Meeting: **Scrutiny Commission**

Date/Time: **Wednesday, 13 September 2017 at 10.30 am**

Location: **Sparkenhoe Committee Room, County Hall, Glenfield**

Contact: **Ms R Palmer (Tel: 0116 305 6098)**

Email: **rosemary.palmer@leics.gov.uk**

Membership

Mr. S. J. Galton CC (Chairman)

Mr. D. C. Bill MBE CC	Mrs. R. Page CC
Mr. S. L. Bray CC	Mr. A. E. Pearson CC
Mr. L. Breckon JP CC	Mr. T. J. Richardson CC
Dr. T. Eynon CC	Mr. D. Slater CC
Mr. D. Jennings CC	Mrs. A. Wright CC

Please note: this meeting will be filmed for live or subsequent broadcast via the Council's web site at http://www.leicestershire.gov.uk
– Notices will be on display at the meeting explaining the arrangements.

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 19 July 2017.		(Pages 5 - 10)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		

6.	Declarations of the Party Whip in accordance with Overview and Scrutiny Procedure Rule 16.		
7.	Presentation of Petitions under Standing Order 36.		
8.	2017/18 Medium Term Financial Strategy Monitoring (period 4) and Investment in Projects.	Director of Corporate Resources	(Pages 11 - 42)
9.	Medium Term Financial Strategy Update.	Director of Corporate Resources	(Pages 43 - 48)
10.	Draft Corporate Asset Investment Fund Strategy 2017/18.	Director of Corporate Resources	(Pages 49 - 86)

A copy of a report to be considered by the Cabinet at its meeting on 15 September is attached for the consideration of the Commission.

11. Dates of future meetings.

Future meetings of the Commission are scheduled to take place on the following dates:-

Wednesday 15 November at 2.00pm
Wednesday 24 January 2018 at 10.30am
Wednesday 7 March at 10.30am
Wednesday 6 June at 10.30am
Wednesday 12 September at 10.30am
Wednesday 14 November at 10.30am.

12. Any other items which the Chairman has decided to take as urgent.

QUESTIONING BY MEMBERS OF OVERVIEW AND SCRUTINY

Members serving on Overview and Scrutiny have a key role in providing constructive yet robust challenge to proposals put forward by the Cabinet and Officers. One of the most important skills is the ability to extract information by means of questions so that it can help inform comments and recommendations from Overview and Scrutiny bodies.

Members clearly cannot be expected to be experts in every topic under scrutiny and nor is there an expectation that they so be. Asking questions of 'experts' can be difficult and intimidating but often posing questions from a lay perspective would allow members to obtain a better perspective and understanding of the issue at hand.

Set out below are some key questions members may consider asking when considering reports on particular issues. The list of questions is not intended as a comprehensive list but as a general guide. Depending on the issue under consideration there may be specific questions members may wish to ask.

Key Questions:

- Why are we doing this?
- Why do we have to offer this service?
- How does this fit in with the Council's priorities?
- Which of our key partners are involved? Do they share the objectives and is the service to be joined up?
- Who is providing this service and why have we chosen this approach? What other options were considered and why were these discarded?
- Who has been consulted and what has the response been? How, if at all, have their views been taken into account in this proposal?

If it is a new service:

- Who are the main beneficiaries of the service? (could be a particular group or an area)
- What difference will providing this service make to them – What will be different and how will we know if we have succeeded?
- How much will it cost and how is it to be funded?
- What are the risks to the successful delivery of the service?

If it is a reduction in an existing service:

- Which groups are affected? Is the impact greater on any particular group and, if so, which group and what plans do you have to help mitigate the impact?
- When are the proposals to be implemented and do you have any transitional arrangements for those who will no longer receive the service?
- What savings do you expect to generate and what was expected in the budget? Are there any redundancies?
- What are the risks of not delivering as intended? If this happens, what contingency measures have you in place?

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Minutes of a meeting of the Scrutiny Commission held at County Hall, Glenfield on Wednesday, 19 July 2017.

PRESENT

Mr. S. J. Galton CC (in the Chair)

Mr. D. C. Bill MBE CC	Mrs. R. Page CC
Mr. S. L. Bray CC	Mr. T. J. Richardson CC
Mr. L. Breckon JP CC	Mrs H. L. Richardson CC
Dr. T. Eynon CC	Mrs B. Seaton CC
Mr. D. Jennings CC	Mr. D. Slater CC

14. Minutes.

The minutes of the meeting held on 17 June 2017 were taken as read, confirmed and signed.

15. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

16. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

17. Urgent Items.

There were no urgent items for consideration.

18. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Members of the Commission who were also District Councillors declared a personal interest in the 2016/17 Provisional Revenue and Capital Outturn (minute 21 refers).

19. Declarations of the Party Whip in accordance with Overview and Scrutiny Procedure Rule 16.

There were no declarations of the party whip.

20. Presentation of Petitions under Standing Order 36.

The Chief Executive reported that no petitions had been received under Standing Order 36.

21. 2016/17 Provisional Revenue and Capital Outturn

The Commission considered a report of the Director of Corporate Resources which set out the provisional revenue and capital outturn for 2016/17. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion the following points were raised:-

(i) The Government had recently announced that it was reconsidering proposals for education funding, which could affect the High Needs Block of the Dedicated Schools Grant. This funding supported pupils with Special Educational Needs and Disabilities (SEND); growth in this area was expected to increase at a greater rate than the general population. Previous funding allocations had not been favourable to Leicestershire and details of the latest proposals were not yet available. The County Council was therefore continuing to focus on reducing the average cost of placements and, where appropriate, supporting pupils with SEN to be educated in mainstream schools.

(ii) The Children and Families Departmental Management Budget overspends related to the number of interim posts. Permanent Assistant Directors had now been appointed and further restructuring was in progress.

(iii) The £10.9 million underspend in adult social care reflected the difficulties in forecasting demand accurately. It was confirmed that the cost of care had largely remained static, compared to the previous year. However, members were advised that, although there were some fluctuations, the trend remained one of increasing demand due to the ageing population.

(iv) The planning and long term financial forecasting associated with setting the Medium Term Financial Strategy had put the County Council in a strong financial position compared to other local authorities. However, public finances as a whole were in a challenging position. This was reflected in a recent article in the Financial Times which would be circulated to members.

(v) In response to a query, the Director agreed that a more commercial approach to the management of County Council assets was needed. To that end, the Cabinet would be considering an Asset Investment Fund Strategy at its meeting in September. This would set out the yield expected from assets, noting that lower risk assets would likely result in a lower yield.

(vi) Concern was expressed that the reduction in the highways maintenance budget would result in a deterioration in condition which would require significant investment in the future. The Commission was advised that £5 million of underspend had been allocated for investment in highways maintenance during the year, details of which would be circulated to members. The Department took an asset management approach to highways maintenance which aimed to balance preventative works with reactive maintenance.

(vii) The Coroner's Service has overspent due to increased pressures on the Leicester City and South Leicestershire Coroner's Service. Although this was run by the City Council it also covered the south area of the County. Costs were shared between the City and County Councils based on the broad population that the service applied to.

RESOLVED:

(a) That the provisional revenue and capital outturn for 2016/17 be noted;

(b) That the following additional information be circulated to members of the Committee:-
   (i) The cause of the overspend on the M1 Junction 22 scheme;
   (ii) The Financial Times article on the risks facing public finances;
   (iii) The reason for planning delays regarding the Coalville Workspace Project;
   (iv) Details of the highways maintenance schemes that the £5 million identified from underspends was used for.

22. Strategic Plan and Single Outcomes Framework.

The Commission considered a report of the Chief Executive which provided details of the revised Strategic Plan and sought views on the strategic outcomes that the Council had identified as its priorities for Leicestershire. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

Arising from discussion the following points were raised:-

(i) Concern was expressed that the Strategic Plan and Single Outcomes Framework was a high-level document which lacked detail. The Commission was advised that this was deliberate, as the Plan would form a mechanism for identifying priorities and ensuring that the focus was on delivering outcomes for the residents of Leicestershire, within available resources. A performance framework would be developed to enable the Council to monitor delivery of the outcomes.

(ii) The Commission supported the outcomes but suggested that they would be defined better as aspirations. This view was acknowledged, but members were assured that the Strategic Plan would create an updated framework for more detailed plans and strategies, such as the Enabling Growth Plan, to deliver the outcomes. These would be reviewed in the light of the Strategic Plan to ensure alignment with the new strategic priorities. Where this was not the case, services could be decommissioned. More detail on delivery arrangements would be included in the next report to the Scrutiny Commission.

(iii) The Commission emphasised the importance of alignment with the strategic plans of partner organisations. The engagement exercise that was currently being undertaken asked partners to confirm this; the outcomes had also been informed by existing partnership work and strategies. Although the Strategic Plan would be owned by the County Council, partnership working would be essential to its delivery.

(iv) The report submitted to the Cabinet in June included a high level list of the stakeholders that were being consulted on the Strategic Plan and Single Outcomes Framework. This included key partners, district councils and MPs. The Commission was disappointed that it had not received details of stakeholders; it was agreed that this would be included in the report to the next meeting. Some concern was also expressed that the questionnaire being sent to stakeholders contained leading questions. However, officers assured the Commission that any respondent had the opportunity to suggest changes as part of the process.

(v) In response to concerns about the timing of further consideration of the Strategic Plan and Single Outcomes Framework, it was acknowledged that there would only be a short amount of time between the Scrutiny Commission commenting on the final draft and it being considered by the Cabinet. The Commission was nonetheless assured that any comments it made would be reported to the Cabinet.

(vi) The priority of quality and affordable housing highlighted the benefits of an outcomes based approach as housing was a significant determinant for overall quality of life. There were a number of ways in which the County Council could influence this outcome, for example by accessing infrastructure funding through the Local Enterprise Partnership for roads to support housing developments. The County Council also had a role in terms of the links between social care and housing. Some concern was expressed that the County Council's influence over the type of housing that developers would build in Leicestershire was limited. However, the Council had been involved in the producing the Housing and Economic Development Needs Assessment for Leicestershire which provided details of the level of affordable homes required and would inform the preparation of statutory local plans by individual local planning authorities. Officers undertook to confirm whether this specified the future need for larger and smaller homes.

(vii) Members were assured that environmental issues were a cross cutting theme within the Strategic Plan and Single Outcomes Framework. Different environmental issues were referenced in support of each of the five outcomes. This recognised the importance of the environment in improving people's quality of life.

RESOLVED:

(a) That the Chief Executive be requested to take the comments and concerns now raised into account when finalising the Strategic Plan and Single Outcomes Framework;

(b) That a further report on the Strategic Plan and Single Outcomes Framework be submitted to the Commission in September and that the Leader of the Council be invited to attend the meeting and answer questions on that item.

23. Corporate Complaints and Compliments Annual Report 2016-17.

The Commission considered a report of the Director of Corporate Resources which presented the Corporate Complaints and Compliments Annual Report, covering the period 1 April 2016 to 31 March 2017. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Arising from discussion the following points were raised:-

(i) The report was welcomed, particularly the focus on managing expectations and learning lessons from complaints. It was suggested that it could be useful for members to advised of emerging themes of complains so that they could also help to manage the expectations of residents. Officers undertook to consider how this could be done.

(ii) Complaints were broadly defined as an expression of dissatisfaction. From a pragmatic point of view, the formal complaints process was only used where officers had already had an opportunity to respond to the issue or where it had not been possible to achieve a resolution within 24 hours. It was suggested that future reports should include details of the number of complaints resolved at the first point of contact, usually through the Customer Service Centre.

(iii) It was acknowledged that not all compliments received by the County Council were captured in the annual report. Communications with staff regarding the findings of the report were being planned; these would highlight the compliments received and remind staff of the importance of recording compliments formally.

(iv) Departmental Management Teams received quarterly complaints report. It had been noted that drainage had become the main theme of complaints to the Environment and Transport Department and as a result a programme of improvement work had been commissioned.

(v) Guidance for managers dealing with complaints recommended that, where fault was found, immediate redress should be provided in line with good practice. Managers should then identify the reason for the fault and whether changes to practice needed to be made. Managers were also advised to keep the complaints team informed of any work being undertaken in response to complaints.

(vi) The Customer Service Centre received real time updates from highways inspectors. There were still improvements needed to the process but it was generally successful in prevention complaints from escalating.

RESOLVED:

That the Corporate Complaints and Compliments Annual Report be noted.

24. <u>Date of next meeting.</u>

It was noted that the next meeting of the Commission would be held on 13 September 2017 at 10.30am.

10.30 am - 12.40 pm CHAIRMAN
19 July 2017

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Leicestershire County Council

SCRUTINY COMMISSION – 13TH SEPTEMBER 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2017/18 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 4) AND INVESTMENT IN PROJECTS

Purpose of Report

1. The purpose of this report is to provide members with an update on the 2017/18 revenue budget and capital programme monitoring position and to provide details of proposed investment in two Environment and Transport projects using funding from the central inflation contingency, to be considered by the Cabinet at its meeting on 15th September 2017.

Policy Framework and Previous Decisions

2. The 2017/18 revenue budget and the 2017/18 to 2020/21 capital programme were approved by the County Council at its budget meeting on 22 February 2017 as part of the Medium Term Financial Strategy (MTFS). The MTFS is monitored throughout the financial year.

3. The Cabinet on 23rd June 2017 approved the following revisions to the 2017/18 revenue budget:

   - MTFS contingency not required: -£4m
   - Inflation contingency – National Living Wage/ Fee Review increases in the Adults and Communities department budget not required:-£5m
   - Business rates retained income – returns by districts indicate additional ”local share” income due to the County Council: -£1.1m
   - The £10.1m funding released by the changes above was added to the Revenue Funding of Capital budget to provide additional funding needed for future capital developments to achieve revenue savings and support necessary service investment.

