



## **CABINET – 17 SEPTEMBER 2021**

### **CORPORATE ASSET INVESTMENT FUND ANNUAL PERFORMANCE REPORT 2020-21**

#### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **PART A**

##### **Purpose of the Report**

1. The purpose of this report is to set out the performance of the Corporate Asset Investment Fund (CAIF) for the 2020/21 financial year. The Annual Report is attached as the Appendix to this report.

##### **Recommendations**

2. It is recommended that the performance of the Corporate Asset Investment Fund for the period April 2020 to March 2021 as set out in the Annual Report, be noted.

##### **Reasons for Recommendations**

3. In accordance with the Cabinet's decision in September 2017, this report fulfils the requirement to report annually on the performance of the CAIF to both the Cabinet and the Scrutiny Commission, to demonstrate that the Fund is being managed professionally and prudently.

##### **Timetable for Decisions (including Scrutiny)**

4. The Annual Performance Report was considered by the Scrutiny Commission at its meeting on 8<sup>th</sup> September 2021 and the Commission's comments will be reported to the Cabinet.

##### **Policy Framework and Previous Decisions**

5. The creation of the CAIF was included in the Medium Term Financial Strategy (MTFS) 2014/15-2017/18, which was approved by the County Council in February 2014. This has been renewed and increased annually in the MTFS.
6. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members. The Advisory Board will consider the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director of Corporate Resources may

then approve under delegated powers or refer to the Cabinet for a decision.

7. The Council's Corporate Asset Management Plan 2016/17 was approved by the Cabinet in June 2016. This promotes the rationalisation of the Authority's property assets, reducing property running costs, generating new property income streams, ensuring cost effective procurement of property and property services, and creating capital receipts to support capital programme or other beneficial investment proposals.
8. The Medium Term Financial Strategy 2021-25 Capital Programme was approved by the Council on 17 February 2021. This includes provision of £71m for CAIF projects up to 2024/25. The revised Corporate Asset Investment Fund Strategy 2021 – 2025 was also approved at the same meeting as part of the MTFS.
9. The County Council's Strategic Plan 2018-22, supported by the Enabling Growth Plan, sets out the Council's objectives for the rationalisation and utilisation of its assets, maximisation of capital receipts, and facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.
10. In 2018 the County Council adopted a new Environment Strategy for 2018 – 2030 – 'delivering a better future' which sets out the Council's environmental priorities and objectives to meet the global challenge of climate change. In May 2019 the County Council further committed to seek to achieve carbon neutrality in its own operations by 2030.

### **Resource Implications**

11. The County Council faced a very difficult financial outlook even before the impacts of the COVID-19 pandemic are considered. The MTFS currently sets out the need for further savings of £79m to be made by 2024/25, of which £23m is unidentified. This gap is expected to grow as the MTFS is refreshed. It is anticipated that the annual review of the CAIF Strategy will be influenced by changes to the requirements of the MTFS arising as a direct result of the impact of COVID-19 on Council services and the future financial position.
12. The MTFS 2021-25 which incorporates the investment strategy for that period provides funding to grow the CAIF from the original target of £200m to £260m over the MTFS period. The exact level of investments made will be dependent on the availability of good investments, the actual cost of development and the level of funding available. The expectation is that the returns (a combination of revenue income and capital growth) generated by the CAIF will have a meaningful impact on the Council's budget to reduce the funding gap.
13. The amount invested in the Fund as at 31 March 2021 was £184m. This is after £5m in principal repayments for private debt investments which are planned to be reinvested. The MTFS 2021-25 capital programme includes a provision of £71m for additional investments spread over the four years

2021/22 to 2024/25 to fund further CAIF investments. This brings the total fund to £260m

14. The total income is forecast to grow to an estimate of £9m by the end of the MTFS, 2024/25

15. The Director of Law and Governance has been consulted on this report.

#### **Circulation under the Local Issues Alert Procedure**

16. None.

#### **Officers to Contact**

Chris Tambini, Director of Corporate Resources  
Tel: 0116 305 7830  
Email: [chris.tambini@leics.gov.uk](mailto:chris.tambini@leics.gov.uk)

Jonathan Bennett, Head of Strategic Property,  
Corporate Resources Department  
Tel: 0116 305 6358  
Email: [jon.bennett@leics.gov.uk](mailto:jon.bennett@leics.gov.uk)

