



**SCRUTINY COMMISSION – 29<sup>TH</sup> JANUARY 2024**

**DRAFT REVISED INVESTING IN LEICESTERSHIRE PROGRAMME  
PORTFOLIO MANAGEMENT STRATEGY 2024 TO 2028**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PART A**

**Purpose of the Report**

1. The purpose of this report is to seek the Commission's views on the draft revised Investing in Leicestershire Programme Portfolio Management Strategy for 2024 to 2028 (attached as Appendix A to this report) which sets out the proposed approach to future asset management and investment.

**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 was reviewed in 2022 and now forms the Investing in Leicestershire Programme (IILP).
3. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board comprising five Cabinet members; the Advisory Board becoming the Investing in Leicestershire Programme Board in 2023. The Board acting in accordance with its Terms of Reference considers the ongoing strategic management, development and performance of the portfolio and the merits of any investment opportunities presented by the Director of Corporate Resources.
4. The current IILP Portfolio Management Strategy and the Board's Terms of Reference were approved by the full Council in February 2023 as part of the MTFS 2023-2027.
5. The Strategic Plan 2022-26, approved by County Council on 18<sup>th</sup> May 2022 sets out five key strategic outcomes- Clean and Green, Great Communities, Improved Opportunities, Strong Economy, Transport and Infrastructure, Safe and Well. The 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.

## **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 to generate revenue and capital returns to the Council.
7. The creation of the CAIF (now IILP) 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 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, in accordance with the Council's Constitution, the Director of Corporate Resources may make a decision on investments (under his delegated powers) or refer the proposals to the Cabinet for a decision dependent on value.
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, being aligned with the Strategic Plans of 2018 and 2022 thereby broadening the purpose of the Programme.
10. The Strategy was further updated in 2019 to reflect the Council's declaration of a Climate Emergency to ensure all Programme developments are, where possible, low carbon and energy efficient.
11. The Strategy was last updated in 2023 when, in addition to aligning this with the Strategic Plan, the Strategy was amended to ensure compliance with the CIPFA Prudential Code and HM Treasury guidance introduced in 2022. This required that the portfolio be focused on the delivery of outcomes that addressed areas of economic and social market failure in addition to delivering the financial benefits necessary to support service provision.
12. 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 Programme. The Council's Growth Service and Planning team (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 Programme and the Council's Strategic objectives.

**The revised Strategy for 2024-28**

13. The key priorities of the revised Strategy are to further 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.
14. 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 Prudential Code and HM Treasury guidance. The key requirement is that an authority must not borrow to invest primarily (more than 50% of the reason) for financial return.
15. As such investments may only be made 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. Investments should not be made primarily for yield.
16. The updated Prudential Code does not require authorities to sell existing, primarily 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 options to exit investments held primarily for return. The reviews should evaluate the benefit of holding such assets with taking out new 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. All new IILP investments will be assessed to ensure compliance with the updated Prudential Code and HM Treasury guidance.
17. 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.
18. Accordingly, having regard to the above the proposed aims of the IILP Strategy 2024 – 28 continues to ensure investments funded or held in the Programme:
  - 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 Plan for the Council by reducing demand for energy and increasing the generation and use of renewable energy.
  - Channels 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).
19. A copy of the full revised draft IILP Strategy is appended to this report.
20. 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 and in line with relevant statutory guidance and best practice. 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.
21. 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 respect.
22. An external review of the portfolio's performance and strategy was undertaken by Hymans Robertson in December 2020 which made recommendations as to future investments going forward in order to ensure financial resilience by maintaining a balanced diverse portfolio of assets. In accordance with the requirement that the portfolio's performance and strategy be reviewed at 3-yearly intervals Hymans Robertson were commissioned to undertake a further review in late 2023.

23. It is anticipated that the review report will be received in advance of this meeting. On receipt, it will be circulated to Members and a presentation made to the meeting by Hymans Robertson providing details of the review and outlining their advice and recommendations. In addition, the Strategy document will be updated to reflect the review recommendations before this is submitted to Cabinet for final approval.
24. It is proposed that this advice will be used to inform all future investment decisions, forming an integral part of all investment assessments which will continue to be supported by full business cases.
25. Members will continue to receive regular MTFS monitoring reports which will include information on the operation of the ILLP, as well as an annual report on investment activity undertaken during each financial year which will provide an update on ongoing projects.

### **Resource Implications**

26. The Council is operating in an extremely challenging financial environment. The draft MTFS 2024-28 (the subject of a separate report on the agenda for this meeting) sets out the future challenges and the need for further savings of £162m to be made by 2027/28, of which £85m is unidentified. In light of inflation and other emerging pressures the funding gap has the potential to grow.
27. The draft MTFS 2024-28 identifies net funding of £43m to grow the CAIF to its target level of £260m. The target is funded from a combination of assets pre-dating the creation on CAIF, Treasury Management and one-off revenue resources. No borrowing has been required to date. The changes to the 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.
28. A total fund of £217m is forecast to be held by the end of 2023/24. Over the MTFS period the following changes have been included:
  - £59m – additional investment in MTFS 2024-28 capital programme (subject to individual investments being supported by a full business case and excluding general improvement investment)
  - (£9m) – sale of direct property held and pooled property funds
  - (£8m) – net change in maturing indirect investments held

These will bring the total held to £260m (based on historic cost). Annual income returns are estimated at around £8m for 2023/24 and are forecast to increase to £10m by the end of the MTFS period (and higher in later years), contributing ongoing net income for the Council.

### **Conclusion**

29. The Investing in Leicestershire Programme Portfolio Management 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 management and investment during the period 2024 – 2028 being focused on delivering the Council's wider strategic objectives and addressing areas of economic and social market failure.

### **Recommendation**

30. The Commission is asked to note and comment on the revised Strategy.

### **Equality Implications**

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

### **Human Rights Implications**

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

### **Environmental Implications**

33. Where possible, the environmental impact of the Fund's developments will be as low as possible and be low carbon and energy efficient.

34. 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>

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**Appendix**

Draft revised Investing in Leicestershire Programme Portfolio Management Strategy  
2024 - 2028

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