



SCRUTINY COMMISSION – 6TH NOVEMBER 2024

INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2023/2024

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of report

1. The purpose of this report is to set out the performance of the Investing in Leicestershire Programme (IILP) in 2023/24 (the Annual Performance Report is appended to this report).

Policy Framework and Previous Decisions

2. In May 2014 the Cabinet established the principle of the management of the portfolio being overseen by an Advisory Board, comprising five Cabinet members (the background to this is outlined in paragraphs 8 to 10 below). This is now the IILP Board. The Board considers the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director may then approve under his delegated powers or refer to the Cabinet for a decision.
3. The IILP was established in 2023 as part of the Medium Term Financial Strategy (MTFS) 2023/24-2027/28 and the IILP Portfolio Management Strategy 2024-2028 approved to guide future investment and management decisions. The Portfolio Management Strategy is reviewed annually in the MTFS.
4. The MTFS 2024-28 capital programme was approved by County Council on 21st February 2024 and includes the provision of £62m for the further development of the IILP during the period to 2027. This allocation was subsequently increased after year end (March 2024) to £63m as a result of the re-phasing of expenditure from 2023/24. This is in addition to the £223m already invested in the Fund.
5. The Commission previously considered the performance of the Programme in September 2023. It also considered the Investing in Leicestershire Programme Portfolio Management Strategy 2024 – 2028 on 29 January 2024 which was subsequently approved by the County Council in February 2024 as part of the MTFS.
6. The Corporate Asset Management Plan 2022 – 26, approved by the Cabinet on 23 September 2022 and is aligned with the Council's Strategic Plan. It

promotes the management of the Council's property assets in a way that contributes to the achievement of the five strategic outcomes in its Strategic Plan whilst recognising in the case of the ILLP the continuing need to deliver both financial benefits and address areas of specific economic and social market failure.

Background

7. 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.
8. The creation of the Corporate Asset Investment Fund 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.
9. The ILLP Board (previously known as the CAIF Advisory Board) is 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.
10. The Board is supported by officers from strategic property, strategic finance, 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. The Growth Service also provides support as necessary, now having general oversight of 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.
11. In 2018 the aims of the then CAIF Strategy were aligned with the five Strategic Outcomes set out in the Council's Strategic Plan 2018-22 (Strong economy, wellbeing and opportunity, keeping people safe, great communities and affordable and quality homes) and the purpose of the Fund was consequently broadened.
12. 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. A further review was progressed in 2022 to ensure that the Strategy fully reflected the objectives and outcomes of the Strategic Plan 2022-26. It was as a result of this review that the CAIF and

the CAIF Advisory Board was replaced by the ILLP and the ILLP Board and the current Portfolio Management Strategy was adopted. This was to ensure the Council's approach reflected changes in Treasury guidance now in force.

13. The ILLP Board operates on the same basis as its predecessor, chaired by the Cabinet Lead Member and supported by officers from strategic finance, property and legal services and from other departments, such as Environment and Transport, regarding matters such as the increasing impact of growth on infrastructure and Climate Change in relation to the projects being managed through the Programme. The Growth Service 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.
14. 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 affecting local authority managed investment programmes

Current Performance of the ILLP

15. The ILLP 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.
16. Since 2014 income generated by CAIF and ILLP investments has contributed to 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.
17. Originally, funding of £15m was allocated to the CAIF to fund new investments over four years from 2014/15, focussing on direct managed property investments to support the funds strategic objectives. In addition, other Council assets were included in the CAIF, mainly county farms and industrial properties. Since 2014/15, the 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 £63m has been set aside in the current MTFS to support the further development of the ILLP.
18. The Annual Report appended to this report sets out in detail the overall performance of the ILLP during the 2023/24 financial year.
19. At the end of 2023/24, the direct property portfolio was valued at £206.4m and comprised £81.8m rural estate, £53.4m offices, £25.8m industrial properties and £4.7m of other property together with £40.6m of development properties.

