Cabinet

28 January 2025

Warwickshire Investment Fund
Investment Strategy and Business Plan

Recommendations

That Cabinet

1. approves the Warwickshire Investment Fund ("WIF") Investment Strategy attached at Appendix 2;

2. approves the WIF Business Plan attached at Appendix 3;

3. delegates to the Executive Director for Resources in consultation with the Portfolio Holder for Finance and Property to make such minor modifications to the WIF Investment Strategy as are considered appropriate but only where such changes do not reduce or remove any of the current checks and balances on investments included within the Strategy or Business Plan; and

4. notes that the WIF Investment Strategy coming into effect is dependent upon approval of the wider Treasury Management Statement and Investment Strategy under which the WIF Investment Strategy and Business Plan sits.

1. Executive Summary

1.1 The Warwickshire Investment Fund (WIF) was established in 2021/22 to provide financial support aimed at sustaining and advancing the local economy and employment. Initially launched as the Warwickshire Recovery Investment Fund (WRIF) with a focus on addressing Covid-related economic pressures, the fund has since evolved to target broader economic challenges currently impacting in the UK and locally. These include continued impact on household costs, volatile inflation, and elevated interest rates, which together present substantial challenges for local businesses.

1.2 Economic uncertainty remains a concern given the UK's exposure to ongoing local and global factors, which may for example drive fluctuations in import and export costs and strain supply chains.

1.3 The WIF is governed by an Investment Strategy and Business Plan. The purpose of this report is to seek approval of the updated WIF Investment Strategy and Business Plan for 2025/26-2026/27. In addition, it seeks to set out a plan to review the position and any potential need for an investment fund from 2027/28 and beyond.

1.4 The objectives of the Warwickshire Investment Fund (WIF) are detailed in Appendix 1, no changes are proposed to these objectives as they are considered to still be appropriate.

1.5 Additional pressures, such as supply chain disruptions, competition for skilled labour, and regional competition across the UK for business investment, continue to impact local businesses. The WIF remains committed to providing resources that strengthen economic resilience and foster sustainable growth in Warwickshire by addressing the general lack of finance available to businesses and enhancing the macro-availability of finance.

1.6 Since the beginning of 2024/25 the WIF has comprised of two active pillars, summarised below:

- **Property Infrastructure Fund** (PIF) – Intended to provide forward funding for infrastructure investment.
- **Local Communities Enterprise Fund** (LCE) – Targeted at providing small business loans to support local enterprise.

1.7 2024/25 marks the third full year of WIF operations. While a reduction in planned investment levels occurred following the closure of the Business Investment and Growth (BIG) fund, the LCE continues to actively issue loans and maintain a pipeline of enquiries, and the PIF achieved a key milestone by issuing its first loan, demonstrating positive momentum across the fund's active pillars.

1.8 The PIF fund completed its first full year of operation in 2024/25, having launched during 2023/24. Meanwhile, the LCE fund has now completed two full years since its inception.

- The LCE has now lent £4.4m to 74 businesses. Warwickshire County Council's investment has leveraged £3.7m of private sector investment and safeguarded 347 jobs. Over 300 new jobs are forecasted to be created, with approximately 50% of the loans going to new business start-ups. The majority of loans are performing to schedule. £3m (76%) of the outstanding loan book is covered by the Government's Financial Guarantee, the remaining loans are not covered as they fall outside the guarantee criteria. This success is largely due to the revenue nature of the loans, their targeting in a high-demand space, the low value/high volume strategy, and the administration by the experienced Coventry and Warwickshire Reinvestment Trust (CWRT). The WIF Strategy accepts that in order to access the opportunity to support the local economy by direct investing, some amount of risk exposure is necessary. CWRT have established processes in place to support businesses if they get into difficulties and have processes in place if necessary to take recovery action on outstanding debt. The extent of repayment difficulties and defaults has to date been within the risk appetite of the Fund.

- The PIF has successfully made its first loan this year of £10m, with £3.9m expected to be drawn down by the end of the financial year. The first half of this project remains on track for practical completion in April 2025. It is expected that two further loans will progress to stage two by the end of the financial year, seeking a combined funding of £19.7m, this would bring approved loans to £29.7m. The PIF continues to maintain a pipeline worth over £100m across all areas of Warwickshire, covering industrial, leisure, and infrastructure.

1.9 Demand for the LCE and PIF is considered sufficient to maintain the overall investment levels at their original amounts (£10m and £44m). However, an additional £10m capital investment remains available to the PIF for any exceptional bids, as introduced in the 2024/25 strategy.

2. WIF Activity During 2024/25

2.1 In 2024/25, the Investment Panel's terms of reference were updated to reflect changing fund priorities and operational needs, including the closure of the BIG fund. The revised terms were approved by the Commercial Delivery Group, with an agreement that the panel would in future meet quarterly, and arrange additional meetings as needed for specific PIF bids to avoid delays in decision-making. This year, the panel has continued to ensure robust oversight and governance of the Fund, carefully reviewing investment bids, and effectively managing the PIF Fund.

2.2 Coventry and Warwickshire Reinvestment Trust (CWRT) have been operating the LCE Fund since June 2022, and the forecast is to have placed £5.9m of total investments by the end of the 2024/25 financial year (out of the £10m investment limit).

2.3 CBRE have been operating the PIF Fund from April 2023, and the forecast is to have secured £19.7m of investments by the end of the 2024/25 financial year, of which £3.9m will be drawn down.

