Leicestershire County Council

# SCRUTINY COMMISSION – 8TH SEPTEMBER 2025

# INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2024/2025

# REPORT OF DIRECTOR OF CORPORATE RESOURCES

## Purpose of the Report

1. The purpose of this report is to set out the performance of the Investing in Leicestershire Programme (IILP) in 2024/25 (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 2025-29 capital programme was approved by County Council on 19th February 2025 and includes the provision of £47m (subject to business cases) for the further development of the IILP during the period up to 2029. This allocation was subsequently increased after the year-end (March 2024) to £61m as a result of the re-phasing of expenditure from 2024/25. This is in addition to the £204m already invested in the IILP.

5. The Commission previously considered the performance of the Programme in September 2024. On 27 January 2025 it considered the Investing in Leicestershire Programme Portfolio Management Strategy 2024-2028 which was subsequently approved by the County Council in February 2025 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 IILP 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 IILP Board (previously the Corporate Asset Investment Fund Advisory Board) is chaired by the Cabinet Lead Member for Resources and comprises 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 (in the Chief Executive's Department) 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. 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 to show that it is being managed professionally, prudently and in a commercially astute way, to ensure it is growing in line with the IILP Strategy and that the overall direction of travel of the Programme is approved annually.

**Current Performance of the IILP**

12. The IILP has grown significantly in value over recent years 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.

13. Since 2014 income generated by CAIF and IILP 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.

14. The Annual Report appended to this report sets out in detail the overall performance of the IILP during the 2024/25 financial year and a summary is given below.

15. At the end of 2024/25, the direct property portfolio, including the value of the let areas of County Hall managed alongside the IILP properties, was valued at £231.8m and comprised £95.9m rural estate, £63.1m offices, £26.0m industrial properties and £4.7m of other property together with £42.1m of development properties.

16. In addition, the IILP holds financial investments that have been made in vehicles outside direct property ownership (diversifiers). These have been made to spread risk, 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. These have a current value of £60.5m comprising £16.1m pooled property funds, £23.0m private debt, £8.7m pooled infrastructure funds and £12.7m pooled bank risk share funds. This brings the total value of the portfolio to £283.4m.

17. Overall, the capital value of the IILP increased by £0.1m during 2024/25 due mainly to an increase in the value of the direct property portfolio of £16.6m and a similar reduction in the value of the diversified assets as a result of assets being realised during the year; revised valuations having been prepared by external consultants in accordance with current guidelines. In addition, the IILP generated a net income of £8.6m which will contribute directly to the provision of Council services.

18. The let property investments have produced a return of 11.6% with all direct property, including the development sector, achieving a return of 9.5% - well above the market return of 7.7%. In addition, the diversifiers produced an income return of 8.1%. It should be noted that the property portfolio continues to be valued as at 1st October each year, which results in the assessment of the portfolio's 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.

19. Overall, the performance has been limited due to reduced staff resources within the Strategic Property Service. Difficulties in recruiting to vacant posts and interim senior management has affected the Service's ability to identify new

opportunities, instead focussing on maintaining the performance of the current portfolio. The newly appointed Head of Service has a plan to resolve the staffing challenges and re-focus work from September onwards.

**<u>Non Direct (diversifiers) property investments</u>**

20. In response to the request of the Commission at its meeting in June, the following sets out more detailed information on the non-direct property investments (diversifier investments) held in the IILP.

21. Diversifier investments support delivery of the aims of the IILP as set out in the current IILP Strategy. The Strategy, last reviewed in 2024 by Hymans Roberston ("Hymans"), the Council's investment consultant, seeks to provide the Council with a diversified income stream that is less correlated to the Leicestershire property market where a significant concentration of assets lie. Diversifier investments should provide an alternative source of income for times when the mainly Leicestershire based direct property portfolio could suffer from economic downturns.

22. It is prudent to spread the investment risk when relying on that income which supplements service provision to Leicestershire residents. Hymans recommended that the IILP target a 67% allocation of assets to direct property and 33% to diversifiers.

