



SCRUTINY COMMISSION – 6TH SEPTEMBER 2022

INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2022/2023

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of the report

1. The purpose of this report is to set out the performance of the Investing in Leicestershire Programme (IILP) in 2022/23 financial year. The Annual Performance Report is attached as an Appendix to this report.

Policy Framework and Previous Decisions

2. The IILP was established as part of the Medium Term Financial Strategy (MTFS) 2023 – 27 on the review of the former Corporate Asset Investment Fund (CAIF) investment strategy, (approved by the County Council in February 2014) and the IILP Portfolio Management Strategy 2023 -27 approved to guide future investment and management decisions.
2. In 2014 the Cabinet established the principle of the management of the CAIF portfolio being overseen by an Advisory Board, comprising five Cabinet members. The Board considered the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director of Corporate Resources may then approve under delegated powers (which authorise investment up to £1m per project or up to £5m with the support of the Board) or refer to the Cabinet for a decision.
3. The Cabinet in September 2018 approved the CAIF Strategy and Advisory Board's Terms of Reference. Subsequent changes were approved as part of the MTFS, reflecting, for instance, the Council's declaration of a Climate Emergency.
4. The Cabinet on 10 February 2023 agreed that the CAIF would be replaced by the Investing in Leicestershire Programme (IILP) and approved the IILP Strategy for 2023-2027 and Terms of Reference for the IILP Board.
5. The MTFS 2023-27 capital programme was approved by County Council on 22nd February 2023 and includes the provision of £57m for the further development of the IILP, subject to business case, during the period to 2027. This allocation was subsequently reduced to £43m at outturn in March 2023 as a result of additional Pooled Bank Risk Share investments of £15m made in

22/23 and slippage elsewhere in the programme. This is in addition to the £217m already invested in the Fund.

6. The Commission previously considered the CAIF's performance in September 2022. It also considered the Investing in Leicestershire Programme Portfolio Management Strategy 2023 – 2027 on 30th January 2023 which was subsequently approved by the County Council in February 2023 as part of the MTFS.
7. The Corporate Asset Management Plan 2022 – 26 covers all the Council's direct property assets, including IILP investment properties. This Plan was approved by the Cabinet on 23rd September 2022 and 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 IILP the continuing need to deliver both financial benefits and address areas of specific economic and social market failure. Performance against the CAMP for the period 2022-2023 is the subject of a separate report elsewhere on the agenda for this meeting.

Background

8. 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.
9. 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.
10. The CAIF was reviewed annually and in 2022 in order that the Strategy fully reflected the objectives and outcomes of the Council's Strategic Plan and latest Treasury guidance, the CAIF was replaced by the IILP and the current Portfolio Management Strategy adopted. The IILP Strategy will continue to be reviewed annually to ensure that in addition to maximising financial benefits the portfolio contributes to achieving the County Council's wider strategic goals, for example in the Council's Strategic Plan, mentioned previously.
11. The management of the IILP has continued along similar lines to the CAIF with an advisory Board chaired by the Cabinet Lead Member for Resources and comprises of four other Cabinet members. The Board considers the merits of any investment opportunities presented by the Director of Corporate Resources. The Director then determines whether to proceed with a scheme under his delegated powers or, where appropriate, to refer the matter to the Cabinet for a decision.

12. 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 where appropriate. 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.
13. The purpose of bringing the Annual Report for review is to demonstrate on both qualitative and quantitative bases, that the Programme 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 Programme is still approved.

Performance of the IILP

14. The IILP has a significant and growing value and has provided a means by which the Council can continue to provide high quality services to the people of Leicestershire despite significant pressures on public finances.
15. Since 2014 income generated by CAIF (now IILP) 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.
16. 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 were included in the portfolio, 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 £57m has been set aside in the current MTFS to support the further development of IILP.
17. The Annual Report attached as the Appendix to this report sets out in detail the overall performance of the IILP during the 2022/23 financial year. This shows that continued prudent management of the Fund over the last financial year has led to another substantial increase in its value.
18. At the end of 2022/23, the direct property portfolio was valued at £158.1m and comprised £24.2m of rural estate, £53.1m of offices, £30.0m industrial properties, £4.6m of other property together with £46.2m of development properties.

