

**CABINET – 10 FEBRUARY 2023****INVESTING IN LEICESTERSHIRE PROGRAMME -
STRATEGY 2023 TO 2027****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 Investing in Leicestershire Programme Strategy (the Strategy) for 2023 to 2027, appended to this report, which sets out the proposed approach to future asset management and acquisitions. The Investing in Leicestershire Programme has previously been known as the "Corporate Asset Investment Fund".
2. The Cabinet is also asked to agree Terms of Reference for the Investing in Leicestershire Programme Board (the Board) which reflect the core provisions of the Strategy and will support the future management of the Council's property estate.

Recommendations

3. It is recommended that:
 - a) The Investing in Leicestershire Programme Strategy for 2023-2027 be approved;
 - b) The Terms of Reference for the Investing in Leicestershire Programme Board be approved.

Reasons for Recommendations

4. The Strategy reflects the changes in the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code, and HM Treasury guidance, the continued development of the Investing in Leicestershire Programme, and the need to manage risk in a positive way whilst continuing to deliver benefits to the Authority.
5. The Terms of Reference for the Board have been drafted to align with the aims and objectives of the revised Strategy.

Timetable for Decisions (including Scrutiny)

6. A report on the Strategy and Terms of Reference will be considered by the Scrutiny Commission meeting on 30 January 2023 and the Commission's comments will be reported to the Cabinet.
7. The period covered by the Strategy has been aligned to the Medium Term Financial Strategy (MTFS). It will continue to be reviewed and refreshed annually and reports made to the Cabinet and the Scrutiny Commission as appropriate.

Policy Framework and Previous Decisions

8. The creation of the Corporate Asset Investment Fund (CAIF) was included in the MTFS 2014/15-2017/18, approved by the County Council in February 2014. The Fund was renewed and increased annually in the MTFS.
9. In May 2014 the Cabinet established the CAIF Advisory Board, comprising five Cabinet members. The Advisory Board, acting in accordance with its Terms of Reference, has considered 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 will refer to the Cabinet for a decision.
10. The CAIF Strategy and Advisory Board's Terms of Reference were approved by the Cabinet in September 2018 with subsequent updates approved as part of the MTFS.
11. The Strategic Plan 2022-26, approved by County Council on 18 May 2022, sets out five key strategic outcomes - Clean and Green, Great Communities, Improved Opportunities, Strong Economy, Transport and Infrastructure, Safe and Well. The Investing in Leicestershire Programme will continue to 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.

Resource Implications

12. 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 Cabinet 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.
13. A fund of £55m has been included in the draft 2023-27 MTFS to bring the overall programme to the expected maximum holding of £260m. The exact level of investments made will be dependent on satisfactory business cases, the actual

cost of development and funding available.

14. No borrowing has been required to date for any of the investments by CAIF. 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.

Circulation under the Local Issues Alert Procedure

15. None.

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PART B

Background

16. The Council has owned and managed 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. The creation of the CAIF and associated Advisory 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.
18. The Advisory Board will henceforth be known as the Investing in Leicestershire Programme Board. It will continue to be chaired by the Cabinet Lead Member for Resources and supported by an officer group formed from strategic property, strategic 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. Following consideration by the Board, the Director of Corporate Resources may make a decision on investments (under his delegated powers) or will refer the proposals to the Cabinet for a decision.
19. Since the first CAIF Strategy was adopted 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.
20. The CAIF Strategy was further updated in 2019 to reflect the Council's declaration of a Climate Emergency, to ensure that all of the Fund's developments were, where possible, low carbon and energy efficient. Support for the Advisory Board was 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.
21. 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 investment aims and the Council's Strategic objectives.

CIPFA Prudential Code and HM Treasury Guidance

22. 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.

23. 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. 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.
24. Local Authorities need to be compliant with the updated CIPFA Code from 2023/24 and the Strategy has been revised in response.
25. 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.
26. CIPFA and HM Treasury issued their respective documents following some authorities having borrowed in a potentially reckless manner and by such a degree relative the financial size of their authority as to put their 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 independent auditors.
27. It should be noted that the revenue implications of the Investing in Leicestershire Programme are small in comparison to the size of the County Council's total budget and no borrowing has been needed to date. Moreover, the County Council's auditors have not raised any issues with regard to the size or management of the Programme.
28. In light of the CIPFA Code, the 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 (effectively Leicestershire and areas immediately outside the County served by Leicester/Leicestershire). Renewable energy generation is also included as a reduction in carbon emissions is a stated aim of the Council as part of its Declaration of a Climate Emergency in May 2019.
29. In summary, investments should not be made primarily for yield.
30. 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 by the Investing in Leicestershire Programme will be assessed to ensure compliance with the updated Prudential Code and HM Treasury guidance.

31. Given the need to ensure the focus and approach to the future management and investment in the portfolio aligns with the Code it is felt appropriate to update the Strategy in a way that reflects these changes. In light of these changes and the County Council's priorities in the new strategic plan the name will change to the Investing in Leicestershire Programme. Whilst the goals of CAIF were always wider than financial return, the new name more appropriately and properly reflecting the primary purpose of the portfolio.

Strategy 2023-27

32. The key priorities of the revised Strategy, appended to this report, are to ensure its alignment with the Council's Strategic Plan 2022-26 and the updated CIPFA Prudential Code and HM Treasury guidance in relation to future investments.
33. As part of the prudent management of the Council's finances investments 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.
34. Accordingly, having regard to the above the proposed aims of the Strategy 2023-27 are to ensure investments funded or held in the Fund:
 - i. Support the objectives of the Council's MTFS, Corporate Asset Management Plan, Strategic Plan, Economic Growth Plan and the County-wide Local Industrial Strategy.
 - ii. 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.
 - iii. Maximise returns on Council-owned property assets.
 - iv. Support the delivery of front line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
 - v. Maintain a diverse portfolio of energy efficient and sustainable direct property and other investment assets which support economic growth and environmental sustainability
 - vi. 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.

- vii. 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.
 - viii. Channelling new investment into schemes that:
 - o Maximise the potential to address economic and social market failure;
 - o Improve property assets for a direct strategic/policy purpose
 - o Enhance the value and marketability of property assets enabling capital receipts to be used to support improved service delivery.
 - ix. Manage investment risk by investing in diverse sectors.
 - x. Support the Council in maximising the benefit from its financial assets in a risk-aware way (not including standard treasury management activity).
35. The Strategy continues to seek to minimise risk principally by ensuring robust governance arrangements are in place and that investment decisions are only made in light of 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.
36. The Strategy sets out procedures to ensure risks associated with investments are monitored, assessed and mitigated and the Board will continue to play a vital role in this. Its Terms of Reference, included with the draft Strategy, reflect its core provisions and align its functions with its key aims and objectives.
37. The Cabinet and the Scrutiny Commission will continue to receive regular MTFS monitoring reports which will include information on the operation of the Investing in Leicestershire Programme, 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.

Conclusion

38. The Strategy is aimed at maintaining a long term and relatively stable source of income from existing investments to offset the funding gap in the MTFS with future investment during the period 2023 to 2027, this being focused on delivering the Council's wider strategic objectives and addressing areas of economic and social market failure.

Legal Implications

39. The Director of Law and Governance has been consulted on this report.

Equality Implications

40. There are no equality implications arising from this the recommendations in this report.

Human Rights Implications

41. There are no human rights implications arising from the recommendations in this report.

Background Papers

Report to the Cabinet, 14 September 2018 - Corporate Asset Investment Fund Annual Performance Report 2017-18 and Strategy for 2018-2022 - <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>

Appendix

Investing in Leicestershire Programme Strategy 2023-2027