



CABINET – 14th SEPTEMBER 2018

**CORPORATE ASSET INVESTMENT FUND ANNUAL PERFORMANCE
REPORT 2017-18 AND STRATEGY FOR 2018 TO 2022**

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) to date and to seek the Cabinet's approval of the revised Corporate Asset Investment Fund Strategy for 2018 to 2022 (attached as Appendix B to this report) which sets out the Council's approach to future asset investments utilising the CAIF.
2. The Cabinet is also asked to agree amended Terms of Reference for the Corporate Asset Investment Fund Advisory Board (the Board) and revisions to the existing delegations to officers to support the continued growth of the CAIF in a safe and secure way.

Recommendations

3. It is recommended that:
 - (a) The performance of the Corporate Asset Investment Fund as set out in Appendix A attached to this report, be noted;
 - (b) The Corporate Asset Investment Fund Strategy for 2018 – 2022, attached as Appendix B to this report, be approved;
 - (c) The revised Terms of Reference for the Corporate Asset Investment Fund Advisory Board and the amended delegations to the Director of Corporate Resources as set out in Appendices C and D respectively, be approved.

Reasons for Recommendations

4. The Strategy has been updated to reflect the level of investment within the CAIF which is proposed to be increased over previously approved levels and to reflect changes to the range of investments held in the CAIF, as its scope is

expanded from pure direct property investments to include indirect and non-property investments such as pooled property funds and private debt.

5. 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.
6. The Terms of Reference for the Board and the delegations to the Director of Corporate Resources have been updated to align with the aims and objectives of the revised Strategy.

Timetable for Decisions (including Scrutiny)

7. This report will be considered by the Scrutiny Commission at its meeting on 12th September 2018 and the Commission's comments will be reported to the Cabinet.
8. The period covered by the Strategy has been aligned to the MTFS, but like the MTFS this will continue to be reviewed and refreshed on an annual basis and reported to the Cabinet and the Scrutiny Commission as appropriate.

Policy Framework and Previous Decisions

9. The creation of the CAIF was included in the Medium Term Financial Strategy 2014/15-2017/18 (MTFS), which was approved by the County Council in February 2014. This has been renewed and increased annually in the MTFS.
10. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
11. The Council's latest Corporate Asset Management Plan 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 the capital programme or other beneficial investment proposals. This Plan has also been reviewed and refreshed and is the subject of a separate report to be considered elsewhere on the agenda.
12. The Medium Term Financial Strategy 2018-22 capital programme was approved by the Council on 21st February 2018 and this includes provision (£96m) for CAIF projects up to 2022. This is in addition to £100m of assets already held in the fund.
13. The Strategy has been revised to ensure its objectives are aligned with the outcomes set out in the Council's Strategic Plan for 2018 – 2022 which was adopted by the County Council in December 2017.

Resource Implications

14. The County Council faces a very difficult financial outlook. The MTFS sets out the need for further savings of £50m to be made by 2021/22, of which £13m is unidentified. This gap is expected to grow in later years.
15. The revised Strategy envisages growing the CAIF from the original target of £200m (already funded by the capital programme) to £260m over the MTFS period. The exact level of investment 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 with a targeted return of 7%, eventually generating circa £18m per annum by the time all developments are completed.
16. The current value of the fund is around £100m. The MTFS 2018-22 capital programme included a provision of £96m spread over the four years 2018/19 to 2021/22 to fund further CAIF investments. However, with the expectation that the CAIF will grow to £260m (at current values) by 2022, there is a need to identify a further £64m of funding.
17. Options to fund the increase will be considered as part of the refresh of the MTFS capital programme later in the year. Options include using the current and forecast overborrowed position on the capital programme. This would mean incurring additional prudential borrowing on the capital programme, but due to the overborrowed position there would be no need to raise new external debt to fund the additional investment. This would require a change to the prudential indicators and would need to be approved by the County Council.
18. There is an operational cost of running the CAIF. This will be reviewed in the light of the increased size.
19. The Director of Law and Governance has been consulted on this report.

