Leicestershire County Council

SCRUTINY COMMISSION – 2 SEPTEMBER 2026

INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2025/2026

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 2025/26 (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 of Cabinet members, 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 Portfolio Management Strategy 2024-2028, approved by the Cabinet in February 2024, guides future investment and management decisions. The Portfolio Management Strategy is reviewed annually in the MTFS.

4. The MTFS 2026-30 capital programme was approved by County Council in February 2026 and includes the provision of £43m (subject to business cases) for the further development of the IILP during the period up to 2030. This allocation was subsequently increased to £48m as a result of the re-phasing of expenditure from the 2025/26 outturn. This is in addition to the £208m already invested in the IILP, giving a total of £256m. A further £4m for IiLP ‘diversifier’ investments is allowed for within the Council’s treasury management balances.

5. The Commission previously considered the performance of the Programme in September 2025. In January 2026 it considered the IILP Portfolio Management Strategy 2026-2030 which was subsequently approved by the County Council in February 2026 as part of the MTFS.

6. The Corporate Asset Management Plan (CAMP) 2022-26, approved by the Cabinet on 23 September 2022 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. The annual performance of the CAMP during 2025/26 is the subject of a separate report on the agenda for this meeting.

Background

7. The Council has owned and managed properties in the form of the existing Industrial and Rural 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 Programme (previously known as 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 consists of all members of the Cabinet and is chaired by the Cabinet Lead Member for Resources. 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 and planning, and growth services who 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, Environment and Transport 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 continues to support the Council's financial resilience. It provides income to help fund Council services, while also contributing to the economic, social and environmental wellbeing of Leicestershire in line with the Council's Strategic Plan.

13. The Annual Report appended to this report sets out in detail the overall performance of the IILP during the 2025/26 financial year. A summary is provided below.

14. At the end of 2025/26, the direct property portfolio, including the value of the let areas of County Hall, was valued at £226.7m and comprised £86.7m rural estate, £59.2m offices, £37.3m industrial properties and £4.5m of other property, together with £39.0m of development properties.

15. In addition, the IILP holds investments outside the directly owned property portfolio, known as diversifiers. These are intended to spread risk and provide income from sources other than direct property. These have a current value of £53.4m comprising £7.8m pooled property funds, £18.7m private debt, £9.2m pooled infrastructure funds and £17.7m pooled bank risk share funds. This brings the total value of the portfolio to £280.1m.

16. Overall, the capital value of the IILP reduced by £12.2m during 2025/26, from £292.3m as at 31 March 2025 to £280.1m as at 31 March 2026. This was due to valuation reductions in parts of the direct property portfolio, particularly the rural estate and office assets, together with sales, transfers and the planned return of capital from diversifier investments.

17. In particular, the rural estate valuation reduced by £8.6m. This followed a change in valuation approach, with external valuers no longer including “hope value” linked to potential future development opportunities on a group of rural assets. Together with changes in market conditions the value of property assets can fluctuate year on year however over the longer term the rural estate has enjoyed sustained growth averaging 10% per annum over the past 5 years.

18. Despite the reduction in capital value, the IILP produced a net income of £8.6m. Operational performance was also positive, with 20 new lettings completed during the year, adding £466,000 per annum to rental income across the portfolio.

19. The managed direct property portfolio, excluding development assets, delivered a total return of minus 3.1%, compared with the wider market return of 6.0% and an overall return for the direct property portfolio of minus 4.8% in the year when development assets were included. However, over the past 5 years the direct property portfolio has produced average returns of 12.6% per annum with sustained capital growth over the first 4 years.

20. In 2025-26 returns were impacted by negative capital growth of 5.9% across the managed property portfolio with the most significant impacts arising from the rural estate valuation adjustment and reduced office values where lease expiries affected market valuations. However, within the overall figure the income return continues to be delivered at above market benchmark levels thereby ensuring that ongoing support for services is delivered. Diversifier investments continued to support income, producing an income return of 6.7%.

21. The 2025/26 performance comparison is also affected by a one-off timing issue. The IILP has returned to valuing the portfolio as at 31 March each year, rather than 1 October as in recent years. As a result, the 2025/26 valuation movement covers an 18-month period rather than the usual 12 months, which means it is not directly comparable with the 12-month market benchmark. Future valuations will be carried out annually as at 31 March, bringing the assessment of performance back into alignment with the benchmark period.

22. During 2025/26, positive progress was made across a number of areas of the Programme, demonstrating continued active management of the portfolio and delivery of the IILP’s wider strategic objectives. This included:
    - completion of rent reviews and lease renewals, helping to protect and manage rental income;
    - a reduction in 90-day debt, with debt as at 31 March 2026 standing at £631,000, equivalent to 6.6% of gross portfolio income and below the 10% target;
    - average voids across the portfolio of 7.9%, which remained below the target of 8.9%;
    - progress in securing local plan allocations to support the future development pipeline; and
    - adoption of the Rural Estate Strategy 2026-36 and commencement of its implementation.

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

23. 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 Robertson (“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.

24. 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.

25. The current split based on current values between direct property and diversifiers is 81% direct property and 19% diversifiers. The split has widened marginally over the year due to a number of factors including:

    a. A net return of capital from diversifier investments over the past year exceeding the reduction in the value of the direct property portfolio.
    b. Continued investment into the Leicestershire direct portfolio, for example the next phase of the Airfield Farm industrial development.

26. It is planned to rebalance the overall portfolio towards the two-thirds, one third split as recommended by Hymans in the medium term. This will include proposals to acquire additional diversifier investments in the current year.

Future Resource Considerations

27. The MTFS 2026-30 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.

28. The amount invested in the Programme as at 31 March 2026 was £208m (the latest valuation of the portfolio which includes capital growth in the valuation of the assets held is £280m). 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 £48 included within the MTFS 2026-30 capital programme and £4m from treasury management balances to fund additional investments spread over the four years (2026/27 to 2029/30) would increase the total sum invested to the £260m target.

Conclusion

29. 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 8th September 2026.

Equality Implications

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

Human Rights Implications

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

Environmental Implications

32. 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

Report to the Scrutiny Commission - 8th September 2025 – Investing in Leicestershire Programme Annual Report
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=7835

Report to the Scrutiny Commission – 28th January 2026 – Medium Term Financial Strategy 2026/27-2029/30
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=8391

Report to the County Council – 18th February 2026 - Medium Term Financial Strategy 2026/27-2028/30 – IILP Strategy 2026 - 2030
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=7862

Circulation under the Local Issues Alert Procedure

None.

Officers to Contact

Lucy Littlefair, Assistant Director
Tel: 0116 305 7668 Email: lucy.littlefair@leics.gov.uk

Karen Frearson, Head of Strategic Property Services,
Corporate Resources Department
Tel: 0116 305 2074 Email: Karen.Frearson@leics.gov.uk

Appendix

Investing in Leicestershire Programme Annual Performance Report for 2025/26