SCRUTINY COMMISSION – 30TH JANUARY 2023

DRAFT CORPORATE ASSET INVESTMENT FUND STRATEGY 2023 TO 2027

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to seek the Commission's views on the Corporate Asset Investment Fund (CAIF) Strategy (the Strategy) for 2023 to 2027 (attached as an Appendix to this report) which sets out the proposed approach to the management and future acquisitions, strategy utilising the Capital Programme funding, together with amended Terms of Reference for the CAIF Advisory Board (the Board) which reflect the core provisions of the Strategy and will support the future management of the Estate.

Policy Framework and Previous Decisions

2. The creation of the Corporate Asset Investment Fund (CAIF) was included in the Medium-Term Financial Strategy 2014/15-2017/18 (MTFS), which was approved by the County Council in February 2014. The Fund has been renewed and increased annually in the MTFS.

3. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members. The Advisory Board acting in accordance with its Terms of Reference consider the merits of any investment opportunities presented by the Director of Corporate Resources, on which the Director may then make a decision under delegated powers or refer to the Cabinet for a decision.

4. The current Investment CAIF Strategy and the Board's Terms of Reference were approved by the Cabinet in September 2018 with subsequent updates approved as part of the MTFS.

5. The Strategic Plan 2022-26, approved by County Council on 18th May 2022 sets out five key strategic outcomes- Clean and Green, Great Communities, Improved Opportunities, Strong Economy, Transport and Infrastructure, Safe and Well. CAIF strategy will seek to make a positive contribution to the delivery of these objectives through measures including the generation of renewable energy, improving the energy efficiency of buildings, maximising opportunities to decarbonise the estate, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.

Background

6. 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 also generate revenue and capital returns to the Council.

7. The creation of the CAIF and associated Board in 2014 was aimed at increasing the Council's property portfolio and ensuring investment in 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 Board, chaired by the Cabinet Lead Member for Resources, is supported by an officer group formed from strategic property, strategic finance, planning 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 Board, the Director of Corporate Resources may make a decision on investments (under his delegated powers) or refers the proposals to the Cabinet for a decision.

9. Since the first formal CAIF Strategy was adopted in 2017 it has been reviewed annually and developed to ensure that in addition to maximising financial benefits the portfolio contributes to achieving the County Council's wider strategic goals. In 2018 the aims of the CAIF Strategy were aligned with the five Strategic Outcomes set out in the Council's Strategic Plan and the purpose of the Fund was consequently broadened.

10. 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. Support for the 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 and Climate Change projects being managed through the Fund.

11. The Council's Growth Service (Chief Executive's Department) also provides support as necessary. It has 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.

12. In order to maintain access to any potential prudential borrowing over the period of the MTFS it is necessary to ensure that any new investments are compliant with the updated CIPFA Prudential Code For Capital Finance In Local Authorities (2021) (*The CIPFA Code)* and HM Treasury guidance. The key change is that an authority must not borrow to invest primarily (more than 50% of the reason) for financial return.

13. Local authorities are required by regulation to have regard to the CIPFA Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011. HM Treasury have issued guidance reinforcing the position that local authorities need CIPFA Code compliant capital plans to access to the Public Works Loan Board.

14. Local Authorities need to be compliant with the updated CIPFA Code from 2023/24, the CAIF Strategy has been revised in response.

15. Key developments included in this version of the CIPFA Code include strengthened and clear provisions for prudent investing, definitions and disclosures for service, treasury and commercial investments. This new Prudential Code contains a new objective for proportionate service and commercial investments.

16. CIPFA and HM Treasury issued their respective documents on the back of some authorities borrowing in a potentially reckless manner and by such a degree relative the financial size of the authority as to put the authorities' finances in jeopardy. Some of these authorities are now having to deal with the poor performance of their property portfolios and are the subject of close scrutiny by their independent auditors.

17. It should be noted that the revenue implications of CAIF are small in comparison to the size of the County Council's total budget and no external borrowing was needed for the Fund. To date the County Council's auditors have not raised any issues with regard to the size or management of the Fund.

18. In light of the CIPFA Code, the County Council will ensure that it will only undertake investments where they are directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. This includes service delivery, housing, and regeneration of areas, that addresses areas of economic or social market failure and should only be made within the Council's area of economic influence. Renewable energy generation is also included as a reduction in carbon emissions is a stated aim of the County Council as part of its Declaration of a Climate emergency in May 2019.

19. In summary, investments should not be made primarily for yield.

20. The updated Prudential Code does not require authorities to sell existing primary for return investment assets that were acquired (or committed to) prior to November 2020. However, where a Council has an expected need to borrow (internally or externally), as does the County Council for the wider capital programme, the Code requires an annual review of investments held primarily for return to evaluate the benefit of continuing to hold such assets against the cost of borrowing and any risk reduction benefits. This will be undertaken annually. The

Prudential Code allows continued investment in such assets to maximise their value, including repair, renewal and updating of the properties. Any new investment in the CAIF will be assessed to ensure compliance with the updated Prudential Code and HM Treasury guidance.