20. Overall, the capital value of the Fund increased by £49.9m during 2023/24 (an increase in valuation of £52.7m and minus £2.8m due to other changes) to £283.4m; the rise in the total value of the portfolio this year being almost entirely due to the revaluation of the rural portfolio. The revised valuation has been prepared by external consultants in accordance with new valuation guidelines introduced in October last year. In addition, the Fund generated a net income of £7.6m which will contribute directly to the provision of Council services.
21. The let property investments have produced a return of 54.9% with all direct property, including the development sector, achieving a return of 35.5%; the figures being distorted by the revaluation of the rural estate using revised valuation guidelines introduced in 2023.
22. However, the other managed direct properties produced a total return of 0.4% which although well below target aligns with the market return of 0.3%. It should be noted that the property portfolio continues to be valued as at 1st October each year, which results in the assessment of portfolios performance not being fully aligned with its benchmark, as the impact of yield changes in the second half of each year will not be reflected in values until the following year. For example, in respect of the industrial sector in the second half of the 2022/23 year yields increased by 1.2% resulting in a substantial decline in capital values resulting in capital growth of minus 21.5% across the market whilst the portfolio produced positive capital growth of 8.1%; the delayed impact of that yield change resulting in the portfolio producing negative capital growth of minus 17.3% in the past year when capital growth in the market was positive at 0.6% as the market stabilised.
23. Also included in the ILLP valuation are the financial investments that have been made in vehicles outside direct property ownership (diversifiers), now totalling £77.0m. 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 £20.7m is invested in Pooled Property Funds, £30.8m in Private Debt, £8.7m Pooled Infrastructure Funds and £16.8m in Pooled Bank Risk Share Funds.

Future resource considerations

24. The County Council's financial position has been challenging for a number of years due to over a decade of austerity combined with significant growth in spending pressures, particularly from social care and special education needs. This was exacerbated by the impact of the Covid-19 pandemic and significant increases in inflation, to levels not seen for many decades. The MTFS 2024-28 is balanced in the first year (2024/25) after the use of £6m of earmarked reserves. There is then a gap of £33m in 2025/26 rising to £83m in 2027/28. Delivery of the MTFS requires savings of £164m to be made from 2024/25 to 2027/28, unless service demand reduces, or additional income is secured. The MTFS sets out in detail £81m of savings and proposed reviews that will identify further savings to reduce the £83m funding gap on the main revenue budget

and the £111m estimated funding gap on schools High Needs funding in 2027/28.

25. The refresh of the four-year capital programme was approved by the Cabinet in September 2024, and totals £494m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, the Investing in Leicestershire Programme, social care accommodation and energy efficiency initiatives.
26. The MTFS 2024-28 which incorporates the investment strategy for that period confirmed the provision of funding to grow the ILLP to £260m over the MTFS period. The exact level of investments made will be dependent on the availability of good investments, the 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 ILLP will have a meaningful impact on the Council's budget to reduce the funding gap.
27. The amount invested in the Programme as at 31 March 2023 was £219m (the latest valuation of the portfolio which includes capital growth in the valuation of the assets held is £283m). Having regard to the potential sales that will occur over the MTFS period, based on the investment value at acquisition, the sum invested would fall by an estimated £22m. Accordingly, the updated capital provision of £63m included within the MTFS 2024-28 capital programme to fund additional investments spread over the four years 2024/25 to 2027/28 would increase the total sum invested to the £260m target.

Conclusion

28. The views of the Scrutiny Commission are sought on the performance of the ILLP in line with the current strategy. The Commission's comments will be reported to Cabinet on 22nd November 2024.

Equality Implications

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

Human Rights Implications

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

Environmental Implications

31. The ILLP 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.

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 - 6th September 2023 – Investing in Leicestershire Programme Annual Report

Scrutiny Commission – 29th January 2024 – Medium Term Financial Strategy 2024/25-2027/28

County Council – 21st February 2024 - Medium Term Financial Strategy 2024/25-2027/28 – ILLP Strategy 2024 - 2028

Circulation under the Local Issues Alert Procedure

None.

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Appendix

Investing in Leicestershire Programme Annual Performance Report for 2023/24