4. The Cabinet on 15th September 2017 is to be recommended to:

   a) Note the current year financial position as outlined in the report.

   b) Approve the areas of investment set out in paragraph 34 of this report, to be funded from the central inflation contingency.

Background

5. The latest revenue budget monitoring exercise shows a net projected underspend of £0.3m.

6. The latest capital programme monitoring exercise shows net slippage of £3.7m, mainly relating to the Asset Investment Fund programme and acceleration on the Street Lighting LED programme.

7. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure and income for the first four months of this financial year. As a result the forecasts should be regarded as initial indications.

REVENUE BUDGET

8. The results of the latest revenue budget monitoring exercise are summarised in Appendix 1 and details of major variances are provided in Appendix 2.

Children and Family Services

Dedicated Schools Grant (DSG) Budget

9. There is a forecast overspend of £1.1m on the DSG High Needs Block. This will be funded from the DSG earmarked fund. The main variance is on the Specialist Teaching Service where there is a forecast overspend of £0.6m; transformation of these services was delayed pending the recruitment of a service lead which will delay the £0.8m MTFS saving. This is partially offset by savings generated through non-recruitment to vacancies pending the restructure of these services. The project to deliver the restructure is now underway but full savings will not be realized until 2018/19.

Local Authority Budget

10. At this stage in the year an overspend of £5.2m is forecast on the local authority budget which is inclusive of additional posts in order to enable the department to deliver the Ofsted action plan where growth of £2m will be formalised within the 2018/19 MTFS. There is a separate report on this issue on the agenda for the meetings of the Cabinet and the Scrutiny Commission meetings in September.

11. Social care staffing budgets are estimated to overspend by £1.9m in total. Additional posts have been agreed in order to respond to issues highlighted by the Ofsted inspection in relation to caseloads and to respond to the post inspection action plan (full year cost £2.5m). Pending recruitment it has been necessary to engage agency staff for the additional posts and to provide capacity to cover vacant posts.

12. Initial projections show a forecast £2.2m overspend on the Social Care Placement Budget. Over the past five years the County Council has seen a significant growth in its Looked After Children (LAC) population, which has risen by 36% (from 375 in March 2012 to 510 in March 2017) and now stands at 533. Many other authorities

are experiencing similar pressures with the LGA reporting 75% of Councils overspending and a cumulative pressure of £600 million. Even with the rise the County Council's overall comparative rate remains low, however its use of residential care is high which, given the very large cost of these kinds of placement, is one of the main drivers for the increase in expenditure in this area. A Care Placement Strategy is being developed as part of the Transformation Programme with the aim of more effectively managing the main aspects of the Looked After Children's System to where possible impact upon demand and reduce costs. The main aspects of the Action Plan are detailed in Appendix 3.

13. Recruitment to Heads of Service is now complete, however the need to engage interim staff pending permanent positions being filled will result in an overspend of £0.6m within the Directorate.

14. An overspend of £0.6m is forecast on the legal services budget as the number of court proceedings has increased. Additional funding to address this budget pressure is included within the £2m referred to above and accounts fully for the overspend.

15. Information, Advice and Guidance (IAG) is forecast to underspend by £0.4m. The current contract for the provision of this service from October 2017 at a reduced cost results in early achievement of the MTFS saving planned for 2018/19.

16. A further overspend of £0.2m is projected on Unaccompanied Asylum Seeking Children (UASC) as numbers of children and young people arriving spontaneously in Leicestershire has increased over the first quarter of the financial year.

Adults and Communities

17. The Department is forecasting a net underspend of £4.9m (3.6%). The main variances are set out below.

18. The department's outturn position for 2016/17 was a £10.9m underspend, some of which will recur in 2017/18. £4m has already been adjusted for in the 2017/18 budget, as the underspend was forecast before the budget was set. A further £5m adjustment is mentioned earlier in this report and will be used to fund inflation increases on contract spend. The net effect of these adjustments is to reduce the impact on the 2017/18 budget to a c. £2m underspend.

19. The £2m underspend will be reported as a variance on Community Income, as the adjustments described above impact the expenditure budgets. The Community Income variance is £2.3m for the current year, as Continuing Health Care income continues to perform strongly, partly through more accurate/timely recording on social care systems.

20. Residential and Nursing Care is forecast to underspend by £0.7m. Expenditure in the financial year is £1.4m below budget due to additional service user income, reduction in the number of service users and lower average care package costs. However, this has been offset by backdated arrears relating to the previous years (£0.7m). The department is implementing an action plan to reduce the instance of arrears in future.

21. The in-house provision of care services is underspending (£0.6m) due to a combination of lower demand and vacancies being held in advance of the savings requirement.

22. Other staffing areas are underspending (£0.5m); some of this is temporary relating to vacancies arising following the restructure. However, some may contribute towards the posts that are currently funded from temporary BCF resources.

23. The four community care services are all underspending marginally (£1.0m / 1%), mainly due to lower than forecast growth.

24. As in previous years the profile of service users and their care needs are constantly changing which may impact on the services commissioned. Detailed work is being undertaken to monitor the impact on the budget, which can be significant with demand led expenditure totalling c£160m.

Public Health

25. The Department is forecast to achieve a net underspend of around £0.1m resulting primarily from the early achievement of MTFS savings targets.

Environment and Transport

26. The Department is forecast to have a net underspend of around £60,000 (0.1%).

Highways

27. Underspends are forecast on Street Lighting Maintenance (£0.4m), due to early realisation of savings and on Management and Training (£0.2m) and Highways Delivery staffing and administration (£0.1m), due to vacancies. These are partly offset by overspends on Winter Maintenance (£0.1m) due to changes to shifts/rota and additional salt costs, and Forestry (£0.1m) due to safety critical issues requiring attention.

Transportation

28. Overspends on Special Educational Needs Transport (£0.3m), Social Care Transport (£0.3m), Concessionary Travel (£0.1m) (all demand led services) and Public Bus Services (£0.1m) are partly offset by an underspend on Mainstream School Transport (£0.3m) (also demand led).

Environment and Waste

29. An overspend on Haulage and Waste Transfer (£0.2m) arising from a variety of reasons but including the enforced temporary closure at Whetstone due to a fire is offset by underspends on Composting Contracts (£0.1m), due to lower tonnages than forecast, and Recycling and Household Waste Sites (£0.1m), from forecast income from recyclables being more than budgeted.

Chief Executive’s

30. The Department is forecast to have an underspend of £0.5m (4.5%). Growth of £150,000 for a contribution to the running of the proposed Combined Authority will not be required due to a delay in the decision by the Government, and there are vacancies and salary savings as a result of new appointments.

Corporate Resources

31. Corporate Resources is forecasting an underspend of £0.3m (1.0%), primarily from staffing and other early savings ahead of future savings in ICT, Human Resources, Strategic Finance and the Customer Services Centre, partly offset by an overspend on the cost of buildings and reduced income for Learning and Development.

Carbon Reduction Commitment (CRC)

32. The CRC requirement for 2017/18 is forecast to be around £130,000 less than the original budget, reflecting reduced energy usage, particularly on street lighting as a result of the acceleration of the capital investment.

Contingencies and proposed investment

33. Transfers of £2.9m have been made from the updated inflation contingency, mainly relating to the 2017/18 pay award and increases in employer pension contributions. A balance of £5.4m remains in the contingency, to cover running cost and other inflation issues, including the Apprenticeship Levy.

34. It is proposed that £0.7m of the £5.4m contingency balance be released to provide funding for the following issues relating to the Environment and Transportation department:

- £0.5m to enable the Council to improve its response times in repairing reported pot holes
- £0.2m to enable the Council to manage school parking issues better (zig zag enforcement)

Central Items

35. Additional expenditure of £0.8m is forecast on the Revenue Funding of Capital heading, relating to the transfer of Pooled Property Fund investment income to a separate earmarked fund, to provide funding for future capital developments.

36. An underspend of £50,000 is forecast on the Central Expenditure heading, relating to the Members Expenses and Support budget, due to a Political Assistant post which is vacant and is not going to be recruited to.

Business Rates

37. Section 31 grants are received regarding compensation for the loss of business rate income arising from various business rates reliefs granted by the Chancellor of the Exchequer. The 2017/18 MTFS included a forecast of £1.5m, however information subsequently received from the Government indicates a total of £1.8m will be due.

38. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the 2017/18 Leicester and Leicestershire Business Rates Pool. The latest forecasts show a potential surplus of around £6.1m in 2017/18 compared with a forecast of around £5.9m in January 2017.

39. The Pooling Agreement allows for any surplus to be transferred to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment in the wider sub-regional area.

Revenue Summary

40. At this stage there is a projected net underspend of £0.3m. There are potential future commitments that may need to be funded from the underspend (and other funding). These are:

- Ash Dieback – works to tackle the impact which could cost in the region of £5m over the next few years.
- "Sleep in" shifts in Social Care - following a recent ruling that workers should be paid the national minimum/ national living wage. Third party providers will be liable, as the employing organisation. However, they may seek to recover costs from the County Council.
- Transformation – continue investment which is funded from one-off funding.
- Future capital developments – requirements currently exceed identified funding.

CAPITAL PROGRAMME

41. The capital programme for 2017/18 totals £86.5m, including slippage of £3.6m from 2016/17. At this stage net slippage of £3.7m (4.2%) is forecast.

42. The analysis in Appendix 4 shows the current status of delivery of projects analysed by three categories:

- L = Live Schemes: works have commenced or are in a position to start
- P = Preparatory Schemes: schemes identified, require regulatory or internal approval
- F = Funding Available: schemes at ideas stage

43. The main variances are reported in paragraphs 44 to 53 below and in more detail in Appendix 5.

Children and Family Services (C&FS)

44. Following a detailed review of the C&FS capital programme several projects within the School Accommodation Programme are sufficiently advanced such that the works are able to start earlier than planned. As a result it has been possible to reprogramme a total of £7.2m in projects from the 2018/19 programme to 2017/18. Temporary funding from capital reserves will be used to fund the reprogramming pending receipt of the 2018/19 DfE Basic Need grant. There is a small risk that the

DfE may make changes to the Basic Need grant but this is considered to be unlikely as the unhypothecated grant has already been announced for 2018/19 (total £16.9m).

45. The schemes reprogrammed are:
- Hinckley Richmond Primary School - £2.0m
- Barwell Area Primary Places - £2.0m
- Sketchley Hill Primary School - £1.8m
- Earl Shilton, Townlands Primary School - £0.9m
- SEND Initiatives - £0.5m

Adults and Communities

46. The latest forecast shows slippage of £0.6m compared with the updated budget. The main variances are:

- Mobile Libraries - £0.3m slippage as further mobile library vehicles are not expected to be purchased in 2017/18. A decision on whether to use the remaining funding will be taken after the report to Cabinet in September 2017 on the implementation of the Communities & Wellbeing Strategy.
- Changing Places - £0.2m slippage as no identified schemes deliverable in 2017/18. There are potential schemes planned to take place in 2018/19.

Environment and Transport – Transportation Programme

47. The latest forecast shows net acceleration of £3.8m compared with the updated budget. The main variances are:

- Zouch Bridge - £1.4m slippage as land purchase is being protracted. A Compulsory Purchase Order is expected to take place in 2017/18 with construction commencing early 2018/19.
- LED Street Lighting - £5.0m acceleration of scheme to enable early finish and therefore early realization of savings; additional installation gangs have been contracted.

48. Since the MTFS was compiled, the Department for Transport (DfT) has notified the Council that the grant funding for the Melton Mowbray Eastern Distributor Road, business case development will now be awarded as a revenue grant. As a result the original scheme allocations have been moved to the revenue budget, £0.8m in 2017/18 and £2m in 2018/19. The latest estimate for the business case is now c. £2.1m. The grant will be adjusted down once confirmed with the DfT.

49. Leicestershire County Council has been successful in obtaining funding from Highways England and Private Developers for the following schemes. These will be included in the new MTFS 2018-22:

Anstey Lane (A46 / A560), up to 2,378 homes and around 260 jobs - £5.0m Growth and Housing Fund / £2.8m private developers. This scheme will be delivered by Leicestershire County Council and the Local Enterprise Partnership in Leicester and Leicestershire.

M1 junction 23, up to 4,000 homes and 5,644 jobs - £5.0m Growth and Housing Fund / £10.0m private funding / £3.2m local growth fund (a further £8.8m of local growth funding has been secured for other improvements in the area on the A512). This scheme will be delivered by Leicestershire County Council and the Local Enterprise Partnership in Leicester and Leicestershire.

Corporate Resources

50. The latest forecast shows a net underspend of £0.1m. The main variances are:

- Loughborough, Pennine House Area Office - £0.2m underspend due to a reduction in the refurbishment works required.
- Snibston Country Park - £0.2m slippage. Delay while discussions take place with the Coal Authority to release a covenant on the site before the planning application can be submitted. The planning application is anticipated to be submitted in September.
- ICT Infrastructure Programme - £0.2m overspend. Forecast additional costs on the Unified telephony/skype and Geographical Information System replacement project, for additional functionality and implementation costs.

51. Works to renovate the former Fire Service Cottages at Anstey Frith House (£0.5m) to create additional office/meeting space, as part of the workplace strategy, will be funded from the Future Capital Development earmarked fund.

Corporate Programme

52. The latest forecast shows slippage of £6.8m compared with the updated budget. The variance relates to Coalville Workspace where the scheme is not financially viable and is being redesigned and re-costed.