23. As at the latest position, 30 June 2025, the current split based on current values between direct property and diversifiers is 79% is allocated to direct property and 21% is to diversifiers. The split has widened over the year for a number of factors including:

    a. A net return of capital from diversifier investments over the past year.
    b. Continued investment into the Leicestershire direct portfolio, for example the next phase of the Airfield industrial development.
    c. A material increase in the valuation of the rural estate at the year end.

24. There is a plan to rebalance this split towards the two-thirds, one third split as recommended by Hymans. This will include the proposal for additional diversifier investments during 2025/26 within private debt and a proposal for a new bank risk share investment currently being considered.

25. The table below shows the IILPs current diversifier investments. Since inception the Internal Rate of Return (IRR) shows the weighted average annual rate of return from when the investment was made. In summary, four pooled property investments were made, one within private debt, one within global infrastructure and one within a more niche area described as bank risk share. Each will be described in more detail in the table below.

| Asset Class | Q1 25/26/25 Capital valuation | Forecast Net Income FY | In year forecast net income return % [3] | Since Inception IRR [4] |
|---|---|---|---|---|
| **Diversifier Holdings** | | | | |
| Pooled property: Hermes | 7,230 | | | |
| Pooled Property: Lothbury | 439 | | | |
| Pooled Property: Threadneedle | 4,541 | | | |
| Pooled Property: DTZ | 3,594 | | | |
| **Pooled Property total** | **15,804** | **422** | **2.6%** | **2.0%** |
| Private Debt MAC 4 2017 | 2,334 | | | 6.2% |
| Private Debt MAC 6 2021 | 13,239 | | | 6.6% |
| Private Debt MAC 7 2023 | 8,340 | | | 9.2% |
| **Private Debt total** | **23,912** | **816** | **3.5%** | **6.5%** |
| Pooled Infra Fund | 8,648 | 293 | 3.4% | 3.6% |
| Pooled Bank Risk Share | 12,285 | 965 | 7.7% | 13.9% |
| **Total Diversifiers** | **60,647** | **2,496** | **4.1%** | |

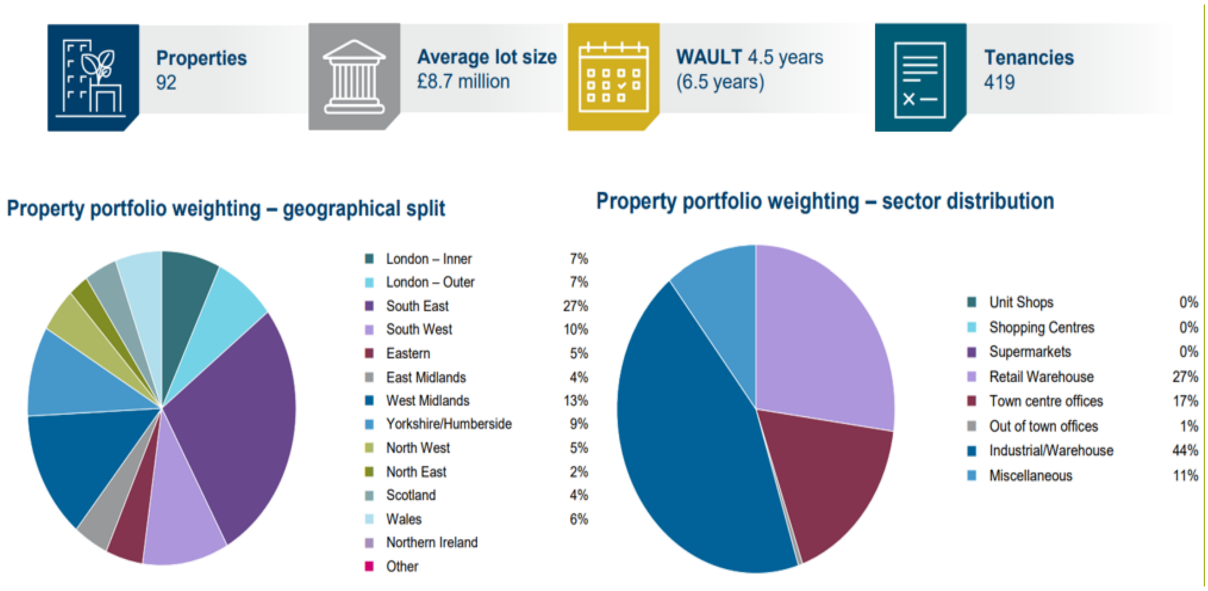
<u>Pooled Property</u>

26. These are institutional funds where investors own units in a fund with other investors. Investors 'pool' money which is then invested by the manager into a collection of commercial property. All four of the pooled property funds the IILP invests in invest in UK commercial property. A total of £25million was invested between 2015 and 2019 with four managers as shown above.

