

Warwickshire County Council

Investment (Non-Treasury) Outturn 2022/23

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1.0 Purpose

- 1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the new financial year (presented to full Council in February 2023);
 - a mid-year treasury update report (delegated and reported to Cabinet in November 2022); and
 - an annual review following the end of the year describing the activity compared to the strategy (this report and the accompanying Treasury Management Outturn).
- 1.3 The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
- 1.4 'Treasury management investments' activity covers those investments which arise from the Council's cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business. 'Non-Treasury investments' are investments in financial assets and property primarily for service purposes and/or financial return that are not part of treasury management activity.
- 1.5 Permissible Non-Treasury investments include:
- purchases of property for service and/or commercial purposes;
 - making investments for service and/or commercial purposes; and
 - supplying loans for service and/or commercial purposes.
- 1.6 Service investments are primarily held in relation to achieving operational objectives (including regeneration) whereas commercial investments are held for mainly financial reasons. Annex 3 details lending objectives set by the Public Works Loans Board (PWLB). Capital expenditure that falls under these objectives would allow a Council to borrow from PWLB.

2.0 Report Summary

- 2.1 Non-Treasury Management Investments during the year have included new loans made via the Warwickshire Recovery Investment Fund (WRIF), lending to the Local Authority Trading Company (LATC) – Warwickshire Property and Development Group (WPDG) for both capital and revenue purposes, and continued working capital loan facility to Educaterers, another LATC of the Council which provides a school meals service to schools.
- 2.2 The Council also holds investment property for rental purposes, capital value appreciation or both.
- 2.3 Finally, WCC has shareholder interest in a small selection of companies across the County.
- 2.4 The Treasury team are responsible for Treasury Management activity and the management of the due diligence and governance process for the WRIF. The team also manage WCC investment loan book including lending to WPDG, Coventry & Warwickshire Reinvestment Trust (CWRT) and Educaterers.

3.0 Investment Portfolio

- 3.1 The table below shows the investments currently held by the Council in respect to lending to other businesses. The total lending / facility amount availed to a business may differ to the drawdown amount due to a staggered draw down schedule, or capital repayments that have already been made.

Current Investment	Total Amount Available £m	Total Drawn Down £m
WRIF BIG	1.00	0.39
WRIF LCE	1.65	1.65
WPDG RCF* (working capital)	1.80	1.20
WPDG Development Loan	5.64	1.41
Educaterers	1.80	1.65
CWRT (CBILS**)	1.00	0.64
Lending Investment Total	12.89	6.94
Equity Investments	2.64	2.64
Property Investments	13.39	13.39
All Non Treasury Investments	28.92	22.96

*RCF Revolving Credit Facility

** CBILS Coronavirus Business Interruption Lending Scheme

4.0 Investment Performance to 31st March 2023

- 4.1 The table below shows the investment average balance and the interest earned on that investment during the year. The average returns refer only to the balance and interest during the year 2022/23.

Investment Type	Average Amount Invested in year £m	Interest / Dividends Earned in Year £m
WRIF BIG	0.40	0.06
WRIF LCE	0.59	0.02
WPDG	0.80	0.05
Educaterers	1.45	0.10
Business Loans (CWRT/Duplex)	0.64	0.17
Lending Total	3.88	0.40
Equity	2.64	1.14
Property	13.39	-
Total Investments	19.91	1.54

5.0 Lending Activity during 2022/23

Warwickshire Recovery and Investment Fund (WRIF)

- 5.1 The WRIF was launched in Summer 2021. The fund will run for 5 years and is split into 3 pillars as set out in the table below, with the BIG pillar having both a capital and revenue allocation. The total fund price value was revised following an internal review and the changes were approved by Council in February 2023 as reflected in the table below. The revised fund is split into 3 pillars that address different areas of the local economy the WRIF is aiming to support.

WRIF Pillars	Original Limit 21/22	New Limit 23/24
Business Investment and Growth (BIG) - Capital	£90m	£50m
Business Investment and Growth (BIG) - Revenue	£0m	£4m
Local Communities and Enterprise (LCE)	£10m	£10m
Property and Infrastructure Fund (PIF)	£40m	£40m
Total WRIF	£140m	£104m

Business Investment and Growth Fund- Existing and New Investments

- 5.2 The first loan from the WRIF Business Investment Growth (BIG) pillar was approved by Cabinet in January 2022 to Forge Care Limited. A loan was approved for £1m to Forge Care Limited, for the development and opening of residential children’s homes in Warwickshire, the first of which was based in Nuneaton.