53. Corporate Asset Investment Fund – Asset Acquisitions / New Investments / Rural Workspace – over the four year MTFS there is a total of £13m available for new investments (includes £5m for rural workspace projects and slippage from 2016/17). Work is underway to develop a number of schemes that may be added to the capital programme subject to approval and funding being available. The total cost of the schemes being developed is c.£48m. Once completed income of c.£3m per annum is estimated. A separate detailed report setting out the Corporate Asset Investment Fund strategy and planned projects will be submitted to the Cabinet on 15 September 2017 and is on the agenda for this meeting of the Scrutiny Commission.

Capital Future Developments

54. The MTFS 2017-21 includes funding of £16.7m for future developments. Additional funding was approved by the Cabinet on 23 June 2017; £8.5m from the 2016/17 revenue outturn, £10.1m based on initial revenue monitoring for 2017/18 and £1.1m transferred from the existing earmarked fund for Loughborough University Science Park. A further £0.8m of funding has been identified in this report relating to Pooled Property investment income for 2017/18. The overall funding for future developments totals £37.2m.

55. Several projects are being worked up, currently only one project has been approved for funding: workspace strategy, £0.5m to refurbish the former Fire Service cottages in Anstey Frith House has been allocated funding from the overall pool available.

56. As described in the report to Cabinet on the 23rd June there is a long list of projects requiring funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in community speed enforcement depending on the outcome of the pilot, a new records office and collection hub, major IT system replacements (mainly Oracle which the Council has had in place since the early 1990's) and additional investment in the corporate asset investment fund and energy efficiency programme to generate ongoing revenue savings and additional income.

57. The Draft Corporate Asset Investment Fund Strategy Report on this agenda seeks support from the Cabinet to utilise £34.86m of the future developments funding to support asset investments across the four years of the MTFS. Therefore further options will need to be considered to increase available funding for other projects. These will be considered as part of the new MTFS for 2018-22. They will include reviewing existing earmarked funds, potential further MTFS contributions, additional capital receipts and, if necessary and the investment is worthwhile, prudential borrowing funded from external loans or internal borrowing.

Capital Receipts

58. The latest forecast of general capital receipts in 2017/18 is £12.4m compared with the budget of £8.9m. The increase to budget at year end will be carried forward to fund future capital programmes as part of the MTFS.

Recommendation

59. The Scrutiny Commission is asked to note the contents of this report.

Background Papers

Report to County Council -22 February 2017 – Medium Term Financial Strategy 2017/18 to 2020/21
http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf

Report to Cabinet – 15 September 2017 – 2017/18 Medium Term Financial Strategy Monitoring (Period 4) and Investment Proposals

Report to Cabinet – 23 June 2017 – Provisional Revenue and Capital Outcome 2016/17
http://politics.leics.gov.uk/documents/s129536/FINAL%20201617%20Provisional%20Revenue%20and%20Capital%20Outturn.pdf

Circulation under the Local Issues Alert Procedure

None.

Appendices

Appendix 1 – Revenue Budget Monitoring Statement
Appendix 2 – Revenue Budget – Forecast Main Variances
Appendix 3 - Looked After Children Action Plan
Appendix 4 - Capital Programme Monitoring Statement
Appendix 5 - Capital Programme – Forecast Main Variances and Changes in Funding

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Equality and Human Rights Implications

There are no direct implications arising from this report.

APPENDIX 1

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2017 TO JULY 2017

	Updated Budget	Projected Outturn	Difference from Updated Budget		
	£000	£000	£000	%	
Schools Budget					
Delegated	98,737	98,737	0	0.0	
Centrally Managed	96,377	97,477	1,100	1.1	
Dedicated Schools Grant (DSG)	-195,114	-195,114	0	0.0	
Balance to/from DSG Earmarked Fund	0	-1,100	-1,100	n/a	
	0	0	0	n/a	
LA Budget					
Children & Family Services (Other)	61,579	66,809	5,230	8.5	RED
Adults & Communities	135,812	130,922	-4,890	-3.6	GREEN
Public Health *	160	50	-110	n/a	GREEN
Environment & Transport	66,686	66,626	-60	-0.1	GREEN
Chief Executives	10,099	9,649	-450	-4.5	GREEN
Corporate Resources	33,039	32,699	-340	-1.0	GREEN
DSG (Central Dept recharges)	-922	-922	0	0.0	GREEN
Carbon Reduction Commitment	355	225	-130	-36.6	GREEN
Contingency for Inflation	5,377	4,677	-700	-13.0	GREEN
Total Services	312,185	310,735	-1,450	-0.5	
Central Items					
Financing of Capital	22,800	22,800	0	0.0	GREEN
Revenue Funding of Capital	26,950	27,750	800	3.0	RED
Central expenditure	3,421	3,371	-50	-1.5	GREEN
Central grants and other income	-13,956	-13,956	0	0.0	GREEN
Total Central Items	39,215	39,965	750	1.9	
Pot holes and school parking issues	0	700	700	n/a	n/a
Contribution from Earmarked Funds	-1,000	-1,000	0	0.0	GREEN
Total Spending	350,400	350,400	0	0.0	
Funding					
Revenue Support Grant	-19,548	-19,548	0	0.0	GREEN
Business Rates - Top Up	-37,566	-37,566	0	0.0	GREEN
Business Rates Baseline / retained	-21,783	-21,793	-10	0.0	GREEN
S31 Grants - Business Rates	-1,470	-1,770	-300	20.4	GREEN
Council Tax Collection Funds - net surplus	-5,596	-5,596	0	0.0	GREEN
Council Tax	-263,087	-263,087	0	0.0	GREEN
Total Funding	-349,050	-349,360	-310	0.1	
Net Total	1,350	1,040	-310		

* Public Health funded by Grant (£25.5m)

Underspending / on budget	GREEN
Overspending of 2% or less	AMBER
Overspending of more than 2%	RED

APPENDIX 2

Revenue Budget 2017/18 – forecast main variances

Children and Family Services

Dedicated Schools Grant

A net overspend of £1.1m is forecast, which will be funded from the DSG earmarked fund. The main variances are:

	£000	% of Budget
High Needs		
Specialist Services to Vulnerable Groups	**650**	**19%**
The 2017/18 MTFS included savings of £790k on Specialist Teaching Services; whilst it is not expected that this saving will be fully achieved in 2017/18 a small part of this saving may be acheived by the non recruitment to vacancies. The Transformation project has seen some delay pending the recruitment of a project lead; a lead is now in post and planning is underway, and the project is included as a workstream within the High Needs Block Inclusion project. Recent years have seen more pupils with Autism Spectrum Disorder being supported by alternative providers arranged by the Autism Outreach Intensive Support Service; these pupils have been reviewed to plan their future provision and some savings are anticipated in the period 5 monitoring return.		
Special Educational Needs (SEN)	**250**	**0.4%**
The 2017/18 MTFS included savings of £725k on SEN placements; the required saving has been met in part. A number of actions have been put in place that are showing success is reducing costs, these include the Graduated Response through the Oakfield short stay school which is preventing pupils entering into independent placements, an increase in the number of lower cost local placements, more effective transitional planning and strengthening assessment and commissioning arrangements. The final choice of place often isn’t made until the young people get their exam results in August and is not known at the time of budget setting. A full reconciliation of July leavers and September starters will be completed during September and October and forecasts amended as necessary. 5 families have gone to mediation because their children were offered alternative school places than the ones requested; if the tribunals are successful expenditure may increase. A number of young people will start in Further Education colleges after they get their exam results and individual costs won't be known until they can be assessed in college. Accurate costs will be known in October.		
Education of Children with Medical Needs	**175**	**30%**
Pupil numbers increased by 60 pupils between April and June 2017. Should pupil numbers continue to rise in line with the last 2 academic years, it is predicted that numbers and costs will exceed the current forecast.		
Other variances	**25**	**n/a**
TOTAL	**1,100**	**n/a**

Local Authority Budget

The Local authority budget is forecast to overspend by £5.2m (8.5%). The main variances are:

	£000	% of Budget
Children Placement	**2,200**	**9%**
For 2017/18 the number of looked after children is projected to increase by 10% from 494 in March 2017. The average unit cost for children's placements is projected to increase by 5% from 2016/17, but is still a reduction of 7% from the position in 2015/16. The increase in cost in 2017/18 is related to the changing mix of placement provision and a higher than originally expected arrival of children entering care that require residential provision.		
Safeguarding Unit / First Response Service	**800**	**16%**
Additional staffing costs in line with the agreed post Ofsted action plan and a requiment to engage agency staff to cover the new posts and to cover vacancies.		
Childrens Social Care Field Work Teams/Children in Care Team	**680**	**9%**
Additional staffing costs in line with the agreed post Ofsted action plan and a requiment to engage agency staff to cover the new posts and to cover vacancies.		
Children's Social Care Legal Costs	**600**	**117%**
The number of care cases that have been instructed to issue proceedings continues to rise and result in a budget pressure.		
Directorate	**570**	**68%**
Combination of delays in next phase of management restructure and additional costs as result of agreed post Ofsted action plan. Use of consultants is still expected and contributes to the overall projected overspend.		
Fostering and Adoption Service	**440**	**16%**
Increased demand on service, largely due to the increased volume of fostering assessments which requires additional capacity. Additional costs have also been reflected as a result of the agreed post Ofsted action plan.		
Asylum Seekers Budget	**180**	**56%**
Demand on this budget significantly increased last financial year and is projected to do the same this financial year, which has resulted in increased need for additional staffing to manage demand. The majority of these children arrive spontaneously and become the statutory responsibility of the local authority in which they arrive.		
Education learning and Skills - 5-19 Learning - IAG (Information, Advise and Guidance)	**-425**	**-20%**
Contract for IAG with Prospects will reduce from £1.4m p.a. to £0.7m p.a. from 1st October 2017. MTFS IAG savings contribution has been achieved earlier than expected. Originally not expected until 2018/19.		
Other variances	**185**	**n/a**
TOTAL	**5,230**	**n/a**

<u>Adults & Communities</u>

The Department is forecasting a net underspend of £4.9m (3.6%). The main variances are:

	£000	% of Budget
Safeguarding, DOLS and Court of Protection	**150**	**7%**

Overspend relates to staff costs due a continuing high volume of referrals, an increase in the need for paid person representatives as a result of a court judgement ruling a conflict of interest in a particular case relating to relevant person representatives (normally relatives) and a loss of expected DoH grant.

Community and Wellbeing Savings	**110**	**n/a**
Delay in the implementation of Smart Libraries (late 2017) and a change request for the HR action plan to be implemented at the end of the project means that the £0.1m saving within the MTFS is unlikely to be achieved but will be offset by a range of one-off income and underspends through the service (contained within Other variances (under £100k) below).		
Community Income	**-2,300**	**-13%**
£2m of the underspend relate to overperformance in 2016/17 that benefits the current financial year. The Community Income variance is £2.3m for the current year, as Continuing Health Care income continues to perform strongly, partly through more accurate/timely recording on social care systems.		
Residential Care and Nursing	**-705**	**-1%**
Reduction in number of service users (25) and lower average cost (£1.2m) ,higher income from third party service user charges (£0.2m) offset by care costs relating to previous financial years (£0.7m). There are 2,340 service users with an average care package cost of £709 per week.		
Community Life Choices (CLC) / Day Services	**-560**	**-15%**
Underspends due to decline of new referrals therefore staffing has been scaled down as appropriate, vacancies held pending action plans for co-located services due to take place in Sept and vacancies a result of the new CLC strategy implementation.		
Direct Payments (DP)	**-320**	**-1%**
The number of service users and package size is broadly in line with budget. There are 2,798 service users per week receiving an average package of £241.52.		
Community Life Choices	**-290**	**-6%**
Reduction in number of packages and cost following the implementation of new contract		
Supported Living	**-240**	**-2%**
Reduction in number of service users (£0.5m) offset by increase in care package costs (£0.3m).		
Aids, Adaptations and Assistive Technology	**-205**	**-8%**
Staffing underspend through vacancies (£137k) and reduced spend on running cost and equipment budgets (£70k).		
Home Care	**-170**	**-1%**
Variance arising from a reduction in the average hours of care required. There are forecast to be 1,379 service users per week receiving average maintenance package of 10.80 hours per week.		
Other variances (under £100k)	**-360**	**n/a**
TOTAL	**-4,890**	**n/a**

<u>Public Health</u>

A net underspend of £110,000 is forecast. The main variance is:

	£000	**% of Budget**
Public Health Advice	**-80**	**-4%**
This is a planned saving in relation to the decommissioning of a contract mid year by Chidren and Family Services as part of the Early Help and Prevention Review. This saving is contributing to the MTFS target of £1.5m savings by 2020/21.		
Other variances	**-30**	**n/a**
TOTAL	**-110**	**n/a**

Environment and Transportation

At present the Department is forecast to underspend by £60,000 (0.1%). The main variances are:

	£000	% of Budget
Highways		
Winter Maintenance	**100**	**7%**
Additional costs for changes to winter driver shifts/rotas.		
Forrestry	**70**	**20%**
Safety Critical activities which need attention		
Street Lighting Maintenance	**-370**	**-14%**
Underspend on energy costs due to acceleration of the LED programme and network cabling which is now part of the LED project.		
Management & Training Costs	**-160**	**-16%**
Underspend due to vacancies.		
Highways Delivery - Staffing & Admin	**-120**	**-9%**
Underspend due to vacancies.		
Transportation		
Special Educational Needs Transport	**300**	**4%**
Overspend due to increasing number of pupils and risk assessment process which has identified indivduals with more complex needs.		
Social Care Transport	**260**	**8%**
Overspend forecast due to cost pressures as a result of increased demand. The recent review of Social Care Transport should start to reduce levels of spend from October onwards on Adult Social Care transport costs.		
Public Bus Services	**75**	**3%**
£40k of overspend relates to cost of providing a bus service replacement (for service 8) due to commercial deregistration by bus company.		
Concessionary Travel & Joint Arrangements	**55**	**1%**
Concessionary travel reimbursements to date suggest potential additional costs of £55k for 2017/18. The downward trend of reimbursement costs may have been overestimated when budgets were set for 2017/18. It is however early in the financial year and concessionary travel reimbursements can be affected by bus company fare rises, service reductions, unusual weather patterns and other factors.		
Mainstream School Transport	**-255**	**-5%**
Underspend forecast based on previous year spending patterns. Spending on Mainstream School Transport has reduced in recent years as a result of lower demand due to policy changes. Contract efficiencies have also contributed towards savings. This trend is expected to continue in 2017/18.		
Environment & Waste		
Haulage and Waste Transfer	**195**	**13%**
Haulage cost forecasts have increased for 2017/18 due to the temporary closure of Whetstone RHWS (due to fire), closure of the Mechanical Biological Treatment (MBT) plant and increased forecast haulage to Stoke Energy for Waste (EfW) plant and Hinckley and Bosworth BC direct deliveries to Coventry, due to the MBT closure.		
Composting Contracts	**-90**	**-6%**
Forecasting less green waste due to warm weather (drier and therefore lower growth).		
Recycling & Household Waste Sites	**-85**	**-3%**

Forecast underspend relates to an anticipated increase in income from the sale of recyclable materials.