Circulation under the Local Issues Alert Procedure

20. None.

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PART B**Background**

21. The Council has owned and managed 'investment properties' in the form of the 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 also to generate revenue and capital returns to the County Council.
22. In May 2014, the Cabinet approved the establishment of the CAIF to be used to purchase commercial properties and land assets with a view to:-
 - a) Ensuring that there is a more diverse range of properties available to meet the aims of economic development;
 - b) Increasing the size of the portfolio;
 - c) Improving the quality of land and property available;
 - d) Ensuring the sustainability of the County Farms and industrial portfolio by replacing land sold to generate capital receipts; and
 - e) Generating an income/surplus to support County Council services.
23. The Cabinet also established the Corporate Asset Investment Fund Advisory Board, chaired by the Cabinet Lead Member for Resources and comprising four other Cabinet members. The Board is supported by an officer group formed from strategic property, 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.

Current Performance of the CAIF

24. 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.
25. Since 2014 income generated by CAIF investments have 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.
26. Originally, funding of £15m was allocated to the CAIF to fund new investments over four years from 2014/15, and this was directed to direct property investments to support those aims detailed in paragraph 21 above. In addition, other Council assets held for investment purposes have also 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, totalling just over £100m by the end of 2017/18. Funding allocated in the current MTFS totals £96m.

27. The Annual Report attached as Appendix A to this report sets out in detail the overall performance of the CAIF during the 2017/18 financial year. This shows that overall the direct property investment assets in the CAIF increased in capital value by £30.9m to £73.7m and these are generating a net rental income of £2.7m which will rise significantly in future years.
28. As at the end of 2017/18, the overall value of the CAIF was £101.2m which comprised £18.8m of rural estate, £39.2m of office/commercial estate, £14.6m of development estate, £1.1m of other property, £7.1m of private debt and £20.4m of pooled property investments.
29. Included in the CAIF value 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 in order to generate greater income that will support the Council's MTFS and future service delivery costs. In total £20m is invested in Pooled Property Funds and £7m in Private Debt. More detail is included in Appendix A.
30. With respect to two major CAIF developments from 2017/18, the following specific update is provided:
 - (i) Loughborough University Science and Enterprise Park (LUSEP) - Contracts have been exchanged with Loughborough University and tenant, The Access Group Ltd, for a 100,000 sq. ft. new build office. The development budget is £22m and will generate £1.6m pa in income once completed (and post rent free period). Works on site and planned to begin in January 2019.
 - (ii) Lutterworth East Strategy Development Area (SDA) - The Authority is continuing to promote the 516 acre Lutterworth East SDA site through the emerging Harborough Local Plan. The Local Plan will be tested at the Examination in Public by a Planning Inspector in October 2018 and is expected to be adopted by Harborough District Council in late Spring 2019. The Authority will submit an outline planning application in January 2019 for housing, employment and necessary infrastructure (including a new bridge over the M1). Land acquisition is proceeding well to demonstrate to the Planning Inspector the SDA that the development can be delivered. Consideration is now being given to the method of delivery.

The Strategy for 2018 – 2022

31. The County Council first introduced a CAIF Strategy in 2017 and this has been refreshed to support the continued growth of the Fund up to 2022 in alignment with the MTFS timetable and to further improve the Council's financial resilience as government grants continue to fall, but demand on services and operating costs rise. It outlines how the Council will look to make asset investments

during 2018 to 2022 and manage its asset investment resources to support the objectives of the MTFs and the delivery of front line services, reduce operating costs, support economic development in the County and the wider economic region, and help achieve the Council's wider strategic priorities.

