



CABINET – 5 FEBRUARY 2021

**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 Cabinet's approval of the revised Corporate Asset Investment Fund (CAIF) Strategy for the period 2021 to 2025 which sets out the Council's proposed approach to future asset investments utilising the CAIF. The Strategy is attached as Appendix A to this report.
2. The Cabinet is also asked to note the outcome of the independent review of the Strategy carried out by Hymans Robertson which has informed the revised version. The review paper is attached as Appendix B.

Recommendations

3. It is recommended that -
 - a) The outcome of the review of the Corporate Asset Investment Fund Strategy be noted;
 - b) That the Corporate Asset Investment Fund Strategy 2021-2025 be approved for submission to the Council as part of the Medium Term Financial Strategy 2021/22-2024/25.

Reasons for Recommendation

4. To note the outcome of the independent review of the Strategy carried out in December 2020 and to agree the revised Strategy for submission to full Council.

Timetable for Decisions (including Scrutiny)

5. The Scrutiny Commission considered a report at its meeting on 25 January and its comments are included in Part B of this report.
6. It is intended that the CAIF Strategy will be included with the MTFs proposals for 2021/22-2024/5 to be submitted to full Council on 17 February 2021.

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 Council in February 2014. This has been renewed annually and appropriate provision made within the MTFS to enable the fund to grow.
8. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
9. In September 2019 the Cabinet noted the CAIF Annual Performance Report 2018-19 and approved a revised CAIF Strategy which included a new section to reflect the Council's environmental commitments and the objectives set out in the Environment Strategy 2018 to 2030.
10. In September 2020 the Cabinet considered the Corporate Asset Investment Fund Annual Performance Report 2019-2020 and welcomed the Fund's performance.
11. The draft MTFS 2021-25, considered by the Cabinet in December 2020, sets out the need for savings of £92m to be made by the Council 2024/25, of which £36m is as yet unidentified.

Resource Implications

12. The revised CAIF Strategy outlines how it is intended to grow the Fund to £260m in line with the provision recommended to be built into the next MTFS. 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, giving a targeted return of 7% and eventually generating circa £18m per annum by the time all developments are completed.
13. The value of the Fund as at 1 April 2020 was £171m. The draft MTFS capital programme, coupled with the current year's allocation includes provision of a further £89m for CAIF investments up to 2024/25.
14. Options to fund the increase are under review and 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 expected 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 thus would need to be approved by the County Council.

Circulation under the Local Issues Alert Procedure

15. None.

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PART B

Background

16. 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 Council.
17. Since 2018 the Corporate Asset Investment Fund has been 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 its investments:
 - Support the objectives of the Council's MTFs.
 - Generate an income stream which increases the Council's financial resilience given the decrease in government funding.
 - Support the delivery of frontline 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, CAIF 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.
18. The CAIF Strategy was revised in 2019 to align with the Council's environmental commitments and make clear that developments funded by the CAIF 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). Developments will also seek to achieve net biodiversity gain and adopt a "reduce, reuse, recycle" approach to waste.

Governance

19. The Corporate Asset Investment Fund Advisory Board is chaired by the Cabinet Lead Member for Resources and comprises 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.
20. Reports are made annually to the Cabinet and the Scrutiny Commission on CAIF performance and general progress is also included in quarterly MTFS Monitoring reports.

Aims of the Corporate Asset Investment Fund

21. The CAIF is aimed at generating a long-term and relatively stable source of income to offset the growing funding gap in the MTFS and with effect from this year its timetable for consideration by the Scrutiny Commission and the Cabinet has been aligned to correspond with submission of the revised MTFS.
22. The latest revisions to the Strategy for 2021-2025 seek to minimise risk by focusing investment on those assets and sectors that are considered to be the most resilient to current economic pressures, in line with recommendations from a recent independent review.

Review of the Corporate Asset Investment Fund Strategy

23. An independent review of the CAIF was undertaken by Hymans Robertson in December 2020 (the review paper is attached as Appendix B).
24. The Hymans Robertson review considers the current economic outlook and that of the real estate investment market in light of the COVID-19 crisis and the implications of Brexit. In line with other commentators, it 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 in current circumstances.
25. In reviewing the Council's portfolio it draws similar conclusions to those contained in the Annual Report (considered by the Scrutiny Commission last September) and in addition provides a detailed resume of the Pooled Property portfolio.
26. The review examined 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.
27. Broadly, the Hymans Robertson report made 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 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 as this is a non-statutory service it requires further consideration.

Key Changes

28. In growing the Fund to the projected £260m the draft revised CAIF 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 the Council's ownership in line with the current programme of development projects.
29. It should be noted that by developing and investing responsibly in assets that meet high environmental, social and governance standards together with renewables, the overall sustainability of the portfolio will be improved contributing to the 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.
30. 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.

Comments of the Scrutiny Commission

31. The Scrutiny Commission considered a report on the revised CAIF Strategy at its meeting on 25 January.
32. The Commission was provided with further clarity with regard to where the Fund invested and developed, noting that the majority of opportunities were within Leicestershire. Members were pleased to note that the Council would seek to acquire land to replace any of the County Farms Estate which was disposed of for other uses under the CAIF Strategy. It was noted that, in light of the independent review by Hymans, investigations into asset classes such as residential and student accommodation were being undertaken.
33. The Scrutiny Commission supported the proposed Strategy.

Equality and Human Rights Implications

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

Environmental Implications

35. Where possible, the environmental impact of the Fund's developments will be as low as possible and be low carbon and energy efficient.
36. 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.

Background Papers

Report to the 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 - Draft Revised Corporate Asset Investment Fund Strategy 2021-2025
Appendix B - Hymans Robertson Strategy Review Paper, December 2020

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