



Meeting: **Scrutiny Commission**

Date/Time: **Wednesday, 4 September 2019 at 10.30 am**

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

Contact: **Mrs R Whitelaw (Tel: 0116 305 2583)**

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

Membership

Mr. S. J. Galton CC (Chairman)

Mr. T. Barkley CC Mrs. H. J. Fryer CC
Mr. P. Bedford CC Mr. D. Harrison CC
Mr. D. C. Bill MBE CC Mrs. R. Page CC
Mr. G. A. Boulter CC Mr. A. E. Pearson CC
Dr. T. Eynon CC Mr. T. J. Richardson CC
Dr. R. K. A. Feltham CC Mr. M. B. Wyatt 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

<u>Item</u>	<u>Report by</u>
1. Minutes of the meeting held on 12 June 2019.	(Pages 5 - 12)
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. Local Industrial Strategy. Leicester and Leicestershire Enterprise Partnership

There will be a powerpoint presentation for this item.
9. Tourism Growth Strategy Chief Executive (Pages 13 - 46)
10. Leicester, Leicestershire and Rutland Resilience Preparedness. Chief Executive

There will be a powerpoint presentation for this item.
11. Corporate Asset Investment Fund Annual Performance 108/19 and Strategy 2019 to 2023. Director of Corporate Resources (Pages 47 - 94)
12. 2019/20 Medium Term Financial Strategy Monitoring (Period 4). Director of Corporate Resources (Pages 95 - 118)
13. Medium Term Financial Strategy Update. Director of Corporate Resources (Pages 119 - 130)
14. Dates of future meetings:

Future meetings of the Commission are scheduled to take place at 10.30am on the following dates:

6 November 2019
27 January 2020
11 March 2020
8 April 2020
10 June 2020
2 September 2020
4 November 2020.
15. Any other items which the Chairman has decided to take as urgent.

QUESTIONING BY MEMBERS OF OVERVIEW AND SCRUTINY

The ability to ask good, pertinent questions lies at the heart of successful and effective scrutiny. To support members with this, a range of resources, including guides to questioning, are available via the Centre for Public Scrutiny website www.cfps.org.uk.

The following questions have been agreed by Scrutiny members as a good starting point for developing questions:-

- Who was consulted and what were they consulted on? What is the process for and quality of the consultation?
- How have the voices of local people and frontline staff been heard?
- What does success look like?
- What is the history of the service and what will be different this time?
- What happens once the money is spent?
- If the service model is changing, has the previous service model been evaluated?
- What evaluation arrangements are in place – will there be an annual review?

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Minutes of a meeting of the Scrutiny Commission held at County Hall, Glenfield on Wednesday, 12 June 2019.

PRESENT

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

Mr. T. Barkley CC
Mr. P. Bedford CC
Mr. D. C. Bill MBE CC
Mr. G. A. Boulter CC
Dr. T. Eynon CC
Dr. R. K. A. Feltham CC

Mrs. H. J. Fryer CC
Mr. D. Harrison CC
Mrs. R. Page CC
Mr. A. E. Pearson CC
Mr. T. J. Richardson CC
Mr. M. B. Wyatt CC

1. Appointment of Chairman.

RESOLVED:

That it be noted that Mr. S. J. Galton CC has been appointed Chairman of the Scrutiny Commission for the period ending with the Annual Meeting of the County Council in 2020 in accordance with Article 6.05 of the Constitution.

2. Election of Vice-Chairman.

RESOLVED:

That Mrs. R. Page CC be elected Vice-Chairman of the Scrutiny Commission for the period ending with the date of the Annual Meeting of the County Council in 2020.

3. Minutes.

The minutes of the meeting held on 10 April 2019 were taken as read, confirmed and signed.

4. Question Time.

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

5. 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).

6. Urgent Items.

There were no urgent items for consideration.

7. 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.

All members of the Commission who were also members of a district council declared a personal interest in the report on the Leicester and Leicestershire Enterprise Partnership (LLEP) and Local Industrial Strategy (minute 14 refers).

Mr T J Richardson CC declared a personal interest in the report on the LLEP and Local Industrial Strategy (minute 14 refers) as he was in the process of being appointed as a LLEP Director.

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

There were no declarations of the party whip.

9. Presentation of Petitions under Standing Order 36.

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

10. Corporate Complaints and Compliments Annual Report.

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 2018 to 31 March 2019. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Arising from discussion and questions the following points were raised:-

- (i) It was acknowledged that the provision of timely responses to requests for information from the Special Educational Needs and Disabilities (SEND) Service was an issue, partly due to the number of vacancies in the service. It was expected that all posts would be appointed to by July 2019 and the service's administrative capacity would also be increased. Some delays were due to hand-offs between different teams within the service and actions had been put in place to address these. Complaints related to any aspect of the SEND service that the County Council was involved with. The Complaints Team sought to engage with Academies around complaints handling, particularly where it was not clear which organisation had responsibility, but this could be difficult. It was agreed to refer this matter to the Scrutiny Review Panel on Multi Academy Trusts.
- (ii) Some concern was expressed that there were complaints relating to the perceived helpfulness of staff at the Recycling and Household Waste Sites, although it was noted that this was also an area where the County Council received compliments. It was confirmed that customer care training had been rolled out to all sites over the past year. It was suggested that there could be greater flexibility around access to waste sites at the end of the working day and also that customer insight should be used to map site usage and plan for busy periods. These suggestions would be fed back to the Director of Environment and Transport.

- (iii) It was confirmed that the internal targets for response times were that 60% of complaints would be resolved within 10 working days and 90% within 20 working days. This information would be included in the cover report in future. The Commission was pleased to note that these targets were being met and felt that the report suggested that County Council staff were coping well with the reduction in resources over recent years.
- (iv) It was noted that four of the six cases of maladministration related to either adult or children's social care and details would be provided within the statutory reports relating to those services. Officers undertook to provide greater clarity on these other complaints processes in future reports.

RESOLVED:

That the Corporate Complaints and Compliments Annual Report be noted.

11. Annual Report on the Commercial Strategy.

The Commission considered a report of the Director of Corporate Resources which provided an update on the performance of Leicestershire Traded Services, the progress with the development of a more commercial approach across the County Council and sought views on the progress to date and future plans. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

Arising from discussion and questions the following points were raised:-

- (i) The Commission welcomed the news that the School Food Team had been awarded the gold standard by the Soil Association. This related to the sourcing of food as well as healthy eating. An NHS nutritionist worked with the team and advised on the menu. Officers undertook to share the menu with interested members.
- (ii) It was confirmed that the Marketing Team was a general team, accomplished in understanding the best way to attract different audiences. The Team had already seen successes, for example with the Countryside Show at Beacon Hill Country Park. It was expected that the profile of other assets, such as the Century Theatre, would also be raised. A review of customer data would be undertaken to inform future marketing strategies.
- (iii) The Commission was advised that Tithe Barn at Bosworth Battlefield had been modernised and the offer changed for the current year. Consideration had been given to the target audience and as a result additional events, including more joint events, had been planned. Officers were not aware of any more planned investment in the site but would raise with colleagues whether there were any plans to capitalise on the continued interest in the battlefield.
- (iv) Whilst there was general support for the achievements outlined in the report, some concern was expressed that the target for a £2 million surplus had been missed by £0.4 million. The Commission was advised that this partly related to the lack of ability to revise MTFS targets on a regular basis to take unexpected costs into account. Operating in a commercial environment was also challenging. Assurance was given that costs were rigorously monitored.

- (v) The investment in new equipment for Central Print in 2007 had been paid off by the income that the Service made, which continued to meet running costs. However, print was a very competitive market and there were no plans for the further commercialisation of this Service.
- (vi) It was suggested that it would be useful for future reports to include the running costs of each asset so members would be able to make a clearer assessment of profitability. Officer advised that work to analyse the capital and revenue costs across the Council's commercial activities had commenced; this would be a rolling piece of work. The Commission was also reminded that the County Council had made a commitment to providing some services because of their historical or wider cultural interest rather than on a purely commercial basis.
- (vii) It was confirmed that the association between Beaumanor Hall and Bletchley Park was being promoted by the Marketing Team and had been picked up recently by the media as part of the 75th Anniversary of the D-Day Landings. An event with Bletchley Park had also taken place last year.
- (viii) The Commission was pleased to note that training on commercial awareness had been provided for Senior Managers. A more commercial approach to procurement and contracts was also being introduced.

RESOLVED:

That the comments now made be submitted to the Cabinet for consideration at its meeting on 25 June.

12. 2018/19 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 2018/19. A copy of the report marked 'Agenda Item 12' is filed with these minutes.

Arising from discussion and questions the following points were raised:-

- (i) In response to a query regarding the business rates pool, it was confirmed that the arrangements had been agreed by all Leicester and Leicestershire councils. This enabled the business rates surplus to be retained locally; without an agreement in place they would have to be returned to central Government. The Leicester and Leicestershire Enterprise Partnership (LLEP) acted as a neutral third party to hold the surplus, which the local authorities could then bid for to spend on local infrastructure projects. The LLEPs role in the business rates pool was explained further in during the discussion on the LLEP and Local Industrial Strategy (minute 14 refers).
- (ii) Concern was expressed that the level of growth forecast for the south of the County would require significant investment in infrastructure, particularly schools. The Commission was advised that a new Growth Unit had recently been established to ensure a co-ordinated and planned approach to growth and to manage the associated risks. The Commission would receive a progress report in due course, as well as a report setting out the Council's long term infrastructure plan. It was recognised that this report, which would cover a 20 to 30 year period, would contain a lot of uncertainties including financial uncertainty.

- (iii) It was noted that some of the placement costs for Children in Care were very expensive. Members felt that the current situation was frustrating as the County Council was not able to challenge costs. However, the Council had recently entered into a Children's Innovation Partnership with Barnardo's, with the aim of improving the cost effectiveness of placements and services, whilst maintaining their quality. It was hoped that the partnership would enable the Council to influence the market to drive costs down and to have a greater choice of placements available locally.
- (iv) The primary aims of the Corporate Asset Investment Fund were to generate income for the County Council and support economic development. Purchasing pre-built assets, such as the Citroen Garage in Leicester, meant that income could be generated straight away. The risks involved in this type of purchase were lower, although this meant that the rate of return was also lower. The bulk of the Corporate Asset Investment Fund was for developments with longer term benefits. It was confirmed that one of these developments, Leaders Farm, was currently delayed due to issues around identifying the right tenants prior to seeking planning permission.
- (v) The additional costs related to repairing Zouch Bridge had been reported to the Cabinet. The bridge crossed a river which formed part of the county border with Nottinghamshire. A historic agreement was in place for this and a number of similar bridges, identifying which authority was responsible for maintenance in each case. Officers undertook to identify how many bridges were covered by this arrangement.

RESOLVED:

That the provisional revenue and capital outturn for 2018/19 be noted.

13. Draft Planning Obligations Policy.

The Commission considered a report of the Chief Executive which advised of progress on the review of the County Council's planning policy for developer contributions towards county-wide services and infrastructure and sought its view on the revised draft Planning Obligations Policy. A copy of the report marked 'Agenda Item 13' is filed with these minutes.

Arising from discussion and questions the following points were raised:-

- (i) Responses to the consultation had been received from developers, district councils and some town and parish councils. Viability was the main concern raised by developers. It had not been possible to fully resolve this through revisions to the draft Policy due to the tension between profit and providing appropriate infrastructure. District councils had also raised concerns about viability, including the impact on affordable housing, as well as querying the links to the Strategic Growth Plan and the new National Planning Policy Framework. It was confirmed that the majority of concerns and issues raised during the consultation process had been resolved in the revised draft of the Policy. Members suggested that it would have been useful to see a summary of the consultation responses and amendments to the Policy in the report.

- (ii) The Planning Obligations Policy would form the basis for the County Council's response to planning applications. It was expected that a period of negotiation with the developer would follow before a Section 106 package which mitigated the impact of the development was agreed. The Policy was also designed to contain sufficient detail to support the County Council's position during planning appeals.
- (iii) County Council requests for Section 106 contributions were co-ordinated by the Planning Team and usually accepted by district councils. When challenges were made, they were usually on the grounds of viability or interpretation of the regulations. Part of the work of the new Growth Unit at the County Council would be to take a more active role in negotiations for Section 106 agreements.
- (iv) Some concern was expressed that the Planning Obligations Policy could have a negative impact on the amount of affordable housing provided by developers or on the Section 106 requirements of other public sector bodies. However, the Commission was advised that officers would always seek to achieve a balance between the competing requirements. In addition, where possible discussions around the viability of a development should take place at a strategic level, for example during the development of the Local Plan.
- (v) Members felt that travel packs did not provide value for money and were often not promoted by developers. However, the Commission was advised that they formed part of Government guidance to promote sustainable travel. The funding requirement was usually quite modest and did not dilute other elements of the Section 106 request for contributions.
- (vi) The need for funding from new developments for libraries would be assessed on a case by case basis. There were times when the local facilities would already be sufficient. Both County Council owned and community libraries were covered by the Policy. Officers would consider where the money would best be spent, bearing in mind that it need to be directly related to the site of the development.
- (vii) The County Council, at its Annual Meeting, had declared a climate emergency. It was felt that more could be done to influence Local Plans to be more sustainable, including through designing homes for life. Officers undertook to raise this with colleagues.
- (viii) It was felt that, following the development of the Strategic Growth Plan, there was a positive spirit of co-operation between the local authorities in Leicestershire which should be capitalised on. Officers confirmed that the concerns raised by the district councils during the consultation process had been valid and had been addressed through dialogue and collaboration. It was hoped that this would continue.

RESOLVED:

That the comments now made be submitted to the Cabinet for consideration at its meeting on 25 June.

[The meeting adjourned at 12.55pm and reconvened at 2.00pm.]

14. Leicester and Leicestershire Enterprise Partnership and Local Industrial Strategy.

The Commission considered a report of the Chief Executive which provided an update on the governance and function of the Leicester and Leicestershire Enterprise Partnership (LLEP), including recent changes following the Government's review. A copy of the report marked 'Agenda Item 14' is filed with these minutes.

The Director of the LLEP, Mandip Rai, and Vice Chairman, Andy Reed, gave a presentation on the emerging priorities, consultation process and approval timeline for the Leicester and Leicestershire Local Industrial Strategy (LIS). A copy of the slides forming the presentation is filed with these minutes.

The Chairman also welcomed Mr N J Rushton CC, Leader of the County Council and the Council's representative on the LLEP Board, to the meeting for this item.

Arising from discussion and questions the following points were raised:-

- (i) It was confirmed that the LLEP involvement in the business rates pool was to manage the fund. Only the nine local authorities in Leicester and Leicestershire that contributed to the pool were able to bid for funds from it. This year, approximately £22 million was available but bids totalling £80 million had been received. The local authorities would therefore be asked to prioritise their bids before they were assessed by an officer group. The officer group would then make recommendations to a panel comprising the four elected members who served on the LLEP: the Leader of the County Council, City Mayor and two district council representatives.
- (ii) The operational financial position of the LLEP was healthy, with the key issue being where future growth funding would come from. The LLEP managed £250 million of public money, all of which was committed to various projects and schemes, its running costs, including staffing, were met by the £0.5 million core funding it received from the government and the £250,000 match funding provided by local authorities. The LLEP had 26 members of staff. This was a relatively high number but reflected that work was not usually outsourced. Funds to support programme management were top sliced from relevant budgets.
- (iii) Between 2014 and 2019, 30,000 jobs had been created in Leicestershire. It was not known how many of these were full time and the data was not readily available. However, it was known that less than 7,000 people were currently on out of work benefits. Although positive, this created a challenge in terms of the recruitment of local people when new jobs were created.
- (iv) The LIS had to respond to four Grand Challenges which had been set by the Government. The evidence gathered to develop the LIS demonstrated that the additional local challenges to growth were the relatively low wages and levels of productivity, low levels of graduate retention and the profile of local businesses. 97% of these were Small and Medium Enterprises, mostly employing under five people. The LIS would seek to address these challenges through attracting investment and developing skills in areas such as science and space technology, to match the profile of the enterprise zones.
- (v) The strength of partnership working on the LLEP was welcomed. LLEP directors had a positive attitude to their differences and were working collaboratively on the wider strategic issues affecting the city and county. It was noted that female representation on the Board was an issue and the LLEP had set a target for a third

of the Board to be female by next year. There were difficulties in encouraging people to put themselves forward as it was an unpaid position and required a time commitment.