Hermes property: £7.5million in February 2015
Lothbury property: £7.5million in December 2015
Threadneedle: £7.5million in February 2017
DTZ active value: £2.5million September 2018 and £2.5million June 2019

27. The first three funds listed above are classed as opened funds, they have no end date to return capital and stay 'open' under normal circumstances. The last, now managed by DTZ is a closed ended fund that invests in property requiring repositioning (change of tenant, capital investment, new longer leases) in order to deliver returns. The closed ended feature denotes that these funds have a limited life so that investors can expect a return of capital by a target date.

28. The illustration below shows the level of diversification available from investing in a pooled property vehicle (Threadneedle 31 December 2024) that a smaller investor like Leicestershire County Council (LCC) cannot achieve,




*WAULT – weighted average unexpired lease term (last year number in brackets)

29. As at the end of the last quarter the returns (as calculated using the internal rate of return) from the four pooled property funds including the capital invested, income received from tenants and return of any capital totals 2.0%pa since inception. For comparison, if investing money at bank rates since 1 December 2015 to 30 June 2025 (similar to the Lothbury investment) then the average return would be 1.7%pa.

30. Over the last 2 years, property funds have been under pressure from decreasing asset values as a result of a tougher lettings market but also from higher interest rates which inversely affects property capital values.

31. Lower total pooled property returns (2.0%pa since inception) is partly due to the liquidation of the Lothbury property fund as a result of a large number of redemption requests from investors in 2023/24. Most of the capital has now been returned albeit the IILP will receive around £1.8million less than the original amount invested. There is a positive return overall for this holding given quarterly income distributions from their let commercial property holdings since the IILPs investment in 2015.

32. During August 2025 the Fund also received a redemption from the Hermes fund which, similar to the Lothbury fund, was receiving redemption requests and has now merged with another fund run by Legal and General. The IILP is not a qualifying investor in the new merged fund and so was repaid capital at the latest valuation. The timing is unfortunate and, like the Lothbury redemption, the decision to redeem was not one the IILP would have taken and therefore was a forced seller. The return of £7.3million results in a capital loss of £0.2million, the IRR for this investment is 3.5%pa since inception which compares favourably with cash interest rates over a similar timeframe.

Private debt

33. Private debt (sometime also referred to as private credit) refers to money loaned to businesses that isn't originated by traditional banks. The IILP invests money via one manager at present, Partners Group, and has invested in three vintages as they are known that are opened for investment for usually 1-2 years after which they are closed to new investors. The investment manager extends loans to corporate borrowers similar to a bank and manages the collection of the original loan and interest both of which are passed to the investor over time. Private credit vintages usually have a fixed length, around 6 to 10 years.

34. The IILP has invested in a safer strategy whereby loans are made towards the lower risk and return end of the private credit spectrum. These safer loans have the most investor protections in the event of the borrower facing financial difficulties. The loans are commonly arranged so that an arrangement fee is paid as well as interest that is referenced to a base rate. As base rates rise (and defaults are managed well) then income to the investor should increase.

35. The three vintages the IILP has invested in are detailed below with the first two returning capital. MAC 7 is now providing income with the first income distribution in June 2025. As capital is returned new commitments will need to be made to maintain an exposure. Officers are investigating potential options.

Partners Multi asset Credit (MAC) 4 – £20million commitment in 2018
Partners Multi asset Credit (MAC) 6 – £20million commitment in 2022
Partners Multi asset Credit (MAC) 7 – £10million commitment in 2023

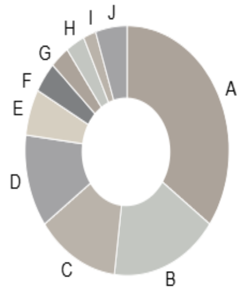
36. The current IRR for the three private credit vintages as at 30 June 2025 is 6.5%pa. Returns in recent times have improved as interest rates in the UK and Europe (where most of the loans are made) have increased from near zero. The most recent investment to MAC7, where loans to corporate borrowers have been made during a period of higher interest rates, has the highest since inception returns at 9.2% as at 30 June 2025.

