



## **CABINET – 22 NOVEMBER 2024**

### **INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2023-2024**

#### **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 2023/24 financial year. The IILP Annual Performance Report is appended to this report.

##### **Recommendations**

2. It is recommended that the performance of the Investing in Leicestershire Programme for the period April 2023 to March 2024 as set out in the Annual 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 Investing in Leicestershire Programme Portfolio Management Strategy approved by the Council in February 2024.

##### **Timetable for Decisions (including Scrutiny)**

4. The Annual Performance Report was considered by the Scrutiny Commission at its meeting on 6 November 2024 and the Commission's comments are set out in Part B of this report.

##### **Policy Framework and Previous Decisions**

5. In May 2014 the Cabinet established the principle of the management of the Council's property investment portfolio being overseen by a Corporate Asset Investment Fund Advisory Board of five Cabinet members. The Board considered the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director approved under his delegated powers or referred to the Cabinet for a decision.

6. The ILLP was established in 2023 as part of the Medium Term Financial Strategy (MTFS) 2023/24-2027/28 and the ILLP Portfolio Management Strategy 2024-2028 approved to guide future investment and management decisions. The Portfolio Management Strategy is reviewed annually as part of the MTFS.
7. The MTFS 2024/25-2027/28 Capital Programme approved by the Council on 21 February 2024 included the provision of £62m for the further development of the ILLP 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 £219m already invested in the Fund.
8. The County Council's Strategic Plan 2022-2026, approved on 18 May 2022, sets out five key strategic outcomes. In addition to maximising finance benefits, future ILLP 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 Council's property estate, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.
9. The Corporate Asset Management Plan 2022-2026 was 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 the Strategic Plan whilst recognising in the case of the ILLP the continuing need to deliver both financial benefits and address areas of specific economic or social market failure.

### **Resource Implications**

10. 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 current MTFS for 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.
11. 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 ILLP, social care accommodation and energy efficiency initiatives.

12. 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 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 ILLP will have a meaningful impact on the Council's budget to reduce the funding gap.
13. The amount invested in the Programme as at 31 March 2024 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.
14. The Director of Law and Governance has been consulted on this report.

#### **Circulation under the Local Issues Alert Procedure**

15. None.

#### **Officers to Contact**

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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 County Council.
17. The creation of the Corporate Asset Investment Fund (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.
18. The IILP Board (which replaced the CAIF Advisory Board) comprises the Cabinet Lead Member for Resources and four other Cabinet members. As with its predecessor, the Board considers the merits of any investment opportunities presented by the Director of Corporate Resources and 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.
19. 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.
20. 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
21. The Strategy was further updated in 2019 to reflect the Council's declaration of a Climate Emergency to ensure all Fund 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 IILP and the IILP 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.

### **Current Performance of the ILLP**

22. 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.
23. Since 2014 income generated by CAIF and ILLP 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.
24. 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 have been included in the CAIF, 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 £63m has been set aside in the current MTFS to support the further development of ILLP.
25. The Annual Report appended to this report sets out in detail the overall performance of the ILLP during the 2023/24 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.
26. At the end of 2023/24, the direct property portfolio was valued at £206.4m and comprised £81.8m rural estate, £53.4m of offices, £25.8m industrial properties, £4.7m of other property together with £40.6m of development properties.
27. 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.
28. 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. However, if the opening valuation of the rural portfolio is adjusted to take account of the changed method of valuation to provide a better comparison with the market the let property investments produced a return of 4.1%.
29. However, the other managed direct properties produced a total return of 0.4% which although well below target aligns with the market return of 3%. Importantly the fact that the property portfolio continues to be valued as

at 1<sup>st</sup> October each year will result 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.

30. Also included in the ILLP valuation are the financial investments that have been made in vehicles outside direct property ownership (diversifiers), in total valued at £77m as at 31 March 2024. 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.

### **Comments of the Scrutiny Commission**

31. The Scrutiny Commission considered a report of the Director of Corporate Resources and the Annual Performance Report for the ILLP at its meeting on 6 November 2024.

32. Comments from members included the following -

- That were it not for the increase in value of the rural estate, the Programme showed an overall reduction, of approximately £8m.

The Director emphasised that as a long-term investment portfolio all properties and other assets were subject to fluctuation in value.

- There appeared to be a 338% increase in the value of the Council's rural estate.

It was explained that this had resulted from a change in CIPFA guidelines and factors now required to be taken into account in carrying out valuations such as the length of a farm tenancy and capital value of land once vacant position was received. These had significantly increased all local authorities' recent valuations for such assets.

- Concern regarding past management of the Council's rural estate and reassurance this was now being addressed. It was also noted that the rural estate had been established to help people without a farming background who wanted to farm, and that it also supported the Council's wider priorities such as net zero targets and improving biodiversity.

The Director confirmed that an action plan had been put in place and support provided by a leading land agent and additional resources allocated to support this. The Director reassured members that the rural estate had always been managed but focus had been on maximising capital returns

from the estate and not how it could contribute more widely. It had been acknowledged that a change in approach and improved management were needed and this was being done in line with best practice.

- The new Government's approach to housing delivery had resulted in slippage in several district council local plans. Reference to the M69 J2 Stoney Stanton development needed amending to reflect the reason for the delay to the Blaby DC local plan and that the timetable was only an estimate.

The Director undertook to amend the Annual Report.

- That the returns included within the report were all net of costs.

The Director advised that all property appraisals took account of initial and ongoing costs and market fluctuations when forecasting the returns expected from all direct and non-direct property investments within the ILLP.

- It was not always clear how much the Council had invested into a project compared to the returns achieved, nor the time it took to see a return.
- A total commitment of £260m had been included for the ILLP within the MTFS and to date c. £220m had been spent. Given spending pressures facing the Council might the remaining £40m be better invested elsewhere, noting some ILLP projects carried commercial risk.

### **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 ILLP Portfolio Management 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, 15 September 2023 - Investing in Leicestershire Programme Annual Performance Report 2022-23

<https://cexmodgov01/ieListDocuments.aspx?CId=135&MId=7078>

Report to the Council, 21 February 2024 - Medium Term Financial Strategy 2024/25-2027/28 (Appendix H - ILLP Portfolio Management Strategy 2024-2028)

<https://cexmodgov01/mgAi.aspx?ID=77849#mgDocuments>

Report to the Scrutiny Commission, 6 November 2024 - Investing in  
Leicestershire Programme Annual Performance Update  
<https://cexmodgov01/ieListDocuments.aspx?CId=137&MId=7446&Ver=4>

**Appendix**

Investing in Leicestershire Programme Annual Performance Report 2023-  
2024