



## **SCRUTINY COMMISSION – 8<sup>TH</sup> SEPTEMBER 2021**

### **CORPORATE ASSET INVESTMENT FUND ANNUAL REPORT 2020/2021**

#### **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 2020/21 (the Annual Performance 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. In May 2014, the Cabinet also established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
3. 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.
4. The MTFS 2021-25 capital programme was approved by County Council on 17<sup>th</sup> February 2021 and this includes provision (£71m) for CAIF projects up to 2025. This is in addition to £187m of assets already held in the Fund.
5. The Commission last considered the CAIF's performance in September 2020. It also considered the latest iteration of the Corporate Asset Investment Fund Strategy 2021 – 2025 on 25<sup>th</sup> January 2021 which was subsequently approved by the County Council in February 2021 as part of the MTFS.

##### **Background**

6. The Council has owned and managed 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 to generate revenue and capital returns to the County Council.

7. 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.
8. The Corporate Asset Investment Fund Advisory Board, established at the outset in 2014, is chaired by the Cabinet Lead Member for Resources and comprising four other Cabinet members. The Advisory Board considers early on in the process the merits of any investment opportunities presented by the Director of Corporate Resources. The Director will then determine whether to proceed with a scheme under his delegated powers or, where appropriate, to refer the matter to the Cabinet for a decision.
9. The Board is supported by officers from strategic property, strategic finance and legal, planning, and environment and transport 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. The Growth Service also provides support as necessary, 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.
10. 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 MTFS.
  - 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).

The Strategy was further updated in 2019 to reflect the Council's declaration of a Climate Emergency to ensure all Fund developments are, where possible, low carbon and energy efficient.

11. 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 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**

12. 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.
13. Originally, funding of £15m was allocated to the CAIF to fund new investments over four years from 2014/15, and this focussed on direct managed property investments to support the funds strategic objectives. In addition, other Council assets 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 £71m has been set aside in the current MTFs to support further CAIF investments.
14. The Annual Performance Report attached as an Appendix to this report sets out in detail the overall performance of the CAIF during the 2020/21 financial year. This shows that continued prudent management of the Fund during this period has led to a further increase in its value.
15. Overall the capital value of the Fund increased by £16m during 2020/21 (new investments/other changes of £9m and £7m increase in valuation) to £187m and generated a net income of £4.6m which contributed directly to the provision of Council services. Further, the let property investments have produced a return of 9.3% with all direct property, including the development category, achieving a return of 7.3% compared to the benchmark market index of 2.8%.

16. During the year completed developments were transferred from the development sector to the office and industrial sectors with the Bardon development site reverting to the Environment and Transportation portfolio. Accordingly, at the end of 2020/21, the direct property portfolio comprised £28.6m of rural estate, £52.4m of offices, £28.6m industrial properties, £5.2m of other property together with £36.0m of development properties.
17. 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 £24.3m is invested in Pooled Property Funds and £16.6m in Private Debt.
18. An independent review of the CAIF was undertaken by Hymans Robertson in December 2020. This was presented to the Commission in January this year for information. The report recommended that future investment should be targeted at the industrial and logistics sector with office and rural investments maintained at existing levels. It advised that consideration should also be given to investing in the infrastructure, renewables and residential sectors and whilst the private debt investment should be maintained at current levels investment in pooled property should be reduced over time.
19. More detail, including highlights on specific projects completed or in progress is included in the Appendix attached to this report.

### **Future resource considerations**

20. 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 £79m to be made by 2024/25, of which £23m is unidentified. This gap is expected to grow as the MTFS is refreshed. It is anticipated that the annual 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.
21. The MTFS 2021-25 which incorporates the investment strategy for that period provides funding to grow the CAIF from the original target of £200m to £260m over the MTFS period. The exact level of investments made 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
22. The amount invested in the Fund as at 31 March 2021 was £184m. This is after £5m in principal repayments for private debt investments which are planned to be reinvested. The MTFS 2021-25 capital programme includes a provision of £71m for additional investments spread over the four years 2021/22 to 2024/25 to fund further CAIF investments. This brings the total fund to £260m.

23. The total income is forecast to grow to an estimate of £9m by the end of the MTFs, 2024/25

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

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

### **Other Relevant Impact Assessments**

25. 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 into decision making, assessment and design of projects.

### **Timetable for Decisions**

26. The views expressed by the Scrutiny Commission will be reported to the Cabinet at its meeting on 17<sup>th</sup> September 2021.

### **Background papers**

County Council – 19<sup>th</sup> February 2014 – [Medium Term Financial Strategy 2014/15 – 2017/18](#)

Cabinet – 6<sup>th</sup> May 2014 – [Corporate Asset Investment Fund](#)

Cabinet – 18<sup>th</sup> July 2016 – [Corporate Asset Management Plan](#)

Scrutiny Commission - 2<sup>nd</sup> September 2020 – [Corporate Asset Investment Fund Annual Report](#)

Scrutiny Commission - 25<sup>th</sup> January 2021 – [Corporate Asset Investment Fund Strategy 2021 - 2025](#)

County Council – 17<sup>th</sup> February 2021 - [Medium Term Financial Strategy 2021/22-2024/25](#)

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

27. None.

### **Officers to Contact**

Chris Tambini, Director of Corporate Resources

Tel: 0116 305 7830 Email: [chris.tambini@leics.gov.uk](mailto: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](mailto:jon.bennett@leics.gov.uk)

**Appendices** - Annual Performance Report for 2020/21

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