



CABINET – 13TH SEPTEMBER 2019

**CORPORATE ASSET INVESTMENT FUND ANNUAL PERFORMANCE
REPORT 2018-19 AND STRATEGY UPDATE FOR 2019 TO 2023**

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 2018/19 financial year (attached as Appendix A to this report) and to seek the Cabinet's approval of the revised Corporate Asset Investment Fund Strategy for 2019 to 2023 (attached as Appendix B to this report) which sets out the Council's approach to future asset investments utilising the CAIF.

Recommendations

2. It is recommended that:
 - (a) The performance of the Corporate Asset Investment Fund for the period April 2018 to March 2019 as set out in Appendix A attached to this report, be noted;
 - (b) The revised Corporate Asset Investment Fund Strategy for 2019 – 2023 as set out in Appendix B to this report, be approved.

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.
4. A new section has been included in the Corporate Asset Investment Fund Strategy to ensure that future property investments and developments take account of the County Council's environmental commitments and the objectives set out in the Environment Strategy 2018 - 2030 - delivering a better future.

Timetable for Decisions (including Scrutiny)

5. This report will be considered by the Scrutiny Commission at its meeting on 4th September 2019 and the Commission's comments will be reported to the Cabinet.

6. The period covered by the Strategy has been aligned to the Council's Medium Term Financial Strategy (MTFS). However, in light of the commitment made by the County Council in May 2019 to achieve carbon neutrality from its own operations by 2030, it was considered appropriate that the Strategy be updated immediately. The updated Strategy will be submitted to the County Council for approval along with the refreshed MTFS in February 2020.

Policy Framework and Previous Decisions

7. 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.
8. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
9. 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.
10. The Medium Term Financial Strategy 2019-23 Capital Programme was approved by the Council on 20th February 2019. This includes provision of £67m for CAIF projects up to 2022/23.
11. 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
12. 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

13. The County Council faces a very difficult financial outlook. The current MTFS includes a savings requirement of £75m of which £20m is currently unidentified. This gap is expected to grow as the MTFS is refreshed and extended for a further year.
14. The proposed Strategy envisages growing the CAIF over the next 5 to 10 years, the exact level of investment being dependent on the availability of good investments and funding. The expectation is that the returns (both revenue income

and capital growth) generated by the CAIF will have a meaningful impact on the Council's funding gap.

15. The total forecast is to grow income to approximately £10m p.a. by 2022.

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

Circulation under the Local Issues Alert Procedure

17. None.

Officers to Contact

Chris Tambini, Director of Corporate Resources

Tel: 0116 305 7830

Email: chris.tambini@leics.gov.uk

Jonathan Bennett, Head of Strategic Property,
Corporate Resources Department

Tel: 0116 305 6358

Email: jon.bennett@leics.gov.uk

PART B**Background**

18. The Council has owned and managed 'investment 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.
19. In May 2014, the Cabinet approved the establishment of the Corporate Asset Investment Fund and associated governance arrangements. Its purpose was to increase the Council's property portfolio to ensure this contained a more diverse range of properties, continued to support economic development and generally increased the quality and sustainability of the land owned by the Council and the income this generated.
20. 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.
21. In 2018 the aims of the 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 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 improves 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 ensures 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).

22. 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 projects being managed through the Fund. The Head of the recently established Growth Unit will also provide support as necessary; the Unit now having 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 Councils Strategic objectives.

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 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.
25. 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 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 £13.7m has been set aside in the current MTFs to support further CAIF investments.
26. The Annual Report attached as Appendix A to this report sets out in detail the overall performance of the CAIF during the 2018/19 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. Overall the direct property investment assets in the CAIF have, during 2018/19, increased in value by £43m to £145m and these now generate a net revenue income of £6.9m pa, an increase of £4.2m in 2 years. Overall these investments have yielded a return of 9.6% compared to the IPD (Investment Property Databank) All Property Quarterly Index of 6.0%.
28. As at the end of 2018/19, the CAIF comprised of £20.7m of rural estate, £27.7m of office/commercial estate, £35m of development estate, £4.3m of other property.
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 to generate greater income that will support the Council's MTFs and future service delivery costs. In total £23.1m is invested in Pooled Property Funds and £20.9m in Private Debt. More detail is included in Appendix A.

The Revised Strategy for 2019 – 2023

30. 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 2023 in alignment with the MTFS timetable. It outlines how the Council will look to make asset investments during 2019 to 2023 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.
31. This year the Strategy has been specifically updated to reflect the County Council's decision to declare a climate emergency at the County Council meeting held in May 2019 and to agree to seek to achieve carbon neutrality in its operations by 2030. It also specifically refers to the commitments made by the Council within its new Environment Strategy for 2018 – 2030.
32. In light of these commitments, the Fund will aim to ensure that its developments will, so far as possible, be built in a sustainable manner to support the aim of carbon neutrality through the construction phase of its projects and it will seek to ensure energy efficiencies in the occupancy and operation of its properties, including the use, where viable, of on-site renewable energy sources. Furthermore, it is intended that developments will achieve net biodiversity gain and push waste up the Waste Hierarchy by adopting a reduce, reuse, recycle approach.
33. A copy of the revised Strategy is attached as Appendix B to this report.

Equality and Human Rights Implications

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

Background Papers

Report to Cabinet, 14 September 2018 - Corporate Asset Investment Fund Annual Performance Report 2017-18 and Strategy for 2018 to 2022 - <https://bit.ly/2NsvaAk>

Appendices

- Appendix A - Corporate Asset Investment Fund Annual Report 2018 - 2019
- Appendix B - Corporate Asset Investment Fund Strategy 2019 - 2023