32. Whilst the key priority of the revised Strategy is to continue to increase the income/revenue generated for the Council, investment criteria and processes have been reaffirmed to ensure this is done in a safe and secure way.
33. The updated Strategy reflects the Council's aspirations to invest in assets that will secure long term returns whilst also protecting, as far as possible, the initial capital invested. It provides a framework that is flexible enough for the Council to compete in the commercial market whilst also ensuring governance processes are in place, proper due diligence is carried out, and risks identified are minimised and managed.
34. By specifically restructuring the Council's property portfolio, capital receipts will be generated through the disposal of surplus and/or underperforming assets which can then be reinvested or reallocated as appropriate.
35. Expanding the investments made through and held in the CAIF that would normally be outside the scope of the Council's Treasury Management Policy will also enable an increase in the interest earned.
36. For the future, consideration will be given to projects that will reduce the Council's operating costs particularly in the relation to the Adult Social Care accommodation market. It is yet to be determined how such projects might be managed and funded and this will be considered over the coming year and as part of the MTFs refresh and the Strategy will be amended to reflect such decisions.
37. A copy of the revised Strategy is attached as Appendix B to this report.

Governance and Risk Management

38. The Strategy seeks to minimise risk principally by ensuring robust governance arrangements are in place and that investment decisions are only made in light of appropriate financial, commercial and legal advice. However, property investment and development will always have an element of risk much of which is outside the control of the Council as it relates to the strength of the wider economy. The County Council is not alone in pursuing this approach and there has been much comment in national press on the level of borrowing incurred by some local authorities. It is worth noting that no borrowing is being proposed for the investments outlined in this report.
39. The Strategy sets out procedures to ensure risks associated with investments are monitored, assessed and mitigated and the Corporate Asset Investment Fund Advisory Board will continue to play a vital role in this. Its Terms of Reference have been updated to reflect the growth and broadening focus of the CAIF and to align its functions with the objectives of the revised Strategy for

2018-22. The updated Terms of Reference for the Board are attached as Appendix C to this report.

40. In addition, the Cabinet and the Scrutiny Commission will receive regular MTFS monitoring reports which will include information on the operation of the CAIF, as well as an annual report on investment activity undertaken during each financial year which will provide an update on ongoing projects, like the one attached at Appendix A.
41. It is worth noting that any risks identified will form part of the managing departments Risk Register which will be managed and mitigated and reassessed regularly in accordance with the Council's usual practice. Where appropriate, any significant risks will be captured on the Council's Corporate Risk Register which will also be overseen and monitored by the Council's Corporate Governance Committee.
42. To complement the updated Strategy and Terms of Reference for the Board, the current delegations to the Director of Corporate Resources have been reviewed and refreshed to ensure these allow for timely action to be taken on investments, but ensuring significant investments are reported to the Cabinet where possible.
43. Where it is not possible to refer a proposed investment to the Cabinet, as action is required quickly to secure agreed terms or to ensure investments are not lost to a competitor, such investments will be captured in the regular and annual reports to the Cabinet and Scrutiny as detailed above, and will in any event be considered and closely monitored by the Board. The changes to the delegations to the Director are outlined in Appendix D.

Conclusion

44. The Corporate Asset Investment Fund Strategy for 2018 to 2022 is aimed at generating a long term and relatively stable source of income to offset the funding gap in the MTFS. The Strategy is not without risk and there is a possibility that in light of significant borrowing entered into by other councils to purchase property the Government may impose restrictions on local authorities in the future. The County Council has not borrowed to fund these investments. Any future decisions regarding the financing of investments will be taken in line with the County Council's agreed MTFS, Treasury Management Strategy and Annual Investment Strategy.

Equality and Human Rights Implications

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

Background Papers

Report to the Cabinet on 15th September 2017 - Draft Corporate Asset Investment Fund Strategy 2017/18

<http://politics.leics.gov.uk/ieIssueDetails.aspx?IId=50106&PlanId=0&Opt=3#AI52287>

Report to the Cabinet on 18th July 2016 – Corporate Asset Management Plan

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4604&Ver=4>

Medium Term Financial Strategy 2017/18 – 2020/21

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=4433&Ver=4>

2016/17 Provisional Revenue and Capital Outturn

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5120&Ver=4>

Appendices

- Appendix A - Annual Performance Report for 2017/18
- Appendix B - Draft Corporate Asset Investment Fund Strategy 2018 - 2022
- Appendix C - Revised Terms of Reference for the Corporate Asset Investment Fund Advisory Board
- Appendix D - Revised Delegated Powers to the Director of Corporate Resources