Pipeline Activity

- 5.3 Regarding the BIG fund, 4 separate bids have been approved at Investment Panel and passed to Stage 2 “due diligence”. The information on these bids is confidential however the bid numbers and amounts are included in the table in section 5.5.
- 5.4 During the year 2022/23 none of these have been presented to Investment Panel stage 2 or Cabinet for approval due to the clients wishing to withdraw for external reasons. It is important to note that communications continue with each of these clients where relevant, and they are still considered an open opportunity to receive debt funding from the WRIF at a future stage.
- 5.5 The pipeline for the BIG Fund has included 43 enquiries since the inception of the fund, across various sectors and areas within Warwickshire. Annex 1 includes information on the sectors, locations, sources of enquiries and referrals on by the Economy and Skills team (should the BIG fund not be appropriate).

Amount Requested	Stage	Current Status
£10m	Stage 2 due diligence	Active
£4m	Stage 2 due diligence	Paused
£2.5m	Stage 2 due diligence	Paused
£1.5m	Stage 2 due diligence	Paused

Local Communities Enterprise Fund

- 5.6 This fund is managed externally and the award for the contract was given to Coventry and Warwickshire Reinvestment Trust. The fund operates via a Warwickshire County Council Trust Fund bank account and uses a structure of arrangement, placement and monitoring fees.
- 5.7 The fund was launched in April 2022. For the financial year 2022/23 a total of £2m was available to the fund of which £1.65m had been drawn down by the close of the year. The remainder was earmarked for use in the new year and the amount has been allowed to be carried over into 2023/24 for these investment allocations.
- 5.8 CWRT draw down the loan into a Trust Account. This account is held by CWRT and designated as a trust account for the sole benefit of the Council. Any funds that are not disbursed by CWRT (to sub borrowers) remain in this bank account.

5.9 Key summary information about the LCE fund is as follows:

- The total disbursements from the fund by CWRT to sub-borrowers amounted to £942,701 by 31 March 2023.
- Capital repayments are already being made on some of the loans disbursed during the year 2022/23.
- 89% of these deals are on a 5-year loan term, the remaining 11% are 4 years.
- The average lending interest rate for this portfolio is approximately 13.1%.
- This has been distributed across 20 different businesses, creating 66 full time employment opportunities, and safeguarding 90 jobs.
- Three of these businesses were created as a result of the LCE distributions. Various initiatives have been successful as a result of these distributions including 8 in innovation, 2 environmental and 15 initiatives that introduced new products, processes or services.
- 63% of the entities supported by the LCE are micro businesses, 27% are SME size.
- As at 31st March 2023, no events of default have been reported by CWRT.
- A further disbursement of £135,000 across 2 businesses is planned for April 2023.
- The pipeline for 2023/24 currently has £1,151,000 of active opportunities that are being pursued by CWRT.
- The chart in Annex 2 shows the split by sector that the LCE is supporting.

Property and Infrastructure Fund

5.10 The PIF pillar commissioned CBRE as the fund managers in Q4 of 2022/23. The fund had a soft launch in Q4 following this appointment.

5.11 The first PIF investment opportunity was presented in April 2023, and will be considered by the Investment Panel.

Investment Panel and Governance

5.12 A monthly Investment Panel meeting was established in September 2021. Standing items on the agenda include an update on pipeline and due diligence processes as well as a risk register. Items such as training plans, communication and marketing plans, performance monitoring and business case documents are brought on an ad hoc basis.

5.13 BIG Stage 1 “Business Case” reports and stage 2 “Due diligence” reports are brought to interim panels for full discussion. Both stages have to be passed before approval from Cabinet is sought.

5.14 LCE updates are brought in Investment Panel on a quarterly basis and when possible, these updates are presented by CWRT.

5.15 PIF opportunities are presented to Investment Panel for initial approval on an as needed basis. A decision is then made whether to commission a full report from CBRE on an opportunity. An Investment Panel is then held on receipt of the full CBRE report before being reported to Cabinet for approval. Final due diligence then takes place by CBRE following Cabinet approval.

