Appendix 3

Warwickshire County Council

Warwickshire Investment Fund (WIF)

Business Plan 2025/26-2026/27 with Outlook for 2027/28 and Beyond

1. Introduction and Purpose

1.1 The purpose of the Business Plan is to outline the activities for the Warwickshire Investment Fund ("WIF") for the period 2025/26-2026/27. The WIF now operates with two key fund pillars, as detailed in the WIF Investment Strategy:

- Property & Infrastructure Fund (**PIF**) £50m – capital investments only
- Property & Infrastructure Fund (**PIF**) £4m – revenue investments
- Local Communities & Enterprise (**LCE**) £10m – revenue or capital investments

1.2 This reflects the updated structure from 2024/25, streamlining the fund pillars to meet ongoing market demand.

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

2. Outcomes and Benefits

2.1 The objectives and principles of the WIF are set out in the WIF Investment Strategy. The WIF 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 WIF 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 Gross Value Added (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 impacted and households supported

2.3 The WIF benefits targets have been updated to reflect experience to date and intelligence from benchmarks. The main changes to benefits targets are:

2.4 **New metrics added:**

- Split the number of new businesses supported into two metrics: businesses supported and number of new businesses supported.
- Separate jobs created and jobs safeguarded into two metrics, removing the combined metric.

2.5 **Targets reduced:**

- Leverage targets, as experience indicates that leveraged investments are less common than expected.

- Businesses created, due to minimal loans to pre-starts compared to new start-ups.
- Number of successful innovation and environmental initiatives, and number of businesses integrating new products, processes, or services, based on market demand and lending to date.

2.6 Having regard to the revised size of the Fund the following target ranges are set for each pillar.

Table 1: LCE - Revised Outputs and Outcomes

	LCE (Targets)	Achieved	To be delivered
Number of businesses supported	160	74	86
Number of new businesses supported	80	37	43
Private sector leverage (£m)	£5.0m	£3.7m	£1.3m
Public sector leverage (£m)	£0.25m	£0.06m	£0.19m
Jobs safeguarded	600	347	253
Jobs created (actual)	300	13.5	286.5
Businesses created	30	13	17
No. of successful innovation initiatives	80	22	58
No. of successful environmental initiatives	90	15	75
No. of businesses integrating new products, processes or services	130	41	89

Table 2: PIF: Revised Outputs and Outcomes

PIF: Revised Outputs and Outcomes	Planned	Achieved	To be delivered
Number of Schemes	n/a	1 (under construction)	3+
Jobs created (construction phase)	350	109	241
Permanent (new and safeguarded)	146	0	146
Jobs safeguarded	tbc	tbc	
Annual Regional GVA (£m)	£1.81m+	tbc	£1.81m+
Land remediated/ developed (hectares)	7.58 acres (3.07ha)	1.88 acres (0.8ha) in progress)	5.7 acres (2.9ha)
Development Value	£34.2m	0	£34.2m
Match leveraged	£14.6m	tbc	£14.6m
Commercial space created (light industrial and hotel schemes)	145,471sqft	41,384sqft (under construction)	145,471sqft
Regional GVA - 10 years	£18.1m+	tbc	£18.1m

2.7 Whilst these are the targets, actual activity may vary significantly. Job creation benefits continue after the final investments have been made in 2026/27 as there will be a lag between investment activity and some of the associated job creation.

2.8 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.

2.9 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 WIF 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 in Table 3 below, the profiles reflect the expected activity from 2025/26 to 2026/27. For the years 2021/22 to 2024/25, the table shows the actual level of investment, with an estimate for the final quarter of 2024/25. This also includes £0.4m invested in the Business Investment Growth Fund, which was closed in 2023/24.

