



SCRUTINY COMMISSION – 7TH SEPTEMBER 2022

CORPORATE ASSET INVESTMENT FUND ANNUAL REPORT **2021/2022**

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of the report

1. The purpose of this report is to set out the performance of the Corporate Asset Investment Fund (CAIF) in 2021/22 (the Annual Performance Report is appended 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 MTFS 2022-26 capital programme was approved by County Council on 23rd February 2022 and this includes provision of £73m for CAIF project during the period 2022-26. This allocation was subsequently reduced to £69m at outturn in March 2022 as a result of additional Private Debt investments of £5m in 21/22 and slippage elsewhere on the programme of £1m. This is in addition to the £191m already invested in the Fund.
4. The Commission last considered the CAIF's performance in September 2021. It also considered the latest iteration of the Corporate Asset Investment Fund Strategy 2022 – 2026 on 31st January 2021 which was subsequently approved by the County Council in February 2022 as part of the MTFS.
5. Elsewhere on the agenda the Commission is asked to consider the Corporate Asset Management Plan 2022 – 26 which is aligned with the Council's Strategic Plan and promotes the management of the Council's property assets in a way that contributes to the achievement of the five strategic outcomes whilst recognising in the case of the CAIF the continuing need to achieve market returns and maximise income.

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 the 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 CAIF Advisory Board, is chaired by the Cabinet Lead Member for Resources and comprises of four other Cabinet members. The 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 2018-22 (Strong economy, wellbeing and opportunity, keeping people safe, great communities and affordable and quality homes) and the purpose of the Fund was consequently broadened.
11. 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. A further review is now being progressed in order that the Strategy fully reflects the objectives and outcomes of the refreshed Strategic Plan 2022-26.
12. 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

13. 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.
14. 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. An updated total of £69m has been set aside in the current MTFS to support further CAIF investments.
15. The Annual Performance Report attached as an Appendix to this report sets out in detail the overall performance of the CAIF during the 2021/22 financial year. This shows that continued prudent management of the Fund during this period has led to a further increase in its value.
16. Overall, the capital value of the Fund increased by £19.4m during 2021/22 (new investments/ other changes of £8.7m and £10.7m increase in valuation) to £206.8m. In addition, the Fund generated a net income of £6.2m which will contribute directly to the provision of Council services. The figure of £6.2m takes account of increased central charges (sinking fund and debt charge provision) of £1.5m required to help fund the one-off cost of remediation works at Firs Farm, Husbands Bosworth details of which are set out in the Annual Report.
17. The let property investments have produced a return of 10.6% with all direct property, including the development category, achieving a return of 8.1%. Whilst this is well below the benchmark market index of 23.7% this is largely due to constrained capital growth in the portfolio's industrial sector as a result of the age and nature of the premises within the original industrial estate and the stable pattern of occupancy. This was reflected in the previous two years when overall the portfolio significantly outperformed the market by maintaining sustained capital growth and income returns at a time when market conditions were challenging.
18. At the end of 2021/22, the direct property portfolio was valued at £155.1m and comprised £28.6m of rural estate, £57.5m of offices, £27.7m industrial properties, £4.9m of other property together with £36.5m of development properties.
19. 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 £28.0m is invested in Pooled Property Funds and £23.7m in Private Debt.

20. The performance of the fund is explained in greater detail in the Appendix to this report.

Future resource considerations

21. The Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures. This has been further exacerbated by the Covid-19 pandemic, uncertainty around future funding levels and the current inflationary pressure within the economy. The MTFS sets out the future challenges and the need for further savings of £80m to be made by 2025/26, of which £40m is currently unidentified. A report to Cabinet in June highlighted that this gap had grown to £71m in light of inflation and other emerging pressures. A further report concerning the Council's financial pressures will be presented to Cabinet in September.
22. The MTFS 2022-26 which incorporates the investment strategy for that period confirmed the provision of funding to grow the CAIF 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.
23. The amount invested in the Fund as at 31 March 2022 was £191m (the latest valuation of the fund which includes capital growth in the valuation of the assets held is £207m). The MTFS 2022-26 capital programme includes an updated provision of £69m for additional investments spread over the four years 2022/23 to 2025/26 to fund further CAIF investments. This would increase the amount invested in the Fund to the £260m target.
24. The total gross income is forecast to grow to an estimate of £12m by the end of March 2026

Equality and Human Rights Implications

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

Environmental Implications

26. The CAIF Strategy, in relation to the acquisition, development and management of the Fund's property assets, incorporates measures that ensure that the direct property portfolio makes a positive contribution to the achievement of the Strategic Plan's Clean and Green Strategic Outcome.

Timetable for Decisions

27. The views expressed by the Scrutiny Commission will be reported to the Cabinet at its meeting on 17th September 2021.

Background papers

County Council – 19th February 2014 – Medium Term Financial Strategy 2014/15 – 2017/18

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=3961&Ver=4>

Cabinet – 6th May 2014 – Corporate Asset Investment Fund

<https://politics.leics.gov.uk/documents/s92357/10%20corporate%20asset%20investment%20fund.pdf>

Scrutiny Commission - 8th September 2021 – Corporate Asset Investment Fund Annual Report

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6377&Ver=4>

Scrutiny Commission - 31st January 2022 – Medium Term Financial Strategy 2022/23-2025/26

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6867&Ver=4>

County Council – 23rd February 2022 - Medium Term Financial Strategy 2022/23-2025/26 - CAIF Strategy 2022 - 2026

<https://politics.leics.gov.uk/documents/s166685/Appendix%20H%20-%20CAIF%20Strategy%202022-2026%20SC%20version.pdf>

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

Chris Tambini, Director of Corporate Resources

Tel: 0116 305 7830 Email: chris.tambini@leics.gov.uk

Declan Keegan, Assistant Director (Finance, Strategic Property and Commissioning) Corporate Resources Department

Tel: 0116 305 7668 Email: declan.keegan@leics.gov.uk

Jonathan Bennett, Head of Strategic Property Services, Corporate Resources Department

Tel: 0116 305 6358 Email: jon.bennett@leics.gov.uk

Appendix

Corporate Asset Investment Fund Annual Report for 2021/22

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