Appendix 2 -

Investment (Non-Treasury) Outturn Report 2023-24

1. 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 2023/24. 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:

a) purchases of property for service and/or commercial purposes;
b) making investments for service and/or commercial purposes; and
c) supplying loans for service and/or commercial purposes.

1.6 Service investments are primarily held to achieve operational objectives, including regeneration, while commercial investments are held mainly for financial reasons. Annex 3 outlines the lending objectives set by the Public Works Loans Board (PWLB). A Council can borrow from PWLB for capital expenditures that align with these objectives. However, PWLB loans are not available for acquiring investment assets primarily for financial return.

2. Report Summary

2.1 During the past year, non-Treasury Management investments have included new loans provided through the Warwickshire Investment Fund (WIF), lending to the Local Authority Trading Company (LATC) – Warwickshire Property and Development Group (WPDG) for both capital and revenue purposes, and the continued working capital loan facility to Educaterers, another LATC of the Council, which offers school meal services. These investments demonstrate our commitment to supporting local businesses, promoting economic growth, and contributing to the county's post-pandemic recovery.

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 WIF. The team also manage WCC investment loan book including lending to WPDG, Coventry & Warwickshire Reinvestment Trust (CWRT) and Educaterers.

3. 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 committed to a business may differ to the drawdown amount due to a staggered draw down schedule, or capital repayments that have already been made. Further information on investments can be found in the following sections –

- Section 5 Lending Activity during 2023/24
- Section 6: Equity and Property Activity during 2023/24

Current Investment	Total Amount Available £m	Total Drawn Down £m
WIF Business Investment Growth (BIG)	0.33	0.33
WIF Local Communities and Enterprise Fund (LCE)	3.50	3.50
WIF Property and Infrastructure Fund	9.10	-
WPDG RCF (working capital)	2.13	1.25
WPDG Development Loan	12.07	6.76
Educaterers	1.80	0.87
CWRT (CBILS)	1.50	1.50
Lending Investment Total	**30.43**	**14.21**
Equity Investments	3.23	3.23
Property Investments	13.39	13.39
All Non Treasury Investments	**47.05**	**30.83**

4. Investment Performance to 31st March 2024

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 2023/24.

Investment Type	Average Amount Invested in year £m	Interest / Dividends Earned in Year £m
WIF BIG	0.36	0.05
WIF LCE	2.04	0.13
WPDG	6.36	0.39
Educaterers	1.43	0.15
Business Loans (CWRT/Duplex)	0.64	0.17
Lending Total	**10.83**	**0.90**
Equity	3.23	1.25
Property	13.39	-
Total Investments	**27.45**	**2.15**

5. Lending Activity during 2023/24

Warwickshire and Investment Fund (WIF)

5.1 In 2023/24, the Warwickshire Recovery and Investment Fund (WRIF) was renamed the Warwickshire Investment Fund (WIF) to better reflect its focus on addressing broader and complex economic needs, rather than solely concentrating on COVID-19 recovery. Originally consisting of three pillars, the fund has been updated to better align with demand. The BIG (capital fund) has been removed, and a PIF revenue fund of £4m has been introduced to the PIF pillar. As a result of these changes, the overall fund value has been reduced from £104m to £64.4m. The updated fund profiles will guide investment activities during the 2024/25, ensuring a more targeted approach to support the local economy.

WIF Pillars	Limit 2021/22	Limit 2022/23	Limit 23/24
Business Investment and Growth (BIG) - Capital	£90m	£50m	£-
Business Investment and Growth (PIF) - Revenue	£0m	£4m	£-
Local Communities and Enterprise (LCE)	£10m	£10m	£10m

WIF Pillars	Limit 2021/22	Limit 2022/23	Limit 23/24
Property and Infrastructure Fund (PIF) – Capital	£40m	£40m	£50m
Property and Infrastructure Fund (PIF) - Revenue	£40m	£40m	£4m
Total WIF	**£140m**	**£104m**	**£64m**

Business Investment and Growth Fund

5.2 The BIG fund closed in 2023/24, there is one outstanding loan for £0.3m.

Local Communities Enterprise Fund (LCE)

5.3 This fund is managed externally and the award for the contract was given to Coventry and Warwickshire Reinvestment Trust (CWRT). The fund operates via a Warwickshire County Council Trust Fund bank account and uses a structure of arrangement, placement and monitoring fees.

5.4 The fund was launched in April 2022. For the financial year 2023/24 a total of £2.35m was available to the fund of which £2m 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 2024/25 for these investment allocations.

5.5 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.