Departmental & Business Management		
Departmental costs	**60**	**16%**
Overspend mainly relates to £25k for NHT (National Highways and Transport) survey work and £30k contribution to East Midlands Councils for Strategic Transport Priorities 2017/18.		
Other variances	**-95**	**n/a**
TOTAL	**-60**	**n/a**

Chief Executives

An underspend of £450,000 (4.5%) is forecast. The main variances are:

	£000	% of Budget
Projects	**-205**	**-79%**
The government has delayed its decision on the Combined Authority and as a result none of the £150k contribution will be required this year.		
Democratic Services and Administration	**-115**	**-7%**
There has been a restructuring which has resulted in lower staffing costs and also a number of new appointments made at the bottom of the grade.		
Trading Standards	**-50**	**-3%**
Increased income for the Ports and Border Project has been received, this has been partly offset by increased agency staff costs to undertake the work.		
Other variances	**-80**	**n/a**
TOTAL	**-450**	**n/a**

Corporate Resources

A net underspend of £0.3m (0.9%) is forecast. The main variances are:

	£000	% of Budget
Building Costs	**65**	**1%**
Predominantly as a result of an unbudgeted business rates charge for Snibston administration offices, the basis of which is being reviewed by Lambert Smith Hampton and may decrease if an appeal is forthcoming and successful.		
Learning & Development	**55**	**3%**
Recharge income foregone as replaced by Apprenticeship Levy credits. Expected to be absorbed by substitution of existing training if it fits the criteria.		
ICT	**-225**	**-2%**
Variances achieved through staff vacancies which have not been replaced whilst outcome of Agilysis review is awaited.		
Corporate Human Resources	**-90**	**-5%**
Underspends a result of maternity leave and vacancies in HR and Health & Safety services, alongside reduction in planned ICT expenditure.		
Strategic Finance	**-80**	**-3%**
Attrition & retirements not replaced in Finance as vacancies are held in anticipation of future year savings / impending Review. Work is being absorbed and prioritised accordingly.		
Customer Service Team	**-60**	**-3%**
Variance a result of staffing vacancies held in the Customer Service Team following departure of staff to ASC jobs.		

Other variances	**-5**	**n/a**
TOTAL	**-340**	**n/a**

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APPENDIX 3

Service Pressures Action Plan

Looked After Children (LAC)

Over the past five years the County Council has seen a significant growth in its LAC Population, which has risen 36% (from 375 in March 2012 to 510 in March 2017) and now stands at 533. Many other authorities are experiencing similar pressures with the Local Government Association (LGA) reporting 75% of Councils overspending and a cumulative pressure of £600 million. Even with the rise the County Council overall comparative rate remains low, however its use of residential care is high which, given the very large cost of these kinds of placement, is one of the main drivers for the increase in expenditure in this area. A Care Placement Strategy is being developed as part of the Transformation Programme with the aim of more effectively managing the main aspects of the Looked After Children's System to where possible impact upon demand and reduce costs. The main aspects are detailed below.

Develop specialist Edge of Care Services to reduce the necessity for care, and to support step-downs from care.

The service provides a range of early help services and works with families where there maybe a risk of children having to come into care. These services are presently being reviewed and there is a need to strengthen the links with social care services to provide a combined service, which is more targeted at the highest risk families. This will enable a more intensive engagement with families to be developed enhancing the present offer with the potential to increase the number being diverted from having children removed into care and also to be able to offer a more comprehensive support package to allow children to be returned to families where appropriate to do so.

Strict gatekeeping by Senior Managers to authorise and monitor high cost placements.

All high cost placements have to be authorised by the Director or an Assistant Director. Weekly meetings are being held chaired by the Director to monitor all residential placements in order to avoid drift and ensure children only remain in these very expensive placements as long as there is a need for them to do so.

Enhanced systems and greater challenge to Health to contribute to placements costs.

Many of the children coming into care have health needs. Where children remain local they can often access local health services, however this is not always possible or desirable. This is particularly the case of those with complex needs requiring high cost placements where Health will on occasions contribute to part of the cost of a placement. New procedures have been introduced to provide greater efficiency and are ensuring a more consistent and equitable apportionment of costs is being achieved. The potential exists to build on this to achieve a pooling of resources to provide further efficiencies.

Grow the in-house fostering service as a direct alternative to more expensive Independent Fostering Agency (IFA) placements

In-house foster placements cost on average £15k less that an equivalent IFA placement. Plans are in place to significantly grow the in-house service to reduce the need for the use of more costly IFA placements. This is now starting to have an impact with over 70 new families at various stages of recruitment. Extra staff resources are being taken on to complete the required assessments due to the increased take up and 15 new fostering families will become available in the next three months. An experienced fostering manager is now working with the service to further refine business processes and develop a comprehensive business plan to maintain and enhance the growth over the forthcoming period.

Establish specialist family based services as a direct alternative to residential care.

Specialist services have been developed by other Councils using experienced foster carers supported by a dedicated multi-disciplinary team of professionals. These services have worked with very challenging children at high risk of going into residential care or assisting children to leave residential care and have been shown to be effective. By providing a family based alternative not only is there a direct benefit for the children to be within a more normal situation with potentially better long term outcomes but also a significant cost saving. The intention is to commission this kind of service for Leicestershire to become operational in 2018/19.

Establish more 16 Plus Supported Accommodation.

As looked after young people move towards independent living it is possible to meet their needs within a semi-independent setting. This provides a degree of support but also promotes more self care in preparation for full independence. The service is keen to expand the scope of these kinds of placements which provide a cost effective solution for some young people but not all. A Framework of approved Providers has recently been established to ensure we are achieving good quality best value in the placements.

Extend the use of Adoption including for older children and those with disabilities.

The service had stopped recruiting Adoptive Parents although this has now recommenced and very positive results have been achieved with over 40 families expressing an interest or being assessed. This number exceeds Leicestershire’s requirements, providing the option to offer the surplus to other authorities at a cost sufficient to provide some financial contribution to the adoption teams overall operating costs.

There is now greater emphasis on recruiting to provide adoption as an option for those children with more challenging needs including children with disabilities who have previously not been considered appropriate for adoption. If successful this approach would allow more children to leave care providing them a better long term option and well as potentially reducing some cost pressures.

Operate more robust contracting arrangements to manage costs pressures and ensure contract compliance.

Children and Family Services commission over £40 million of services mainly as placement costs. Previously these were not centralised and overseen by various managers. A strengthened single Commissioning Team has now been established which is providing an enhanced level of scrutiny of both individual placements and service contracts ensuring best value is being achieved. The service is now fully engaged with regional frameworks used to manage costs with providers and is about to lead a regional development to establish a new framework for SEND Placements. This team is also actively engaged with reviewing the Department's commissioning strategies.

Review the commissioning strategy for residential and independent foster care including our continuing role as a provider.

At present all residential and IFA placements are spot purchased. Given the pressures in the market it is getting increasingly difficult to find placements in this way and more emphasis now needs to be placed on alternative models. This could involve approaches such as block purchase of placements, partnership with providers to develop or manage services on the Councils behalf, partnerships with neighbouring councils etc. A review of this area is about to commence led by the Director which will report in the autumn.

Children with Disabilities Team.

Since 1st March 2017 the number of residential placements supported by this team has risen from 15 to 27 an 80% increase. This has been one of the major factors in the financial pressures which have occurred over the same period within the placements budget. Most of the placements have involved adolescents with defined disabilities who have associated very challenging behaviours which families are finding increasing difficulty in managing within the home environment. The service now has a new management team and the Council is in the process of developing a discrete strategy to address the limitations of the local service offer with the aim to increase the range and intensity of the support it can offer to families as an alternative to residential. This is particularly important given most families remain committed and are often distressed by not being able to keep their children at home. Whilst this will not be a possibility for all children it is believed that there is potential to significantly extend what is offered in more cost effective ways. The new strategy, which will be available in the autumn, will be based upon similar principles to those adopted by the SEND Strategy which is starting to have a positive impact and with which there will be an overlap given some children are within both services.

Paul Meredith
25th August 2017.

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CAPITAL PROGRAMME MONITORING STATEMENT (PERIOD 4) **APPENDIX 4**

Live schemes – Works have commenced or are in a position to start.

	Original Budget £000	Outturn adjustment and Changes in Funding £000	Updated Budget £000	Forecast £000	Updated Budget v Forecast Variance £000
Children & Family Services*	18,289	6,752	25,041	25,041	0
Adults and Communities	3,351	354	3,705	3,719	14
E&T-Transportation	29,271	-1,047	28,224	33,391	5,167
E&T-Waste Management	300	20	320	320	0
Chief Executive's	100	24	124	124	0
Corporate Resources	2,485	1,401	3,886	4,039	153
Corporate Programme	12,010	2,944	14,954	14,954	0
Total	**65,806**	**10,448**	**76,254**	**81,588**	**5,334**

Preparatory schemes – schemes identified and requiring regulatory or internal approval.

	Original Budget £000	Outturn adjustment and Changes in Funding £000	Updated Budget £000	Forecast £000	Updated Budget v Forecast Variance £000
Adults and Communities	289	196	485	100	-385
E&T-Transportation	1,709	-123	1,586	231	-1,355
Corporate Resources	400	500	900	700	-200
Corporate Programme	4,090	2,999	7,089	257	-6,832
Total	**6,488**	**3,572**	**10,060**	**1,288**	**-8,772**

Funding available – for schemes at ideas stage.

	Original Budget £000	Outturn adjustment and Changes in Funding £000	Updated Budget £000	Forecast £000	Updated Budget v Forecast Variance £000
Adults and Communities	100	114	214	0	-214
Total	**100**	**114**	**214**	**0**	**-214**

Overall Summary

	Original Budget £000	Outturn adjustment and Changes in Funding £000	Updated Budget £000	Forecast £000	Updated Budget v Forecast Variance £000
Children & Family Services*	18,289	6,752	25,041	25,041	0
Adults and Communities	3,740	664	4,404	3,819	-585
E&T-Transportation	30,980	-1,170	29,810	33,622	3,812
E&T-Waste Management	300	20	320	320	0
Chief Executive's	100	24	124	124	0
Corporate Resources	2,885	1,901	4,786	4,739	-47
Corporate Programme	16,100	5,943	22,043	15,211	-6,832
Total	**72,394**	**14,134**	**86,528**	**82,876**	**-3,652**

*Excludes Schools Devolved Formula Capital

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APPENDIX 5

Capital Budget 2017/18 – forecast main variances

Children and Family Services

The forecast expenditure is in line with the updated budget.

Adults & Communities

Net slippage of £0.6m is forecast compared with the updated budget.
The main variances are:

	£000
Mobile Libraries	**-285**
A decision on whether to use the remaining funding will be taken after the report to Cabinet in September 2017 on the implementation of the C&W Strategy.	
Changing Places / Toilets	**-214**
At this stage there are no schemes identified that could be delivered in 2017/18. Slippage to next year as there are 2 potential schemes in 2018/19.	
Smart Libraries	**-100**
The procurement process for the SMART libraries contract is to begin after the September 2017 Cabinet report on the implementation of the C&W Strategy. As a result the procurement award is likely to occur in late 2017, therefore planned works in 2017/18 at this stage are unlikely and are most likely to occur in 2018/19.	
Other variances	**14**
TOTAL	**-585**

Environment and Transportation - Transport

A net acceleration of £3.8m is forecast compared with the updated budget.
The main variances are:

	£000
Zouch Bridge	**-1,355**
Slippage due to protracted Land purchase. CPO expected to take place in 2017/18 with construction commencing early in 2018/19.	
Hinckley Area Approach Scheme	**-366**
Slippage due to revised scope of works. Paper to go to cabinet in September 2017 detailing the works to be carried out.	
LED Street Lighting	**5,000**
Acceleration of scheme to enable early finish and early realisation of savings, additional installation gangs have been contracted.	