37. As a measure of the diversification achieved by using a manager to source private debt investments the current MAC7 investment provides exposure to the IILP from 66 (30 June 2025) companies. These investments are geographic and sector diverse. Loans extended to the 66 companies are weighted towards the safest end of the risk spectrum, so that in the event of borrower default these loans have primary calls on the company's capital available for distribution.

Investments by industry sector


| | | |
|---|---|---|
| A | High Tech Industries | 31% |
| B | Finance | 13% |
| C | Healthcare & Pharmaceuticals | 11% |
| D | Services: Business | 10% |
| E | Construction & Building | 7% |
| F | Insurance | 6% |
| G | Capital Equipment | 6% |
| H | Services: Consumer | 6% |
| I | Media: Diversified & Production | 4% |
| J | Energy: Oil & Gas | 3% |
| K | Containers, Packaging, & Glass | 2% |
| L | Other | 1% |

Investments by country




| | | |
|---|---|---|
| A | US | 35% |
| B | UK | 17% |
| C | Germany | 13% |
| D | France | 12% |
| E | Netherlands | 6% |
| F | Canada | 4% |
| G | Australia | 3% |
| H | Hong Kong | 3% |
| I | Singapore | 2% |
| J | Other | 5% |

Infrastructure

38. This is a wide and diverse asset class that invests in infrastructure projects where target returns are estimated at the outset in many cases due to the contractual nature of the projects they can deliver. The IILP invested c£8.8million in January 2022 to the JP Morgan infrastructure investments fund (IIF).

39. The IIF is a US dollar denominated fund, the quarterly distributions received are converted to sterling on arrival. As a result of the Fund being dollar denominated the carrying value will be translated to sterling at each quarter end for reporting purposes. The IIF is an open ended fund, therefore no returning of capital unless an investor requests a capital redemption. It is one of the largest institutional infrastructure funds with a net asset value over 45billion US dollars.

40. The risk profile of the IIF is skewed towards the safer end of the available infrastructure funds. It is classed firmly within core and core plus funds with little exposure to development projects. IIF targets exposure to regulated sectors (30%-60%), contracted power (also 30%-60%) and finally a smaller allocation to more GDP sensitive infrastructure (0%-20%) which could include ports and airports exposure for example.

Bank risk share

41. This investment is one the IiLP first made in 2022 with a £15million commitment to credit relief fund 5 (CRF5) which is managed by Christoferson Robb and Company (CRC). The commitment was fully called by the manager by March 2023. It has since produced a return ahead of the original target of 9% pa. At the latest valuation available (30 June 2025) the net asset value of the existing bank risk share investment in CRF5 is valued at £12.3m. This will reduce as capital is returned.

What is bank risk share?

42. Within the banking regulatory environment, regulatory capital has to be held as support for loans. This is to ensure that the bank has adequate ‘buffers’ against losses under a range of scenarios. If a bank wishes to increase its lending activity it has to hold more regulatory capital; this capital can be expensive. For example, raising equity for regulatory capital can be difficult if the amount to be

raised is a large portion of the existing equity value. The riskier a type of loan, the more capital a bank needs to hold in reserve.

43. By arranging a mechanism for transferring the risk for loans made, banks can receive approval from the regulators to hold less regulatory capital against existing loans. This releases capital to support other banking activities or to bring them within regulatory limits.

44. The risk transfer and the approval by regulators makes bank capital relief attractive to both the bank and the investor. As capital is expensive to raise for banks, they can afford to pay a healthy premium to the counterparty (the investor) that the risk is being transferred to. In return, the banks end up with lower risk weighted assets (loans weighted on the level of risk they present to the bank) and better capital ratios.

45. Returns to investors come from the insurance premium paid by the bank which will be distributed to investors, less any fees. The invested capital will be returned as underlying loans made by the bank are repaid less any losses incurred.