- (vi) LLEP funds tended to be directed to support areas which were not growing as fast. Every project had to demonstrate that it would deliver economic benefits for Leicester and Leicestershire. The wide range of partners involved in the LLEP had given strength to the evidence base used to support decisions.
- (vii) The purpose of the LIS was to act as a framework; it would not set out details of projects to be taken forward. All partners had been involved in its development, including through roundtable discussions. Work was also underway to establish a youth panel. However, a deliberate decision had been taken not to undertake public consultation. Wider consultation with partners would take place once the Government's views on the LIS were known.

RESOLVED:

- (a) That the report and presentation on the governance and function of the LLEP and development of the LIS be noted;
- (b) That officers be requested to provide the Commission with an annual update on the work of the LLEP.

15. Overview and Scrutiny Annual Report 2018/19.

The Commission considered the draft Overview and Scrutiny Annual Report which summarised some of the key highlights of scrutiny work during 2018/19. A copy of the report marked 'Agenda Item 15' is filed with these minutes.

Members were supportive of the report and highlighted the need to consider the environmental implications of all policies put forward, in the light of the Climate Emergency declared by the County Council at its annual meeting.

RESOLVED:

That the draft Overview and Scrutiny Annual Report 2018/19 be approved for submission to the County Council on 10 July 2019.

16. Date of next meeting.

It was noted that the next meeting of the Commission would be held on 4 September at 10.30am.

10.30 am - 3.15 pm
12 June 2019

CHAIRMAN



SCRUTINY COMMISSION: 4TH SEPTEMBER 2019

TOURISM GROWTH PLAN – LEICESTER AND LEICESTERSHIRE

REPORT OF THE CHIEF EXECUTIVE

Purpose of report

1. The purpose of this report is to seek the views of the Commission on a draft of the Tourism Growth Plan for Leicester and Leicestershire as part of the formal consultation process.

Policy Framework and Previous Decisions

2. An update on the Strategic Tourism function of the Place Marketing Team was provided to the Scrutiny Commission on 10 April 2019.

Background

3. The Place Marketing Team (PMT), funded jointly by the City and County Councils, delivers place marketing, inward investment and strategic tourism services across Leicester and Leicestershire. The work of the Team is overseen by the Place Marketing Co-ordination Group alternately chaired by Tom Purnell, Assistant Chief Executive, Leicestershire County Council and Mike Dalzell, Director of Tourism, Culture and Inward Investment at the City Council. The Strategic Tourism Manager, who is responsible for the Strategic Tourism function of the PMT, is a County Council employee seconded to the team.
4. Among the key priorities agreed for the Team was to devise and deliver a plan to manage Leicester and Leicestershire better as a tourism destination and to develop a strong, clear campaign brand for the destination to attract more visitors.
5. Extensive consultation was undertaken with stakeholders in 2018 to inform this work, including the public and private sectors, visitors and non-visitors. In addition, a data capture exercise was undertaken with tourism businesses in February 2019 to record their growth ambitions and perceived barriers to growth which was then used to shape the framework for a Tourism Growth Plan.
6. The Tourism Advisory Board, a public /private sector partnership group that steers the work of the Place Marketing Team's strategic tourism function, set up a task and finish group to address the place branding challenge. A new campaign brand called "*Uncover the Story*" was proposed to package and sell the local tourism offer to visitors and build a more distinctive identity for the destination of Leicester and Leicestershire. This was endorsed by the Tourism Advisory Board in April 2019.

7. A Business Tourism Strategy and delivery model has been developed for Leicester and Leicestershire as part of the Tourism Growth Plan work, supported by consultants Leopold Marketing. The Strategy aims to realise the full economic potential of business tourism through a sustainable and collaborative approach that unlocks opportunity for tourism businesses. The area benefits from a central location, good connectivity with air, road and rail links and over 140 business tourism venues.
8. The business tourism delivery service has been developed based on a tiered private sector membership model and agreed activities including a new website, a dedicated point of contact for both suppliers and buyers, attendance at key trade shows, conference bidding and a curated community of businesses that will benefit from seminars and networking. Seed funding for this initiative was secured from the City and County Councils and LLEP business rates pool in July 2019.
9. The Tourism Growth Plan incorporates the campaign brand of “Uncover the Story” and business tourism, thereby addressing both the leisure and business tourism sectors.

Tourism Growth Plan – Leicester and Leicestershire

Purpose

10. Tourism and hospitality is an important economic sector for Leicester and Leicestershire and is recognised as having the potential to become one of the key drivers of the local economy. In 2018, nearly 35m visitors helped boost the economy by £1.88bn and supported over 23,000 jobs. The Tourism Growth Plan provides a framework for further sector growth over the next five years by setting down key priorities, activities and projects that partners and stakeholders collectively feel offer the best prospects to increase the competitiveness of Leicester and Leicestershire as a tourism destination and maximise the wealth the sector can generate.
11. The Plan will help to focus effort, reduce duplication, inform, guide and influence decisions on investment and bring individual partners together to increase their impact. By visualising the area as a single, integrated visitor destination, the sector can achieve more growth, more visitors, more economic value and more jobs. By working collaboratively with Leicester City Council and the district councils a more joined up approach to developing tourism across the sub-region can be achieved.

Framework

12. The Tourism Growth Plan proposed framework has three strategic priorities:

i. Create a strong, distinctive and visible destination

This outlines the campaign brand of *Uncover the Story*.

ii. Improve productivity

Activities focus on better packaging and promotion of existing tourism product through work with the travel trade, creation of more themed itineraries and bookable product, improved profile on key digital platforms and delivery of business tourism support.

iii. Improve competitiveness through strategic product development

Three activity strands include:

- **Backing our Winners** – Highlights those major tourism growth projects most likely to help us achieve our growth targets around jobs, visitor numbers and economic impact
- **Product development campaigns** – Themes include *King Richard III Discovery Story, Taste the Place, Fit-cation, Creative Edge*
- **Developing Local Destinations** – Leicester, National Forest and the Forest Town, Market Towns and District Visitor Hubs

The three strategic priorities will be underpinned by four enablers:

- i. People and skills
- ii. Connectivity – communication and getting around
- iii. Places to stay
- iv. A first class welcome

Tourism in the County

13. The Tourism Growth Plan will support tourism businesses in the districts through a range of activities that include:
 - a. increasing the profile of Leicestershire as a tourism destination of choice at a national and international level;
 - b. development of a business tourism service to support hotels and conference venues win more meetings, incentives, conferences and events (e.g. Imago Venues, Bruntingthorpe Events, Hothorpe Venues, Kilworth House) and to better utilise our visitor attractions for the corporate market;
 - c. creating and promoting more itineraries and bookable tourism product to encourage visitors to explore the area and stay longer in hotels and guest houses;
 - d. supporting major tourism growth projects such as Twycross Zoo TZ2030 Vision, Conkers Aerial Walkway, Great Central Railway Vision, Bosworth 1485 Legacy Trail, Everards Meadows development and Melton Rural Food Enterprise Centre;
 - e. involving tourism businesses in promotional campaigns to raise their profile such as Fit-cation, Taste the Place and the King Richard III Discovery Story;
 - f. supporting the development and promotion of individual visitor destinations and visitor hubs within the wider county area and helping them to amplify and define their distinctive offer including the National Forest and Ashby de la Zouch as a forest town, Harborough and Market Harborough, Melton Mowbray, Bosworth and Market Bosworth, Loughborough and the Charnwood Countryside and Everards Meadows;
 - g. enabling activity - supporting the wider tourism skills development agenda, improving communications with tourism businesses to make them aware of development opportunities, championing the area as a tourism destination with national tourism bodies like Visit Britain and the Midlands Engine, supporting the development of green travel plans at local attractions, pro-active support in creating more places for visitors to stay and undertaking initiatives to further improve the visitor welcome.

Consultation

14. **Tourism Businesses** - Open workshops were held with tourism businesses in May and June 2018 to invite input into the development of the plan. These were supplemented by an online stakeholder survey. In February 2019 a data capture

exercise was undertaken with tourism businesses to capture growth ambitions and barriers to growth. An on-going consultation process with tourism businesses has also been conducted through attendance at district tourism partnership meetings and the city tourism forum since April 2019. The development of the Plan has been steered throughout by the Tourism Advisory Board who meet bi-monthly.

15. **Visitors** - visitor and non-visitor research and sentiment analysis was conducted through online surveys in 2018. This activity was undertaken in partnership with East Midlands Airport and tourism market research agency Bluegrass.

Resource Implications

16. There are no direct funding implications arising from the implementation of the Tourism Growth Plan which are not provided for within existing approved budgets.

Timetable for Decisions

17. The Tourism Growth Plan will be considered by the Tourism Advisory Board on 20th September and by Leicestershire County Council Cabinet on 22nd October. The Plan will be launched as part of the Leicester Business Festival on 31st October with the support of Visit Britain.

Conclusions

18. The views of the Commission are sought on the draft Tourism Growth Plan for Leicester & Leicestershire prior to consideration by Cabinet on 22nd October.

Background papers

19. None

Circulation under the Local Issues Alert Procedure

20. None

Equality and Human Rights Implications

21. There are no equality or human rights implications arising from the recommendations in this report.

Other Relevant Impact Assessments

22. None

Appendices

Appendix A – Tourism Growth Plan – Consultation Draft

Officer to Contact

Tom Purnell
Assistant Chief Executive
Strategy and Business Intelligence
Tom.purnell@leics.gov.uk
0116 305 7019

Sally Coleman
Strategic Tourism Manager
Place Marketing Team
sally.coleman2@leicester.gov.uk
0116 454 6161

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 2. Improve productivity
 3. Strategic product development
 - Enablers
 - People & skills
 - Connectivity
 - Places to stay
 - A first class welcome

DRAFT

Appendix A: Tourism Growth Plan - Consultation Draft

1. INTRODUCTION

Hailed as the birthplace of popular tourism thanks to the entrepreneurial activities of local travel pioneer Thomas Cook, Leicester & Leicestershire still recognise the value of the visitor economy almost 180 years on. In 2018 the £1.88bn injected into the local economy by 34.93 million visitors supported 23,076 jobs. The benefits of a thriving tourism industry however are not just economic; they make our area a more attractive place to live, study and do business in. Our rich heritage, beautiful natural landscapes and world class visitor attractions help create a place that all can enjoy and feel proud of.

Tourism and hospitality is an important economic sector for Leicester & Leicestershire and is recognised as having the potential to become one of the key drivers of the local economy. This plan provides a framework for further sector growth by setting down key priorities, activities and projects that partners and stakeholders collectively feel offer the best prospects to increase the competitiveness of the destination and maximise the wealth it can generate. The plan will focus effort, reduce duplication, inform, guide and influence decisions on investment and bring independent and individual partners together to increase their impact. By visualising and developing the area as a single, integrated visitor destination, we can achieve even more: more growth, more visitors, more economic value and more jobs.

This is a five year plan for the destination and all its stakeholders; from those that fund and support it to those who provide the direct visitor experiences in our hotels, attractions, shops and restaurants.

Vision Statement:

We want to become a leading leisure and business tourism destination where visitors are compelled to come and uncover our story, increasing the value of tourism to the local economy to £2.1bn by 2025.

City Mayor

Introduction by City Mayor, Leicester City Council

Leader

Introduction by Leader of Leicestershire County Council

Appendix A: Tourism Growth Plan - Consultation Draft

2. THE VALUE OF TOURISM

The economic potential of Leicester & Leicestershire was significantly enhanced by the discovery of the remains of King Richard III in 2012 and his reinterment in Leicester Cathedral in 2015. The value of this remarkable story to the area is not just financial (it brought £54m to the local economy), it provided a spotlight that enabled both the City and the County to showcase the area's rich heritage and tourism potential. The opening of the King Richard III Visitor Centre in 2014, just two years after the initial discovery, along with the multi-award winning Bosworth Battlefield heritage centre, gave the area a focus to share its remarkable, and truly unique, story with the world. The story stimulated a host of new developments; including the popular Story of Leicester heritage programme, an on-street and digital celebration of the City's 2,000 years of heritage. Several years on, the story continues to inspire exciting new initiatives, the latest being the Bosworth 1485 Legacy Sculpture Trail.

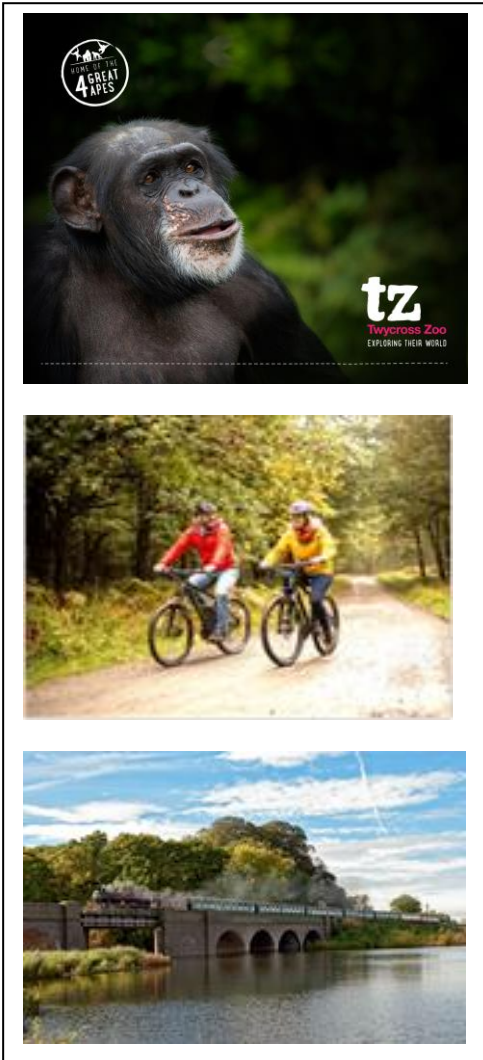
Not long after the King Richard III story catapulted Leicester & Leicestershire onto the world stage, the City's football team astounded the international sporting community in 2016 by winning the Premier League at odds of 5,000 to 1. It quickly became one of the greatest sporting stories of all time and again the area had the eyes of the world upon it. These two great stories have really helped to make our area both distinctive and memorable. The visitor economy is already showing the benefits, since 2013 there has been an increase of 26.9%¹ in value from the sector, 18.6%¹ increase in visitors and a 12.6%¹ increase in employment. With growth rates above the national average, the visitor economy has a new found confidence. Proposed new hotel developments in the city could create around 850 new bed spaces for visitors staying overnight in the area, many of our leading visitor attractions have multi-million pound growth ambitions and the City and county districts are creating tourism strategies that highlight their unique selling points to capitalise on the economic advantages that a growing tourism industry will bring.