5.16 PIF updates will be brought to Investment Panel on a quarterly basis.

5.17 A Member Oversight Group (MOG) also meets quarterly to discuss the governance of both the WRIF and WPDG.

Warwickshire Property Development Group (WPDG)

WPDG Business Plan 2023

- 5.18 The 2023 business plan for WPDG was approved by Cabinet in January 2023. This included detailed arrangements for the governance of the company and potential investments in the pipeline for the coming years.

Development Facility

- 5.19 The first site business case was developed and approved in February 2022 for the development of medium-sized business units on a site in Southam, Warwickshire. As at 31st March 2023 a total of £1.405m had been drawn down against the £5.643m loan agreement entered into between WCC and WPDG for funding the Southam development. The balance of the facility is being drawn down on a predetermined schedule.

- 5.20 The interest charged on this loan is fixed per annum, and interest is being accrued until the end of the loan term.

Working Capital Facility

- 5.21 In place at the end of March 2023 was a working capital loan to WPDG amounting to £1.2m. This was utilised from a total facility of £1.85m available for 2022/23.

- 5.22 As at 31st March 2023 the interest charged on this facility is at a variable rate and comprises of both drawn-down and non-utilisation elements.

Educaters

- 5.23 Educaters, a wholly owned local authority trading company, have a revolving credit loan facility in place with the Council for working capital purposes. As at the 31 March 2023 the loan balance was £1.646m, out of a total credit facility of £1.8m.

- 5.24 As at 31 March 2023, a variable interest rate is charged on this facility.

Business Loans

- 5.25 The Council provides finance to local businesses through various funds or schemes, for example the "Duplex Investment Fund" or "Coronavirus Business Interruption Loan Scheme (CBILS)":

- all loans to small businesses via the Duplex Investment Fund had been repaid at the end of the year. These were managed by the Coventry and Warwickshire Reinvestment Trust to whom the Council issues funding via the capital programme;
- loans to the value of £0.6m are in issue by the Coventry and Warwickshire Reinvestment Trust in respect of CBILS; and
- interest of £169.5k was received in respect of these loans during 22/23.

6.0 Equity and Property Activity during 2022/23

Local Authority Trading Companies (LATCs)

- 6.1 The Council has 3 additional wholly owned local authority trading companies, owning a single £1 share in each:

Investment	Value Held
Warwickshire Property Development Company	£100 (100%)
Educaterers	£1 (100%)
Warwickshire Legal Services	£1 (100%)

Shareholder Interest

- 6.2 At the 31 March the Council held shareholder interest totalling £2.64m in the following companies:

Investment	Value Held	Dividends Received
University of Warwick Science Park Innovation Centre Ltd	£1.878m	£91k
Coventry and Solihull Waste Disposal Company	£35k	-
Local Capital Fainnce Company Ltd	£200k	-
Eastern Shire Purchasing Organisation	£100	£701k
Warwick Tech Park Management Co 1 & 2	£1	-
SCAPE	£527k	£350k
Total Shareholder Interest	£2.640m	£1.142m

Other Property

- 6.3 The Council holds investment property for rental purposes, capital value appreciation or both. These properties are not used for the delivery of services. As at the 31 March 2023 investment property was valued at £13.39million which represents 0.95% of the full asset value in the balance sheet of £1.411 billion.

7.0 Risk Management

- 7.1 Any investment, by its nature, involves a risk that the rate of return may not be achieved, and the original investment may not be repaid. It also carries the potential risk that more than the original investment is lost if an investor for whatever reason subsequently puts additional money in above the original investment, for example if unsuccessfully attempting to turn around a failing investment.
- 7.2 Treasury investments prioritise security and liquidity in order to serve the primary objective of treasury management which is to ensure that cash is available when needed to serve the purpose for which that cash is held. To achieve this treasury objective, relatively safe and secure investments are chosen, and consequently low rates of return are accepted.