19. Overall, the capital value of the Fund increased by £26.7m during 2022/23 (new investments/ other changes of £18.5m and £8.2m increase in valuation) to £233.5m. In addition, the Fund generated a net income of £5.8m which will contribute directly to the provision of Council services.
20. The let property investments have produced a return of 6.7% with all direct property, including the development sector, achieving a return of 11.2%. This is well above the benchmark market index of minus 14.9% due in part the stable nature of the assets comprised in the estate but more importantly to the fact that the property portfolio continues to be valued as at 1st October each year with the result that the value of the property assets did not suffer the full impact of the yield adjustments caused by the overriding economic conditions which prevailed in the second half of the financial year. However, this effect counterbalances the underperformance in capital growth in 2021/22 at a time when the wider market enjoyed sharply rising prices. The value of the portfolio will likely be subject to a further downward adjustment in 2023/24 reflecting the further outward movement in yields.
21. Also included in the IILP valuation are the financial investments that have been made in vehicles outside direct property ownership, now totalling £75.4m. 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 £22.5m is invested in Pooled Property Funds, £28.7m in Private Debt plus recent investments in Pooled Infrastructure Funds and Pooled Bank Risk Share Funds of £8.7m and £15.5m respectively.

Rural Estate Management Review

22. As requested by the Corporate Governance Committee at its meeting in January 2023 when it considered a Risk Management Update, the Annual Report appended sets out the work undertaken to date to bring about improvements to the Council's management of the rural estate, with particular focus on the frequency of inspections and the clauses in the standard tenancy agreement. The review and the actions taken are detailed at pages 27 – 28 of the appendix. Alongside this, external consultants have also been tasked to look at management processes as part of a wider review of management practices and opportunities, covering the following topics: -
 - a. Frequency of farm inspections, the enforcement of tenant's obligations and monitoring of tenant performance.
 - b. Re-letting procedures.
 - c. Tenancy Agreement terms and conditions.
 - d. Ongoing financial checks.
23. The review was initiated in response to the Firs Farm incident in which large quantities of non-hazardous waste was illegally dumped on the farm. The remediation works necessary to remove the waste were commenced in June and are scheduled to be completed in late September 2023 at a cost of £2.3m.

Capital Projects

24. The Commission at its meeting in June requested that the Annual Report provide an update in respect of IILP capital projects. The Annual Report at pages 15 – 18 of the appendix provides details of the following projects: -
- a. Leaders Farm South, Lutterworth
 - b. Airfield Farm Business Park (Phase 3)
 - c. Solar Farm Development Quorn
 - d. Lutterworth East
 - e. M69 Junction 2 –Stoney Stanton

Resource Implications

25. The County Council's financial position has been challenging now for a number of years. The Council is now faced with the significant challenges linked to the war in Ukraine in terms of global energy and food supply and the resultant impact on inflation levels which have risen to levels not seen for many decades. The MTFS 2023/24 - 2026/27 balances in year 1 only and has a funding gap of £13m in year 2 rising to £88m in year 4. Delivery of the current MTFS requires savings of £150m to be made over its lifetime and identifies £37m of savings and proposed reviews that will identify further savings to reduce the £88m funding gap in 2026/27.
26. The Council's four-year capital programme totals £509m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, the IILP, social care accommodation and energy efficiency initiatives.
27. The MTFS 2023/24 -2026/27 which incorporates the investment strategy for that period confirmed the provision of funding to grow the IILP 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 IILP will have a meaningful impact on the Council's budget to reduce the funding gap.
28. The amount invested in the Programme as at 31 March 2023 was £217m (the latest valuation of the fund which includes capital growth in the valuation of the assets held is £233m). The MTFS capital programme includes an updated provision of £43m for additional investments spread over the four years 2023/24 to 2026/27 to fund further IILP investments. This would increase the amount invested in the Programme to the £260m expected level.
29. The total gross income is forecast to grow to an estimate of £8m by March 2027.
30. Whilst no borrowing is currently required to support the IILP capital programme, set against the background of rising interest rates, all projects continue to be business case tested to ensure that the returns from investment exceed the

potential opportunity cost of bank lending and repayment of debt should borrowing be necessary to deliver the programme in the future.

Equality Implications

31. There are no equality implications arising from this report.

Human Rights Implications

32. There are no human rights implications arising from this report

Environmental Implications

33. The IILP Portfolio Management 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

34. The views expressed by the Scrutiny Commission will be reported to the Cabinet at its meeting on 15th September 2023.

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 - 7th September 2022 – Corporate Asset Investment Fund Annual Report

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6871>

County Council – 22nd February 2023 - Medium Term Financial Strategy 2023/24-2026/27 - IILP Portfolio Management Strategy 2023 - 2027

<https://politics.leics.gov.uk/mgAi.aspx?ID=74188#mgDocuments>

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

Declan Keegan, Director of Corporate Resources

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

Investing in Leicestershire Programme Annual Performance Report for 2022/23

This page is intentionally left blank