Preventative Maintenance - Surface Dressing	**200**
Extreme weather conditions have resulted in the programme being behind schedule. In order to bring the programme back on track the services of a top up contractor have been acquired. It is anticpated the all programmed jobs will now be completed this financial year.	
Welfare Unit	**200**
Detailed assessment and design has resulted in additional cost required to make the depot fit for purpose.	
Restorative Patching	**133**
Signiciant number of category 2 defects which is causing budget to overspend. Extra funding is required to meet the network condition repair category 2 defect, to prevent potholes forming and to be able to make sensible decisions about co-ordinating patching & utilising other traffic management on the network when available.	
Other variances	**0**
TOTAL	**3,812**

Environment and Transportation - Waste Management

The forecast expenditure is in line with the updated budget

Chief Executives

The forecast expenditure is in line with the updated budget

Corporate Resources

Net slippage of £0.1m is forecast compared with the updated budget.
The main variances are:

	£000
Loughborough, Pennine House Area Office	**-250**
Underspend due to the reduction in the refurbishment works required.	
Snibston Country Park Future Strategy	**-200**
Slippage while awaiting agreement with The Coal Authority to release a covenant before submitting the planning application. The negotiations have taken longer than expected. Once the application is submitted and validated it will go through the usual planning process, with the aim to be considered at NWLDC's planning committee in December for a decision.	
Corporate ICT	**204**
Unified Telephony/Skype - the scope and specification of the original business case has been been re-examined to include additional functionality for audio and video conferencing and additional resources to support the deployment and installation of hardware (£124k overspend) Geographical Information System (GIS) Replacement - original scheme scope changed to include external resources to design and build the infrastruture. (£80k overspend)	

WAN Replacement	**100**
Acceleration from 2018/19. Tender exercise is underway and expected to be completed in September 2017. Provisional profile of spend is £100k in 2017/18 and £350k in 2018/19.	
Beacon Hill Café and Education Centre	**60**
The final business case has now been completed which requires an additional £60k due to catering cabin upgrade and building regulation implications. Funded from underspends on other schemes.	
Other variances	**39**
TOTAL	**-47**

<u>Corporate Programme</u>

Net slippage of £6.8m is forecast compared with updated budget.
The main variances are:

	£000
Coalville Workspace Project	**-6,839**
The scheme is currently being redesigned as it is financially unviable and will then be re-costed and re-programmed.	
Other variances	**7**
TOTAL	**-6,832**

Capital Programme - Changes in Funding

Outturn Adjustments - 2016/17	**£000**
Children & Family Services	-3,235
Adults & Communities	314
E&T - Transportation	-870
E&T - Waste Management	20
Chief Executives	24
Corporate Resources	1,422
Corporate Programme	5,943
	3,618

2017/18 Adjustments

Children and Family Services	
Reprogramming to 2017/18 (acceleration) £7.2m: - Hinckley Richmond PS - £2.0m - Barwell Area Primary Places - £2.0m - Sketchley Hill PS - £1.8m - Earl Shilton, Townlands PS - £0.9m, and - SEND Initiatives - £0.5m	7,176
Early Years Capital Fund Grant - reduced by £170k as one scheme has now been withdrawn and the funding reclaimed	513
Section 106 - capital contributions unapplied (capital reserves)	1,314
Section 106 - various contributions to school accomodation programme.	960

School Condition Grant - adjustment for final allocation	24
Adults & Communities	
Disabled Facilities Capital Grant - adjustment for final allocation	350
Environment and Transportation - Transport	
Melton Eastern Distributor Road - removal of grant, now revenue	-800
Speed Awareness Pilot - funded from MTFS c/fwd from 2016/17	500
Corporate Resources	
Anstey Frith Cottages - funded from Future Capital Development earmarked fund.	479
Sub Total	**10,516**

Overall Total	**14,134**

SCRUTINY COMMISSION – 13TH SEPTEMBER 2017

MEDIUM TERM FINANCIAL STRATEGY UPDATE

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to explain the overall financial position faced by the County Council, the approach to updating the current Medium Term Financial Strategy (MTFS), and to advise members of a recent announcement by the Government with regard to 100% business rates retention pilots for 2018/19.

2. This report is also being submitted to the Cabinet on 15th September 2017.

Policy Framework and Previous Decisions

3. The Medium Term Financial Strategy for 2017/18 to 2020/21 was approved by the County Council in February 2017. Over the autumn and winter of 2017 it will be reviewed and updated.

4. The Cabinet will be asked to approve the draft MTFS for consultation in December 2017. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in late January 2018 and the Cabinet will then make a final recommendation to the County Council in February 2018.

Background

5. The financial position faced by the County Council is both serious and extremely challenging. This is particularly so for a low funded authority such as Leicestershire as room for further savings is limited. The updated MTFS (2018/19 to 2021/22) will set out the County Council's response to the financial position.

6. It is very unlikely that the Council, when it rolls forward the MTFS into 2021/22, will be able to identify sufficient savings to bridge the funding gap in the later years. To balance the budget without a significant impact on services will require a major efficiency initiative and a successful outcome to the fair funding campaign.

National Position in the Medium Term

7. There is little if any prospect of austerity budgets coming to an end within the medium term.

8. The chancellor confirmed in 2016 that the deficit would be reduced over a longer period and therefore austerity would be extended into the 2020s. Alongside this it is worth remembering that Local Government is one of the unprotected parts of the public sector, making it highly likely that further spending cuts will be required. Since the budget in 2016 the forecast national budget deficit for 2017/18 is expected to be £58.3bn, £19.5bn higher than anticipated.

9. As noted below, the chancellor’s budget due in November 2017 may give a clearer picture of the Government’s intentions and of Local Government’s share of further spending cuts.

10. An update on the Governments efficiency review, which was announced at Budget 2016, targeting £3.5 billion of savings in 2019/20 is expected in the autumn.

Leicestershire Position

11. The current MTFS includes savings of £43m and a gap of £23m over the four years to 2020/21. An additional year of austerity causes a financial gap of c£15-£20m. The requirement has been as high as £30m in the past, as a consequence of the levels of growth, grant reductions and increases in the National Living Wage.

12. Since the current MTFS was approved by the County Council in February 2017 there have been factors that will have a positive impact on the medium term position, but a more significant list of those with a negative impact. These are set out below;

Positive

- Additional Adult Social Care Funding of £19.8m over 2017/18 to 2019/20.
- Greater certainty over the improved Better Care Fund £16.9m over 2018/19 to 2019/20.
- Ongoing implications of previous years underspends especially in adult social Care.
- Progression of initiatives identified as Savings Under Development into deliverable schemes, albeit not at a sufficient level to close the financial gap.

Negative

- Children’s Social Care overspend and additional investment in the Ofsted action plan. This could require growth of £5m in 2018/19 and more in later years. Reports elsewhere on the agenda explain these issues in more detail.
- Ash dieback – costs could be in region of £5m, further work is being undertaken to develop an approach and to quantify the costs.
- Potential pressure to breach the pay sector pay cap. Each 1% increase in pay equates to £1.5m.
- Uncertainty on government savings intentions. There is an additional £3.5bn required from the government’s efficiency review and it is unclear how some of the new spending commitments entered into by the government will be funded.

- District council's will not review Council Tax collection. We expect some benefit from raising the issue, but not to the extent that a full review would deliver.

13. Attention will need to be given to the services funded by specific grants. These services are also exposed to grant cuts and demand increases, with shortfalls typically needing to be addressed through the LCC budget.

14. The position is clearly extremely serious. The Leicestershire position is compounded by being the lowest funded county council in the country. The County Council continues to press for the development of a fairer system of allocation for local government funding.

2018 MTFS

15. The MTFS will be refreshed over the autumn. However, the expectation is that with a further year of austerity, additional pressures and the current savings gap the outcome will be an increased financial gap of £30m to £40m to be closed by 2021/22.

16. As this will be the eighth austerity budget and savings of £177m to the end of 2017/18 have already been achieved, the identification of new savings will be very challenging. New savings are likely to require much more radical service transformation and may have to include the reduction or deletion of services.

Planning Framework

17. The next two key Government announcements will be;

    - The Budget in late November. This may give an indication of the scale of the challenge faced by local government.

    - The local government finance settlement. Although no date for this has been given it is expected to be announced in late December. However, a four year settlement was announced in 2016 for the period 2016/17 to 2019/20 and it is unlikely this will change, other than regarding funding changes for Adult Social Care incorporated in the settlement announced earlier in 2017.

18. The MTFS will be reviewed during the autumn and informed by these announcements.

19. The broad MTFS time table is:

    - September to November 2017– Refresh growth and savings including consideration by Lead Members.
    - December 2017 –receipt of the Local Government Finance Settlement
    - December 2017 – the Cabinet is requested to approve the draft MTFS for consultation.
    - January 2018 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.

- February 2018 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2018 – County Council is requested to approve the MTFS for 2018/19 to 2021/22.

Business Rates Retention Pilots 2018/19

20. On 1 September 2017 the Department for Communities and Local Government (DCLG) announced plans to extend their 100% business rates retention pilot programme to all local authorities for 2018/19. There are five current 100% pilots which have been in operation since 1 April 2017.

21. 100% pilots retain all locally-collected business rates. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 100% of growth in their business rates income, above baseline growth. The safety net threshold for the pilots will be set at 97% of the baseline funding (instead of 92.5% as now), however it is likely that the ‘no detriment’ clause included in the first wave of pilots will no longer be available.

22. Not all bids may be successful and there is likely to be a competitive process. Applications from two tier areas and those with a current pooling arrangement (as in Leicester and Leicestershire) are being encouraged.

23. To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19 and set out proposals for using any additional business rates income. Applications are required to be submitted by 27 October 2017, with a decision on the successful pilots to be announced in December.

24. Modelling will be undertaken to review options and where appropriate a bid submitted to DCLG. Given the timescales the Cabinet will be recommended to authorise the Director of Finance, following consultation with the Lead Member for Corporate Resources, to submit an application and if successful to enter a pilot for 100% business rates retention in 2018/19.

Recommendation

25. The Scrutiny Commission is recommended to:

    a) Note the significant financial challenge faced by the County Council;

    b) Note the approach outlined in the report to updating the MTFS.

    c) Note the opportunity for the County Council to submit an application to pilot 100% Business Rates Retention in 2018/19.

Equality and Human Rights Implications

26. There are no direct implications arising from this report.

Background Papers

Report to County Council -22 February 2017 – Medium Term Financial Strategy 2017/18 to 2019/20
http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf

Report to Cabinet – 15th September 2017 – Medium Term Financial Strategy Update
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4863&Ver=4

Circulation under the Local Issues Alert Procedure

None.

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CABINET – 15TH SEPTEMBER 2017

DRAFT CORPORATE ASSET INVESTMENT FUND STRATEGY 2017/18

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to seek the Cabinet's approval of the proposed Corporate Asset Investment Fund Strategy (attached as Appendix A to this report). This sets out the approach to future asset investments utilising the Council's Corporate Asset Investment Fund (CAIF), which currently totals £60.8m made up of £23.8m of rural estate, £12m of commercial estate, and £25m of pooled property investments.

2. The report also sets out investment property transactions and development proposals under negotiation which have been supported by the Corporate Asset Investment Fund Advisory Board (the Board) and seeks the Cabinet's approval of these investments and other proposed development plans.

3. The Cabinet is asked to agree some revisions to the existing delegations to officers to enable the Authority to respond in a timely way to investment opportunities.

Recommendations

4. It is recommended that:

    (a) The Corporate Asset Investment Fund Strategy as attached at Appendix A to this report be approved;

    (b) The investment acquisitions and development projects detailed in paragraphs 28 to 42 of the report be approved;

    (c) The proposed amendments to the delegations to the Director of Corporate Resources as set out in Appendix B to this report be approved;

    (d) The Cabinet receives an Annual Report on performance of the Corporate Asset Investment Fund.

Reasons for Recommendations

5. The Corporate Asset Investment Fund is increased to enhance the Authority's financial resilience and deliver other benefits, such as economic development. Given the level of investment now proposed it is necessary to have a detailed Strategy in place to govern the approach taken in respect of future investments and the development of these utilising the CAIF.

6. Property transactions are often time sensitive, so seeking the Cabinet's approval of each transaction is not always practicable. Delegating authority to the Director of Corporate Resources, following consultation with the Board, to agree any future investments utilising the CAIF will ensure that the Council can take advantage of investment opportunities as they arise.

Timetable for Decisions (including Scrutiny)

7. This report will be considered by the Scrutiny Commission at its meeting on 13th September 2017 and the Commission's comments will be reported to the Cabinet.

8. It is intended that annual performance reports would be submitted to the Cabinet and to the Scrutiny Commission.

9. The asset investments set out in this report are at different stages of progression and, subject to due diligence, will be completed as soon as possible.

Policy Framework and Previous Decisions

10. The creation of the CAIF was included in the Medium Term Financial Strategy 2014/15-2017/18 (MTFS), which was approved by the County Council in February 2014. This has been renewed and increased annually in the MTFS.

11. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.

12. The Council's Corporate Asset Management Plan 2016/17 was approved by the Cabinet in June 2016. This promotes the rationalisation of the Authority's property assets, reducing property running costs, generating new property income streams, ensuring cost effective procurement of property and property services, and creating capital receipts to support capital programme or other beneficial investment proposals.

13. The Medium Term Financial Strategy 2017-21 Capital Programme was approved by the Council on 22nd February 2017. It includes provision of £35.5m for corporate projects, £25.32m of which, spread over the four years from 2017/18 to 2020/21, was allocated to the CAIF.

Resource Implications

14. The County Council faces a very difficult financial outlook including a savings requirement of £66m of which £23m is currently unidentified. This gap is expected to grow in later years.