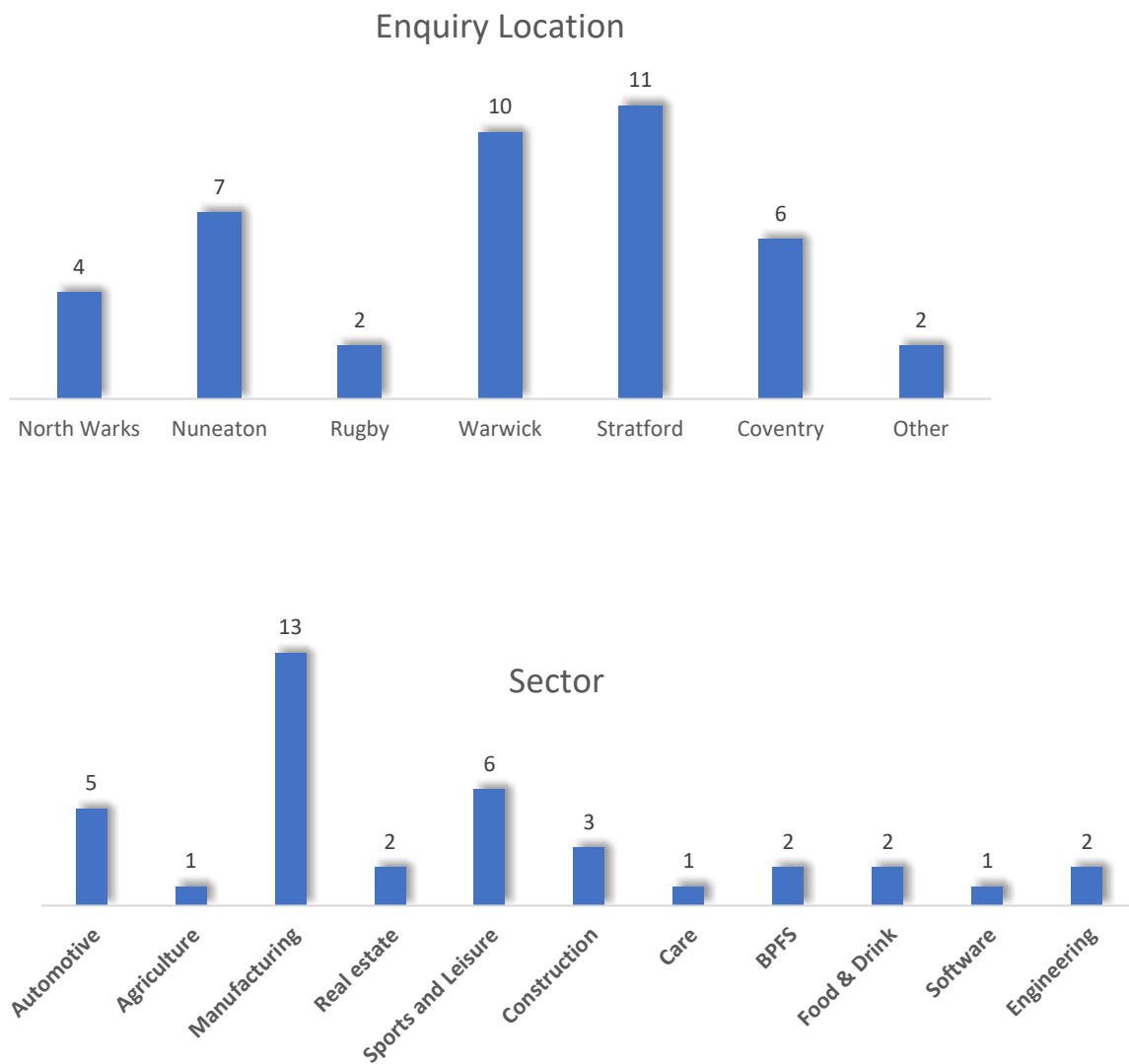
- 7.3 Non-Treasury investment risks are different in that:
- They are assumed to retain or increase their original asset value, and they are assumed to provide a financial return. Therefore, there is exposure to the risk of those assumptions not happening.
 - The objectives of Non-Treasury investments by their nature are not the same as treasury investments and therefore they may not prioritise security liquidity and yield.
- 7.4 A risk register is kept updated at frequent intervals for the investment activity of the Council. Primarily used for the WRIF and WPDG activity it is updated as market conditions, bids, investment portfolio and other information changes. A risk table and the mitigations used are included in Annex 4 of this report.
- 7.5 In addition to this, monitoring is completed on companies with whom we have any investments or lending relationships, to ensure that once an investment decision is made the company remains an acceptable level of investment risk to the Council.
- 7.6 External advisors are used in the Council's investment activity, especially at the due diligence stage. This includes the use of a financial consultant, independent investment advisor and a specialist provider in identity, credit, fraud and anti-money-laundering due diligence.