This plan will capitalise on this success and heightened profile to take the visitor economy to the next stage, making Leicester & Leicestershire a leading visitor destination for both business and leisure purposes.

¹STEAM Final Trend Report Greater Leicestershire 2009-2018

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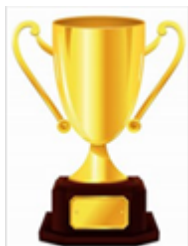
3. OUR OFFER



Map showing distribution of principal attractions in the sub-region (from the LLEP Leicester & Leicestershire Tourism and Hospitality Sector Growth Plan 2015-2020)

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OUR TROPHY CABINET



**Dandelion
Hideaway
(Osbaston)**

Winner of Visit
Britain Glamping
Provider of the
Year 2017



**Stoney Cove UK
National Dive
Centre (Stoney
Stanton)**

2018 Diver
Awards World
Dive Centre of
the Year (3rd)



**King Richard III
Visitor Centre
(Leicester)**

Visit Britain Best
Told Story Award
2018

2018 Group
Leisure & Travel
Awards - Best
Museum

School Travel
Awards 2017



**National Space
Centre
(Leicester)**

Winner of UK
Events Awards
Unique Venue of
the Year 2016

Visit Britain Best
Told Story
Award 2018



**National Forest
Timber Festival**

UK Festival
Awards Winner
Best New
Festival 2018



**Leicester
Conferences
(Oadby)**

MIA Awards –
Best Team
2018



Twycross Zoo

British & Irish
Association of Zoos
and Aquariums 2018

*Gold – Exhibit –
Chimpanzee Eden

*Silver - Animal
Husbandry, Care and
Breeding and
Education

National Institute of
Directors – Director
of the Year 2016



**Imago Venues
(Loughborough)**

M&IT 2019

Gold Award Winner –
Best Academic Venue &
Best Food & Beverage
Supplier

Bronze Award Winner
Best UK Conference
Centre

*Academic Venue
Awards 2018*

*Best Residential
Conference Venue

*Best Training Venue

*Best Accommodation

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4. WHERE WE ARE NOW? LOOKING AT THE EVIDENCE

This plan has been developed to capitalise on the opportunities, and address the local challenges, that were identified from comprehensive market intelligence.

Before starting to develop this plan, intelligence was gathered on the performance of the local visitor economy currently.

What we found out:

- ▶ **Day visitors:** The area attracted around 34.9 million visitors in 2018, of which the vast majority (89%, over 31 million) were day visitors.¹ Peak months for day visitors are November, March and February¹
- ▶ **Overnight visitors:** We welcome 3.76 million staying visitors¹ each year and domestic overnight trips to our area are increasing – from 8.6 million overnight trips in 2009 to 10.7 million in 2018.¹ Whilst overnight trips account for only 11% of visitor numbers, they account for 39% of economic impact.¹ Peak months for staying visitors are December, July and August.
- ▶ **Visiting Friends and Relations:** A high proportion of trips to the area are visits to friends and family (56%), higher than the national average
- ▶ **Business Tourism :** 17% of domestic overnight trips to our area are for business purposes, compared to the national average of 14%
- ▶ **Jobs:** The visitor economy in 2018 supported 17,612 FTE jobs through direct tourism expenditure and a further 4,821 jobs through indirect tourism revenue¹ – almost as many as the retail sector. The Office for National Statistics (ONS)² shows tourism industry employment in our area increased by 35.5% compared to a 20.2% increase in England as a whole.
- ▶ **Tourism enterprises:** The ONS business count data³ shows that the number of tourism industry enterprises in our area has increased by 18.2% between 2013 and 2018 compared to a 20.2% increase in England as a whole. In a business survey undertaken in 2018, the majority of respondents reported improved business performance compared to 5 years ago and 65% expected performance to be better over the next 5 years. 84% of businesses surveyed were planning for growth.⁴

² BRES. Nomis, 2019

³ UK Business Counts. Nomis, 2019

⁴ Leicester and Leicestershire Business Survey 2018.

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What this data tells us:

- ▶ **Tourism is a growth sector.** The value of the sector, the number of visitors and the number of tourism enterprises in our area are all growing. Local businesses are optimistic about business performance over the next 5 years.
- ▶ **The visitor economy needs to thrive** to maintain its value to the local economy of £1.88bn,¹ support a growing number of tourism enterprises and the 23,076¹ people directly or indirectly employed in the sector.
- ▶ **Leicester & Leicestershire is currently dominated by day trips** because we are within easy distance of a big population. If we are to convert day to stay we need to attract visitors from a wider geographical area, in particular those that have easy road and rail links. People travelling longer distances are more likely to stay overnight.
- ▶ **We need to increase the number and value of staying visitors.** Staying visitors have greatest impact on our local economy but account for just 11% of total visitor numbers and we have spare capacity in our serviced accommodation stock.
- ▶ **Local residents need to be tourism ambassadors for Leicester & Leicestershire.** The visiting friends and family market is important and we need to ensure that local people and students at our universities are our tourism ambassadors.
- ▶ **We have a high value business tourism sector to capitalise on.**

We then carried out extensive visitor and non-visitor research, consulted widely with local tourism businesses and undertook desk based research to find out how we can further unlock the potential of the sector.

What we found out from visitors and non-visitors:

- ▶ Awareness and understanding of what the destination has to offer tourists, and the perception of the quality of that offer, is a significant barrier to sector growth. Non-visitors are unsure of what is on offer whilst those who have visited are muted in their evaluation.
- ▶ Leicester is recognised for its vibrant cultural diversity and its connectedness (in terms of transport links)
- ▶ There was no strong sense of place for Leicestershire compared to other rural shires but there was a sense of rural beauty and tranquillity.
- ▶ Individual towns' narratives are not particularly distinctive: they come across as low-key, gentle, comfortable, familiar and small-scale.
- ▶ Food is a strong theme and Melton Mowbray has the highest food-related profile.
- ▶ Visitors said that a good quality shopping offer, centred around independents and markets, would be a particular motivator to visit

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What we found out from businesses:

- ▶ The main barriers to growth identified by tourism businesses surveyed were profile of the region as a tourism destination, increased operating costs, increased competition, economic uncertainty and access/parking. There is a feeling that the area needs to crystalize its identity and everyone needs to use it.
- ▶ Local tourism businesses were asked to select from a list what Leicester & Leicestershire could do better to attract more visitors. 'More/better marketing of the place' was selected by 73% of respondents, followed by 'better transport to and around Leicester & Leicestershire' (61%), 'better signage and visitor information' (56%) and 'events and festivals' (50%).
- ▶ Young people are not drawn to the sector for work. There needs to be more sector engagement in schools to make careers in tourism and hospitality more attractive
- ▶ Businesses are pro-development but many key attractions are at capacity.
- ▶ Day visitors dominate. Much of the visitor economy is 'local'.

What we found out from our desk research:

- ▶ The area's waterways have untapped leisure potential. Leicestershire is surrounded by 70 miles of water and eight rivers.
- ▶ In current on-line, travel brand and 'official' references to the area, including Google search and social media platforms, it emerged that there was a lack of a shared place narrative for the wider destination and there was little use of place by non-tourism organisations, or by visitor attractions themselves

What this data tells us:

- ▶ **We need to establish a clear identity for the area and promote it through a coherent campaign** that is easy to get behind and straightforward for businesses to use and adopt
- ▶ **All stakeholders understand that the whole (Leicester + Shire) can be more than the sum of the parts**
- ▶ **There are some areas of untapped potential** including the waterways, the retail offer, the food and drink offer and business tourism.
- ▶ **There are a range of infrastructure challenges** that need to be addressed to underpin the growth of the sector including skills, accessibility and the visitor welcome
- ▶ **Businesses want to see a shift from reliance on local day visitors.**

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Based on visitor and non-visitor research that was carried out, and an assessment of what we already have on offer across the city and county, research was undertaken into the opportunities provided by new audience segments that we could target, grow and develop in the longer term. We will continue to grow our existing audiences but in addition want to inspire less developed leisure visitor segments to come.

Using Visit England research and segmentation models, our existing leisure visitor base is mostly mature couples with no children at home, who enjoy holidays in the UK that offer a wealth of cultural experiences, connections to the country's history and heritage and beautiful countryside. In addition we selected audience segments where we can make inroads and establish a presence, are a good fit for what we already have on offer and are open to ideas and inspiration. Focusing on these segments will help to guide and inform our marketing and product development. We recognise that each tourism business will have its own target markets, depending on its offer, but for the wider destination these segments offer strongest future growth potential. By focusing on two younger segments we are investing for the future, securing repeat visits over the coming years.

Our research told us these Visit Britain visitor segments were our closest fit:

TARGET MARKET PEN PORTRAITS

Active Family Fun Seekers	Free & Easy Mini-Breakers
	
<ul style="list-style-type: none">▶ Families and groups of families with kids under 16▶ Multi-generational and blended families▶ Mid levels of affluence – but prepared to spend and treat themselves when they are on holiday▶ Want lots to do - whatever the weather▶ Particularly interested in visitor attractions, activities, events▶ Interested in learning too – but in stimulating, fun, interactive ways▶ "If kids are happy we are happy"▶ Eating, drinking, socialising is an important part of the experience▶ Interested in both city and rural areas▶ Will come for day and overnights trips as well as visiting friends & relatives, depending on their particular circumstances▶ Motivated by family-orientated experiences, accommodation and activities▶ Want ideas and inspiration	<ul style="list-style-type: none">▶ Typically younger – under 35s▶ Enjoy travelling – solo, couples, groups▶ Mid levels of affluence and enjoy spending on themselves▶ Want lots to do – like to cram as much in to a break as possible▶ Up for activities – like to give things a go – "You only live once"▶ Social experiences really important▶ Sense of place is significant – want to get to know the place▶ Interested in insider tips – "live like a local"▶ Want things to be easy and no hassle▶ Want experiences they can share and ideally brag about▶ Most likely to base themselves in the city – but up for travelling out for the right experience▶ Will come for overnight stays – weekend and long-weekend breaks▶ Visiting friends is an important sub-segment▶ Events are a particular motivator to "come now" – festivals, music, sporting & cultural events

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Next we undertook research into domestic and international leisure tourism trends through sources provided by Visit Britain. It is important that we future proof our tourism industry by developing in a way that will make us attractive to future visitors.

Our research told us:

- ▶ People are looking for new, attractive places which are easy to get to when they take a leisure trip. They are attracted to destinations with high quality eating and drinking, and to hotels offering accommodation deals.
- ▶ Visitors want to be seen as temporary locals seeking emotional connection to a shared experience. People are searching for authentic, often bespoke, experiences and local knowledge to make their visit memorable rather than just what they can visit
- ▶ There is a trend for staycations with the value of the pound weak
- ▶ There is continuing popularity for short breaks with more people taking more breaks more often
- ▶ Digital is everywhere and always on. It has transformed how visitors search, plan and book trips and how visitors communicate and find information during their stay. Sharing content (images and video especially) is preferred to content created by destinations.
- ▶ Visitors demand better value and continue to search for bargains
- ▶ Ethical priorities continue to evolve and there is growing emphasis on cultural capital.
- ▶ There is concern about health and a desire to escape everyday pressures is driving more active leisure trips.

Finally we commissioned research into the business tourism sector to complement work on the leisure tourism sector.

What we found out:

- ▶ **There is no baseline data** on event space occupancy to calculate the volume and value of Meetings, Incentives, Conferences & Events (MICE)
- ▶ **The area does not currently feature on the UK destination awareness monitor** for international buyers. Visit Britain does not currently profile the area in key MICE activity nor is the area represented at any key MICE event
- ▶ The Business Visits & Events Partnership class Leicester as a tertiary destination yet the size of its offer has the capability to be second tier
- ▶ **The area has a strategically beneficial location** for the meeting and events sector with excellent road, rail and air links
- ▶ **The area has 140 market-ready meeting and event spaces**, accommodation providers and incentive tourism options able to accommodate between 5 to 2,500 delegates and one of the largest hotels in the UK. This asset mix offers rich pickings for event planners.
- ▶ **There are proposals to create an additional 850 bed spaces by 2021** in Leicester; ranging from chain budgets to four star full-service hotels.

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5. WHERE DO WE WANT TO BE?

We want to become a leading leisure and business tourism destination where visitors are compelled to come and uncover our story, increasing the value of tourism to the local economy to £2.1bn by 2025.

Between 2018 and 2025, we aim to increase staying visitors by 839,000 (22.3%), day visitors by 2.1m (6.7%) and the economic impact of tourism by £222m (11.8%).

These increases equate to an average annual increase of 2.9% for staying visitors, 0.9% for day visitors and 1.6% for economic impact. These are realistic yet ambitious targets that depend on delivery of this Plan – especially on increasing the number of staying visitors more than day visitors.

The key performance indicators (KPIs) are shown in the table here. They will help to keep us on track and be reported through partnership mechanisms including the Tourism Advisory Board and local authorities.

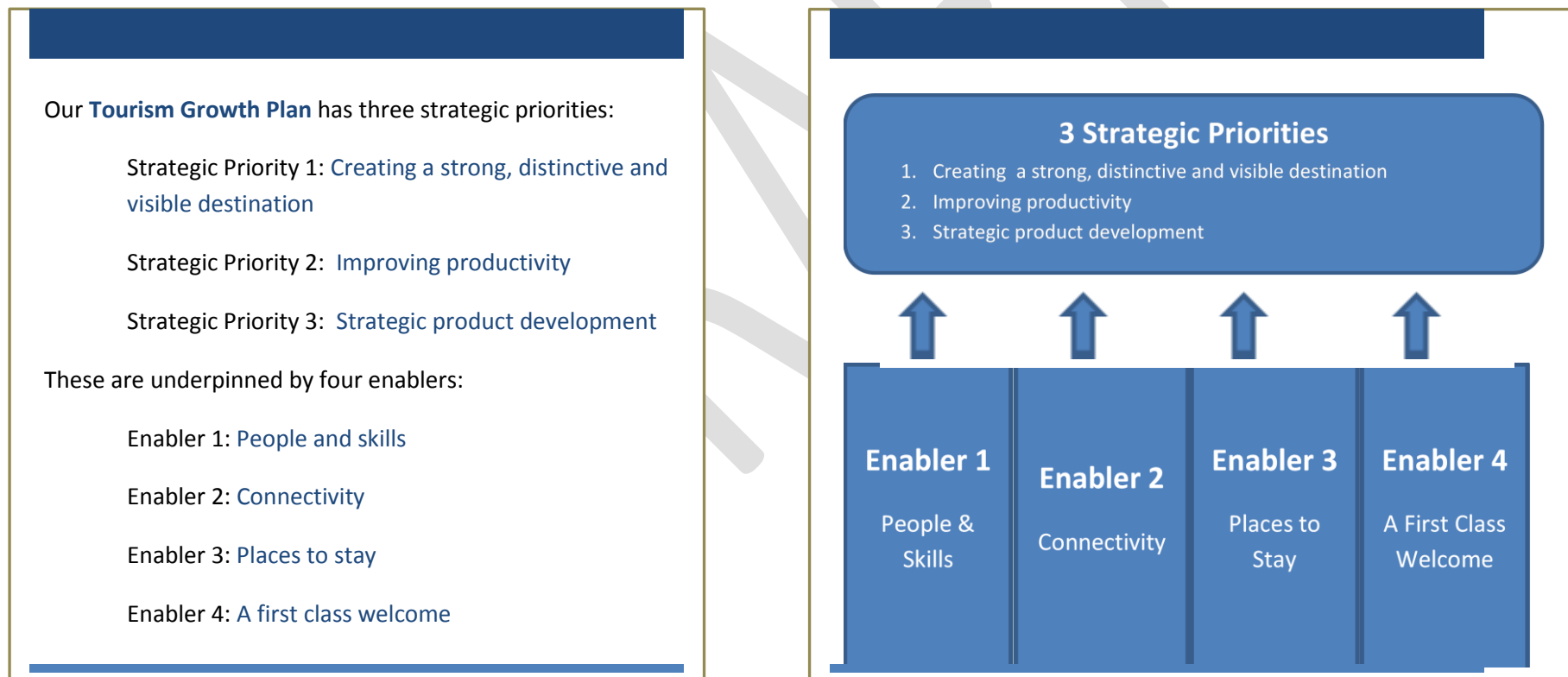
KPI	Why it's important	Measured by.....
Staying visitors & accommodation occupancy	To determine success in attracting staying visitors and improvements in seasonal spread	STR hotel trend analysis reports
Economic Impact	To monitor tourism sector performance by measuring day and staying visitor numbers and spend	Annual STEAM tourism economic impact reports
Number and value of Meetings Incentive, Conference and Events (MICE) activity that involve overnight stay	To monitor the success of business tourism activity in promoting overnight stays and economic impact	Business tourism service local KPIs

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6. HOW CAN WE GET THERE?