£m	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
BIG (Capital)	0.40						0.40
PIF (Capital)			*	3.80	23.04	23.16	50.00
PIF (Revenue)			*	0.08	1.96	1.96	4.00
LCE		* 1.65	2.00	2.30	2.20	1.85	10.00
Gross Investing	**0.40**	**1.65**	**2.00**	**6.18**	**27.20**	**26.97**	**64.40**

***Year fund opened**

3.2 The revised profile has the following features:

- The LCE and PIF pillars continue to operate as planned, with total investments of £10m and £54m, respectively, by the end of the WIF.
- For the years 2021/22 to 2024/25, the table shows the actual level of investment, with an estimate for the final quarter of 2024/25.
- The balance of the PIF investment has been moved into the final two years. This maintains the potential to maximise WIF benefits, albeit with slightly higher peak debt/risk exposure and a marginally higher risk of low value for money (VFM).
- The PIF revenue fund of £4m has been retained for use by the PIF, this will only be used to enable borrowers to pay for WIF loan financing costs where the cashflow of a business plan requires it.
- At the end of 2025/26, any remaining/ unallocated funds will not be carried over to 2026/27 unless there is significant certainty regarding future projects. This approach is recommended to avoid too much concentration of investment in a single year
- All investments are planned to have been made by 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 enabling resources to be reallocated without the presumption of continuing with a fund or policy that, by then, will be five years old.

3.3 At the same time as mitigating risks, it is beneficial for the WIF to have some flexibility to respond to variations in opportunity and demand and therefore whilst the above table sets out the estimate for gross investing, the WIF Investment Strategy also sets out maximum investing limits in any individual year which are higher than the 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 is a hard limit that will remain the same.

3.4 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. However, while the total amount is £50m, no more than £40m can be spent in any single year. This means that if £40m is spent in 2025/26, only £10m would be left for the final year.

Table 2: WIF Investing Limits

£m **Pillar**	**Previous Limit**	**New Limit**
Capital Limit (PIF)	20.0	40.0
Revenue Limit (LCE and PIF)	6.0	6.0

3.5 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.

3.6 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.

3.7 Repayment profiles are less predictable because each loan duration and repayment profile will depend on the circumstances. PIF and LCE loans could be for up to 5 years.

3.8 It is within the control of the WIF 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 WIF is expected to cover its costs and have the potential to 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.
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 PIF fund has the option to make a net positive financial return of up to 3%. However the impact of a surplus margin on the viability of an investment is recognised and no budget is set that requires a surplus to be made The LCE is targeting breaking even. Any net positive return from the PIF funds would be 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, potentially through an additional component of the interest rate, 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 and experience and adjusting investing behaviour over time, for example to reduce the investing limits, change the investment 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, repayments, fees, and interest (with the current year included for completeness).

Table 4: Financial Plan 2024/25-2029/30

£m	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Total Lending	6.2	27.2	27.0	0.0	0.0	0.0
Total Repayments	(0.4)	(1.7)	(2.1)	(15.2)	(26.3)	(16.3)
Net Change In Lending	**5.8**	**25.5**	**24.9**	**(15.2)**	**(26.3)**	**(16.3)**

£m	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Administration Costs	(0.6)	(1.2)	(1.2)	(0.2)	(0.1)	(0.1)
Fees Recovered	0.4	1.5	1.6	0.3	0.1	0.0
Net (Costs) / Income	**(0.2)**	**0.3**	**0.4**	**0.1**	**0.0**	**(0.1)**

£m	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
Interest Paid by Borrowers	0.4	1.6	3.1	3.2	1.9	0.5
Cost of Capital	(0.2)	(1.1)	(2.2)	(2.3)	(1.3)	(0.4)
Credit Loss	(0.2)	(0.4)	(0.6)	(0.6)	(0.3)	(0.1)
Net Surplus / (Loss)	**0.0**	**0.1**	**0.3**	**0.3**	**0.3**	**0.0**

4.5 The figures presented are “in-year” figures. Lending out will cease after 2026/27 but repayments and interest and administration costs will continue beyond 2026/27 until all loans are repaid. From 2025/26 to 2028/29 fees exceed administration costs due to timing, any surplus recovered in this period will be needed to cover ongoing costs of managing the portfolio after all the loans are issued, at which point fee income is less than costs incurred.

4.6 The PIF loan repayments have been reprofiled to align with market demands, where requests for loans are seeking for the principal to be repaid at maturity or as bullet loans, rather than through regular repayments of principal and interest. Additionally, the duration of PIF loans has been modelled based on a 3-year term, reflecting the loans currently in the pipeline.