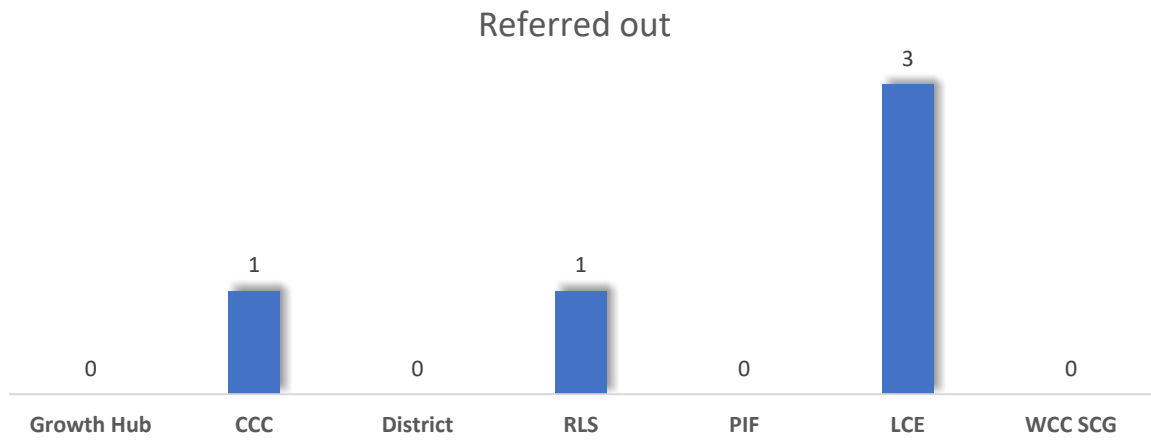
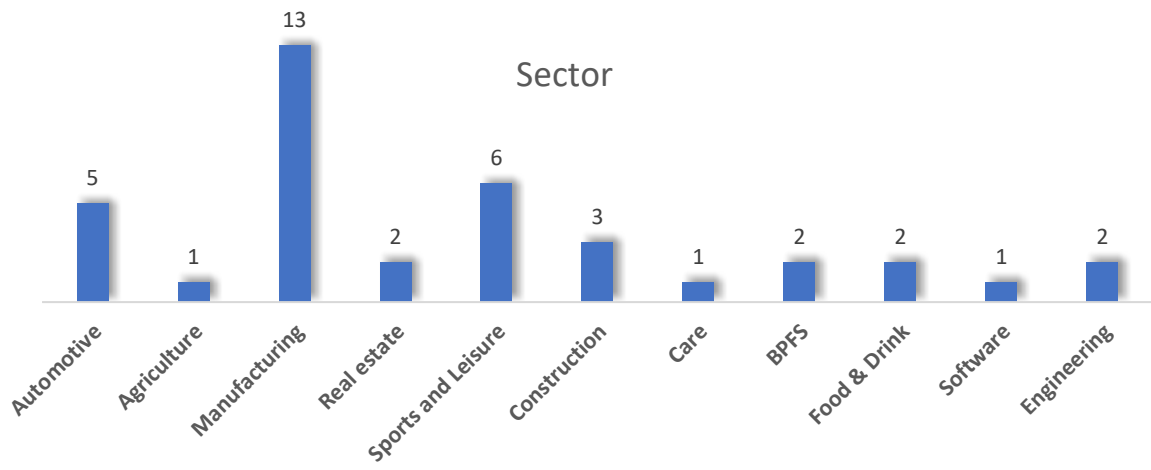
Annexes

- 1.0 WRIF BIG Enquiry Graphs
- 2.0 WRIF LCE Distribution Chart
- 3.0 PWLB Lending Objectives
- 4.0 Risk Table