Creating a Tourism Growth Plan that the whole sector can get behind

There are a number of tourism and economic development plans for the component parts of the Leicester & Leicestershire destination. This is the opportunity to align them and give the sector a unified focus. A plan for the sector is a shared statement of intent and will set down key priorities, activities and projects that funders and stakeholders feel offer the best prospects to increase the competitiveness of the destination and maximise the wealth that the tourism sector can create. It will help stakeholders to visualise the actions they will take to play their part in achieving our collective ambitions for the area over the next 5 years.



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TOURISM GROWTH PLAN - STRATEGIC PRIORITIES

Strategic Priority 1: Creating a strong, distinctive and visible destination.

Tourism is fiercely competitive and destinations operate in a global environment, all working hard to be noticed. Visitors can go anywhere and are particular about the destinations they choose: they know what they want, can easily check what's available and how others rate it.

From research, we know there is low awareness and knowledge of our tourism offer, particularly among those who haven't visited. Seen from the outside, there is no consistent narrative about the area to suggest a strong sense of place, and in many cases tourism businesses don't even say they are located in Leicester and Leicestershire in their marketing communications. The tourism sector is fragmented and tends to prioritise local or individual concerns rather than collaborating on a shared ambition.

To get recognition as a tourism destination of choice, we need to clearly establish our identity in the marketplace, differentiate ourselves for external audiences and be clear about what we offer. We need to start controlling the destination messaging that is out there to avoid a plethora of mixed communications filling the vacuum. Then we must get our stakeholders to collectively get behind our campaign brand so everyone can benefit from a stronger and more visible national profile and enable the destination to grow its share of the visitor market.

Uncover the Story is the campaign brand that has been identified to address this challenge and provide an imaginative way to repackage our tourism offer. It has a strong 'nod' to the area's hero story of the King Richard III discovery and yet is sufficiently generic that all tourism businesses can align themselves with it. Many of our attractions, cultural experiences and heritage assets seek to tell some of the UK's most important stories, from the celebrity fossil Charnia to our part in the conquest of space, and these associations can make our tourism offer more intriguing and vibrant. They can make that authentic, emotive connection between visitor and place that has been eluding us and give a fragmented sector the cohesion it needs to achieve real growth.

Uncover the Story recognises the fact that Leicester & Leicestershire is a destination made up of a collection of different visitor products and experiences, all with a unique tale to tell. It enables us to tell our story through our partners rather than taking a 'top down' approach to selling the area, making our local businesses our destination ambassadors. A compendium of local stories will be used as hooks for external audiences (including consumers, travel trade and the media) and used to inspire itineraries, narrative for destination videos and websites.

Together, in partnership, we will use **Uncover the Story**, to raise awareness of Leicester & Leicestershire as a compelling and distinctive destination. We will articulate what is special about the area and motivate others to visit it.

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We will do this through:

- ▶ Provision of an **Uncover the Story** toolkit and guidelines for use for tourism businesses that will establish the campaign identity, brand mark, style, tone and photography
- ▶ Delivering a high profile launch event
- ▶ Supporting key businesses to find ways to tell their stories
- ▶ Generating a compendium of core stories, created by individual businesses, through which we will build the campaign brand and create stakeholder champions.
- ▶ Creation of an asset bank of images and video to support **Uncover the Story**
- ▶ Developing a destination profile based on **Uncover the Story** on key digital platforms such as Trip Advisor, Visit England/Visit Britain,
- ▶ Supporting our museums to become our primary storytellers of place and gateways to Leicester & Leicestershire
- ▶ Using the Uncover the Story brand narrative in promotional materials.
- ▶ Work with the region's gateways (rail, air, road) around the messages they convey about Leicester & Leicestershire as a tourism destination.

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Strategic Priority 2: Improve Productivity

Leicester and Leicestershire already have great tourism assets, we just need to maximise their potential to the visitor economy. Our tourism assets have the potential to deliver more: more visitors, more spend, more profitable businesses, more jobs and more economic impact. We have capacity in many of our hotels and guest houses, restaurants and attractions, particularly in low season, and we need to find new ways to fill it. We don't necessarily need lots of new product to achieve our objectives; we can focus on making our existing assets more productive by improving them, investing in them or packaging them up to make them more appealing to more people.

We can encourage the visitors who come to the area to stay longer and spend more. We can use our marketing resources to target larger groups and premium visitors and do more to broadcast our existing tourism offer to potential domestic and international audiences. We need to see a shift from 'day' to 'stay' as longer visits equate to greater visitor spend and as part of this approach need to ensure we have the accommodation infrastructure to support it. In areas where accommodation is at capacity, we will take a more pro-active approach to addressing supply, and support planned investment, so that this barrier to growth is removed.

As part of our efforts to improve productivity, our ambition is to realise the full economic potential of the business tourism sector to help fill our hotels and meeting venues, address seasonality and better utilise our attractions for the corporate market. Our area, located in the centre of the country with great road, rail and air connectivity, is ideally suited for national meetings, incentives, conferences and events (MICE). With over 140 unique, quality assured and award winning event venues available, we have considerable local potential. Our aim is to champion business tourism and ensure the sector remains a vitally important part of our local visitor economy. We need to work towards a step change in promoting the offer to increase the number of companies planning and booking meetings and conferences in the area.

We will do this through:

- ▶ **Developing a Business Tourism Strategy and implementing its recommendations**
- ▶ **Maximising the value of digital promotional platforms to showcase our destination, connect consumers with our tourism offer and inspire and inform them so they want to visit.**
- ▶ **Creating themed itineraries and trails for free independent travellers and the group travel market to extend visitor days and stays.**
- ▶ **Creating more bookable product to increase collaboration with the travel trade and support inbound tourism initiatives then promote through online channels as a route to market (TXGB, Visit Britain Supplier Directory & E-Shop, Airbnb)**

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- ▶ Amplifying the tourism offer that best fits and inspires our target markets, those visitor segments likely to visit during the low season and premium value visitors
- ▶ Increasing all weather facilities to make better seasonal use of existing product and increase venue capacity where demand exceeds supply
- ▶ Improving in-destination information tools and developing mechanisms and activity that will support cross promotion of our tourism product, especially through major cultural and sporting events.
- ▶ Maximising opportunities to reach new audiences by linking up to regional and national initiatives that have a good fit with our local tourism offer (e.g. Discover England Fund, Coventry City of Culture, Birmingham Commonwealth Games, Midlands Engine China Strategy)
- ▶ Supporting SMEs and micro businesses to improve business performance (e.g. through digital connectivity to increase profitability, knowledge and skills to access investment funding, working with the travel trade etc.)
- ▶ Encouraging local residents to be our tourism ambassadors through campaigns like #HomeTourist to capitalise on the strength of the Visiting Friends and Relations (VFR) market
- ▶ Conduct an audit of visitor information and ensure it is available where visitors are most likely to need it and in their preferred format

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Strategic Priority 3: Strategic Product Development

We will focus our attention on three key areas of activity:

- ▶ Activity 1: Backing our Winners
- ▶ Activity 2: Product Development Campaigns
- ▶ Activity 3: Developing Local Destinations

Activity 1: Backing our Winners

We intend to champion product developments that will help us to achieve our growth targets. This includes supporting our strongest brands; those that have the potential to sell our area most powerfully and distinctly in the market place – our large attractions, our unique attractions, our National attractions and our award winners. We will support high profile, ambitious regeneration and infrastructure projects that have the potential to deliver great quality experiences, drive additional visitors, extend visitor stay, increase visitor spend and create new jobs. We appreciate that new product helps add breadth and depth to the destination offer and will widen its appeal to new audiences.

Among those projects we have identified as our winners are:

- ▶ **National Space Centre** – Vision 2025: More Space, Greater Impact (including expansion and 4D theatre)
- ▶ **Twycross Zoo** – TZ2030 Vision (ambition to achieve over 1 million visitors through National Science & Conservation Centre concept and nationally-recognised children’s character zone opening in 2021)
- ▶ **Roman Leicester at Jewry Wall** – a new visitor attraction celebrating Leicester’s Roman heritage
- ▶ **Conkers** – Heart of the Forest Vision (including UK’s longest Aerial Walkway)
- ▶ **Great Central Railway** – Growth Plan (including the Bridging the Gap project)
- ▶ **Bosworth 1485 Legacy Sculpture Trail** – sculpture trail of 6 art works in Market Bosworth and surrounding area related to King Richard III
- ▶ **Everards Meadows and Fosse Park** development (includes new beer hall, brewery tours, retail, cycle centre and café)
- ▶ **Melton Rural Food Enterprise and Innovation Centre** (a centre of excellence to underpin the Rural Capital of Food brand)

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Activity 2: Product development campaigns

We will support soft product development in areas where we already have strengths, creating themed campaigns to better articulate and promote what we are best at using channels that will reach our chosen visitor segments. The areas where we feel we have a strong offer are our unique King Richard III discovery story, food and drink and outdoor activity. In the future we see opportunities for campaigns around use of the latest digital technology in historical interpretation, education and entertainment, for example as part of the proposed Roman Leicester at Jewry Wall project.

Each campaign encapsulates a facet of the area that will help to make Leicester & Leicestershire distinctive as a visitor destination and will help to unify urban and rural areas. Product development campaign themes include:

- ▶ **The King Richard III Discovery Story** – *creating a critical mass of activities and experiences themed around the remarkable King Richard III discovery and the King's connection with Leicester and Leicestershire.*

We will do this through:

- ▶ **Closer partnership working with key attractions: King Richard III Visitor Centre, Bosworth Battlefield and Visitor Centre, Bosworth 1485 Legacy Sculpture Trail and King Richard III walking trail in Leicester**
 - ▶ **Mapping places in the area with links to the Wars of the Roses.**
 - ▶ **Creating and promoting themed itineraries and bookable product**
- ▶ **Taste the Place** – *a campaign to highlight the area's food and drink reputation by showcasing sub-regional food and drink both to eat, drink, buy, see in production and experience through activities and events.*

We will do this through:

- ▶ **Supporting the ambitions of Melton to develop its reputation as Rural Capital of Food through the Melton Story Plan**
- ▶ **Festivals and events like the Melton food festivals, Edible Forest, Canteen and Harborough Taste Trail to animate and profile the area**
- ▶ **Encouraging visitors to experience the food and drink they consume through a range of curated experiences including brewery and distillery behind-the-scenes tours, gin schools, food demonstrations, tasting sessions, workshops and classes**
- ▶ **Encouraging the tourism industry to 'keep it local' by sourcing local produce to add value and enhance the visitor experience through authentic local flavours.**
- ▶ **Creating and promoting themed itineraries and bookable product**

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- ▶ **Fit-cation** – *inspiring gentle adventuring and personal challenges through short break activity holidays and trips*

We will do this through:

- Mapping our country sports, waterways, golfing, cycling, walking and outdoor pursuits activities and identify those with bookable product or established routes and trails and link them more obviously to the visitor economy infrastructure
- Capitalising on the fact that Leicestershire is surrounded by 70 miles of water and divided by the River Soar to develop a range of leisure activities on or near rivers and canals in partnership with West Midlands Growth Company and Canal & River Trust
- Promoting the E-bike Holidays National Forest short breaks
- Closer partnership working with established providers to create more bookable product and itineraries e.g. National Forest, Rutland Cycling, Stoney Cove Dive Centre, Leicester Outdoor Pursuits Centre, Let's Get Lost Leicester etc.
- Work in partnership to develop more visitor friendly walking and cycling routes and trails that offer something special and share our unique stories.

- ▶ **Creative Edge** – *promoting discovery and creativity, using cutting edge technology to enhance the experience of visitors.*

We will do this through:

- Encouraging those attractions, cultural experiences and heritage assets that tell some of the UK's most important stories to keep investing in technology to enhance the visitor experience, improve interpretation and engage visitors creatively with their messages
- Supporting our major growth projects like Roman Leicester at Jewry Wall and National Space Centre Vision 2025 in their work to develop experiences using augmented and virtual reality and 4D.
- Embracing opportunities to promote Leicester as the centre of UK E-Sports, supporting the sector's needs and identifying how it can support our tourist aims
- Mapping existing apps and online content that help visitors to better understand and enjoy our tourism assets and destinations then increase their visibility and facilitate their wider promotion

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Activity 3: Developing Local Destinations

We will support the development and promotion of individual visitor destinations in the area and help them amplify and define their distinctive offer by working in partnership with district councils, tourism organisations and partnerships and in line with agreed local tourism development plans.

- ▶ **Leicester** – The city is one of the oldest in England and celebrates its 2,000 years of heritage through museums, visitor centres and on-street interpretation. This is being further developed through the Old Town project which will rebrand and interpret the historic core of the city. Leicester also provides the focus for the King Richard III discovery story through the Visitor Centre and Cathedral. The city provides the urban core of the destination and can act as a gateway to the wider area as well as a mini break destination in its own right. It has the largest accommodation offer, a cosmopolitan food and drink offer, a complimentary retail offer and strong cultural and entertainment offer.
- ▶ **The National Forest and the Forest Town of Ashby de la Zouch** – The National Forest has been developing as an exemplar sustainable tourism destination for the past 25 years and we want to support its ambitions to further develop the Forest experience in line with the priorities identified in its Tourism Growth Plan. The collective National Forest as a destination provides a critical mass of activities that are distinctive to the Forest and create a strong joined-up offer including walking and cycling trails, the Hicks Lodge Cycle Centre, Conkers family visitor attraction, events and festivals. The attractive market town of Ashby de la Zouch is also developing its reputation as a ‘Forest Town’ and has a good independent retail, food and drink offer with Ashby Castle (managed by English Heritage) a well-known landmark.
- ▶ **The Market Towns and District Visitor Hubs**
Tourism is important to the economy of our market towns and in partnership we can help amplify the tourism offer that is being developed.
 - **Harborough & Market Harborough** – The area combines an attractive waterways offer, unique cultural offer (Nevill Holt Opera and Kilworth House Theatre), luxury hotels and fine dining experiences in addition to a strong outdoor pursuits and activities offer (Armourgeddon, Avalanche Adventure, Axceler-8, Wistow Maze etc.) . Market Harborough is a charming 13th century market town with a quality independent retail and food and drink offer (successfully promoted through Taste Harborough). The market town of Lutterworth is full of stories waiting to be uncovered including that of Sir Frank Whittle, inventor of the jet engine. The Grand Union Canal runs through the area and features the longest and steepest staircase locks in the UK at Foxton Locks.