## **PART B**

### **Background**

17. The Council has owned and managed properties in the form of the existing Industrial and County Farms estate for many years. These properties are held for the purposes of supporting the delivery of various economic development objectives and to generate revenue and capital returns to the County Council.
18. The creation of the CAIF and associated Advisory Board in 2014 was aimed at increasing the Council's property portfolio and ensuring a more diverse range of properties, to continue to support economic development and generally increasing the quality and sustainability of the land owned by the Council and the income this generated.
19. The Advisory Board, chaired by the Cabinet Lead Member for Resources, is supported by an officer group formed from strategic property, strategic finance and legal services to provide advice on risks, deliverability and financial implications. Specialist property investment support and advice is also available to provide an independent view and robust challenge. Following consideration by the Advisory Board, the Director of Corporate Resources approves investments (under delegated powers) or refers the proposals to the Cabinet for a decision.
20. In 2018 the aims of the CAIF Strategy were aligned with the five Strategic Outcomes set out in the Council's Strategic Plan (Strong economy, wellbeing and opportunity, keeping people safe, great communities and affordable and quality homes) and the purpose of the Fund was consequently broadened to ensure that CAIF investments
  - Support the objectives of the Council's Medium Term Financial Strategy.
  - Generate an income stream which increases the Council's financial resilience given the decrease in government funding.
  - Support the delivery of front-line services through increased income generation, or through capital investments that will reduce operating costs.
  - Support the Council's strategic objective of Affordable and Quality Homes through helping to unlock and accelerate developments.
  - Manage investment risk through the opportunity to invest in diverse sectors.
  - Meet the objectives of the Council's Corporate Asset Management Plan, Corporate Asset Investment Fund Strategy, Strategic Plan and Single Outcomes Framework, the Economic Growth Plan and Local Industrial Strategy.

- Increase the size of the property portfolio and improve the mix and quality of land and property available across the County and the sub-region.
- Maximise returns on Council-owned property assets.
- Support growth in the County and its economic area of influence and ensure there is a more diverse range of properties and land assets available to meet the aims of economic development.
- Support the Council in maximising the benefit from its financial assets in a risk-aware way (not including standard treasury management activity).

The Strategy was further updated in 2019 to reflect the Council's declaration of a Climate Emergency to ensure all Fund developments are, where possible, low carbon and energy efficient.

21. Support for the Advisory Board has subsequently been expanded to reflect this with officers from other departments, such as Environment and Transport and Head of Planning, also now attending where appropriate given the increasing impact of growth infrastructure and Climate Change projects being managed through the Fund and to reflect the planning decision making structure within Leicestershire. The Head of the Growth Unit also provides support as necessary; the Unit has general oversight for the delivery of large growth schemes to ensure these are assessed and prioritised against the resources available and balanced against the need to deliver the aims of the Fund and the Council's Strategic objectives.
22. Following the Council's Declaration of a Climate Emergency in 2019, an additional aim to ensure that all Fund developments (or developments on land disposed of by the Fund) are, where possible, low carbon and energy efficient was added to the CAIF Strategy.

### **Current Performance of the CAIF**

23. The CAIF has a significant and growing value and has provided a means by which the Council can continue to provide high quality services to the people of Leicestershire despite significant pressures on public finances.
24. Since 2014 income generated by CAIF investments has made a real impact towards supporting Council services without which further savings would have been required and service provision to residents and businesses in the County would have been adversely affected.
25. Originally, funding of £15m was allocated to the CAIF to fund new investments over four years from 2014/15, and this focussed on direct managed property investments to support the funds strategic objectives. In addition, other Council assets have been included in the CAIF, mainly county farms and industrial properties. Since 2014/15, funding allocated has been renewed and increased annually and used to invest more widely in indirect

and non-property investments such as pooled property funds and private debt. A total of £71m has been set aside in the current MTFS to support further CAIF investments.

26. The Annual Report attached as the Appendix to this report sets out in detail the overall performance of the CAIF during the 2020/21 financial year. This shows that continued prudent management of the Fund over the last financial year has led to another substantial increase in its value.
27. Developments that completed during the year were transferred from the development sector to the office and industrial sectors with the Bardon development site reverting to the Environment and Transportation portfolio. Accordingly, at the end of 2020/21, the direct property portfolio comprised £28.6m of rural estate, £52.4m of offices, £28.6m industrial properties, £5.2m of other property together with £36.0m of development properties. These changes update the position reported in the 2020/21 Provisional Revenue and Capital Outturn to the Cabinet in June 2021.
28. Overall the capital value of the Fund increased by £16m during 2020/21 (new investments/ other changes of £9m and £7m increase in valuation) to £187m and generated a net income of £4.6m which contributed directly to the provision of Council services. Further, the let property investments have produced a return of 9.3% with all direct property, including the development category, achieving a return of 7.3% compared to the benchmark market index of 2.8%.
29. Also included in the CAIF valuation are the financial investments that have been made in vehicles outside direct property ownership. This diversification, to spread risk, is in line with the Council's aim to increase its commercial activities to generate greater income that will support the Council's MTFS and future service delivery costs. In total £24.3m is invested in Pooled Property Funds and £16.6m in Private Debt.
30. An independent review of the CAIF was undertaken by Hymans Robertson in December 2020. The report recommended that future investment should be targeted at the industrial and logistics sector with office and rural investments maintained at existing levels. Consideration should also be given to investing in the infrastructure, renewables and residential sectors and whilst the private debt investment should be maintained at current levels investment in pooled property should be reduced over time.
31. More detail, including highlights on specific projects completed or in progress is included in the Annual Report which is appended to this report.

### **Equality and Human Rights Implications**

32. There are no equality or human rights implications directly arising from this report.

### **Background Papers**

Report to the Cabinet, 19 September 2020 - Corporate Asset Investment Fund  
Annual Performance Report 2019-20

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5997&Ver=4>

**Appendix**

Corporate Asset Investment Fund Annual Report 2020 - 2021

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