



CABINET – 15 SEPTEMBER 2023

INVESTING IN LEICESTERSHIRE PROGRAMME **ANNUAL PERFORMANCE REPORT 2022-23**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

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

Recommendations

2. It is recommended that the performance of the Investing in Leicestershire Programme for the period April 2022 to March 2023 as set out in the Annual Performance Report, be noted.

Reasons for Recommendations

3. In accordance with the Cabinet's decision in September 2017, this report fulfils the requirement to report annually on the performance of the portfolio to both the Cabinet and the Scrutiny Commission, to demonstrate that the Programme is being managed professionally and prudently and in line with the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential Code, and HM Treasury guidance and the Strategy approved by Council in February 2023.

Timetable for Decisions (including Scrutiny)

4. The Annual Performance Report was considered by the Scrutiny Commission at its meeting on 6 September 2023 and the Commission's comments will be reported to the Cabinet.

Policy Framework and Previous Decisions

5. 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. The Portfolio Management Strategy is reviewed annually in the MTFS.

6. In May 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.
7. 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.
8. 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.
9. The Medium Term Financial Strategy 2023-27 Capital Programme approved by the Council on 22 February 2023 included the provision of £57m for IILP projects during the period 2023-27. This allocation was subsequently reduced to £43m at outturn in March 2023 as a result of additional Pooled Bank Risk Share investments of £15m in 2022/23 and slippage elsewhere in the programme.
10. The County Council's Strategic Plan 2022-26 sets out five key strategic outcomes. In addition to maximising financial benefits, the future IILP 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.
11. The Corporate Asset Management Plan 2022 – 26, approved by the Cabinet on 23rd September 2022, which is aligned with the Council's Strategic Plan, 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 or social market failure.

Resource Implications

12. 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.

13. 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.
14. 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.
15. 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 target.
16. The total gross income is forecast to grow to an estimate of £8m by March 2027.
17. The Director of Law and Governance has been consulted on this report.

Circulation under the Local Issues Alert Procedure

18. None.

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PART B

Background

19. 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 County Council.
20. 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.
21. The CAIF was reviewed annually and in 2022, to ensure that the Strategy fully reflected the objectives and outcomes of the Council's Strategic Plan and the latest Treasury guidance, the CAIF was replaced by the IILP and the current Portfolio Management Strategy adopted.
22. 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 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 Advisory Board, the Director of Corporate Resources approves investments (under delegated powers) or refers proposals to the Cabinet for a decision.
23. As with the CAIF, the IILP Strategy is 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.
24. The Board continues to be supported by officers from other departments, such as Environment and Transport, to provide advice in respect of matters such as the increasing impact of growth on infrastructure and Climate Change in relation to the projects being managed through the Programme. The Head of the Growth Service, which is currently vacant but being recruited to) will also provide support as necessary; the Service has general oversight for the delivery of large growth schemes to ensure the Council's engagement with these schemes is co-ordinated, and that they are assessed and prioritised against the resources available and balanced against the need to deliver the aims of the Programme and the Council's Strategic objectives.

Performance of the IILP

25. 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.
26. Since 2014 income generated by CAIF and 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.
27. 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. A total of £43m has been set aside in the current MTFs to support the further development of IILP.
28. 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.
29. 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.
30. 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.
31. 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 compromised in the estate but more importantly to the fact that the property portfolio continues to be valued as 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.
32. 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.

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. The IILP Strategy, in relation to the acquisition, development and management of the Programme'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.

Background Papers

Report to the Cabinet, 23 September 2022 - Corporate Asset Investment Fund Annual Performance Report 2021-22

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6776&Ver=4>

Report to the Council on 22 February 2023 "Medium Term Financial Strategy 2023/24 - 2026/27", including IILP Portfolio Management Strategy 2023-2027 (Appendix H)

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6913>

Appendix

Investing in Leicestershire Programme Annual Performance Report 2022 – 2023