



SCRUTINY COMMISSION - 2ND SEPTEMBER 2020

CORPORATE ASSET INVESTMENT FUND ANNUAL REPORT 2019/2020

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of report

1. The purpose of this report is to set out the performance of the Corporate Asset Investment Fund (CAIF) in 2019/20 (the Annual Report is attached as the Appendix to this report).

Policy Framework and Previous Decisions

2. 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.
3. In May 2014, the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
4. 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.
5. The Medium Term Financial Strategy 2020-24 capital programme was approved by the Council on 19th February 2020 and this includes provision (£85m) for CAIF projects up to 2024. This is in addition to £171m of assets already held in the Fund.
6. The Commission last considered the CAIF's performance and revised Strategy on 4th September 2019.

Background

7. 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.
8. 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.
 - f. Additionally, following the County Council's Declaration of a Climate Emergency, the Fund has an extra objective to ensure that, where possible, all of its developments (and those by 3rd parties on land the Fund has disposed of) are low carbon and energy efficient.
9. 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.
 10. The purpose of bringing the Annual Report for review is to demonstrate on both qualitative and quantitative bases, that the Fund is providing security for the Council's monies invested in it and that it is being managed professionally, prudently and in a commercially astute way to ensure that it is growing in line with the Strategy and that the overall direction of travel of the Fund is still approved.

Current Performance of the CAIF

11. 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.
12. 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 managed property investments to support the funds strategic objectives. 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 £89m has been set aside in the current MTFS to support further CAIF investments.
13. The Annual Report attached as an Appendix to this report sets out in detail the overall performance of the CAIF during the 2019/20 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.
14. Overall the value of the investment assets in the CAIF have increased by £39m during 2019/20 to £171m and now generate a gross income of £7.1m per annum; an increase of 163% in 3 years. Overall the let property investments have yielded a return of 6.2% compared to the market benchmark All Property Monthly Index (previously known as the IPD benchmark) of 0.3%.

15. As at the end of 2019/20, the CAIF comprised £22.5m of rural estate, £51.2m of office/commercial estate, £4.4m of other property together with £47.6m of development properties.
16. 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 £24.8m is invested in Pooled Property Funds and £20.3m in Private Debt.
17. More detail, including highlights on specific projects completed or in progress is included in the Appendix attached to this report.

Future resource considerations

18. The County Council faced a very difficult financial outlook before the impacts of the COVID-19 pandemic are taken into account. The MTFs sets out the need for further savings of £80m to be made by 2023/24, of which £39m is unidentified. This gap is expected to grow across the whole budget period; the net costs of the pandemic are estimated to be £30m in the current year, with the ongoing impact estimated to add £10m to the financial gap by 2023/24. It is anticipated that the programmed 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.
19. The Strategy for the period 2020 to 2024 presented as part of the MTFs 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.
20. The current value of the Fund is around £171m. The MTFs 2020-24 capital programme includes a provision of £89m spread over the four years 2020/21 to 2023/24 to fund further CAIF investments. This will bring the total fund to £260m; the exact level of investment being dependent on the availability of good investments.
21. Options to fund the increase are under review. 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.
22. There is an operational cost to running the Fund and this is being constantly reviewed in the light of the increased size.

Timetable for Decisions

23. The views expressed by the Scrutiny Commission on the Annual Report will be reported to the Cabinet at its meeting on 18th September 2020.
24. As stated above, the CAIF Strategy is currently being reviewed and it is proposed that this will be presented to the Cabinet for consideration at its meeting on 20th November, following consideration by the Scrutiny Commission at its meeting on 4th November.

Background papers

Report to the Scrutiny Commission on 4th September 2019 – Corporate Asset Investment Fund Annual Performance 2018/19 and Strategy 2019 to 2023

Report to the Cabinet on 12th September 2018 - Corporate Asset Investment Fund Strategy 2018-2023

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

Report to the Cabinet on 6th May 2014 – Corporate Asset Investment Fund

Medium Term Financial Strategy 2018/19-2022/23

2018/19 Provisional Revenue and Capital Outturn

Circulation under the Local Issues Alert Procedure

25. None.

Equality and Human Rights Implications

26. There are no equality or human rights implications arising from the recommendations in this report.

Other Relevant Impact Assessments

27. In taking forward any future acquisitions, investments or development projects the relevant implications of the County Council's Environment Strategy, including the commitment to Net Zero Carbon will be incorporated in to decision making, assessment and design of projects.

Appendix

Annual Performance Report for 2019/20

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 Services,
Corporate Resources Department
Tel: 0116 305 6358 Email: jon.bennett@leics.gov.uk

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