15. The proposed Strategy envisages growing the CAIF from its current value of £60.8m to around £200m over the next 5 to 10 years, the exact level of investment being dependent on the availability of good investments and funding. The expectation is that the returns (both revenue income and capital growth) generated by the CAIF would have a meaningful impact on the Council's funding gap with a targeted return of 7% generating circa £14m per annum.

16. More detail on resources implications is given in Part B of this report, below.

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

Circulation under the Local Issues Alert Procedure

18. None.

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PART B

Background

19. 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 also to generate revenue and capital returns to the County Council.

20. In May 2014, the Cabinet approved the establishment of the Corporate Asset Investment Fund and associated governance arrangements. The CAIF would be used to purchase commercial properties to the Council’s portfolio of property and land assets with a view to:-

    a) Ensuring that there is a more diverse range of properties available to meet the aims of economic development
    b) Increasing the size of the portfolio
    c) Improving the quality of land and property available
    d) Ensuring the sustainability of the County Farms and industrial portfolio by replacing land sold to generate capital receipts and
    e) Generating an income/surplus to support County Council services.

21. The Cabinet also established the Corporate Asset Investment Fund Advisory Board, chaired by the Cabinet Lead Member for Resources and comprising four other Cabinet members. The Board is supported by an officer group formed from strategic property, 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.

Financial Resources

Corporate Asset Investment Fund

22. The MTFS 2017-21 Capital Programme included a provision of £25.32m spread over the four years 2017/18 to 2020/21 for the CAIF. In addition, £2.97m has been carried forward from 2016/17 (approved by the Cabinet on 23rd June 2017 as part of the 2016/17 financial Outturn) giving a total of £28.3m. £15.22m of this is to cover specific projects, such as Airfield Business Park – Phase 1 and the Coalville Workspace, with the remaining £13.07m for more general asset acquisitions/investments and rural workspace projects.

Future Developments Fund

23. The MTFS 2017-21 also allocated £16.74m for wider Future Developments (i.e. broader than just asset investments). This Fund was supplemented by an additional £8.51m from 2016/17 underspends and a further £10.1m based on initial budget monitoring for 2017/18 (both approved by the Cabinet on 23rd June). A further £1.05m was previously allocated into a specific reserve to support the LUSEP. These funds together total £36.4m.

24. The proposed investment, outlined in the table at paragraph 28 below, will require funding of £47.93m. It is proposed that this is met from the remaining £13.07m within the CAIF and the £34.86m set aside for the Future Developments Fund. This would mean that there would be no need to undertake any borrowing to support the proposed investments listed above.

25. The report to Cabinet in June identified other projects requiring funding over the next 4 years. These include investment in community speed enforcement depending on the outcome of the pilot, a new records office and collection hub, major IT system replacements (mainly Oracle which the Council has had in place since the early 1990's) and additional investment in the CAIF and the energy efficiency programme to generate ongoing revenue savings and additional income.

26. If the Future Developments Fund is used entirely to support the acquisitions/ investments listed in the table below, then to support these other projects, additional opportunities will need to be taken to increase available funding. Initially, any additional income (net of management and running costs) generated from the acquisitions/investments could be recycled to fund these other projects. Depending on the timelines for when the investments come to fruition, there is the potential for this to be around £7m in total over the lifetime of the current MTFS including £0.8m per annum from pooled property investments. However, in later years this income stream (estimated to be around £3m per annum on current investments, excluding Lutterworth East) will need to be built into annual budgets to reduce the amount of further savings required to balance the MTFS.

27. Other potential options for additional funding will be considered as part of the new MTFS for 2018-22, currently being developed. This will include reviewing existing earmarked funds, potential further MTFS contributions, additional capital receipts and, if necessary and the investment is worthwhile, prudential borrowing funded from external loans or internal borrowing.

Proposed asset acquisitions/investment in 2017/18

28. New proposed assets acquisitions/construction costs/investments expected to be committed in 2017/18 are outlined in the table below and brief details are provided in the subsequent paragraphs.

Lutterworth East	£4.50m
LUSEP, Loughborough	£22.00m
Leaders Farm, Lutterworth	£6.00m
Tamworth House, Tamworth	£2.35m
Lichfield South office park, Lichfield	£10.80m
	£45.65m
Acquisition costs (stamp duty, fees etc.) – estimated at 5%	£2.28m
Total	**£47.93m**

Lutterworth East

29. The Council is in the process of acquiring 23 acres from Hallam Land Management to help to ensure deliverability of the Strategic Development Area (SDA). The price is £4.5m. This land will then be added to the Council's existing landholding of 265 acres. The County Council is promoting the SDA land through the emerging Local Plan for housing (2,750 homes), 20 hectares of industrial land, 2 schools and a retail centre. A new bridge over the M1 would also be needed in order for the development can be completed. The overall capital receipt is expected to be in the range of £25-30m. The Board has previously been provided information on the purchase.

Loughborough University Science and Enterprise Park (LUSEP)

30. The Council is negotiating with the University to be its partner to bring forward a 100,000 sq. ft. HQ office development for a software company. The University is not seeking to sell its freehold but instead would grant the Council a long lease (on terms to be agreed) on the land.

31. The proposed tenant is The Access Group. It is intended that they will take a 15-year lease at a rental of £1.6m, giving an estimated internal rate of return (IRR) of 7.5% on a project cost of £22m. The IRR is a measure of assessing the profitability of potential investments taking into account annual income and expenditure and the residual capital value of the investment at a future date.

32. Once the land deal, tenant deal and build costs have all been agreed and finalised, the Council will then then procure the new building and let it to the tenant. The Board has expressed support for this investment.

Leaders Farm, Lutterworth

33. The Council is bringing forward a phased development of the 3.51 hectare site to the south of Lutterworth. The site has outline consent for 102,000 sq. ft. of office and light industrial space.

34. A tenant has been identified for Phase 1 (0.54 hectares) which will include the build out of the infrastructure works at an estimated cost of £2.15m and the office development cost of £3.5m. The infrastructure works will be constructed at the beginning of the development and pay back will be appraised on an apportioned pro rata basis, based on phased development and the site size.

35. The apportionment of the infrastructure works included in the initial appraisal of the office space for the identified end user is 15%. The total scheme cost is £3.8m for Phase 1 including the infrastructure.

36. The rent levels are £18.00 per sq. ft. for the offices and a capitalised figure for the additional car parking which equates to an average of £21.50 per sq. ft. The rental income is £344,000 per year which equates to a yield of 8%.

37. Based on a market rental figure of £6.25 per sq. ft. for industrial workspace and £14 per sq. ft. for offices, and development costs totalling £15.35m based on the Council's financial appraisal, the project will produce an estimated IRR of 7.4% for the whole site. The Board has expressed support for this investment.

Tamworth House, Venture Park Road, Tamworth

38. The Council was successful in bidding for a standalone 15,500 sq. ft. office investment in Tamworth. It is let to one tenant (Midland IVI Limited) which occupies it as an office/IVF clinic and is on a 10-year lease paying £183,000 per annum. The estimated IRR on this investment is 7.8%. The acquisition is subject to contract. This is supported by the Board.

Lichfield South office park, Lichfield

39. The Council was successful in bidding for phase 2 of a mixed use development to the south of Lichfield. Phase 1 comprises a hotel, drive-through coffee, gym and restaurants.

40. Phase 2, which the Council is seeking to acquire, comprises 3 office buildings extending to approximately 43,000 sq. ft. with 215 car spaces on circa 1.6 hectares.

41. With the exception of the first floor of one of the offices, the scheme is fully let and produces an income of £750,000 per annum (rising to £810,000 in 2019). The estimated IRR for this investment is 7.9%.

42. Contracts are almost ready for exchange. Once finalised the Board will be consulted on the proposal.

Approvals and Delegations

43. The investments listed in the table at paragraph 28 above are at different stages of progression. Tamworth House and Lichfield South are quite well progressed in that offers have been made and due diligence is being undertaken. Subject to there being no problems identified contracts can be exchanged in the near future.

44. With respect to LUSEP and Leaders Farm, negotiations are ongoing with prospective tenants. The actual investments will only be progressed should the negotiations lead to an acceptable position for the County Council in line with the expectations laid out in the CAIF Strategy, recognising that in these cases there would also be a benefit to the local economy over and above the specific financial benefits that are used to assess the investment. Approval for the LUSEP initiative in particular needs to reflect the initial long lease purchase for the land, the construction and other associated costs, and the ability to enter into a lease with the prospective client.

45. The decision to purchase the additional land at Lutterworth East has already been supported by the Board.

46. Given the nature of these transactions, once negotiations have been concluded, it may be necessary to progress and finalise such deals quite quickly in order to secure the agreed terms and thus it might not be practical to bring a report to the Cabinet in accordance with the normal processes. It is therefore important to ensure the correct delegations are in place to enable the Director of Corporate Resources following consultation with the Board to proceed with such investments but, at the same time, ensuring there are adequate checks in place to ensure all such investments are transparent and can be properly monitored on a regular basis.

47. To this end, a number of changes are recommended to the Scheme of Delegation in order to regulate and clarify the process of approval for expenditure in relation to Asset Investments and Future Developments separate from those currently in place to support operational property transactions for schemes within the approved capital programme. These changes are outlined in the Appendix B.

Governance

48. The existing governance arrangements whereby the Board has a key advisory role in relation to capital investments will remain in place. The CAIF performance is also formally reported to the Board bi-annually.

49. An annual report will be submitted to the Scrutiny Commission and the Cabinet that will show fund performance against the agreed Strategy.

Risks

50. The Strategy seeks to minimise the risk principally by ensuring robust governance arrangements are in place and that investment decisions are only made in light of the appropriate financial/commercial and legal advice. However, property investment and development will always have an element of risk much of which is outside the control of the council as it relates to the strength of the wider economy. The County Council is not alone in pursing this approach and there has been much comment in national press on the level of borrowing incurred by some local authorities. It is worth noting that no borrowing is being proposed for the investments outlined in this report.

Conclusion

51. The Corporate Asset Investment Fund Strategy is aimed at generating a long term and relatively stable source of income to offset the funding gap in the MTFS. The Strategy is not without risk and there is a possibility that in light of significant borrowing entered into by other councils to purchase property the government may impose restrictions on local authorities in the future. The County Council has not borrowed to fund these investments. Any future decisions regarding the financing of investments will be taken in line with the County Council’s agreed Treasury Management Strategy and Annual Investment Strategy.

Equality and Human Rights Implications

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

Background Papers

Report to the Cabinet on 18th July 2016 – Corporate Asset Management Plan
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=4604&Ver=4

Medium Term Financial Strategy 2017/18 – 2020/21
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=4433&Ver=4

2016/17 Provisional Revenue and Capital Outturn
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5120&Ver=4

Appendices

Appendix A - Draft Corporate Asset Investment Fund Strategy
Appendix B - Current Delegated Powers and proposed amendments

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APPENDIX A

2017/ 2018

DRAFT Corporate Asset Investment Fund Strategy

Jonathan Bennett BSc (Hons) FRICS MCIOB

Head of Strategic Property Services

Leicestershire County Council

Table of Contents

1. Introduction

1.1 This strategy is to be followed when considering the acquisition by Leicestershire County Council (**The Council**) of an interest in property for the purposes of inclusion with the Corporate Asset Investment Fund (**The Fund**). For the purpose of this strategy, reference to "property" includes any property constructed on land or an interest in land itself.

1.2 It applies to the acquisition by **The Council** of all interests in non-operational property including freeholds, leaseholds, easements and options. However, it does not apply to acquisitions under compulsory purchase procedures.

1.3 **The Council** owns and manages investments in the form of commercial properties and County Farms Estates. These properties are held for the purposes of supporting the delivery of various economic development objectives and also prioritising revenue and capital returns to the County Council. These properties will continue to be managed under existing asset governance arrangements (i.e. through the Officer Asset Management Working Group and the Corporate Property Steering Group).

1.4 The key priority of **The Fund** is to increase the income/revenue for **The Council** in a safe and secure way.

1.5 To support this **The Council** in a coordinated manner will seek to optimise utilisation of its property portfolio and to improve the portfolio. By restructuring the portfolio it will also generate capital receipts through disposal of surplus and/or inefficient assets which can be used for reinvestment.

1.6 The ongoing implementation of this strategy is to continue both to increase the size and improve the quality of the portfolio with the result that future financial performance will make an increasing contribution to the financial resilience of **The Council** and the wider Leicestershire economy.

1.7 The commercial and farm investments have played an increasingly important and valuable role for **The Council**. Capital receipts from sales have made a significant contribution to **The Council's** capital programme.

1.8 **The Council** also invests in Pooled Property Funds which provide an annual yield to support the overall revenue position.

1.9 It is recognised that it is necessary to continue re-investing into the property portfolios to ensure they continue to perform at current high levels and to enhance **The Council's** financial resilience in the longer term as well as delivering other benefits, such as economic development and/or regeneration.

1.10 **The Fund** will be used to add to **The Council's** portfolio of property and land assets including County Farms, commercial industrial properties and the pooled investments with a view to:

1) Ensuring that there is a more diverse range of properties available to meet the aims of economic development
2) Increasing the size of the portfolio
3) Improving the quality of land and property available
4) Ensuring the sustainability of the County Farms and industrial portfolio by replacing land sold to generate capital receipts and
5) Providing a revenue income stream that can be used to support ongoing service delivery.

