



OVERVIEW AND SCRUTINY COMMITTEE – 27TH JANUARY 2025

DRAFT REVISED INVESTING IN LEICESTERSHIRE PROGRAMME STRATEGY 2025 TO 2029

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 Strategy for 2025 to 2029 (attached as an Appendix to this report) which sets out the proposed approach to existing and 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 initial 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. The Strategy was subsequently updated for 2024-2028 and this was approved by full Council in February 2024.
5. The Strategic Plan 2022-26, approved by County Council on 18th 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 ILLP) 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 Investing in Leicestershire 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 last major Strategy review took place 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.

ILLP Strategy 2025-29

13. The Strategy has been reviewed and updated to ensure that the investment priorities remain aligned with the Council's Strategic Plan 2022 – 26; and that the the rationale and aims of the Council buying and owning property investments are clearly established.

14. The proposed aims of the ILLP Strategy 2025 – 29 are 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).

15. A copy of the full revised draft ILLP Strategy is appended to this report.

16. The Strategy sets out the legal context and statutory framework within which decisions are made.
17. There are no changes to the governance arrangements, with appendix B setting out the terms of reference for the Investing in Leicestershire Programme Board
18. The Strategy continues to seek to minimise risk principally by ensuring robust governance arrangements are in place and that investment decisions are only made following appropriate financial, commercial and legal advice and in line with relevant statutory guidance and best practice. It also 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.
19. External reviews of the portfolio's performance and strategy are undertaken at three yearly intervals. The most recent review was undertaken by Hymans Robertson in January 2024 which made recommendations as to future investments going forward in order to ensure financial resilience by maintaining a balanced diverse portfolio of assets.
20. Based on the make-up of the portfolio as at 31st March 2024 the current portfolio mix of direct property and diversifiers was considered appropriate and struck a reasonable balance between the positive economic, social and environmental impacts generated in the direct portfolio and the downside protection provided by the diversifiers portfolio.
21. Given the volume of new investments to be made, it was anticipated, and remains the case, that the direct portfolio will see only modest growth. It was therefore recommended that the Council explores opportunities to dispose of certain existing assets and recycle the capital into new developments. This will enable the Programme to maintain a high level of positive impact in the local community, as well as providing the opportunity to implement some of the portfolio refinements proposed below.
22. In addition, the review acknowledged that as at 31st March 2024 the development sector was significantly larger than would normally be anticipated. However, the disposal or future development of assets within the sector will correct the balance.
23. In considering the future direction of the investment strategy the review made the following recommendations:
 - a. In respect of the Direct Property Portfolio:
 - i. Increase the allocation to the Industrial/Logistics sectors.
 - ii. Maintain or reduce the allocation to Offices.
 - iii. Selectively consider Retail investments.
 - iv. Maintain the Rural allocation.
 - v. Increase the allocation to other Alternative sectors.
 - vi. Cap the allocation to Residential.

The review also considers that local infrastructure assets are potentially attractive additions to the Fund's direct portfolio, offering a good income yield, potential diversification and clear economic and environmental benefits.

- b. In respect of the Diversifiers:
 - i. Allow the allocation to pooled Property to fall but ideally not below 25%.
 - ii. Maintain the allocation to pooled Infrastructure.
 - iii. Increase and diversify the allocation to pooled Private Debt.
24. Overall, the review did not recommend any major changes of direction. However, it suggested that within the direct property portfolio consideration be given to selected retail investments and it recognises the potential for investment in local infrastructure assets. In the case of diversifiers, it advised that the portfolio be rebalanced reducing the level of pooled property and maintaining the level of pooled infrastructure investments whilst increasing and diversifying the portfolio of private debt investments.
 25. The detailed actions required to move the portfolio towards achieving the Hymans recommendations above are being developed by officers and will be brought to liLP Board for discussion and approval during 2025/26. This will also include further development of the strategy to review the current appraisal methodology and criteria for selecting investments and a review of the Key Performance indicators used for the portfolio.
 26. It is proposed that this advice will be incorporated into an overall review and development of a Property Portfolio Management Plan by June 2025. The plan will include the outcomes of the review of the rural estate and strategy.
 27. Future investment assessments and decisions will continue to be supported by full business cases.
 28. Members will continue to receive regular MTFS monitoring reports which will include information on the operation of the liLP, as well as an annual report on investment activity undertaken during each financial year which will provide an update on ongoing projects

Resource Implications

29. The Council continues to operate in an extremely challenging financial environment. The draft MTFS 2025-29 (the subject of a separate report on the agenda for this meeting) sets out the future challenges and the need for further savings of £181m to be made by 2028/29, of which £96m is unidentified. In light of inflation and other emerging pressures the funding gap has the potential to grow.

30. The draft MTFS 2025-29 includes investment to grow the ILLP to its target level of £260m. The target is funded from a combination of assets pre-dating the creation of ILLP, 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 reflects the need for future investments to meet the Prudential Code criteria.
31. A total fund of £228m based on historic cost is forecast to be held by the end of 2024/25. Over the MTFS period the following changes have been included:
- £15m net forecast for direct property investment over the period 2025/26 to 2028/9.
 - £17m net forecast for diversifying investments over the period 2025/26 to 2028/9.
32. These will bring the total held to £260m (based on historic cost). Annual income returns are estimated at around £8m for 2024/25 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

33. The ILLP 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 2025 – 2029 being focused on delivering the Council's wider strategic objectives and addressing areas of economic and social market failure.
34. There are a number of specific actions to be undertaken during 2025/26 to further achieve the strategic priorities of the portfolio, including progress towards achieving the recommendations from the Hymans review. The ILLP Board will receive updates on this through the year.

Equality Implications

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

Human Rights Implications

There are no human rights implications arising from this report.

Environmental Implications

36. Where possible, the environmental impact of the Fund's developments will be as low as possible and be low carbon and energy efficient.
37. 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

38. None.

Background Papers

39. 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>
40. 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 Strategy 2025 - 2029

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