



CABINET – 16 SEPTEMBER 2022

CORPORATE ASSET INVESTMENT FUND ANNUAL PERFORMANCE REPORT 2021-22

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 2021/22 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 2021 to March 2022 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 and in line with the Strategy approved by the County Council in February 2021.

Timetable for Decisions (including Scrutiny)

4. The Annual Performance Report was considered by the Scrutiny Commission at its meeting on 7 September 2022 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 Medium Term Financial Strategy 2022-26 capital programme was approved by the Council on 23 February 2022. This included provision of £73m for CAIF project during the period 2022-26. This allocation was subsequently reduced to £69m at outturn in March 2022 as a result of additional Private Debt investments of £5m in 21/22 and slippage elsewhere on the programme of £1m. The revised Corporate Asset Investment Fund Strategy 2022 – 2026 was also approved at the same meeting as part of the MTFS.
8. The Strategic Plan 2022-26, approved by the County Council on 18 May 2022 sets out five key strategic outcomes. In addition to maximising finance benefits, future CAIF strategy will seek to make a positive contribution to the delivery of these objectives through measures including the generation of renewable energy, improving the energy efficiency of buildings, maximising opportunities to decarbonise the estate, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.
9. Elsewhere on the agenda the Cabinet is asked to approve the Corporate Asset Management Plan 2022 – 26 which is aligned with the Council's Strategic Plan and promotes the management of the Council's property assets in a way that contributes to the achievement of the five strategic outcomes whilst recognising in the case of the CAIF, the continuing need to achieve market returns and maximise income.

Resource Implications

10. The Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures. This has been further exacerbated by the Covid-19 pandemic, uncertainty around future funding levels and the current inflationary pressure within the economy. The MTFS sets out the future challenges and the need for further savings of £80m to be made by 2025/26, of which £40m is currently unidentified. A report to Cabinet in June highlighted that this gap had grown to £71m in light of inflation and other emerging pressures. A further report concerning the Council's financial pressures will be presented to the Cabinet in September.
11. The MTFS 2022-26 which incorporates the investment strategy for that period confirmed the provision of funding to grow the CAIF 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.
12. The amount invested in the Fund as at 31 March 2022 was £191m (the latest valuation of the fund which includes capital growth in the valuation of the

assets held is £207m). The MTFS 2022-26 capital programme includes an updated provision of £69m for additional investments spread over the four years 2022/23 to 2025/26 to fund further CAIF investments. This would increase the amount invested in the fund to the £260m target.

13. The total gross income is forecast to grow to an estimate of £12m by March 2026.
14. The Director of Law and Governance has been consulted on this report.

Circulation under the Local Issues Alert Procedure

15. None.

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PART B

Background

16. 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.
17. The creation of the CAIF and the 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.
18. The CAIF 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.
19. Since 2014 the CAIF Strategy has been reviewed annually and developed to ensure that in addition to maximising financial benefits, the portfolio contributes to achieving the County Council's wider strategic goals. 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.
20. 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. A further review is now being progressed in order that the Strategy fully reflects the objectives and outcomes of the Strategic Plan 2022-26.
21. Support for the Advisory Board has subsequently been expanded to reflect this with officers from other departments, such as Environment and Transport, also now attending where appropriate given the increasing impact of growth infrastructure and Climate Change projects being managed through the Fund. 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.

Current Performance of the CAIF

22. 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.
23. 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.
24. 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. An updated total of £69m has been set aside in the current MTFS to support further CAIF investments.
25. The Annual Report attached as the Appendix to this report sets out in detail the overall performance of the CAIF during the 2021/22 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.
26. At the end of 2021/22, the direct property portfolio was valued at £155.1m and comprised £28.6m of rural estate, £57.5m of offices, £27.7m industrial properties, £4.9m of other property together with £36.5m of development properties.
27. Overall, the capital value of the Fund increased by £19.4m during 2021/22 (new investments/ other changes of £8.7m and £10.7m increase in valuation) to £206.8m. In addition, the Fund generated a net income of £6.2m which will contribute directly to the provision of Council services. The figure of £6.2m takes account of a further sinking fund provision of £1.5m required to help fund the one-off cost of remediation works at Firs Farm, Husbands Bosworth, details of which are set out in the Annual Report.
28. The let property investments have produced a return of 10.6% with all direct property, including the development category, achieving a return of 8.1%. Whilst this is well below the benchmark market index of 23.7% largely due to constrained capital growth in the portfolio's industrial sector as a result of the age and nature of the premises within the original industrial estate and the stable pattern of occupancy. This was reflected in the previous two years when overall the portfolio significantly outperformed the market by maintaining sustained capital growth and income returns at a time when market conditions were challenging.

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 £28m is invested in Pooled Property Funds and £23.7m in Private Debt.
30. The performance of the fund is explained in greater detail in the Appendix.

Equality and Human Rights Implications

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

Environmental Implications

32. The CAIF Strategy, in relation to the acquisition, development and management of the Fund's property assets, incorporates measures that ensure that the direct property portfolio makes a positive contribution to the achievement of the Strategic Plan's Clean and Green Strategic Outcome.

Background Papers

Report to the Cabinet, 17 September 2021 - Corporate Asset Investment Fund Annual Performance Report 2020-21

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6446&Ver=4>

CAIF Strategy to the County Council – 23 February 2022

<https://politics.leics.gov.uk/documents/s166685/Appendix%20H%20-%20CAIF%20Strategy%202022-2026%20SC%20version.pdf>

Appendix

Appendix - Corporate Asset Investment Fund Annual Report 2020 – 2021