4.7 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. 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.

4.8 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 and margins.

4.9 The strategy enables the option to recoup a net return of up to 3% p.a. on the PIF fund, 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 from the LCE fund.

4.10 The first call on any net surplus relating to the WIF (be it arising from fees or interest rates) will be to replenish the commercial risk reserve to the point where the WIF has repaid all drawdowns from the reserve.

5. Risk

5.1 There are risks entailed in the delivery of the WIF. 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 WIF to the Council, and the risks of not achieving objectives are assessed to be about the same as they were in 2024/25 but there are a number of factors moving risks in both directions. The changes and their impact upon the WIF are summarised in the table below.

How Risks are Changing

Factors that reduce risks	Factors that increase risks
• The organisations WIF infrastructure continuing to gain and apply experience. • Improved economic forecasting • If central government provide support or stimulus to local authorities or businesses.	• Persistent inflation pressures or possible deflation • Ongoing high cost of living • Continue high interest rate environment or uncertainty about when rates will fall • Continuing political and economic uncertainty • Increased numbers of Local authorities getting into financial difficulty, resulting in the Government reducing local authority borrowing flexibilities

5.3 The WIF risk appetite statement is set out 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 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

Risk	Mitigating Actions
	• 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 approved 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
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

Risk	Mitigating Actions
	• 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, and Commercial Delivery Group, as required.
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 • FCA registration for AML, helps create a secure and compliant business environment, minimising various risks associated with financial operations. • AML training for officers and those charged with governance • Procurement of a specialist AML checks provider for more complex checks • Periodic internal audits of WIF activity

6. Anti-money Laundering (AML) Compliance

6.1 When the WIF was established, FCA registration was not considered to be required. However, following an independent review of our AML policy, we are registering with the FCA for Anti-Money Laundering (AML) purposes due to the decision-making nature of the PIF fund. This registration is essential to ensure compliance with AML regulations and to effectively prevent money laundering and terrorist financing.

6.2 As an Annex 1 institution, our responsibilities will include meeting the FCA's expectations for robust AML controls. This paper outlines our approach to AML compliance, detailing the measures to meet our regulatory obligations.

- ***AML Policies and Risk Assessments***: We have updated our AML policy with guidance from Trowers and a requirement of this is to have an AML risk assessment in place, which will be periodically reviewed and updated.

- ***Due Diligence and Staff Training***: This includes providing role-specific AML training. We have provided AML training to WIF panel members this year, and further training will be available for new members, with online resources made accessible.

- ***Governance***: Along with clear documentation and audit trails, our current governance practices, including minuted meetings and terms of reference, are in place and will continue to be documented and reviewed.

- ***Preparing for FCA Review:*** The FCA may review our compliance with these controls, so we need to maintain thorough records of our gap analysis, corrective actions, and regular testing to demonstrate compliance.

6.3 Failure to comply with AML regulations can result in significant fines and legal penalties and can severely damage the Council's reputation. These measures will ensure that we meet the FCA's standards and mitigate the risks associated with money laundering, thereby protecting the integrity of the WIF.

7. Planning for 2027/28 and Beyond

7.1 We will integrate long-term planning activities into the 2025/26 business plan. This will involve a comprehensive assessment of business need for local economic support requirements for 2027/28 and beyond.

7.2 We will explore various mechanisms to support the local economy, with a potential investment fund being one option. This exploration will include identifying opportunities for developing new funding avenues or conducting a re-procurement to gauge market interest.

Planned Timeline

7.3 2025/26 (April 2025):
Evaluate future economic needs and assess the impact and effectiveness of the WIF, within the context of the wider levers available to support the local economy. A review of the access to finance market for small businesses will also be commissioned. The findings from this review will inform our assessment of business needs and economic support requirements for 2027/28 and beyond.

7.4 2025/26 (September 2025):
Develop and assess options, and if appropriate, design a new investment fund model and/or alternative economic development support mechanisms.

7.5 2026/27 (February 2026):
Obtain Council approval for any proposed approach.

7.6 Last 9 months of 2026/27:
Specify services and undertake contract negotiations an execute any procurement process, if appropriate, for any new or revised fund structure or investment-related function.