2. Legal context and monitoring

2.1 Section 12 of the Local Government Act 2003 (the 2003 Act) provides a general power to invest: -

2.2 "(a) for any purpose relevant to its functions under any enactment or
(b) for the purposes of the prudent management of its financial affairs"

2.3 The power in Section 12 (a) cannot be used for investing purely to create a return as this is not considered to be a purpose relevant to the Council's functions whereas the power in Section 12 (b) may be used for investing to create a return as it may be prudent when used with other measures to manage the Council's financial affairs.

2.4 The Council will continue to ensure the prudent management of its investments and for giving priority firstly to the security of the capital.

2.5 The Council will ensure that there are procedures for monitoring, assessing and mitigating the risk of loss of invested sums.

2.6 Effective management and control of risk are prime objectives of the policies and procedures. They will form part of the Risk Register for the managing department.

2.7 Section 120 of the Local Government Act 1972 (the 1972 Act) provides the power for acquisition of land by agreement (whether inside or outside the authority's area) for the purpose of:

2.7.1 Any of their functions under this or any other enactment, or
2.7.2 The benefit, improvement or development of their area

2.8 Acquisition can take place notwithstanding that the land is not immediately required for that purpose.

2.9 It should be noted that further power is conferred upon an authority by The Localism Act 2011 (the 2011 Act). Section 1 of the 2011 Act introduced a new General Power of Competence. Under the provision, a local authority has the power to do anything that individuals generally of full legal capacity may do. The Act is widely drawn and includes reference to commercial activities and does not have to be of benefit to the local authority's area.

2.10 However, the Localism Act requires that any Council's actions being done for a "commercial purpose" must be done "through a company", principally being a company within the meaning of s.1 (1) Companies Act 2006. Usually where a separate legal entity is established, there will be corporation/income tax and VAT considerations.

2.11 The approach is that The Council will rely on the 2003 Act for its power as this will not require the setting up of a company for its investment activities.

2.12 The Director of Finance will ensure that risks of loss through fraud, error, corruption or other eventualities in its dealings are mitigated as far as is practicable and ensure that there are suitable systems and procedures to these ends.

2.13 The Director and officers are alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties (in this case, this will generally mean tenants) and reporting suspicions, and will ensure that all members of staff involved in this are properly trained.

2.14 Items that will be regularly reviewed: -

1) Powers to own property investments

2) Money laundering risks

3) Property fraud risks

4) Changes to property legislation (e.g., Energy Act)

5) Appropriate third party checks before transacting

6) Due diligence in transactions

7) Keeping abreast of impact of legislative changes

2.15 Full records of the purchase process will be kept in a separate file relating to the property and these records shall include details as to the valuation relied on in making the decision to acquire, the financial appraisal together with consents, approvals and papers recording decisions taken under delegated powers. Such documents will form part of the public record.

3. Investment Strategy Decisions

3.1 **The Fund** will acquire both parcels of land for development and standalone income producing investments. The balance of investment between these two assets should form part of the regular reviews of **The Fund**.

3.2 Once liquidity (the ability to ensure (as far as is practicable) that should the Council wish to divest itself of the assets without incurring loss) has been confirmed, the following criteria will be used in the decision-making process:

1) Security of principal capital (both for land acquisition and development/construction)

2) Return on investment (Revenue and Capital separate)

3) Sensitivity analysis (returns pre and post rent reviews, voids assumption, end of life repair/disposal etc.)

4) Suitability of the tenant (including financial standing) and the use to which the asset will be put. (This will be tenant-specific in terms of acquiring an asset and a policy regarding future tenants/uses when considering a development site)

5) Condition of the building at purchase and future maintenance requirements (whole life costs)

6) Tenure of the interest being offered (freehold, leasehold, etc.)

7) Any legal issues (restrictive covenants etc.) with regard to the title of the land/property

8) Any potential liabilities (such as land contamination/asbestos)

9) Sustainability (the energy performance of the property and its use)

10) The location of the property

11) Full cost of the acquisition (land value, fees, end of life costs etc.)

12) Fit with the current portfolio

13) Exit strategy – cover things going well (bank returns) and badly (cut losses, what are the highest value alternative uses of the asset, likelihood and speed of re-letting (especially for a bespoke building))

3.3 Once an asset has been identified, it should be considered as objectively as possible to ensure that the overall aims of **The Fund** are achieved in a coordinated and measured way.

3.4 The adequacy of the estimated financial return will be judged against the certainty of the return materialising, with riskier investments expected to demonstrate the potential for higher returns.

3.5 To support the decision making process it is expected that expert external advice will be required in the following areas:

1) Legal aspects of the proposal (lease terms, historic liabilities etc.)
2) Condition surveys
3) Report on the industry and location

3.6 Any investment opportunity is to be considered with particular reference to: -

3.7 Actual Income: The income produced by the asset is the most important element of a potential acquisition. The income from an asset is governed by the lease length, rent review pattern, break options, vacancy rates and management costs.

3.8 Development potential income: The total income assumed the site is fully developed (with cash flow timescales)

3.9 Tenant: The financial standing and viability of any existing tenants' covenants is to be considered.

3.10 Location: More weighting is given to acquiring assets or land in an area that is viewed to be economically buoyant and has the ability of sustainable financial and economic growth, over the life time of the investment.

3.11 Sector: The strength of the investment or development sector should be considered in relation to its location, rather than in isolation. (E.g. a hotel in Leicester would be scored lower than a hotel in London).

3.12 Building: The age and construction of any existing buildings should be taken into account in the decision-making process. This should include how energy efficient the building/s is/are. The potential for future structural repairs, retro fits and refurbishment expenses for both **The Fund** and the occupiers should be limited as much as possible. **The Fund** should not purchase a property let on a term which exceeds the economic life expectancy of the buildings.

3.13 The portfolio also needs to be mindful of the ratio of investments within and without of the county.

3.14 **Fund size**

The Fund will have an initial investment ceiling of £200 million, at current values. **The Fund** celling to increase in line with RPI to give real terms numbers. Whilst there is no target capital growth figure there is an income producing target of £10m+ per annum within 5 years. Each investment decision on how it is funded will be defined by the Council's Treasury Management strategy.

Existing Fund Holdings and Potential Future Funding		**£m**	**£m**
Current Holdings	• Rural Estate • Commercial Estate • Pooled Investments	23.8 12.0 25.0	**60.8**
Planned Investments in 2017-2021 MTFS	• Airfield Business Park • Coalville Workspace	7.5 7.7	**15.2**
Further Investments	• Lutterworth East • LUSEP • Leaders Farm • Tamworth House • Lichfield South • Fees estimate on above	4.5 22.0 6.0 2.4 10.8 2.3	**48.0**
Other sources of funding including reviewing existing earmarked reserves, further MTFS contributions, capital receipts and borrowing			**76.0**
			200.0

4. Risk, Yield profile and Sectors in which to invest (Portfolio mix)

RISK

4.1 The strategy must consider what return is required from the capital that is invested.

4.2 **The Fund** is only being used to acquire property investments (where **the Fund** is purely buying an income stream), property development sites (where **The Fund** will be involved in finding tenants and building schemes out) or other property/land (where there is an expectation of a capital gain). This could be either directly or part of a managed fund. It is not considering, at this stage, investing in other investable assets (commodities, FTSE shares etc.). Also, it is unlikely to include operational property that is being disposed of when it is no longer required and has no development potential.

Investment Risk

4.3 The main risk with any property investment lies with the ability to maintain the income stream by ensuring that the tenant is of good covenant and financially secure.

4.4 If the tenant defaults then whilst there are procedures to recover the rent, this is not guaranteed.

4.5 There are also issues with voids (periods of time when the investment is not income producing but the asset is incurring costs such as insurance, security, business rates, repairs etc.).

4.6 The ability to attract tenants of sufficient quality/sound covenant will also be affected by the macro-economic situation and also more regional/location factors.

Development Risk

4.7 The risks associated with developing property (rather than acquiring an already-built property investment) are higher and this is reflected in the potential returns.

4.8 Build cost over runs and delays during the pre and the main construction phases will directly affect the profitability of the scheme and (as above) the risk of not having a tenant to pay the rent is higher when dealing with new builds.

4.9 This can be mitigated by not building speculatively but only with an Agreement to Lease in place with an occupier tenant. However, this may not always be the best strategy as some prospective tenants may wish to see the building in place first before entering into a contract. Each of these scenarios will be judged on a merit basis as they arise.

4.10 Officers will continue to keep the Director of Finance updated on projects to ensure that risks are monitored, eradicated or mitigated where possible.

4.11 **Financing Risk**

4.12 The returns generated by **The Fund** need to reflect the potential for the principal invested to reduce and the lost liquidity. A minimum total property return nominal return of 6.1% is suggested (3.5% green book * 2.5% average inflation). This should be reviewed at least annually for changes in the opportunity cost of the Council's resources (e.g. borrowing) and other factors such as inflation and returns available elsewhere.

4.13 Decisions relating to the financing of investment and/or development should be taken in line with the Council's Treasury Management Strategy Statement and Annual Investment Strategy.

4.14 **Reputational Risk**

4.15 It is important that the reputation of the council is protected during both times of financial restraint and otherwise in the investments that it makes.

4.16 **YIELD PROFILE**

4.17 The level of yield required will need to balance security and liquidity. The term Yield can be defined as:

4.18 *The annual return on an investment, expressed as a percentage of the capital value*.

4.19 So for example, the annual return on a property investment is currently £50,000 a year gross. If the property has been valued at £1,000,000 then the revenue yield is 5%:

$$\text{Yield} = \frac{\text{Annual Rental Income}}{\text{Capital Value}} \text{ X } 100$$

5% =(50,000/1,000,000) x 100

4.20 However, in addition there is also the potential capital yield which reflects how the market price of an asset changes over time. If for example the market price of the £1,000,000 investment had risen to £1,025,000 by the end of the first year, this would give a capital yield of 2.5% and a combined yield of 7.5%.

4.21 The yield figure will reflect the various risks involved in letting a property to a tenant. By and large, the higher the level of uncertainty (e.g. tenant with a poor credit rating) the higher the expected yield would need to be before the investment was considered.

4.22 The average/balanced target property yield for investments made in the commercial portfolio is 7% nominal. There will be costs incurred in managing The Fund and also costs associated with abortive work (consultant work/staff time unsuccessful acquisitions bids)

4.23 Individual lot sizes (£) can be considered each on their merits as long as they conform to the agreed overall portfolio mix.

4.24 Assuming that investment/development property is the only asset class of investment that is being considered, the overall return of a standalone investment will vary depending on the market sector, the nature of the property asset acquired and the characteristics of the tenant in the acquired property.

4.25 Whilst aiming for a yield of 7%, **The Fund** will seek to invest in a balanced way over several market sectors in accordance with the following profile:

Market Sector	**Commercial**					**Agric.**	**Pooled**
	Retail	**Office**	**Industrial**	**Leisure**	**Distribution**		
Expected Yield (%)	5-7%	6-9%	7-10%	6-8%	6-8%		7%
Current Holding (%and £)	0% £0	20.7% £2.5m	72.8% £8.7m	0% £0	6.5% £0.8m	£23.8m	£25.0m
% Minimum of total	5%	10%	40%	0%	5%		

portfolio							
% Maximum of total portfolio	15%	20%	65%	15%	15%		

Note: The current holdings exclude the undeveloped land at Airfield Farm Business Park.

Internal Rate of Return

4.26 Whilst yield is a useful measure for assessing the merits of an investment, yield will change over the life of an investment. To give a longer term perspective, the Internal Rate of Return (IRR) is a metric that is used to assess the strength of an investment. The IRR is the interest rate at which the net present value of all cash flows arising from an investment is equal to zero. In calculating an estimated IRR a number of assumptions need to be made in terms of projecting future expenditure and income streams including the future capital value of the investment holding. As a guide though a minimum IRR of 7% is a high level assessment for whether an investment is worthwhile.

Other Balancing Factors

4.27 Other balancing factors are to be reviewed regularly (with the following approximate targets) are:

Location	In County		Out of County	In terms of amount of fund invested.
	75%		25%	
Asset type	Development site		Standalone investment	In terms of amount of fund invested.
	75%		25%	
Tenant Risk	Low	Medium	High Risk	Look for spread of risk (higher risk for small industrial units, low risk for large office investments/developments)
	25%	50%	25%	
Lease length	Short <5 years	Medium 5-10 years	Long 10 years +	Look for spread of leases lengths (shorter for small low value assets, longer for high value investments/developments
	25%	50%	25%	
Single Asset Investment size			Maximum (%age of fund size)	Very small investments will take up too much management time

	10%	compared to their value. Investments over 10% of **The Fund** size will expose **The Fund** to too much risk

5. ACQUISITION PROCESS

5.1 **Planning and Highways**

5.2 After the identification of an asset, it will be incumbent on the team managing **The Fund** to establish whether there may be constraints on the development or use of the asset.

5.3 In some cases, it may be appropriate to seek planning permission for a form of development prior to acquiring land. **The Fund** team will consult with planning and highways colleagues (and external consultants) and other departments as appropriate to decide whether planning permission should be sought prior acquisition (conditional contract).

5.4 As part of this consultation, advice will be sought on suitable alternative uses for the site/asset Should the existing or proposed use become unviable in the future, it is useful to have an alternative use value. The relative monetary risk of the investment can be quantified using this information.

5.5 **Legal**

5.6 Contemporaneously with the planning audit, LCC legal Department will be asked to undertake title searches of the land to ensure that the title is clean and there are no abnormal issues with the land from a legal perspective.

5.7 Any proposed tenant will also be credit checked at this stage.

5.8 **Valuation**

5.9 Valuation advice will usually be provided by a professionally qualified member of **The Council's** Estates team. Where the advice required is particularly specialist or, if otherwise appropriate, valuation advice may be provided by another suitably qualified external surveyor.