Appendix A: Tourism Growth Plan - Consultation Draft

- **Melton Mowbray** – This is one of the oldest market towns in the UK. It promotes itself as the Rural Capital of Food reflecting the area’s association with Melton Mowbray pork pies, Stilton cheese, agriculture and food manufacturing. The town supports a successful calendar of themed food related festivals including the National Pie Awards, Artisan Cheese Fair, Choc Fest and East Midlands Food Festival. Through the Melton Story vision, articulated in the Melton Borough Destination Management Plan and place branding strategy, the town is further developing its recreational food and drink experiences and using its unique stories to inspire imaginative public realm interpretation, cultural festivals and events.
- **Bosworth & Market Bosworth** – This area is rich in history as Bosworth Field was the site of the decisive battle of the War of the Roses between Richard III and Henry Tudor. The proposed Bosworth 1485 Sculpture Trail will connect all the places nearby that are associated with this key event and, along with the Bosworth Battlefield Visitor Centre, create a critical mass of visitor attractions to support the King Richard III story. Other key attractions in the area are Bosworth Water Park and the Ashby Canal. Market Bosworth has an attractive market square and streets filled with old pubs and coaching inns, thatched cottages and Georgian houses.
- **Loughborough and the Charnwood Countryside**– For those that enjoy the great outdoors there are plenty of walking opportunities in historic Bradgate Park, Beacon Hill Country Park, The Outwoods and around Swithland Reservoir. The area is also rich in heritage attractions with fascinating stories to uncover including the John Taylor Bell Foundry & Museum (the world’s largest working bell foundry which provides public tours), the WWI Carillon, the Great Central Railway (the UK’s only double track mainline steam heritage railway complete with period restorations at its stations) and the home of Ladybird Books at Charnwood Museum.
- **Everards Meadows & Fosse Park Visitor Hub** - Everards Meadows is a development that incorporates the new Everards brewery site and Rutland Cycling. It links with Fosse Park, one of the busiest out-of-town retail centres in the country, and nearby Marriott and Hilton Hotels to create a new visitor hub in the district of Blaby. Everards Brewery will celebrate over 170 years of local brewing heritage with a beer hall, brewery tours and a retail outlet at the site while Rutland Cycling provide retail and bike hire opportunities for visitors to enable them to explore Leicester and the surrounding area by bike

Appendix A: Tourism Growth Plan - Consultation Draft

ENABLERS

There are underpinning opportunities that we need to develop to support growth in the visitor economy.

ENABLER 1: PEOPLE & SKILLS

We need to further develop our workforce with the skills and enthusiasm to deliver outstanding service to visitors. The seasonal nature of tourism and anti-social hours of work often leads to a perceived low status for many jobs and poor perception of tourism and hospitality as a career choice. We have education providers to help those entering the industry to develop the skills we require but we need to support them by finding creative ways to inspire young people to see tourism as an exciting and rewarding industry with good career pathways providing opportunities to progress. We need the support of the sector to play its part in getting that message across to young people in full time education, as well as their families and careers advisors who influence their career choices, through quality encounters between young people and businesses and clearer employer engagement plans. Once in the education system, we need to support efforts to improve the work readiness of young people as part of a multi-partner approach. We also need to address the opportunities provided by an older workforce by supporting the updating of skills through re-training programmes as well as highlighting the flexibility of the sector for those working around caring responsibilities.

We will do this through:

- ▶ **Partnership working with the LLEP, Leicester Employment Hub, East Midlands Chamber of Commerce, local authorities, further education colleges, schools, professional bodies**
- ▶ **Supporting programmes of industry placements and school/industry partnerships (outreach programmes, careers talks, careers fairs) in collaboration with the Enterprise Advisor Network and Careers Hub**
- ▶ **Sharing industry success stories to personalise careers and bring the sector to life**
- ▶ **SME support for apprenticeship programmes for all and support for National Apprenticeship Week**
- ▶ **Learning from best practice exhibited elsewhere e.g. Institute of Hospitality and Careers Colleges, My Hospitality World**
- ▶ **Supporting the roll out of new T Levels in tourism and hospitality as part of a reformed skills training system**

Appendix A: Tourism Growth Plan - Consultation Draft

ENABLER 2: CONNECTIVITY

Connectivity - Communication

We need to maintain effective strategic and operational partnerships to aid the success of the local visitor economy. This includes working closely with local, regional and national tourism organisations as well as with other DMOs, local authorities and private sector partners.

At a local level we need to encourage tourism businesses and other stakeholders to play their part in delivering the Tourism Growth Plan. To do this, stakeholders need to feel engaged and informed. The most effective way to do this is through the Tourism Advisory Board and local tourism partnerships and forums. These platforms play an important role in sharing communications with stakeholders, encouraging joint working and achievement of local sector plans, raising awareness of best practice and disseminating training and business development opportunities. We also need to continue to develop the Tourism Advisory Board (TAB) as a network of champions and ambassadors for growth and change in tourism, providing strong local leadership and commitment to overseeing the successful delivery of the Tourism Growth Plan ambitions.

At a regional and national level it is important we maintain effective strategic and operational partnerships to aid the success of the local visitor economy. Working with key partners such as East Midlands Airport and the Midlands Engine Tourism Partnership will support efforts to promote the Midlands region for tourism. At a national level, closer partnership working with Visit England and Visit Britain will support our efforts to market the destination to domestic and international audiences, improve our tourism product and provide us with access to sector intelligence.

We will do this through:

- ▶ **Support for local tourism plans and regular engagement with tourism partnerships and forums**
- ▶ **E-newsletters to businesses**
- ▶ **Local workshops to support delivery of Tourism Growth Plan priorities**
- ▶ **Ensuring TAB membership and meeting programmes support delivery of Tourism Growth Plan priorities**
- ▶ **Active engagement with regional and national tourism organisations to maintain the area's profile as a tourism destination and capitalise on funding, marketing and development opportunities to support delivery of the Tourism Growth Plan**

Appendix A: Tourism Growth Plan - Consultation Draft

Connectivity – Getting Around

We are keen to support the efforts of local attractions to develop green travel plans. In addition to the environmental impact of cars, private vehicles cause congestion on local roads and parking issues for local residents and attractions alike. If we are to develop international visitors, many will rely on public transport to get around so improving the legibility of transport options and routes will help support our growth ambitions. Rural areas face particular challenges with connectivity with some attractions only accessible by car.

Delivering the Fit-cation campaign will rely on good walking and cycling networks that are safe and family friendly and we need to support efforts to develop this infrastructure. This will encourage the larger number of visitors who may not venture off the beaten track to consider a walking or cycling 'try-me' experience for a few hours in the countryside or urban areas.

We will do this through:

- ▶ **Supporting and signposting businesses wanting to improve visitor access by public transport or from footpaths and cycle ways to connect with relevant public sector departments or transport providers**
- ▶ **Encouraging businesses to promote green travel plans on websites and provide links to www.choosehowyoumove.co.uk**

Appendix A: Tourism Growth Plan - Consultation Draft

ENABLER 3: PLACES TO STAY

2018 data shows that visitors staying in serviced and non-serviced accommodation account for 4.6% of all visits and 22.2% of all visitor spend. Increasing the supply of accommodation therefore will have a significant effect on tourism spend. The LLEP Sector Growth Plan advocated further accommodation development to match supply to tourism experiences and to raise accommodation quality, both of which impact on growth.

Two of the ambitions of the Tourism Growth Plan are to convert more day visitors into staying visitors and achieve an upshift in average length of stay for business events. To achieve these ambitions we need to be sure we have the accommodation supply in the areas where we need it. We are developing a good base of evidence on accommodation development opportunities in East Leicestershire, Hinckley & Bosworth and North West Leicestershire (who are preparing a Visitor Accommodation Development Acceleration Plan). The National Forest Company are also formulating a Visitor Accommodation Development Strategy and Action Plan. Leicester is currently experiencing an increase in accommodation supply with two developments of 252 rooms currently under construction and potentially a further 900 rooms from new hotels or extension projects in the pipeline. This positions the city to act as a gateway to the wider area having the largest accommodation offer in the sub-region.

We can be more proactive in the development of places to stay by:

- ▶ **Working with the Invest in Leicester Inward Investment team to identify land and property owners, and the agents working on their behalf, that are interested in accommodation development and pitch opportunities to them**
- ▶ **Raising awareness of the accommodation development opportunities across the county through publications and property events**
- ▶ **Identify hotel and visitor accommodation developers that may be interested in Leicestershire and to match them to suitable local land and property owners**
- ▶ **Assessing opportunities for local authority owned sites and buildings and looking at potential for investment in hotel and visitor accommodation projects**
- ▶ **Building on the success of the LEADER programme by encouraging future funding streams to support diversification initiatives linked to accommodation development**
- ▶ **Mapping and promoting seasonally available accommodation released by the academic sector**
- ▶ **Marketing training and advice for small accommodation business owners**

Appendix A: Tourism Growth Plan - Consultation Draft

ENABLER 4: A FIRST CLASS WELCOME

Consumer expectations in relation to visitor welcome and service quality have never been higher. Visitors expect and demand quality in all aspects of their experience and if they don't perceive that they get it, will take to social media and customer review websites to share their views. In order to remain competitive the quality of our tourism offer must continue to develop and strive towards the attainment of excellence.

We can support businesses by raising awareness of quality assurance schemes that help them benchmark their offer against industry standards to achieve a more customer orientated approach to service delivery. We also need to ensure that post arrival, visitor needs are being taken into account regarding provision of services including wayfinding and signage to aid orientation, visitor-friendly car parking arrangements and maintaining the public realm to a high standard. If visitors have the best possible experience, they are more likely to return and make recommendations to friends and family. Research shows that there is a direct correlation between the quality of a visit and level of spend but just one weak link in the chain can undermine the whole visitor experience. Both public and private sectors need to work in partnership to get the overall experience right as the services and facilities visitors use during a visit are supplied by a number of providers.

We will do this through:

- ▶ **Supporting businesses to understand and appreciate the impact of digital marketing and social media**
- ▶ **Promoting awareness of the range of quality assurance schemes for accommodation, attractions and restaurants and encourage businesses to become accredited (Visit England and local tourism Awards for Excellence, Trip Advisor certificates of excellence, AA National Quality Assessment Scheme for accommodation, Visitor Attraction Quality Scheme, Green Tourism Scheme, Welcome Host etc.)**
- ▶ **Planning how to improve signage and information at key gateways including East Midlands Airport, railway stations and main car parks.**

In Leicester & Leicestershire, we want to make all our visitors feel welcome and ensuring we are an accessible destination is part of that. We need to ensure we meet the needs of our older visitors and those with disabilities by encouraging our businesses to understand and support their requirements. This will help us to remain competitive, maximise market opportunities and improve the quality of every visitor's experience.

We will do this through:

- ▶ **Encouraging businesses to share their accessibility information on their websites and marketing collateral**
- ▶ **Completing a destination access audit**
- ▶ **Running workshops and sharing information, tips and advice on how to help tourism businesses become more accessible.**

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SCRUTINY COMMISSION: 4 SEPTEMBER 2019

**DRAFT CORPORATE ASSET INVESTMENT FUND ANNUAL
PERFORMANCE 2018-19 AND STRATEGY 2019 TO 2023**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to set out the annual performance of the Corporate Asset Investment Fund (CAIF) for the 2018/19 financial year (attached as Appendix A to this report) and to seek the Commission's views on the revised Corporate Asset Investment Fund Strategy for 2019 to 2023 (attached as Appendix B to this report) which sets out the Council's approach to future asset investments utilising the CAIF.

Policy Framework and Previous Decisions

2. 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. It has been previously agreed at Cabinet in 2018 that annual performance reports would be submitted to Cabinet and to the Scrutiny Commission.
3. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members.
4. 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.
5. The Medium Term Financial Strategy 2019-23 Capital Programme was approved by the Council on 20 February 2019. It includes provision of £67m for CAIF projects up to 2023.
6. The County Council's Strategic Plan 2018-22, supported by the Enabling Growth Plan, sets out the Council's objectives for the rationalisation and utilisation of its assets, maximisation of capital receipts, and facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.

7. In 2018 the County Council adopted a new Environment Strategy for 2018 – 2030 – ‘delivering a better future’ which sets out the Council’s environmental priorities and objectives to meet the global challenge of climate change. In May 2019 the County Council further committed to seek to achieve carbon neutrality in its own operations by 2030.

Background

8. 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 to generate revenue and capital returns to the County Council.
9. In May 2014, the Cabinet approved the establishment of the Corporate Asset Investment Fund and associated governance arrangements. Its purpose was to increase the Council’s property portfolio to ensure this contained a more diverse range of properties, continued to support economic development and generally increased the quality and sustainability of the land owned by the Council and the income this generated.
10. 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.
11. In 2018 the aims of the Strategy were aligned with the five Strategic Outcomes set out in the Council’s Strategic Plan (Strong Economy, Wellbeing and Opportunity, Keeping People Safe, Great Communities and Affordable & Quality Homes) and the purpose of the Fund was consequently broadened to ensure CAIF investments:
 - Support the objectives of the Council’s Medium Term Financial Strategy.
 - Generate an income stream which increases the Council’s financial resilience given the decrease in government funding.
 - Support the delivery of front line services through increased income generation, or through capital investments that will reduce operating costs.
 - Support the Council’s strategic objective of Affordable and Quality Homes through helping to unlock and accelerate developments.
 - Manage investment risk through the opportunity to invest in diverse sectors.
 - Meet the objectives of the Council’s Corporate Asset Management Plan, Corporate Asset Investment Fund Strategy, Strategic Plan and Single Outcomes Framework, the Economic Growth Plan and Local Industrial Strategy.
 - Increase the size of the property portfolio and improves the mix and quality of land and property available across the County and the sub-region.
 - Maximise returns on Council owned property assets.

- Support growth in the County and its economic area of influence and ensures there is a more diverse range of properties and land assets available to meet the aims of economic development.
- Support the Council in maximising the benefit from its financial assets in a risk aware way (not including standard treasury management activity).

12. Support for the Advisory Board has subsequently been expanded to reflect this with officers from other departments, such as Environment and Transport, also now attending where appropriate given the increasing impact of growth infrastructure projects being managed through the Fund. The Head of the recently established Growth Unit will also provide support as necessary; the Unit now having general oversight of large growth schemes to ensure these are assessed and prioritised against the resources available and balanced against the need to deliver the aims of the Fund and the Councils Strategic objectives.

Current Performance of the CAIF

13. The CAIF has a significant and growing value and has provided a means by which the Council can continue to provide high quality services to the people of Leicestershire despite significant pressures on public finances.

14. Since 2014 income generated by CAIF investments has made a real impact towards supporting Council services, without which further savings would have been required and service provision to residents and businesses in the County would have been adversely affected.

15. Originally, funding of £15m was allocated to the CAIF to fund new investments over four years from 2014/15, and this was directed to direct property investments to support those aims detailed in paragraph 11 above. In addition, other Council assets held for investment purposes have been included in the CAIF, mainly county farms and industrial properties. Since 2014/15, funding allocated has been renewed and increased annually and used to invest more widely in indirect and non-property investments such as pooled property funds and private debt. A total of £67m has been set aside in the current MTFS to support further CAIF investments.