21. Given the need to change the focus and approach to the future management and investment in the portfolio it is felt appropriate to reshape the activities of CAIF in a way that reflect these changes. It is likely that a new name for the CAIF will be necessary in due course to appropriately and properly reflect the primary role of the CAIF.

Management and Acquisitions Strategy 2023-27

22. The key priorities of the revised Strategy are to ensure its alignment with the Council's Strategic Plan 2022 – 26 and address any future financial risk to the Council by having due regard to Government guidance in relation to future investments.

23. As part of the prudent management of the Council's finances any future capital expenditure will need to continue to be well managed and deliver a financial return commensurate with the level of risk. This is applicable even where the primary purpose is delivery of wider County Council policy objectives.

24. Accordingly, having regard to the above the proposed aims of the Strategy 2023 - 27 are to ensure investments funded or held in the Fund:

    - Support the objectives of the Council's MTFS, Corporate Asset Management Plan, Strategic Plan, Economic Growth Plan, and the County-wide Local Industrial Strategy.
    - Support growth in the County and its economic area of influence and ensure there is a more diverse range of properties and land assets available to meet the aims of economic development.
    - Maximise returns on Council owned property assets.
    - Supports the delivery of front-line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
    - Maintain a diverse portfolio of energy efficient and sustainable direct property and other investment assets which support economic growth and environmental sustainability
    - Support the Council's strategic objectives by working with partners to maintain momentum in the development of strategic sites and renewing existing employment sites and premises where there is demand thereby addressing areas of market failure.
    - Contribute towards the development and implementation of a Net Zero Carbon 2030 Plan for the Council by reducing demand for energy and increasing the generation and use of renewable energy.
    - Channelling new investment into schemes that:

    - Maximise the potential to address economic and social market failure
    - Improve property assets for a direct strategic/policy purpose
    - Enhance the value and marketability of property assets enabling capital receipts to be used to support improved service delivery
- Manage investment risk by investing in diverse sectors.
- Support the Council in maximizing the benefit from its financial assets in a risk aware way (not including standard treasury management activity).

25. A copy of the full revised draft Strategy is appended to this report.

26. The Strategy continues to seek to minimise risk principally by ensuring robust governance arrangements are in place and that investment decisions are only made considering appropriate financial, commercial, and legal advice. However, property investment and development will always have an element of risk much of which is outside the control of the Council as it relates to the strength of the wider economy.

27. The Strategy sets out procedures to ensure risks associated with investments are monitored, assessed, and mitigated and the Board will play a vital role in this. Its Terms of Reference reflect the core provisions of the Strategy and align its functions with its key aims and objectives. The draft Terms of Reference for the Board are included within the draft Strategy.

28. Members will continue to receive regular MTFS monitoring reports which will include information on the operation of the Fund, as well as an annual report on investment activity undertaken during each financial year which will provide an update on ongoing projects together with an updated Strategy covering the next MTFS period.

<u>Resource Implications</u>

29. 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 draft MTFS 2023-27 (the subject of a separate report on the agenda for this meeting) sets out the future challenges and the need for further savings of £155m to be made by 2026/27, of which £92m is unidentified. In light of inflation and other emerging pressures the funding gap has the potential to grow.

30. The draft MTFS 2023-27 identifies capital funding of £55m to further develop the portfolio over the MTFS period. The exact level of expenditure made will be dependent on the availability of suitable property assets, the actual cost of development and the level of funding available.

31. No borrowing has been required to date. The changes to CIPFA's Prudential Code place restrictions on an authority's ability to borrow if investments are made primarily for financial return (yield). To ensure the Council retains the option of borrowing in the future the strategy has been updated to guide future investments.

Conclusion

32. The revised CAIF Strategy is aimed at maintaining a portfolio of assets that will benefit Leicestershire and provide a long term and relatively stable source of income, from existing investments, to support the funding in the MTFS. With future investments the focus on delivering the Council's wider strategic objectives will increase, such as addressing areas of economic and social market failure, in line with CIPFA Prudential code and HM Treasury guidance.

Equality Implications

33. There are no equality implications directly arising from this report.

Human Rights Implications

34. There are no 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. Renewable energy schemes will be brought forward on CAIF land, where appropriate, to reduce the overall carbon emissions from the county as relates to energy consumption.

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.

Circulation under the Local Issues Alert Procedure

None.

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

Report to Council, 18 May 2022 – Leicestershire County Council's Strategic Plan 2022 – 2026 - https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6482&Ver=4

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

Draft Corporate Asset Investment Fund Strategy 2023 - 2027

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