Agenda Item 4

CABINET – 28 OCTOBER 2025

INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2024-25

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 (IILP) for the 2024/25 financial year. The Annual Report is attached as the Appendix to this report.

Recommendations

2. It is recommended that the performance of the Investing in Leicestershire Programme for the period April 2024 to March 2025 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 Strategy approved by Council in February 2025.

Timetable for Decisions (including Scrutiny)

4. The Annual Performance Report was considered by the Scrutiny Commission at its meeting on 8 September 2025 and the Commission's comments are set out in paragraphs 27 to 37 of this report.

Policy Framework and Previous Decisions

5. The IILP was established as part of the Medium-Term Financial Strategy (MTFS) 2023-27 on the review of the former Corporate Asset Investment Fund (CAIF) investment strategy.

6. In May 2014 the Cabinet established the principle of the management of the CAIF portfolio being overseen by an Advisory Board, comprising five Cabinet members. This subsequently became the IILP Advisory Board. At its meeting on 12 September 2025 the Cabinet agreed that the Board would be

expanded to include all members of the Cabinet. The Board considers the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director may then approve under delegated powers or refer to the Cabinet for a decision.

7. 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.

8. The Corporate Asset Management Plan 2022-26, approved by the Cabinet on 23rd September 2022, which is aligned with the Council's Strategic Plan, promotes the management of the Council's property assets in a way that contributes to the achievement of the five strategic outcomes whilst recognising in the case of the IILP the continuing need to deliver both financial benefits and address areas of specific economic or social market failure.

Resource Implications

9. The County Council's financial position has been challenging for a number of years due to significant growth in spending pressures, particularly from demand around 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 a gap of £38m in year two, rising to £91m in year four. Delivery of the MTFS currently requires savings of £176m to be made from 2025/26 to 2028/29, unless service demand reduces, or additional income is secured.

10. 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.

11. 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. The MTFS is currently being refreshed and the proposals for 2026-2030 will be submitted to the Cabinet in December.

12. The amount invested in the Programme on 31st March 2025 was £204m (the latest valuation of the portfolio which includes capital growth in the valuation of the assets held is £292m). 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.

13. The Director of Law and Governance has been consulted on this report.

Circulation under the Local Issues Alert Procedure

14. None.

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PART B

Background

15. The Council has owned and managed properties in the form of the existing commercial 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.

16. The creation of the 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.

17. The CAIF Strategy was updated in 2019 and 2022 to ensure that it fully reflected the objectives and outcomes of the Council's Strategic Plan. In February 2023, in order to reflect Treasury guidance, the IILP replaced the CAIF. The current Portfolio Management Strategy was adopted, and the Advisory Board became the IILP Advisory Board.

18. The Advisory Board is chaired by the Cabinet Lead Member for Resources supported by an officer group formed from strategic property, strategic finance, and legal services to provide advice on risks, deliverability and financial implications. Other service areas, for example Environment and Transport and the Growth Service, may also be asked to advise - for example on issues such as infrastructure and climate change and to ensure that proposed schemes are assessed/prioritised against the resources available. Specialist property investment support and advice is also obtained as necessary to provide an independent view and robust challenge. Following consideration by the Advisory Board, the Director of Corporate Resources approves investments (under his delegated powers) or refers the proposals to the Cabinet for a decision.

19. 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.

Performance of the IILP

20. 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. The income generated by the 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.

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

Property

22. 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.

Other Investments

23. 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 £292.3m.

Overall Performance

24. 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.

25. 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.

26. 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. This is now being addressed, with a newly appointed Head of Service and work being re-focused.

Comments of the Scrutiny Commission

27. The Scrutiny Commission considered the Annual Report at its meeting on 8th September 2025, and its comments are summarised below.

28. Some Members argued whilst the overall performance had been boosted by the revaluation of the rural estate some of the IILP investments had performed poorly.

29. A Member questioned the comparisons being made to demonstrate the performance of the fund, suggesting that comparing returns against holding cash was not appropriate and not a fair comparison of risk verses return. The Director explained that the comparison stemmed from when the Council first chose to invest in non-direct property investments at a time when cash holdings were producing very poor returns below the rate of inflation; the non-direct property investments being made as an alternative to boost the Council's income compared to its traditional cash holdings.

30. It was noted that the percentage return on income over the whole fund might appear low. However, nearly half (47%) of the fund related to rural land which it was known did not provide a high rate of revenue return relative to other asset classes but the other portion was held in development land which would provide a much higher rate of return in the long term through capital growth.

31. Many sites were in the development phase or not yet fully let. Members noted that the income returns if the in-development and rural land were excluded would be approximately 5.4% which was higher than the average return on cash holdings. The Council also benefited separately from capital returns which continued to perform well (6.6%).

32. Officers advised that asset sales were a normal part of management of the Council's corporate estate and the estate would continue to evolve over time to ensure continued support in the delivery of Council services and to generate a good income.

33. Members noted that the IILP delivered wider benefits than revenue and capital returns by bringing forward land for development and much needed housing across Leicestershire. It also invested in the development of local industrial units to support local businesses, create jobs which benefited the local economy.

34. Members considered the £61m of non-direct property investments which had been made to spread risk through diversification. A Member commented that as a significant proportion of those investments were in pooled property funds and therefore subject to the same liquidity risks as direct property assets, this was not true diversification. It was suggested that other types of investment which did not share the same risks could be made which would likely perform better, for example, investments in equities which over the long term outperformed all types of other investment. However, other Members questioned this proposal suggesting this was too high a risk given the Council was managing council

taxpayer's money and so had a duty to ensure a higher degree of security compared to private companies and investors.

35. It was noted with some disappointment that two of the property funds invested in had been wound up early which had resulted in some capital losses to the Council.

36. Members commented that as custodians of the rural estate this should be managed more efficiently going forward (noting delays to rent reviews for the Autumn 2024 and Spring 2025 cycle). The Director assured members that plans were being developed to facilitate this.

37. Members questioned whether delays in carrying out revaluations and rent reviews had resulted in higher than average rent increases during the 2024/25 period. It was confirmed that increases were not substantial and were based on market rents, but where tenants had clear difficulties, the increase was phased in over an agreed period.

Equality and Human Rights Implications

38. There are no equality or human rights implications directly arising from this report.

Environmental Implications

39. The IILP 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, 10th February 2023 "Investing in Leicestershire Programme Strategy 2023-2027" and minutes of that meeting
https://cexmodgov01/ieListDocuments.aspx?CId=135&MId=7073

Report to the Cabinet, 22nd November 2024 "Investing in Leicestershire Programme Annual Performance Report 2023-24"
https://cexmodgov01/ieListDocuments.aspx?CId=135&MId=7511

Report to Council, 19th February 2025 "Medium Term Financial Strategy 2025/26-2028/29" (Appendix H - IILP Strategy 2025-2029)
https://cexmodgov01/ieListDocuments.aspx?CId=134&MId=7391

Appendix

Investing in Leicestershire Programme Annual Performance Report 2024-2025

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