Who is CRC?

46. Christofferson, Robb & Company (CRC) is a private debt management firm that was founded in 2002 with capital first deployed into bank risk share strategies in 2004 and which specialises in European bank capital release. They have a dedicated team split across mainly London and New York and have the longest track record of managers operating this strategy.

47. The strategy has been known to the Council since 2017 when the Leicestershire County Council Local Government Pension Scheme (LGPS) invested in an earlier release of the bank risk share strategy, Credit Relief Fund 3 (CRF3). The Leicestershire LGPS has invested into CRF5 and more recently in CRF6 and was advised by the investment consultant firm, Hymans Robertson.  The IiLP is currently considering an investment into CRF6 in order to maintain exposure to this asset class which is in line with the Hymans investment strategy for the IilP.

CRF6

48. The current iteration of the strategy (CRF6) targets an internal rate of return (IRR) of 13%. This is higher than the previous fund CRF5 and is due to the higher interest rate environment that is expected to continue whilst bank risk share transactions are being conducted. CRF6 commenced conducting risk transfer transactions in 2024 and is due to close to new investors in late 2025, income distributions will likely commence in early 2026.

49. The Council's current approved Treasury Management Strategy allows for a maximum of £20m to be invested into this asset class at any one time. It is not proposed to increase this limit.

50. The IlP commissioned additional assurance regarding CRF6 from Hymans Robertson (Hymans), which provides investment advice and is regulated by the Financial Conduct Authority. The advice is follow-on advice received by the Leicestershire County Council Pension Fund in October 2024 when the Fund's committee approved an investment in CRF6.

51. In summary, Hymans still consider CRC's Capital Relief Fund a "suitable investment", they note there have been "no key changes" at the manager level (CRC) or changes to the investment approach since their last review. The team has been expanded at junior level within investment, risk management and operations.

**Future Resource Considerations**

52. The County Council's financial position has been challenging for a number of years due to significant growth in spending pressures, particularly from social care and special educational 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 2025-29 projects a funding gap of £4.7m in the first year that will need to be balanced by the use of earmarked reserves. There is then a gap of £38m in year two rising to £91m in Year Four. Delivery of the MTFS requires savings of £176m to be made from 2025/26 to 2028/29, unless service demand reduces, or additional income is secured. This MTFS sets out in detail £85m of savings and proposed reviews that will identify further savings to reduce the £91m funding gap on the main revenue budget and the £118m cumulative funding gap on the High Needs grant by 2028/29.

53. The Council's four-year capital programme totals £439m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, the IILP, social care accommodation and energy efficiency initiatives.

54. The MTFS 2025-29 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 depend 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 IILP will have a meaningful impact on the Council's budget to reduce the funding gap.

55. The amount invested in the Programme as at 31 March 2025 was £204m (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 and planned reinvestment required to balance the portfolio, the capital provision of £47m included within the MTFS 2025-29 capital programme to fund additional investments spread over the four years (2025/26 to 2028/29) would increase the total sum invested to the £260m target.

**Conclusion**

56. The views of the Scrutiny Commission are sought on the performance of the IILP in line with the current strategy. The Commission's comments will be reported to the Cabinet on 28th October 2025.

**Equality Implications**

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

**Human Rights Implications**

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

**Environmental Implications**

59. The IILP Portfolio Management Strategy, in relation to the acquisition, development and management of the IILP's property assets, incorporates measures that ensure that the direct property portfolio makes a positive contribution to the achievement of the Council's 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 November 2024 – Investing in Leicestershire Programme Annual Report https://cexmodgov01/ieListDocuments.aspx?CId=137&MId=7446

Scrutiny Commission – 27th January 2025 – Medium Term Financial Strategy 2025/26-2028/29 https://cexmodgov01/ieListDocuments.aspx?CId=137&MId=7832

County Council – 19th February 2025 - Medium Term Financial Strategy 2025/26-2028/29 – IILP Strategy 2025 - 2029
https://cexmodgov01/ieListDocuments.aspx?CId=134&MId=7391

**Circulation under the Local Issues Alert Procedure**

None.

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**Appendix**

Investing in Leicestershire Programme Annual Performance Report for 2024/25