2.4 Following the update to our AML policy, we are registering with the Financial Conduct Authority (FCA) for Anti Money Laundering (AML) purposes to facilitate financial activities related to the PIF.

2.5 The issued loan from the BIG Fund continues to be repaid, with the counterparty consistently meeting its loan obligations and making payments on schedule. No new activity occurred during 2025/26.

3. Strategy Updates

3.1 **PIF Fund** – The PIF fund will continue with the total investment of £40m in capital plus up to £4m in revenue, plus an additional £10m in capital for any exceptional bids. The fund will be reprofiled across 2025/26 and 2026/27. The revenue facility exists to provide the option to roll up interest payments for the cashflow profile of an opportunity if such that cash inflows does not allow for regular payments across the duration of the loan.

3.2 **LCE Fund** – the LCE Fund will carry on with the total investment amounts unchanged.

3.3 **Annual Investment Limits** - the Capital Limit for PIF has increased from £20m to £40m to allow flexibility on how much is invested in the final two years of the fund. Therefore, should more be spent in 2025/26, less will be available in 2026/27.

3.4 **Review 2027/28 & beyond** – a comprehensive review of the potential need of an investment Fund from 2027/28 and beyond is proposed to be started in 2025/26. The intention being to review the WIF fund, and to look at the future requirements the local economy may have, and if necessary, specify any new fund that is fit for the future. It is not proposed to slip any WIF spending past 2026/27 as that would require maintaining investing infrastructure and associated costs in order to administrate small sums of potential investment. However, if a new Fund were found to be suitable then the necessary infrastructure to administrate it would be a part of any proposal.

3.5 Following independent advice, we have been advised to register the PIF with the FCA for **AML compliance**. This registration is essential to ensure compliance with AML regulations and to effectively prevent money laundering and terrorist financing.

3.6 The WIF investment profiles (Appendix 3, Section 3.1) and benefits profiles (Appendix 3 Section 2.4-2.5) have been updated to reflect these changes.

4. Financial Implications

4.1 By reprofiling the PIF and LCE investment profiles to maintain the overall investment levels required a higher concentration of investing in a shorter period of time. This will increase peak debt and timing risk however, the existing governance arrangements and controls in place are sufficient to ensure that investments during the final 2 years will need to meet the same standards in terms of risk and reward profile (reward meaning both financial return and the delivery of non-financial objectives), and this will ensure that value for money is maintained. A risk exists that not all of the Fund will be invested but the Fund’s appetite for risk is such that underspending due to there being not enough appropriate opportunities is preferable to making investments that do not meet the objectives or risk profile of the Fund and would have delivered poor value for money.

4.2 The WIF is required to operate on normal commercial terms. The lower overall fund value results in less opportunity to recover administration costs through fees as a proportion of costs are fixed. A commercial risk reserve is available to cover risks including default risk and the risk of under recovery of administration costs.

4.3 There are two overarching financial risks to the financial position of the WIF that could result in pressure on the Medium-Term Financial Strategy:

- That investment losses experienced are more than expected (the main drivers being if investment risk is not accurately assessed or managed).

- That the costs of operating the WIF are not fully recovered (the main drivers being if total investment activity is lower than planned resulting in not enough fee income being generated, or if fee rates or interest rates are set too low).

4.4 The nature of the WIF is to invest in companies where alternative sources of finance may be less available, and where companies are facing more challenging circumstances. Investing entails a risk that some or all of any given investment may not be repaid, for example through a default on a loan, or through a fall in the value of an equity stake. The commercial risk reserve also provides some risk mitigation.

4.5 The WIF strategy does allow for building a surplus margin into the interest rate on PIF loans, however in practice the implementation of this has been very limited due to the impact it has on the viability of proposed schemes. The facility to incorporate a surplus margin will be kept but the limited likelihood of its use is recognised. The Council's budget does not assume a surplus margin.

4.6 The WIF requires balancing of costs and income, impacted by the following factors:

- How much administration costs can be reduced.
- The extent to which fees can be increased.
- To what extent credit losses are mitigated.
- The degree to which costs of capital can be mitigated by internal borrowing.
- The level of surplus margins that can be built into interest rates.

4.7 Environmental implications are a consideration for investment decisions. This is articulated in a specific Ethical Investing Policy which is part of the WIF Investment Strategy (refer to Appendix 2, Section 4).

5. Timescales associated with the decision and next steps.

5.1 The WIF Investment Strategy and Business Plan sit underneath and must be aligned to the overall Warwickshire County Council Investment Strategy and Treasury Management Strategy. Those two strategies are being presented elsewhere on this agenda for consideration and they form a component of the set of wider medium-term financial strategy reports. Those strategies, subject to being approved/recommended by Cabinet, are then reported to full Council for final approval.

5.2 Subject to approval the WIF Investment Strategy and Business Plan would come into effect on 1 April 2025.

Appendices

Appendix 1 – WIF Objectives (and summary of updates)
Appendix 2 – WIF Investment Strategy 2025/26-2027/28
Appendix 3 – WIF Business Plan 2025/26-2027/28

Background Papers

None.

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The report was circulated to the following members prior to publication:

Local Member(s): N/A – Countywide Report
Other members: Councillors Adrian Warwick, Parminder Singh Birdi, Sarah Boad, Sarah Feeney, and Will Roberts

WIF Objectives   Appendix 1

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), medium term (1-5 years), and long term (up to 10 years);

5. Support investments that make a contribution towards meeting net zero carbon goals; and

6. Support the delivery of the Council's strategic goals and priorities.

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

8. Protecting jobs within the county and promoting new jobs within the county