5.10 **Appraisal and Funding Approval Process**

5.11 When an opportunity is first introduced, the investment is subject to a 2-stage process.

5.12 The first phase of determining whether or not the opportunity is worth proceeding with consists of a number of separate assessments: -

1) Strategic Fit
2) Risk Profile
3) Yield Profile
4) Tenancy Terms
5) Planning Overview
6) Site Inspection
7) Potential capital Growth
8) Valuation

5.13 First phase will also involve alerting finance, legal, planning, Operational Property Services and the CAIF Advisory Board.

5.14 Once the asset/site has passed the initial evaluation, a financial appraisal and business case will be prepared to establish the financial/budgetary implications of acquiring the property at the negotiated price.

5.15 An independent property advisory firm will also be consulted on the opportunity and their report made know to the CAIF Advisory Board.

5.16 The aim of the financial appraisal and business case will assess how the acquisition will perform, it will look at all the costs and any potential income, the associated risks and then assess whether the asset is a suitable acquisition from a financial perspective. This will be led by the Strategic Finance Service.

5.17 This strategy places emphasis on adopting procedures that are open, transparent and consistent. It aims to ensure maximum benefit from the effective purchase and subsequent management of **The Council's** assets. Within this framework, **The Council** and **The Fund** must act within the appropriate legal framework, act in a demonstrably fair and open manner and consider whole life costs.

5.18 **Approval to Acquire/Develop**

5.19 On reaching agreement as to the terms of acquisition, a report is to be prepared for consideration by the Corporate Asset Investment Fund Board (**The Board**). Subject to the Board's support purchases will be progressed using the Director of Finance's delegated powers. This report will consider if the acquisition is in accordance with agreed **Council** priorities and within **The Council's** approved CAIF Strategy.

5.20 All acquisitions shall have the necessary budgetary and relevant approvals before the acquisition is completed.

5.21 The construction costs for any development proposals will also require **Board** support and Director of Finance approval as **The Board** may be asked, in the case of a development site, to support the initial acquisition of a development site and it is likely that there will be subsequent requests to either install infrastructure, construct of buildings and also to approve agreements with prospective tenants. In summary, if a decision has a greater than de Minimis financial value (in the view of the Director of Finance), **The Board** will be consulted beforehand.

5.22 **Surveys and instructions**

5.23 When all appropriate surveys (which must include an Asbestos Survey where the purchase involves a building erected prior to 1999) have been satisfactorily completed or provided, **The Council's** Legal Services team will be instructed to complete the documentation associated with the acquisition.

6. Performance Monitoring/Benchmarking

6.1 CIPFA guidance states that:-

6.2 *“**Performance measurement** is a process designed to calculate the effectiveness of a portfolio’s or manager’s investment returns or borrowing costs, and the application of the resulting data for the purposes of comparison with the performance of other portfolios or managers, or with recognised industry standards or market indices.”*

6.3 It is clearly important to monitor performance to ensure that the judgements being made are the right ones.

6.4 **The Fund** is subject to regular valuations – quarterly – with a regular review of investment methods as well as the delivery models. This will also include a regular assessment of the credit worthiness etc. of **The Fund’s** tenants.

6.5 There should be an annual analysis of the portfolio mix and re-profiling of the portfolio. This includes the current estate as well as new acquisitions. There will be more regular reviews in changeable/volatile economic circumstances.

6.6 **The Fund** should continue to consider its exposure to macro and local economic downturns and monitor financial market commentaries and reviews on the likely future courses of interest rates, exchange rates and inflation and their potential impact on the property market and yields. **The Fund** should allow sufficient flexibility both to take advantage of potentially advantageous changes in market conditions and to mitigate the effects of potentially disadvantageous changes.

6.7 **The Fund** currently uses the Investment Property Databank (IPD) Benchmark as its performance yardstick.

6.8 Officers will report regularly to the Director of Finance and there will be annual updates to Cabinet and to the Scrutiny Commission.

7. Staff resources

7.1 **The Fund** is managed by the Head of Service with support from colleagues in Strategic Property Services. The Director of Finance will ensure that there are adequate resources employed to ensure **The Fund** is managed in a safe and productive manner.

8. Ongoing Fund activity

8.1 The key elements of the strategy to be pursued are as follows:-

8.2 To continue to enhance the size and underlying quality of the portfolio by :-

1) Making further strategic purchases

2) Developing new investment properties on **The Council** owned development land or newly purchased sites by the marketing of both premises to let and ground leases;

3) Redeveloping existing underperforming properties to provide premises that meet current market expectations and achieve a higher economic return;

4) Reviewing the performance of individual assets / estates on an annual basis and disposing of properties where performance cannot be improved to an acceptable level reinvesting sale proceeds into the portfolio (a recommendation from **The Board** will be required for a disposal);

5) Appointing an investment agent to coordinate the inflow of investment opportunities and to ensure we do not miss out on any off or on market opportunities. Fees ranging from 0.5% -1% of the purchase price may need to be paid to the agent. If introduced by a third (non-appointed) party agent, the fee is to be shared between them

8.3 To maintain progress in the restructuring and rebalancing of the portfolio in order to move towards achieving the optimum split between sectors.

8.4 To produce a rolling four year financial strategy aligned to the MTFS to identify future investment requirements to support an ongoing programme of investment projects and strategic acquisitions together with a disposals programme (to support both investment within the portfolio and the wider capital programme).

Appendix A

Schedule of Properties and Values

Rural Estate

ESTATE	Asset Valuation
Asfordby	£89,181
Barlestone	£12,544
Blaby	£262,828
Boundary	£80,386
Broughton Astley	£904,566
Burton on the Wolds	£96,316
Cotes de Val	£656,770
Countesthorpe	£92,980
Croft	£57,138
Dunton Bassett	£124,230
Frolesworth	£245,838
Gilmorton	£361,071
Heather	£96,073
Hinckley	£107,800
Hoby	£340,526
Husbands Bosworth	£648,489
Ibstock	£2,633,640
Kilby	£1,225,500
Kimcote	£1,263,689
Lutterworth	£57,933
Measham	£82,449
Melton Mowbray	£1,074,473
Misterton	£1,856,124
Mowsley	£333,818
Narborough	£332,484
Oakthorpe	£588,000
Osbaston	£51,674
Packington	£211,345
Peatling Parva	£255,759
Quorn	£532,134
Ravenstone	£2,195,350
Sapcote	£986,777
Somerby	£66,076
Stapleton	£329,283
Stoney Stanton	£198,802
Thorpe Satchville	£402,137
Tilton on the Hill	£117,588
Ullesthorpe	£44,723
Total	**18,544,893**

Commercial Estate

ADDRESS	Asset Valuation
Ivanhoe Industrial Estate, Ashby De La Zouch	£882,463
Atlas Court, Atlas Road, Coalville	£779,635
Unit 18 Atlas Road, Coalville	£1,086,937
Unit 1 & 2 Atlas Road, Coalville	£630,902
Coalville Business Centre, Coalville	£110,305
Oaks Industrial Estate, Coalville	**£61,247**
Springboard Centre, Coalville	£310,000
Phase 1 Stephenson Court, Coalville	£123,110
Phase 2 Stephenson Court, Coalville	£212,200
Transport Depot, Vulcan Way, Coalville	£830,345
Vulcan Court, Coalville	£1,523,468
Workspace 17, Coalville	£424,685
Phase 1 Huntingdon Court, Measham	£240,519
Phase 2 Huntingdon Court, Measham	£160,395
Riverside Court, Measham (inc. compound)	£685,867
Oaks Industrial Estate, Earl Shilton	**£30,882**
Alan Bray Close, Hinckley	£804,432
Oaks Industrial Estate, Loughborough	**£19,697**
Loughborough Technology Centre,	£2,186,153
43 Garendon Road, Shepshed	£60,005
Courtyard Workshops, Market Harborough	£604,251
Oaks Industrial Estate, Narborough	**£182,579**
Measham Repton Road	£588,000
Quorn – Poole Farm employment sites	£119,330
Coalville Telford Way	£95,000
Billesdon	£135,000
Market Harborough, Airfield farm	£3,360,000
Lutterworth South	£23,662
Total	**£16,226,069**

NB: Estates highlighted in bold are held on a long leasehold basis.

Appendix B

Approval Template

INVESTMENT APPRAISAL REPORT	
Property	Address
Date of Report	-/--/----
Description	Site description and deal
Tenure	Freehold/long leasehold etc.
Proposed Purpose of Acquisition	Reasons for asset acquisition.
Valuation Summary	Basis of valuation and amount.
Level 1 Appraisal	Portfolio Balance

Property Type

Sector	Current	Post-Acquisition	Long Term Policy Range %
Industrial			
Offices			
Rural			
Other Commercial			
Ground Leases			
Total	100%	100%	100%

Risk Profile

	Normal Risk (%)	Higher Risk(%)
Optimum	80-90	10-20
Current		
Post Acq.		

Yield

Asset Category	
	Yield
Market	
Portfolio	
Subject Property	

Location
Lot Size
Conclusion

	Progress to Level 2 appraisal
Risk Analysis Summary	Detail risks associated with the proposed acquisition.
Future Outlook	
Level 2 Appraisal (incorporating Finance Team comments)	As part of the Phase 2 appraisal a detailed business case is required. The business case takes account of the investment required to establish a letting opportunity (relatively nominal) following acquisition. The business case to shows the following outcomes:- • Initial yield - • IRR - • Capital growth potential (where applicable) Conclusion
Advisor Comments	External advisor comments: Legal comments: - Planning comments:- Highways comments:- Site/Building Surveyor reports:-
Recommendation	To proceed with suggested ceiling of offer
Appendices	Plan Marketing details

APPENDIX B

DELEGATIONS TO THE DIRECTOR OF CORPORATE RESOURCES - PROPOSED AMENDMENTS TO NOS. 8 AND 10

8. Property Management

	Existing	Proposed	Explanation
(i)	Power to agree and review as appropriate terms for the granting, taking or surrender of any lease, tenancy agreement, hiring arrangement, occupational or other licence of land owned or required by the County Council, subject to any rent of land owned by the County Council being assessed on an open market basis, unless the Director is satisfied a lesser rent or user charge will be beneficial to the local community;	Power to grant, take, surrender, agree, review, vary or otherwise deal with as appropriate any lease, tenancy agreement, hiring arrangement, occupational or other licence of land owned or required by the County Council, subject to any rent of land owned by the County Council being assessed on an open market basis, unless the Director is satisfied a lesser rent or user charge will be beneficial to the local community;	Removal of the words '*terms for*' to make it clear that leases may be approved under delegated powers.
(ii)	Power in respect of county farms to select tenants and sell milk quotas in accordance with any legislation in force for the time being;	(No change)	
(iii)	Power to agree assignments and the granting of underleases by tenants and to consent or object to improvements carried out by tenants;	(No change)	
(iv)	Power to approve plans whether as landlord or vendor for development of land;	(No change)	
(v)	Power to agree to the granting, taking or surrender of any easements over land;	Power to grant, take, surrender, agree, review, vary or otherwise deal with as necessary any easements, charges or other interest over land.	To clarify powers in respect of the proper management of land.
(vi)	Power, subject to consultation with the Director of Law and Governance, to serve Notices to Quit or to terminate for any purpose.	(No change)	

10. Sales and Acquisitions

	Existing		Proposed	Explanation
(i)	Power to declare land surplus to requirements, to dispose of it and earmark the proceeds of sale where required for another facility;		(No change)	
(ii)	Power to dispose of land at less than the best value which might reasonably be expected, where either the undervalue is considered to be de minimis or the Director is satisfied the disposal will meet the wellbeing test in the General Disposal Consent in force for the time being, and the following criteria:		(No change)	
	(a)	A positive business case for the proposed disposal/transfer;		
	(b)	The proposed use is demonstrated through the business case to be more beneficial to the wider community and locality than alternative uses;		
	(c)	The proposed means of transfer is the most effective way to realize the benefits being sought;		
	(d)	The County Council's interest is protected by appropriate safeguards.		
(iii)	Power to authorise the change of use of property;			

(iv)	Power to purchase land for schemes within the approved capital programme or for other purposes up to a maximum of £2m per transaction, to take all necessary steps to complete the purchase of land following the making of a Compulsory Purchase Order and to acquire replacement land where required by statute (e.g. for a replacement recreation/sports facility) in order to achieve the best value disposal of an asset;	In respect of the purchase and development of Operational Properties (i.e. properties for schemes within the approved Capital Programme), power to - (a) Purchase and develop land for schemes within the approved capital programme; (b) To take all necessary steps to complete the purchase of land following the making of a Compulsory Purchase Order; (c) To acquire replacement land where required by statute (e.g. for a replacement recreation/ sports facility) in order to achieve the best value disposal of an asset.	To refer to land within the approved capital programme, and for clarity.
(v)	Power to agree accommodation work and allied or associate matters where land is acquired for statutory purposes, subject to the costs being met from the approved capital programme, or as agreed in consultation with the Chief Officer of the Department for which the land has been acquired;	(No change)	Correction to the numbering (there are two (iv)s, to (v)).
(vi)		In respect of the purchase and development of Investment Properties, power, following consultation with the Corporate Asset Investment Fund Advisory Board, to agree to purchase and develop land using funding allocated to the Corporate Asset Investment Fund (CAIF) and/or for Future Developments provided that such decisions are in line with the CAIF Strategy.	New (vi). To refer to land for investment purposes.
	Note: References to “land” in the above paragraphs include buildings, as well as existing and new rights and interests in both land and buildings.		

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