



**CABINET – 18<sup>TH</sup> SEPTEMBER 2020**

**CORPORATE ASSET INVESTMENT FUND ANNUAL PERFORMANCE  
REPORT 2019-20**

**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 2019/20 financial year. The Annual Report is attached as the Appendix to this report.

**Recommendations**

2. It is recommended that
  - a) The comments of the Scrutiny Commission as set out in the report be noted;
  - b) The performance of the Corporate Asset Investment Fund for the period April 2019 to March 2020 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 2<sup>nd</sup> September 2020 and the Commission's comments are set out at paragraphs 32 to 36 below.
5. The Fund's Strategy is being updated and it is intended that this will be presented to the Scrutiny Commission at its meeting on 4<sup>th</sup> November 2020 and the Cabinet on 20<sup>th</sup> November 2020.

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

6. 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.
7. 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 may then approve under delegated powers or refer to the Cabinet for a decision.
8. 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.
9. The Medium Term Financial Strategy 2020-24 Capital Programme was approved by the Council on 19<sup>th</sup> February 2020. This includes provision of £85m for CAIF projects up to 2023/24.
10. 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.
11. 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.
12. On 13<sup>th</sup> September 2019 the Cabinet approved the Corporate Asset Investment Fund Strategy 2019 to 2023 which set out the County Council's approach to future asset investments.

### **Resource Implications**

13. 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 £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.

14. The MTFS 2020-24 which incorporates the investment strategy for that period 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.
15. 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 brings the total fund to £260m; 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.
16. The total forecast is to grow income to approximately £10m per annum by 2022.
17. The Director of Law and Governance has been consulted on this report.

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

18. None.

#### **Officers to Contact**

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## **PART B**

### **Background**

19. 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.
20. 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.
21. The Advisory Board, chaired by the Cabinet Lead Member for Resources, 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. 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.
22. 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 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).
23. 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 Council's Strategic objectives.
24. 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**

25. 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.
26. 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.
27. 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.
28. The Annual Report attached as the 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.

29. Overall the value of the investment assets in the CAIF has increased by £39m during 2019/20 to £171m and now generates 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%.
30. 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.
31. 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. More detail is included in the Appendix.

### **Comments of the Scrutiny Commission**

32. The Commission considered the Annual report at its meeting of 2<sup>nd</sup> September 2020. The Commission noted the performance during the 19/20 financial year and raised 4 issues, namely:
  - Investment in Social Care properties.
  - Whether or not external borrowing is required.
  - The development proposals around J2 M69.
  - A request to report back to the Commission if COVID-19 starts to have a substantial and deleterious impact on the performance of the Fund.
33. With regard to investing in Social Care properties, it was reported that the Adults and Communities Department had already established a scheme to address this called the Social Care Investment Programme. This project is independent of the Fund as its performance metrics do not align.
34. It was confirmed by the Assistant Director of Strategic Finance and Property that external borrowing was not needed nor was it being considered at this time and that the Fund has sufficient capital allocated to it in the MTFS which it was proposed for now would remain unchanged.
35. The Head of Strategic Property Services confirmed that the County Council, was a minority landowner in the area affected by the J2 M69 development proposals which were being led by the District Council and private developers. However, it was working to use its position to ensure that any development that came forward (after an allocation in the forthcoming Blaby District Council Local Plan review) would be the right development for the area and that it had the appropriate infrastructure. Comment was also made

about the proposals to the west of the M69 (Hinckley National Rail Freight Interchange), but it was confirmed that the Fund does not have any direct involvement in these proposals.

36. The Head of Strategic Property Services confirmed that a report would be brought back to the Commission if COVID-19 starts to have a substantial and deleterious impact on the performance of the Fund.

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

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

### **Background Papers**

Report to the Scrutiny Commission- 2 September 2020- Corporate Asset Investment Fund Annual Performance Report 2019-20

<http://politics.leics.gov.uk/ieListDocuments.aspx?MIId=6177>

Report to the Cabinet, 13 September 2019 - Corporate Asset Investment Fund Annual Performance Report 2018-19 and Strategy for 2019 to 2023

<http://politics.leics.gov.uk/ieListDocuments.aspx?CIId=135&MID=5605#AI60825>

### **Appendix**

Corporate Asset Investment Fund Annual Report 2019 - 2020

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