16. The Annual Report attached as Appendix A to this report sets out in detail the overall performance of the CAIF during the 2018/19 financial year. This shows that continued prudent management of the Fund over the last financial year has led to another substantial increase in its value.

17. Overall the direct property investment assets in the CAIF have, during 2018/19, increased in value by £43m during 2018/19 to £145m and these now generate a net revenue income of £6.9m pa, an increase of £4.2m in 2 years. These investments have yielded a return of 12.0% compared to the IPD (Investment Property Databank) All Property Quarterly Index of 6.0%. Overall, the Fund has generated a return of 9.6%.

18. As at the end of 2018/19, the CAIF comprised of £20.7m of rural estate, £40.7m of office/commercial estate, £35m of development estate, £4.3m of other property, £23.1m of private debt and £20.9m of pooled property investments.
19. Included in the CAIF value are the financial investments that have been made in vehicles outside direct property ownership. This diversification, to spread risk, is in line with the Council's aim to increase its commercial activities to generate greater income that will support the Council's MTFS and future service delivery costs. In total £23.1m is invested in Pooled Property Funds and £20.9m in Private Debt. More detail is included in Appendix A.

Ongoing projects into 2019/20

20. Some of the projects outlined in the Annual Report are yet to commence with development expected to be in 2019/20. These include -

Airfield Farm, Market Harborough

21. The Council purchased this 16-acre site to the north of Market Harborough in late 2016 having obtained outline planning permission for a mix of industrial, office and roadside use. Having sold an initial plot off immediately after purchase to obtain an instant capital return, full planning permission was obtained for the construction of the first phase of industrial space totalling 80,000 sq. ft. Construction has begun, and completion is expected in November 2019.

Leaders Farm South, Lutterworth

22. This site formed part of a field within the County Farms portfolio and was identified as having possible office and industrial development potential. After obtaining outline permission for a mix of commercial uses an estate road was constructed to give access to the site and to increase its marketability. Given interest in the site it is proposed that a planning application be submitted to the District Council shortly for the construction of two roadside uses. Terms have been agreed with two prospective tenants in anticipation of the first retail units being completed and available to let in April-June 2020.

Apollo Court

23. This site was an undeveloped site in Coalville leased to a haulage company for open storage. The tenant vacated the site and the Council secured consent for the construction of 40,000 sq. ft of industrial space laid out as 17 units. Work has begun on site and completion is expected in September 2019.

Loughborough University Science and Enterprise Park

24. The County Council entered into a development agreement and 125-year lease with Loughborough University to bring forward a 100,000 sq. ft. HQ development for a software company, following approval by the Cabinet on 15th September 2017. The Access Group will take a 15-year lease for a rental of £1.6m pa.

The project is now in full construction and due to complete in July 2020.

Poole Farm, Quorn

25. This scheme is a 67-acre solar farm array and 35,000 sq. ft. of small commercial units on low quality farmland land adjacent to the A6 between Barrow-upon-Soar and Quorn.
26. It is envisaged that the solar farm will be a 10MW scheme generating 8,790 MWh pa – enough electricity to supply 2,450 homes or to offset all of the energy used by County Hall.
27. In addition to the solar farm, the first phase includes nine industrial units on County-owned land at Barrow Road. It is anticipated (subject to some final viability work) that this would be a zero carbon scheme - this would be only the 2nd carbon neutral industrial site in the UK.
28. This scheme is being considered by Cabinet on 13th September with a view to submit a planning application in November and scheme completion in 2021.

The Revised Strategy for 2019 – 2023

29. The County Council first introduced a CAIF Strategy in 2017 and this has been refreshed to support the continued growth of the Fund up to 2023 in alignment with the MTFS timetable. It outlines how the Council will look to make asset investments during 2019 to 2023 and manage its asset investment resources to support the objectives of the MTFS and the delivery of front-line services, reduce operating costs, support economic development in the County and the wider economic region, and help achieve the Council's wider strategic priorities.
30. This year the Strategy has been specifically updated to reflect the County Council's decision to declare a climate emergency at the County Council meeting held in May 2019 and to agree to seek to achieve carbon neutrality in its operations by 2030. It also specifically refers to the commitments made by the Council within its new Environment Strategy for 2018 – 2030. The updated Strategy will be submitted to the County Council for approval along with the refreshed MTFS in February 2020.
31. In light of these commitments, the Fund will aim to ensure that its developments will, so far as possible, be built in a sustainable manner to support the aim of carbon neutrality through the construction phase of its projects and it will seek to ensure energy efficiencies in the occupancy and operation of its properties, including the use, where viable, of on-site renewable energy sources. Furthermore, it is intended that developments will achieve net biodiversity gain and push waste up the Waste Hierarchy by adopting a reduce, reuse, recycle approach.
32. A copy of the revised Strategy is attached as Appendix B to this report.
33. The Director of Law and Governance has been consulted on this report.

Timetable for Decisions

34. The Cabinet will consider this report, alongside reports on the Loughborough University Science and Enterprise Park and the solar farm at Poole Farm Quorn, at its meeting on 13 September 2019. The Commission's comments will be reported to the Cabinet. The updated Strategy will also be submitted to the County Council for approval along with the refreshed MTFS in February 2020.

Background Papers

Report to Cabinet, 14 September 2018 - Corporate Asset Investment Fund Annual Performance Report 2017-18 and Strategy for 2018 to 2022 - <https://bit.ly/2NsvaAk>

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

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

Other Environmental Implications

36. The County Council adopted *the Environment Strategy 2018-2030 - delivering a better future* in May 2019.

37. Where possible, the environmental impact of the Funds developments will be as low as possible and be low carbon and energy efficient.

38. Where possible, and where there is no adverse financial impact, when disposing of land for development, the sale terms will require the purchaser to develop in a sustainable and low carbon way

Appendices

Appendix A - Draft Corporate Asset Investment Fund Annual Report 2018 - 2019

Appendix B - Draft Corporate Asset Investment Fund Strategy 2019 - 2023

Officers to Contact

Chris Tambini, Director of Corporate Resources

Tel: 0116 305 7830

Email: chris.tambini@leics.gov.uk

Jonathan Bennett, Head of Strategic Property,
Corporate Resources Department

Tel: 0116 305 6358

Email: jon.bennett@leics.gov.uk

Corporate Asset Investment Fund

ANNUAL REPORT 2018/19



FOREWORD

Leicestershire County Council has had another successful year of investing in its Corporate Asset Investment Fund. From a value of £43m at the end of the financial year 2016/17, rising to £102m in 2017/18, the Fund's value has grown to £145m – a rise of nearly £100m in 2 years.

As well as substantial capital growth, the income produced by these investments has also grown significantly from £2.7m pa in 16/17, to £4.7m pa in 17/18 to a new high of £6.9m pa.

What's more, we're now converting the planning permissions we secured last year into buildings.

We are on site with our business parks in Market Harborough and Coalville and they will both be open for business later this year providing 120,000 sq. ft. of new business space for new and existing businesses in the county. The new office HQ for The Access Group on the Loughborough University Science and Enterprise Park is also underway and on target to be completed next Summer.

Overall, our portfolio is performing very well - a total (capital plus income) return of nearly 10 per cent is above the national average for investment funds.

Leicestershire continues to be the lowest funded county in the country and so this continued great performance means we have more ability to fund important services at a time of decreasing funding from central government, boosting Leicestershire's economy and also helping us achieve the aims and ambitions set out in our Strategic Plan.



Byron Rhodes
Deputy Leader
Leicestershire County Council

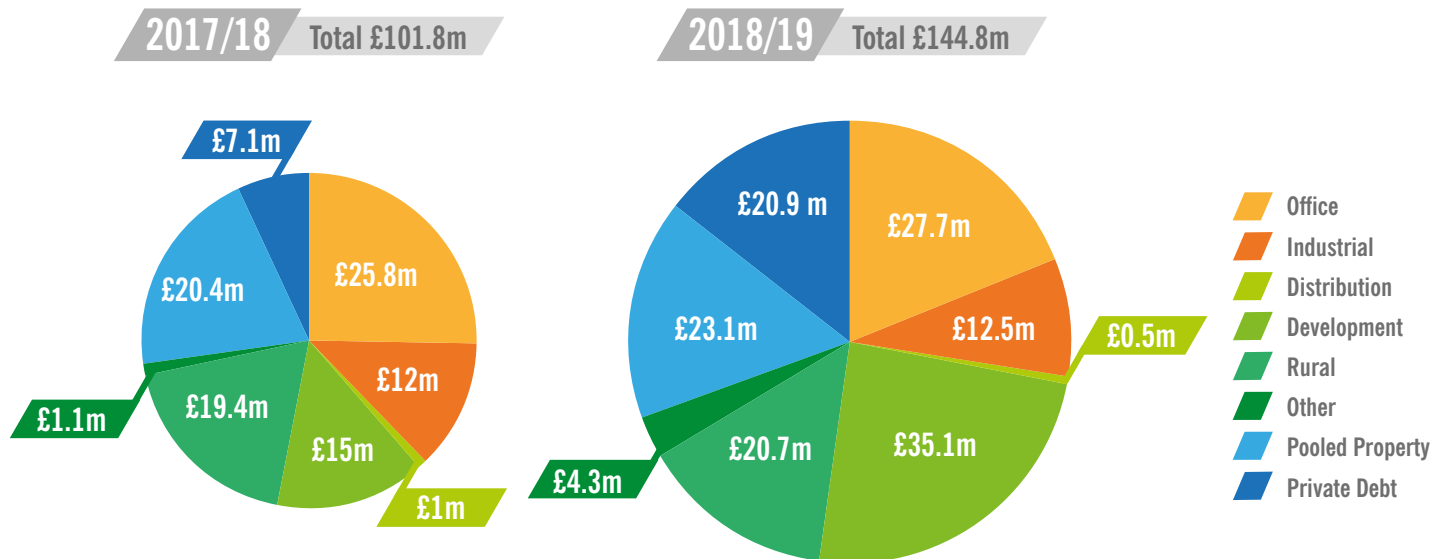
SUMMARY

This report forms the annual review of the Corporate Asset Investment Fund (CAIF) portfolio, reporting on the property performance for the year to 31st March 2019.

The CAIF is fundamental to the economic, social and environmental wellbeing of the people of Leicestershire especially given the current financial climate coupled with service demand growth. Whilst making a significant contribution to the Council's Strategic Plan the income generated by investment in high quality property assets provides increased financial resilience and will underpin the Council's ability to deliver a comprehensive range of quality services in the future.

The report examines the development and performance of the overall property portfolio, the potential of the future investment programme to deliver enhanced returns and the future outlook for the wider investment market and how it might impact on investment strategy.

Total Value By Sector



As at 31st March 2019, the capital value of the property portfolio was £144.7 million compared with the value as at 31st March 2018 of £101.8 million which represents a net uplift of £42.9 million following the increase from £58.3 million achieved in 2017/18.

Capital Value of Fund

	Value at 31st March 2018 (£m)	Transactions			Transfer (£m)	Valuation Change (£m)	Value at 31st March 2019 (£m)
		Acquisitions (£m)	Capital spend (£m)	Sales (£m)			
Office	25.8		0.1	-	-	1.8	27.7
Industrial	12.0	-	0.1	-0.4	-	0.8	12.5
Distribution	1.0	-	-	-	-0.5	0	0.5
Development	15.0	6.2	11.3	-	0.5	2.0	35
Rural	19.4	-	0.7	-2.0	-	2.6	20.7
Other Properties	1.1	3.1	-	-	-	0.1	4.3
Pooled Property	20.4	2.5	-	-	-	0.2	23.1
Private Debt	7.1	13.0	-	-	-	0.8	20.9
TOTAL	101.8	24.8	12.2	-2.4	0	8.3	144.7

At 31st March 2019 the Fund held direct property assets of £100.7 million together with pooled property fund and private debt investments totalling £44.0 million.

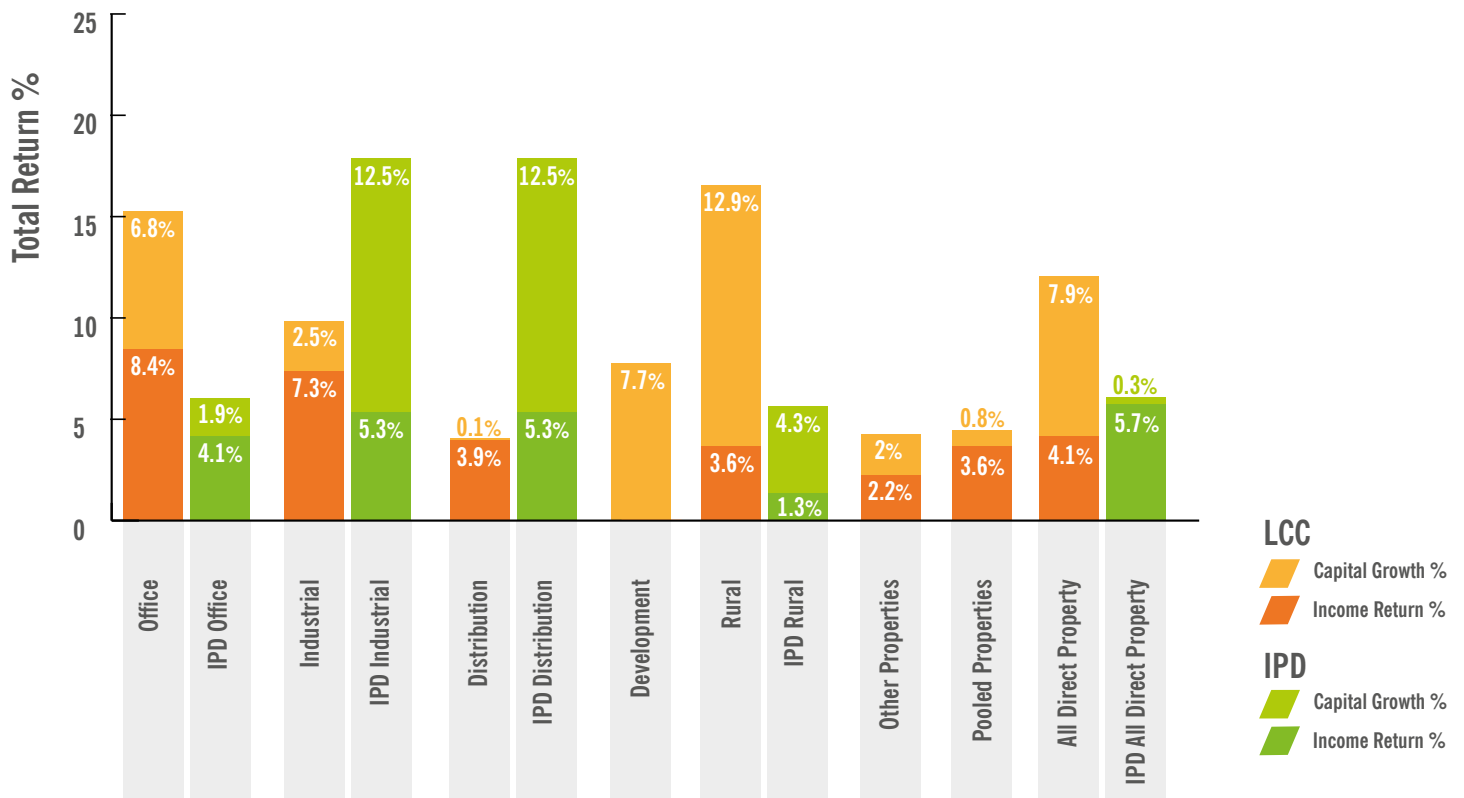
Net income from the Fund has increased to £4.7m over the year as a result of investment acquisitions and rental income increases (net of income producing disposals) an increase of £2.0m on the previous year. This total is forecast to grow to about £10m per year by 2022 as developments are completed and tenants secured.