Annex 1

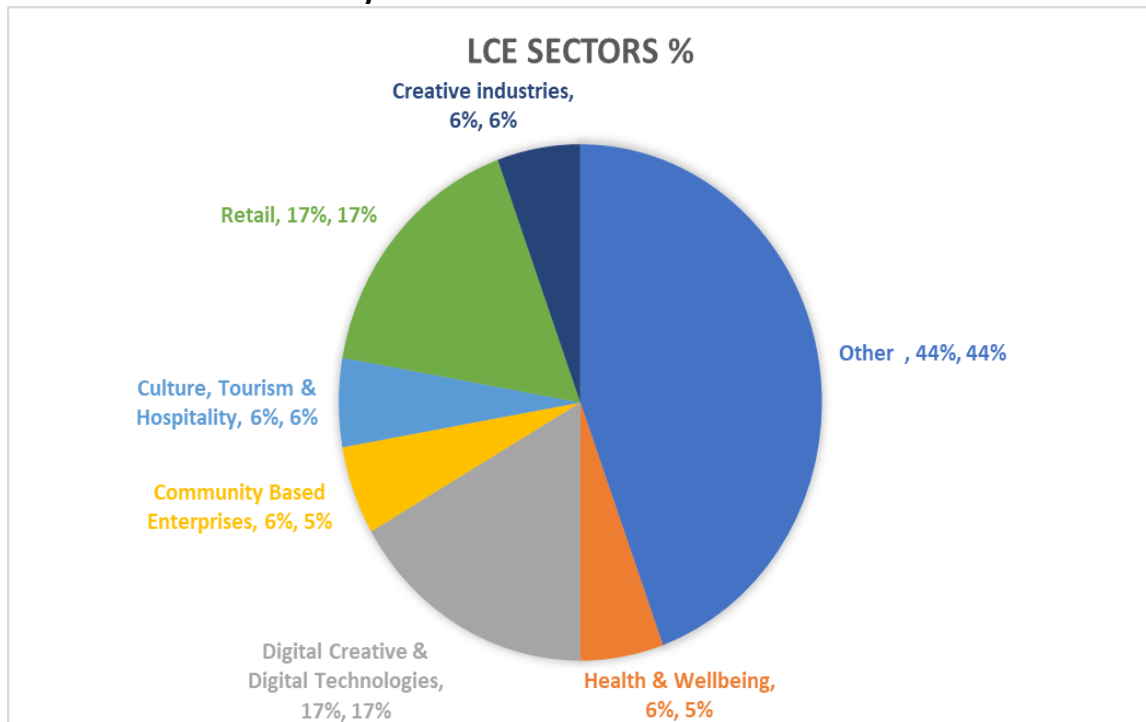
WRIF Enquiry Graphs for activity in 2022/23





Annex 2

LCE Distribution of Loans by Sector



Annex 3

Public Works Loan Board – Lending Objectives

Type	Description
Service	Normal local authority capital spending, for example education, highways, transport, social care, public health, cultural services, environmental services, regulatory services, and Fire and Rescue Services, as would be captured in the MHCLG Capital Outturn Return.
Housing	Normal local authority general fund or housing revenue account activity, as would be captured in the housing sections of the DLUHC Capital Outturn Return. In principle this includes land release, housing delivery, and subsidising affordable housing.
Regeneration	<ul style="list-style-type: none"> • Addressing economic or social market failure by providing services, facilities, or other amenities of value to local people which would not otherwise be provided by the private sector • Preventing negative outcomes including through buying and conserving assets of community value that would otherwise fall into disrepair • Investing significantly in assets beyond the purchase price, developing assets to improve them and/or change their use • Generating significant additional activity that would not otherwise happen without the local authority's intervention, for example creating jobs and/or social or economic value • Investments that recycle income to related projects with similar objectives rather than income being applied to wider services
Treasury Management	Restructuring or extending existing debt from any source, including the restructuring of internal financing
Prevention of Social or Economic Decline	<ul style="list-style-type: none"> • Investments that prevent a negative outcome, for example conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease • Investment where there is no realistic prospect of support from any other source • investments with a defined exit strategy so that investments are not held for any longer than is necessary to achieve their objective

Annex 4

Risk Table and Mitigations

Risk	Mitigating Actions
Resources and Expertise	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 a subsequent decision about approval by Cabinet
Economic	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Sensitivity/stress testing analysis at the fund development stage • Diversification across a range of different investments with different risk/return profiles

Risk	Mitigating Actions
	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Management of the LCE Fund Manager • Management of the PIF Fund Advisor • Continual improvement of the bid assessment processes for BIG investments.
Governance	<ul style="list-style-type: none"> • 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