



## **OVERVIEW AND SCRUTINY COMMITTEE - 25<sup>TH</sup> JANUARY 2021**

### **DRAFT REVISED CORPORATE ASSET INVESTMENT FUND STRATEGY 2021 TO 2025**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **PART A**

##### **Purpose of the Report**

1. The purpose of this report is to seek the Commission's views on the revised Corporate Asset Investment Fund (CAIF) Strategy for 2021 to 2025 (attached as Appendix A to this report) which sets out the Council's approach to future asset investments utilising the CAIF.

##### **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 annually and appropriate provision made within the MTFS to enable the fund to grow.
3. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
4. The Council's 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 to support wider service delivery, ensuring cost effective procurement of property and property services, and creating capital receipts to support capital programme or other beneficial investment proposals. This Plan is currently being reviewed and will be the subject of a report to a future meeting of the Commission.
5. The draft Medium-Term Financial Strategy 2021-25 capital programme was reported to the Cabinet on 15<sup>th</sup> December 2020 and is to be considered elsewhere on this agenda. This, taken with the current year allocation, includes provision of £89m for CAIF projects up to 2025. This is in addition to £171m of assets already held in the Fund as at 31<sup>st</sup> March 2020 which meets the targeted overall total for the fund of £260m.
6. The Commission last considered the CAIF Strategy on 4<sup>th</sup> September 2019 following changes made to reflect the aims of the Council's Environment Strategy 2018-2030 and full Council's decision in May 2019 to declare a climate emergency and commitment to seek to achieve carbon neutrality in its own operations by

2030. This iteration of the Strategy was subsequently appended to the MTFS 2020-24 which was agreed by full Council on 19<sup>th</sup> February 2020.

### **Background**

7. 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.
8. In May 2014, the Cabinet approved the establishment of the Corporate Asset Investment Fund and associated governance arrangements. In 2018, its purpose was aligned with the five Strategic Outcomes of the Council’s Strategic Plan (Strong Economy, Wellbeing and Opportunity, Keeping People Safe, Great Communities and Affordable and Quality Homes) 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.
9. Further changes to the Strategy were made in 2019 to align with the Council’s environmental commitments and make clear that CAIF 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 ensure energy efficiencies in the occupancy and operation of its properties, including the use, where viable, of on-site renewable energy sources. Furthermore, the intention that developments will achieve net biodiversity gain and push waste up the Waste Hierarchy by adopting a reduce, reuse, recycle approach was also included.
10. 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.

11. The Commission receives a full performance report on the operation of the CAIF every year. It last received a report in September 2020 and a further report will be provided in September this year. General progress is also included in the quarterly MTFS Monitoring reports considered by the Commission and the Cabinet throughout the year.

### **Resource Implications**

12. The County Council faced a very difficult financial outlook before the impacts of the COVID-19 pandemic are taken into account. The draft MTFS 2021-25, presented to the Cabinet in December 2020, sets out the need for further savings of £92m to be made by 2023/24, of which £36m is unidentified.
13. The draft revised CAIF Strategy for the period 2021 to 2025 will be presented as part of the MTFS and provides for the Fund to grow to its previously projected level of £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.
14. The value of the Fund as at 1<sup>st</sup> April 2020 was £171m. The draft MTFS 2021-25 capital programme, coupled with the current year's allocation includes provision of £88.8m spread over the four years 2020/21 to 2023/24 to fund further CAIF investments.
15. 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 it is anticipated that 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.
16. There is an operational cost to running the Fund and this is being constantly reviewed in the light of the increased size.

### **Revised CAIF Strategy 2021-2025**

17. The purpose of the review is to ensure that the Fund continues to provide security for the Council's monies invested by enabling it to respond to the current economic challenges in a way that maximises its future benefits to the County Council. In this current review, account has also been taken of the recommendations of an independent review of the Fund undertaken by Hymans Robertson in December 2020 (attached as Appendix B).

### Hymans Roberston Review

18. The Hymans Robertson review considers the current economic outlook and that of the real estate investment market in the light of the current Covid-19 crisis and the implications of Brexit, and in line with other commentators acknowledges the challenges facing the market at the present time particularly the retail sector. Equally, it identifies the industrial, distribution and logistics sectors as being the most resilient to current circumstances.
19. In reviewing the County Council's portfolio it draws similar conclusions to those contained in the Annual Report considered by the Commission last September and in addition provides a detailed resume of the Pooled Property portfolio.
20. Further, it examines the potential to diversify the portfolio further by considering infrastructure investments and the need to consider the environmental, social and governance credentials of future potential investments.
21. Broadly, the report makes the following main recommendations:
  - a. Investment in direct property assets should be focused on the industrial, distribution and logistics sectors especially given Leicestershire's location at the heart of the national transport network.
  - b. Investment in the office and rural sectors should be maintained at current levels.
  - c. Investment in the Pooled Property sector should be reduced over time and the funds reinvested in other more attractive investments. The private debt investments have the potential to deliver greater returns and should be maintained or increased.
  - d. Consideration should be given to investing in infrastructure and renewables either directly or via a pooled investment vehicle. Entry into the residential market is also recommended. However, this would present particular problems for the County Council.

### Key Changes

22. In growing the Fund to the projected £260m the draft revised Strategy proposes that investment be directed to the industrial and distribution sectors. Where possible, in respect of direct property investments, advantage will be taken of the additional returns that can be achieved by developing sites already within County Council ownership in line with the current programme of development projects.
23. It should be noted that by developing and investing responsibly in assets that meet high environmental, social and governance standards (ESG) together with renewables, the overall sustainability of the portfolio will be improved contributing to the County Council's aim of being carbon neutral by 2030. Again, aware of the need to diversify the portfolio a potential pipeline of renewable projects is already under consideration.

24. Consideration will also be given to the restructuring of the Pooled Property portfolio, over time, in order to provide greater resilience and maintain revenue streams.

### **Conclusion**

25. The Corporate Asset Investment Fund Strategy is aimed at generating a long term and relatively stable source of income to offset the funding gap in the MTFs. Revisions to the CAIF Strategy for 2021-2025 seek, in achieving financial benefits for the Authority, to minimise risk by focusing investment on those assets and sectors that will be the most resilient to current economic pressures.

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

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

### **Environmental Implications**

27. Where possible, the environmental impact of the Fund's developments will be as low as possible and be low carbon and energy efficient.
28. Where possible, and where there is no adverse financial impact, when disposing of land for development, the sale terms will require the purchaser to develop in a sustainable and low carbon way.

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

None.

### **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>

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### **Appendices**

- Appendix A - Draft Revised Corporate Asset Investment Fund Strategy 2021 - 2025  
Appendix B - Hymans Robertson Strategy Review Paper – December 2020

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