In addition to the increase in the value of the Fund, the balance between sectors also showed a further significant shift from the pattern that existed at the start of the year reflecting the influence of the purchases, disposals, transfers of other property into the Fund and changes in valuation that occurred during the year. These changes can be seen in the figures above.

There was one significant investment acquisition during the year (Citroen car dealership in Leicester City) together with two further land purchases at Misterton required to progress the Lutterworth East SDA.



Fund Performance

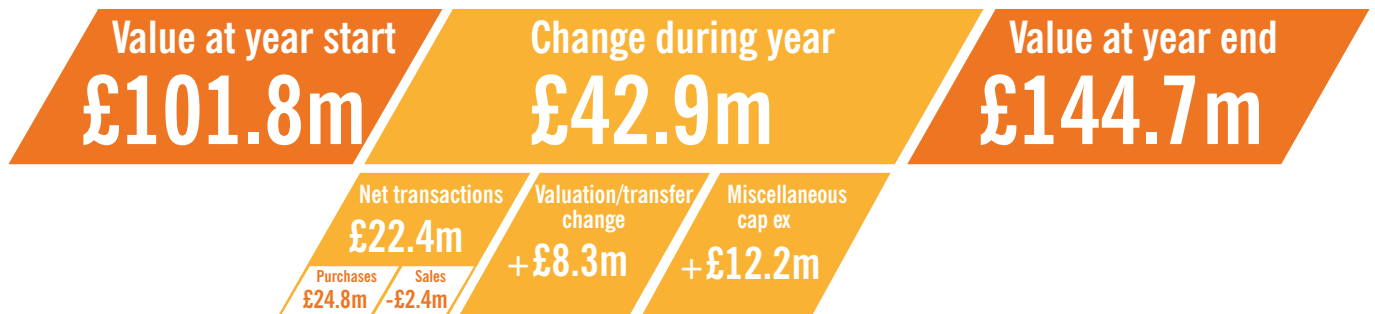


- IPD comparators not available for Rural
- Figures quoted are Savills England Wales Benchmark report 2018
- The returns for our office assets significantly out-performed with market with Lichfield South and Embankment House, acquired in Quarter 4 of 2017/18, being major contributors providing excellent returns of 8.45% and 24.0% respectively. The latter increase is due to improvements in yields and the vacant suite being formally under offer. There was no appreciable capital growth in the year.
- The returns from the rural portfolio remained stronger exceeding the market for the 12th consecutive year reflecting the benefit of pro-active management and the ongoing pipeline of development sites.
- The industrial portfolio showed a good income return of 7.3% percent however, capital growth was constrained (largely as a result of the portfolio overachieving in 2017/18 when 26.5% was realised).
- Development income is low, but this is as expected as it reflects the fact that many tenants will not be secured on the business park until the developments are complete. However, the continued capital growth reflects the future earning potential from the sites.
- The investments in pooled property and private debt provided a stable return in line with market expectations.
- Overall, the Fund produced a total return for the year to 31st March 2019 of 9.6%. Within that figure, Direct Property produced an overall return of 12.0% compared to the IPD All Property Quarterly Index of 6.0%.

CHANGES TO THE PORTFOLIO DURING THE YEAR

Summary of Changes

During the year, the property portfolio increased in value from £102m as at 31st March 2018 to £145m as at 31st March 2019. This increase was due to a combination of further investment in assets and indirect holdings, as set out in the chart below.



Transactions During the Year

Direct property acquisitions

Citroen Dealership

📅 Date Purchased	14 December 2018
£ Purchase Price	£2.95m
🏠 Income	£192,208 per annum
📅 Lease term remaining	11.75 years
📄 Tenant	Bristol Street Fourth Investments Ltd.

Lutterworth

In addition, the Fund acquired two further areas of potential development land at Lutterworth to from part of the proposed East of Lutterworth SDA.

Private debt acquisitions

In December 2017, the Cabinet agreed to use cash balances to make an investment of £20m in Private Debt. By 31 March 2018, a total of £7m had been invested. The balance of £13m was invested in 2018/19 in accordance with the agreed strategy.

Pooled Property

A further £2.5m was invested in pooled property during the year bring the total investment up to £23.1m.

Disposals

In line with agreed strategy, the following disposals were achieved during the year and resulted in total capital receipts of £2.37 million through a combination of realising development potential and the restructuring of the farms and industrial portfolios.

Property	Disposal Date	Receipt	Sector
Land at Samson Road, Coalville	26th June 2018	£360,000	Industrial
Land at Welford Road, Husbands Bosworth	4th May 2018	£1,485,000	Rural
Winfrey Farmstead, Stapleton	26th October 2018	£270,000	Rural
Broadway Farm buildings, Kilby	11th March 2019	£256,000	Rural



PERFORMANCE AND COMPARISON AGAINST INDUSTRY BENCHMARK

The Fund's benchmark is the "All Property" total return (capital growth plus income return) of the IPD Monthly Index (All Assets). The total return for the property portfolio for the year to 31st March 2019 is 12%, twice the IPD Monthly Index benchmark total return of 6.0%.

Office Sector

Following the two major investments in 2017 /18 no further investments have been made during the year. However, the performance of the sector has benefitted significantly as a result of these two major investments lifting the overall return from offices to 15.2% compared to the market return of 6%. Within the overall figure a particularly strong income return of 8.4% was produced.

Industrial Sector

The Industrial sector produced an excellent income return of 7.3% compared to the market level of 5.3%. Capital growth at 2.5% was subdued in 2018/19 showing a market correction from the previous year when 26.5% was achieved. However, demand and therefore rental growth have both remained strong during the year for all grades of property within the sector which coupled with the strong demand for pre-lets of those units under construction underlying market conditions seem set to continue.

Rural Sector

The rural assets performed very well, producing a return of 16.6% (Savills' rural benchmark figures yet to be released). Income return was strong at 3.6%. Capital growth at 12.6% results largely from the realisation of development potential with the expectation that positive results will continue in the medium term.



PORTFOLIO REVIEW

Current Yield

The current yield from the portfolio is 5.3%; comparable to the IPD figure with yields falling slightly during the year both for the Fund and in the IPD index.

Sector Proportions (indirect holdings apportioned to their relevant sectors)

The effect of purchases, sales and movements in value during the year has resulted in further shifts in the sector weightings as illustrated earlier in the report. Whilst the long-term aim is to maintain a balance between sectors that maximises the potential for achieving financial resilience in the shorter term, in considering future acquisitions, the Fund will continue to focus on the purchase of assets that deliver the prospects of good long term income, sound tenant covenant and produce a better than market yield, rather than maintaining any particular desired sector balance.

Rent Reviews, Lease Expiries and Tenant Only Breaks

There are 15 rent reviews, 13 lease expiries and 16 tenant-only break options that are falling due this financial year. The negotiations regarding the reviews, lease renewals and dealing with the break options will form part of normal day-to-day property management.

Future Investments

During the year the CAIF has, on the basis of further funding made available through the Medium Term Financial Strategy (MTFS), committed to the following developments that will have the effect of further transforming the portfolio, achieving excellent rates of return and delivering significant additional income.

In addition to further phases of investment at Airfield Farm Business Park in Market Harborough, Apollo Court in Coalville and Leaders Farm in Lutterworth, the pipeline of future development schemes identified for the sites at Bardon Interlink and Quorn are being progressed to the planning application/delivery phase on the completion of the feasibility/business case stage.

Funds have also been committed to acquisition of further properties including that required to complete land assembly to facilitate the delivery of the East of Lutterworth SDA.



Developments On-site at present :

Airfield Farm Business Park (Phase 1)

Background

The Council purchased this 16 acre site to the north of Market Harborough in late 2016 having obtained outline planning permission for a mix of industrial, office and roadside use. Having sold an initial plot off immediately after purchase to obtain an instant capital return, full planning permission has been received for industrial units and construction has begun on site.

We have advertised the development and have terms agreed on two units, amounting to approximately 7,400 sq ft at a rent of £51,770 p.a., and interest in a further two units.



📄 Description	80,000 sq ft B1/B2/B8 units
📅 Completion Date	November 2019
£ Build Cost	£5.2m
🏠 Rental Income	£480,000 per annum
📈 Yield	6.8%

Apollo Business Park, Coalville

Background

This site was a former undeveloped site in Coalville leased to a haulage company for open storage. Having obtained vacant possession back we secured consent for 17 industrial units and work has begun on site and we already have interest from a number of potential tenants . Terms have been sent to occupiers for 5 Units



📄 Description	40,000 sq ft industrial units
📅 Completion Date	August 2019
£ Build Cost	£5.6m
🏠 Rental Income	£325,000 per annum
📈 Yield	8.0%

Loughborough Science and Enterprise Park (LUSEP)

Background

The County Council entered into a ground lease with Loughborough University with effect from January 2019 whilst simultaneously entering into an agreement for lease to Access Group UK Ltd for an initial term of 15 years.

Work commenced on site at the beginning of February 2019. To date the ground works, retaining wall features, balancing ponds, car park attenuation features and pile foundations are completed. It is anticipated that construction of the superstructure will commence in July 2019.



📄 Description	100,000 sq. ft. gross Grade A Office HQ with 320 car parking spaces
📅 Completion Date	July 2020
£ Build Cost	£22.03m
🏠 Rental Income	£1,600,000 per annum
📈 Yield	7.1%

Leader Farm South, Lutterworth

Background

This site formed part of a field within the County Farms portfolio and was identified as having possible office and industrial development potential.

After obtaining outline permission for a mix of commercial uses we have proceeded and completed the estate road construction and have interest from a roadside food retailer and coffee retailer. We are exploring uses on the remainder of the site, most likely industrial.



Heads of terms agreed with a major fast food provider for a Unit on site

📅 Likely Completion Date	April 2020
£ Build Cost	£567k for the unit
🏠 Rental Income	£92,825 per annum
📈 Yield	5.5%

Heads of terms agreed with Costa Coffee for Unit on site

📅 Likely Completion Date	June 2020
£ Build Cost	£260k for the unit
🏠 Rental Income	£67,500 per annum
📈 Yield	5.5%

£ Site preparation costs : £700,000
(includes site preparation for fast food retailer & the Costa unit)

Voids

With the exception of those properties held vacant to facilitate restructuring or future disposals, at 31st March 2019 the level of voids across the portfolio stood at 5.0% reflecting the current market demand; the figure having increased last year due to the existing vacant suites in the acquired office buildings at Lichfield and Nottingham and general movement within the portfolio.

Developments in planning stages at present

Sysonby Farm, Melton Mowbray

An outline planning application for 290 dwellings, a primary school and local centre has been submitted to Melton Borough Council and is due to be considered in July 2019. Masterplanned in collaboration with Richborough Estates, the promoter of the adjoining land, the site will contribute to the comprehensive development of the land between Nottingham Road and Scaford Road as an early phase of the Melton Northern Sustainable Neighbourhood with further land reserved for the construction of the Melton Mowbray Distributor Road. To support the delivery of enabling infrastructure £4.5m of Local Authority Accelerated Construction funding has been secured from Homes England; the work to be completed before March 2021.

Lutterworth East

The allocation of the East of Lutterworth SDA comprising 2750 dwellings, 23 hectares of B1, B2 and B8 employment land, a community hub, two primary schools, 110 hectares of open space including a country park together with substantial highways infrastructure has now been secured as part of the Harborough Local Plan which was adopted on 30th April 2019. A planning application for the main development in outline and spine road and junctions in detail was submitted on 27th February 2019 and, under the terms of a planning performance agreement with Harborough District Council, is due to be determined in late September. Following the receipt of planning consent work would commence on the enabling infrastructure within 6 months with a view to the first houses and an early phase of commercial development being occupied in 2022/23. To support the delivery of the infrastructure £8.8m of Local Authority Accelerated Construction funding has been secured from Homes England with a Housing Infrastructure Fund bid for a further £31.8m currently being considered.

Bardon

In March 2019 an OJEU Invitation to Tender was published with a view to identifying a developer who would develop a minimum of 175,000sqft of commercial development space on the 8.86 acre site at Interlink Way South in Bardon. The developer would be required to either identify a suitable tenant prior to the commencement of the build or would commence with the speculative development of the site whilst actively marketing the scheme. If a suitable tenant had not been identified upon practical completion then the developer would be required to cover the rent and running costs of the building for a period of 24 months following completion or until such time as a suitable tenant is secured with the 24 month period.

Following the deadline two tenderers submitted tenders which are currently under review. It is hoped that the tender will be awarded in July 2019. Following the submission of a planning application in autumn 2019 it is anticipated that construction will start on site in early 2020 with an anticipated construction period of around 45 weeks.

It is anticipated that the development of 175,000sqft will generate a rent for the County Council in the region of £1.09m per annum (£6.25 per sq ft) with a lease of 15 years being agreed. The anticipated costs of the build contract are £12.5m which includes the developer's fees.

The above actions will only be pursued if suitable alternative site(s) are found for the proposed Waste Transfer Station as reported to CAIFAB in April 2018.



Quorn

At Poole Farm, Quorn we have a vacant farm where we are applying for planning permission for a 62 acre windfarm that will cost £8.25m but generate a projected income of £720k p.a.

We are also seeking planning permission for commercial use and consider we can construct 69,000 sq ft of industrial units at a cost of £6m and generating £515k p.a. income

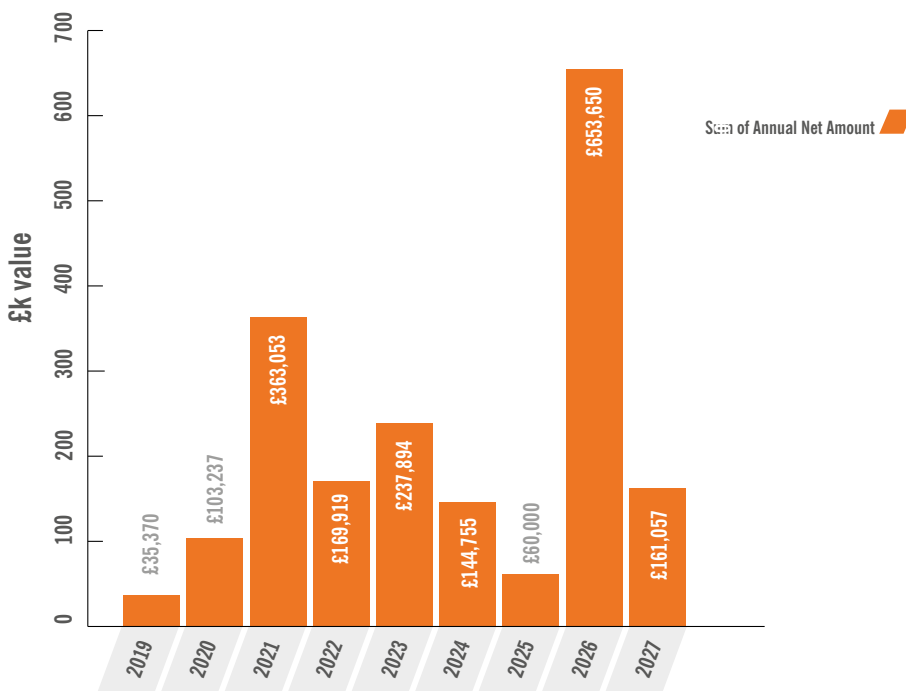
Rent Arrears (direct portfolio)

At 31st March 2018, total unsecured 90 day debt amounted to £49,851 which equates to 0.1% of gross portfolio income and although an increase in total value on previous years, is still considerably below industry averages. Payment of all outstanding debts is being actively pursued through debt management procedures.

