Leicestershire County Council

CABINET – 8 SEPTEMBER 2026

INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2025-26

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 2025/26 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 2025 to March 2026 as set out in the Annual Report, be noted.

Reasons for Recommendations

3. 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.

Timetable for Decisions (including Scrutiny)

4. The Annual Performance Report will be considered by the Scrutiny Commission at its meeting on 2 September 2026 and the Commission's comments will be reported to the Cabinet.

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 CAIF strategy, (originally approved by the County Council in February 2014) and the IILP Portfolio Management Strategy 2025-29 approved to guide future investment and management decisions. The Portfolio Management Strategy will be reviewed annually in the MTFS.

6. In May 2014, the Cabinet established the principle of the management of the portfolio being overseen by an Advisory Board of Cabinet members; this is

now the IILP Board. The Board will consider the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director of Corporate Resources may then approve under delegated powers or refer to the Cabinet for a decision.

7. 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.

8. The Strategic Plan 2022-26, approved by County Council on 18 May 2022 sets out five key strategic outcomes. In addition to maximising finance benefits, future 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.

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

10. In April 2026, the Cabinet adopted the Rural Estate Strategy 2026-36 facilitating the further restructuring of the estate and refocusing its principle ambitions and objectives.

Resource Implications.

11. 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.

12. 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.

13. The Chief Legal Officer and Monitoring Officer 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 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.

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. Following a review in 2022 to ensure that the Strategy fully reflected the objectives and outcomes of the Council's Strategic Plan 2022-26 and current Treasury guidance, the IILP, supported by the IILP Board, replaced the CAIF and its Board and the current IILP Strategy was adopted.

18. The Board is supported by officers from other departments, such as Growth Environment and Transport, to provide advice in respect of matters such as the increasing impact of growth on infrastructure and climate resilience in relation to the projects being managed through the Programme and 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.

19. The IILP Strategy is reviewed annually and developed to ensure that in addition to maximising financial benefits the portfolio continues to contribute to achieving the County Council's wider strategic goals.

20. 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

21. 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.

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

23. 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.

24. 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.

25. 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.

26. 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.

27. 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.

28. 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.

29. 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 generation, producing an income return of 6.7%.

30. 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.

31. 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>

32. 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.

33. 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.

34. 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.

35. 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.

Comments of the Scrutiny Commission

36. The comments of the Scrutiny Commission on the Annual Report will be reported to the Cabinet.

Equality Implications

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

Human Rights Implications

38. There are no 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, 24th October 2025 – Investing in Leicestershire Programme Annual Performance Report 2024-25
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7880

Report to the County Council, 18th February 2026 - Medium Term Financial Strategy 2026/27-2029/30 (Appendix H - IILP Strategy 2026-2030)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=7862

Appendix

Investing in Leicestershire Programme Annual Performance Report 2025-2026

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