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

- The total disbursements from the fund by CWRT to sub-borrowers amounted to £1.94m by 31 March 2024.
- Capital repayments are already being made on some of the loans disbursed during the year 2023/24.
- 90% of these deals are on a 5-year loan term, 6% are less than 3 years, the remaining 4% are 6 years.
- The average lending interest rate for this portfolio in 2023/24 is approximately 13.6% this is an increase of 0.5% from 13.1% in 2022/23.
- Loans have been distributed across 51 different businesses to date, creating 237 full time employment opportunities, and safeguarding 283 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 10 in innovation, 10 environmental and 21 initiatives that introduced new products, processes or services.
- As at 31st March 2024, out of 51 loans, 39 are performing as scheduled, with minor deviations in a few cases. Twelve loans are experiencing financial difficulties; however, appropriate measures such as payment plans, legal action, and collaboration with Insolvency Practitioners are being taken to manage these

situations effectively. Overall, proactive steps are being taken by CWRT to ensure financial stability and minimise potential losses.

- The pipeline at the end of 2023/24 sits at £3m which will provide a good starting point for the new financial year. CWRT also have a further £1.1m under ‘long term contacts’ which consists mainly of interested businesses who have future planned projects/requirements.

Property and Infrastructure Fund (PIF)

5.7 Since April 2023, CBRE has served as the fund advisor for the PIF pillar. Recently, the first PIF loan was approved, committing £9.68m in the 2024/25 financial year. Additionally, a further loan for £10m is currently seeking Cabinet approval to progress to the stage 2 due diligence process.

Investment Panel and Governance

5.8 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.

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

5.10 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.

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

5.12 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 2024

5.13 The refreshed business plan for 2024 was approved by Cabinet in March 2024. This included detailed arrangements for the governance of the company and potential investments in the pipeline for the coming years.

Development Facility

5.14 This year, two business cases were developed and approved by Cabinet in October 2023. The first case, Manor Park School, focused on the development of new houses and extra care apartments The second case involved the development of business units in Southam.

5.15 The interest charged on these loans is fixed per annum, and interest is being accrued until the end of the loan term.

5.16 In 2023, WPDG repaid its first loan, which was approved in February 2022 for the development of medium-sized business units in Southam.

Working Capital Facility

5.17 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 £2.1m available for 2023/24.

As at 31st March 2024 the interest charged on this facility is at a variable rate and comprises of both drawn-down and non-utilisation elements.

Educaterers

5.18 Educaterers, 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 2024 the loan balance was £0.87m, out of a total credit facility of £1.8m.

5.19 As at 31 March 2024, a variable interest rate is charged on this facility.

Business Loans

5.20 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 £0.44k was received in respect of these loans during 23/24.

6. Equity and Property Activity during 2023/24

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 Group	£100 (100%)
Educaterers	£1 (100%)
Warwickshire Legal Services	£1 (100%)

Shareholder Interest

6.2 At the 31 March the Council held shareholder interest totalling £3.23m in the following companies:

Investment[1]	Value Held (£m)	Dividends Received
University of Warwick Science Park Innovation Centre Ltd	£1.82	£0.02
Coventry and Solihull Waste Disposal Company	£0.04	-
Local Capital Finance Company Ltd	£0.20	-
Eastern Shire Purchasing Organisation	-	£0.73
Warwick Tech Park Management Co 1 & 2	-	-
SCAPE	£1.17	£0.50
Coventry and Warwickshire Grouth Hub	-	-
Total Shareholder Interest	£3.23m	£1.25m

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 2024 investment property was valued at £13.39 million which represents 0.94% of the full asset value in the balance sheet of £1.422 billion.

7. 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.

[1] In the shareholding table above, values are rounded to the nearest £m. Where the held value is below £0.100m, it appears as zero. This occurs when the shareholding is between £100k and £1, as rounding to the nearest £m results in a value of £0

7.4 A risk register is kept updated at frequent intervals for the investment activity of the Council. Primarily used for the WIF 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. PWLB Lending Objectives
2. Risk Table

Annex 1
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	• 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	• 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 2
Risk Table and Mitigations

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 • PIF investing decisions have to be recommended by the Investment Panel and a subsequent decision about approval by Cabinet
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 WIF Investment Strategy • Annual Review of WCC Investment Strategy • Accepting the risk/opportunity that other lenders may step in and reduce the need for WIF to invest • Reviews of market need developments

Risk	Mitigating Actions
PIF and LCE Fund Specific Risks	• Management of the LCE Fund Manager • Management of the PIF Fund Advisor
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 WIF arrangements (commissioned for Section 151 Officer) • Annual review of WIF 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