will seek confirmation of the minimisation of any adverse environmental impact and will actively seek opportunities to improve and enhance environmental performance.

Equality duty

20. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

- c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
21. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. The duty will be considered by the project team when investigating the establishment of the fund and its criteria and will be included in the next report to Cabinet.

Resource implications

22. The estimated cost of appointing a programme director and the external specialist advisors to enable the further work identified in this report is up to £100k, this will be funded from the recovery and investment fund earmarked reserve which currently totals £505k. This reserve was established whilst closing the 2020/21 accounts and is funded from a minimum revenue over provision adjustment identified by external audit.
23. As mentioned in paragraph 15, one of the outputs of the next phase will be to research the anticipated demand for this type of support from businesses in Herefordshire.
24. Part of these considerations will also consider options on how to operate the Herefordshire Recovery and Investment Fund, which are likely to include an external investment company and an internal team and the relative risks and rewards of these different models. Whichever option is preferred for operationalising these proposals there will need to be some form of day to day client arrangements within Council resources for example for reporting, risk management and governance reasons. All of this detail will be reported in the next update to Cabinet.

Legal implications

25. Once detailed proposals are determined the Council would seek legal advice in developing the proposed fund. This would include the council's powers to set up the fund, relevant considerations prior to investing or offering products through the fund (including the council's fiduciary duties in respect of public money and appropriate governance), changes to state aid rules post EU transition, and regulatory requirements. The legal advice would refer to the following which provide the ability to councils to enter into similar arrangements.

- The General Power of Competence (for lending, funding and other activities);
- Section 12 Local Government Act 2003 (power to invest);
- Local Authorities Land Act 1963 – acquiring, developing land and funding for certain third party developments;
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – (treatment of receipts and capital treatment of certain loans).

Risk management

26. As mentioned at paragraph 15 above clarity on the funds operating arrangements will be included in the next report to Cabinet detailing the expected demand and financing options available and the risks and recommended mitigation measures.

Consultees

27. None

Appendices

None

Background papers

None identified