In the longer term as the proportion of properties devoted to economic development continues to fall in line with the CAIF Strategy, the covenant status profile should improve significantly reducing the fund's exposure to debt risk.

Lease Expiry Profile (direct portfolio)

The figures below show the profile of rents receivable from leases expiring in each year within the portfolio. Where a tenant has an option to break within a lease, the worst case scenario that the tenant will exercise such an option is assumed, whereas in practice it is likely that not every tenant will elect to do so.



The largest figure in the period above relates to the year 2026. The majority of income in this year is derived from the tenants of Embankment House, Nottingham. We will approach the tenants in due course to negotiate renewal of those leases in line with normal practice.

PROPERTY INVESTMENT MARKET REVIEW

Property Investment Market Review

Economic Outlook

Economic growth slowed further in 2018 with GDP only expanding 1.4% year on year, down from 1.8% in 2017; the lowest rate of growth since 2012. Services remain the main driving force with the sector experiencing growth of 1.7% compared to the industrial sector with output rising 0.7% compared to 1.8% the previous year. However, construction activity saw the most significant slowdown falling from 7.1% in 2017 to 0.7%. The future outlook remains uncertain with the Bank of England lowering its growth estimate for this year to 1.2% the weakest since the global financial crisis. This uncertainty being amplified by the unexpected 0.5% increase in GDP in the first quarter of 2019 largely due to stockpiling in advance of the 29th March EU withdrawal date.

Brexit is clearly having an impact on the UK economy with business investment falling for four consecutive quarters the longest continuous decline since 2008/09. Data for 2019 paints a mixed picture of the health of the economy. The PMI surveys suggest the economy came to a standstill in January with the all sector index dropping to 50.3 its lowest level since 2012. The ICAEW Business Confidence Monitor painted a similar picture with the headline figure falling to its lowest level in nearly a decade.

Although the Bank of England raised the Base Rate from 0.5% to 0.75% in August 2018 the rate rise did little to boost sterling with the exchange rate against the US dollar remaining relatively stable in recent months at c.1.30 USD. However, forecasts that the pound will strengthen against the dollar by the end of this year to a figure of 1.39 USD with further rises in 2020 to 1.47 USD.

Annual CPI has slowed from 3.0% to 1.8% over the year to January 2019 with RPI inflation falling from 4.0% to 2.5% over the same period. With low unemployment feeding through to earnings growth real wages continue to increase which should support consumer spending. Further recent public borrowing figures show that government borrowing has fallen significantly in the period since April 2018 providing some headroom for financial stimulus to support economic growth should it be required.



Investment Market

Although slightly down on 2017, at £62.1bn investment volumes in 2018 remained well above the 10 year average highlighting the ongoing demand for UK commercial real estate. In 2018 Offices remained the most sought after sector with overall investment volumes of £23.5bn. Whilst the industrial sector also remained healthy the alternatives / mixed use sector saw a rapid expansion of almost 10% to £17.9bn reflecting the move away from core sectors. However, the retail sector saw a significant slowdown with investment volumes falling 30% from 2017 levels to its lowest level since 2000. Rural investments, which represented 23% of all transactions, increased in 2018 in response to an increased supply with farms offering opportunities for diversification, energy production and future strategic development potential being attractive.

Overseas buyers continued to invest in UK commercial property accounting for 44% of all transactions with particularly strong interest from Far Eastern investors and whilst European investment remained comparable with previous years US investors continued to reduce their exposure to the UK market. Over the year UK Institutions increased their level of investment following 2 years of decline with private property companies moving in the opposite direction as net sellers in 2018.

The market, however, in the first 3 months of 2019 was very subdued with transaction volumes well down on 2018 at between £4.0bn and £5.0bn. At such time as an EU withdrawal is concluded it is anticipated that there will be a noticeable improvement.

All property equivalent yields hardened during the first half of 2018 levelling out at 5.45% in Q4 12bps lower than at the end of 2017. Within the overall figure industrial yields reduced by 39bps, followed by offices at 19bps. By comparison retail equivalent yields have started to soften reaching 5.66% at the end of the year an increase of 13bps.

Property Forecasts

Total commercial property returns are forecast to slow further in 2019 to a cyclical low of 1.2% with income return becoming the only source of growth as capital growth returns turn negative (-3.5%, 0.1% residual). This is down from 6.0% in 2018 and 10.2% in 2017. However, the level of total returns will recover in 2020 and remain at 5% - 6% over the period to 2023. Yields are likely to soften in 2019 with all property equivalent yields moving out by 19bps this year with the overall trend continuing until 2022, although by 2020 stabilisation may begin in individual sectors.

The retail sector will continue to struggle in 2019 with total returns set to fall from -0.5% in 2018 to -4.0% in 2019: positive income returns failing to off-set negative capital growth with values expected to fall by a further 9.2%. With continued unfavourable market conditions impacting negatively on the sector a substantial softening of yields is expected across the whole sector.

Despite remaining the best performing sector the main downward pressure on all property returns comes from the cooling industrial sector with the double-digit returns of recent years forecast to reduce to 7.3% in 2019 and thereafter average 6.4% over the next 5 years with demand for “last mile” delivery units, distribution centres and interest from retailers driving growth. Against this background equivalent yields are only likely to move out slightly.



Offices whilst showing negative capital growth of -2% total returns are expected to show positive overall return of 2% in 2019 (down from 6% in 2018) increasing to an average of 4.7% over the 5 years to 2023.

Returns within the rural sector have weakened over the past year due to a 2% downward readjustment in market prices coupled with its traditionally low but stable income return. However, within the sector forestry is currently the best performer at 16%. In the longer term it is expected that capital growth will return to its historical levels of c.5% before the realisation of development and environmental potential are taken into account.

Overall rental growth will see a decline of 0.7% in 2019 before return to modest growth of averaging c. 1% in the period to 2023. Within this figure rents within the retail sector are predicted to fall most sharply with standard shops outside London declining by an average of 7% and shopping centres by 6% with more modest falls within the supermarket segment only 1.7% despite the increase in online activity. Office rents will remain relatively stable underpinned by rental growth outside London due to the sustained demand for Grade A offices against a limited development pipeline. With a low market vacancy rate and continued demand the industrial sector is likely to see sustained rental growth of c.3% over the whole period to 2023.

Investment Strategy Update

The CAIF Strategy was reviewed in 2018 and adopted by Cabinet at its meeting held on 14th September 2018. The key objectives of the strategy are as follows:-

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

The implementation of this strategy coupled with the development of robust performance monitoring measures will ensure that the portfolio operates effectively and delivers value for money.

CAIF Strategy continues to be reviewed on an ongoing basis to take account of market trends and wider Council strategy in order to maximise the benefits the Fund delivers. An updated strategy is being presented to Cabinet alongside this report. The only substantive change in the CAIF Strategy is that in future, CAIF developments will aim to be low carbon, sustainable developments wherever possible.



Corporate Asset Investment Fund

STRATEGY 2019/2023



FOREWORD



Byron Rhodes

Deputy Leader

Leicestershire County Council

and Chair of the Corporate Asset Investment Fund Advisory Board

The Council has a long and strong track record in owning and managing a diverse portfolio of property and other investment assets. In recent years, the Council has taken a more proactive commercial approach to investment expanding the portfolio, thereby boosting the local economy and generating vital income for front line council services.

This strategy helps ensure there is a strong and resilient foundation to the Council's property holdings and that council taxpayers' money is invested safely and wisely to ensure the services can continue to be supported against the background of tight financial settlements from central government.



Chris Tambini,

Director of Corporate Resources

The Corporate Asset Investment Fund is an important source of funding for the Council.

As central government support is reducing, it is important for the Council to ensure its long term financial viability and stability. One important way this is achieved is by becoming more commercial and looking for new and innovative ways to safeguard the Council's services that people of Leicestershire rely on.

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Updated 28 January 2019



INTRODUCTION

- 1.1 Leicestershire County Council (the Council) owns and manages property and other investments, some of which are held for the purposes of generating income to support front line services. These types of investments are held in and funded through the Corporate Asset Investment Fund (the Fund) which the Council established in 2014.
- 1.2 Such investments have a significant and growing value that represent a means by which the Council can continue to provide high quality services to the people of Leicestershire despite the ongoing pressure on public finances. Since 2014, income generated by the Fund has reduced the amount of savings required to be made, and the impact on service provision to residents and businesses in the County which might otherwise have been adversely affected.
- 1.3 The Corporate Asset Investment Fund Strategy for 2019 to 2023 is aimed at supporting the growth of the Fund to further improve the Council's financial resilience as government grants continue to fall, and demand on services and operating costs continue to rise. It outlines how the Council will look to make investments during this period utilising the Fund and how it will manage these to help achieve the strategic priorities of the Council.
- 1.4 Whilst a key priority is to continue to increase the income/revenue for the Council from its investments, the Strategy sets out processes to ensure this is done in a transparent and safe and secure way, ensuring adequate liquidity should the Council ever need to call upon the capital invested, that risks are properly identified and managed and that performance is monitored continuously.
- 1.5 The Strategy for 2018/19 includes reference to indirect and non-property investments. In the last year these forms of investments have gained greater prominence within the Fund which now includes investments in Pooled Property Funds and private debt. The Strategy for 2019-23 has been amended to reflect this area of growth.
- 1.6 The Strategy is an integral part of the Council's Medium Term Financial Strategy (MTFS) and intrinsically linked with the Corporate Asset Management Plan (CAMP) and the Treasury Management Strategy and Annual Investment Strategy and it should be read in conjunction with these documents.

STRATEGIC OBJECTIVES

2.1 The aims of this Strategy have been aligned with the five Strategic Outcomes set out in the Council's Strategic Plan (below) which will play a key role, alongside the Medium Term Financial Strategy, in shaping the Council's investment activities over the next four years. The continued growth of the Fund during 2019 to 2023 will be at the heart of the Council's ability to deliver these objectives and other Council policies and programmes going forward.



Strong Economy - Leicestershire's economy is growing and resilient so that people and businesses can fulfil their potential.



Wellbeing and Opportunity - The people of Leicestershire have the opportunities and support they need to take control of their health and wellbeing.



Keeping People Safe - People in Leicestershire are safe and protected from harm.



Great Communities - Leicestershire communities are thriving and integrated places where people help and support each other and take pride in their local area



Affordable and Quality Homes - Leicestershire has a choice of quality homes that people can afford.

2.2 The specific aims of this Strategy are to ensure investments funded or held in the Fund –

- Support the objectives of the Council's MTFS
- Generate an income stream which increases the Council's financial resilience given the decrease in government funding
- Supports the delivery of front line services through increased income generation, or through capital investments that will reduce operating costs.
- Supports the Council's strategic objective of affordable and quality homes through helping to unlock and accelerate developments.
- Manage investment risk by investing in diverse sectors
- Meet the objectives of the Council's Corporate Asset Management Plan, Strategic Plan, its Economic Growth Plan and the County-wide Local Industrial Strategy
- Maximise returns on Council owned property assets

- Support growth in the County and its economic area of influence and ensure there is a more diverse range of properties and land assets available to meet the aims of economic development
- Support the Council in maximizing the benefit from its financial assets in a risk aware way (not including standard treasury management activity)¹

¹ Treasury Management activity with banks, local authorities and the capital market are not in the scope of this Strategy, such activities being undertaken in accordance with the Treasury Management Strategy and Investment Strategy agreed annually by the County Council.

LEGAL CONTEXT

- 3.1 Section 12 of the Local Government Act 2003 (the 2003 Act) provides a general power to invest: -
- “(a) for any purpose relevant to its functions under any enactment or
(b) for the purposes of the prudent management of its financial affairs”*
- 3.2 The power contained 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.
- 3.3 Section 120 of the Local Government Act 1972 (the 1972 Act) provides the power for the acquisition of land by agreement (whether inside or outside the authority's area) for the purpose of:
- “Any of their functions under this or any other enactment, or the benefit, improvement or development of their area”*
- 3.4 Acquisition can take place notwithstanding that the land is not immediately required for that purpose.
- 3.5 Further power is conferred upon an authority by the Localism Act 2011 (the 2011 Act). Section 1 of this Act introduced a new General Power of Competence which gave local authorities the power to do anything that individuals generally of full legal capacity may do. This Act is widely drawn and includes reference to commercial activities which do not necessarily have to benefit the local authority's area. However, this power is subject to a requirement that any actions being carried out for a “commercial purpose” must be done “through a company”, (i.e. a company within the meaning of s.1 (1) Companies Act 2006).
- 3.6 The approach of the County Council to date has been to rely on the powers set out in the 2003 Act. At present, this has not required the setting up of a company for its property and non-property investment activities using the Fund. However, it is likely to be necessary in the future, if the Council wishes to expand and diversify the scope of its investments. Such arrangements are not detailed in this Strategy at this stage.
- 3.7 The Strategy should be read in conjunction with the Capital Strategy, Treasury Management Strategy and Annual Investment Strategy and taken together take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

INVESTMENT STRATEGY 2019 TO 2023

- 4.1 The Corporate Asset Investment Fund Strategy is a high level summary of the Council's approach to investments made for the purposes of generating an income. It sets out the criteria and the processes and practices that will be considered and followed when carrying out such activities.
- 4.2 The Strategy developed for 2019 to 2023 has been aligned with the Council's MTFS timetable and reflects the aspiration of the current Capital Programme to invest in assets that will secure a long term return. It is designed to provide a framework that is flexible enough for the Council to compete in the commercial market whilst ensuring governance processes are in place, full assessments are made and risks are minimised.

Use of the Fund

- 4.3 The primary use of the Fund will be to -
 - 4.3.1 develop new or existing assets to meet Council service needs where this will reduce operating costs or, for example, meet local housing needs, whilst at the same time securing a return for the Council;
 - 4.3.2 continue to acquire both parcels of land for development and standalone income producing investments;
 - 4.3.3 continue to make better use of underperforming investment assets already owned by the Council, to redevelop these where appropriate to ensure they meet the needs of local businesses, meet current market expectations and achieve a higher economic return;
 - 4.3.4 maintain progress in the restructuring and rebalancing of the property portfolio (including the use of pooled property funds).
- 4.4 In addition, the Fund includes investment in Private Debt. Approval was granted by the Cabinet in December 2017 to invest up to £20m in private debt. Such investments are covered by the treasury management strategy agreed annually by the County Council. However, the funding, and overall monitoring of these investments are being picked up under the Corporate Asset Investment Fund to reflect the potential higher risk/higher reward nature of the investment and also to provide diversification to the overall portfolio of the Fund.
- 4.5 The Fund will be reviewed and performance of individual investments assessed on an annual basis. Where performance of an investment cannot be improved to an acceptable level this will be disposed of. The sale proceeds from such disposals will either be reinvested or directed to other service needs.

INVESTMENT CRITERIA

- 5.1 When investing the Council's financial resources action will be taken to ensure:-
- That principal sums invested are safeguarded as far as possible;
 - That they provide adequate liquidity;
 - That investment returns or yield are considered and balanced against potential risk factors.
- 5.2 Once liquidity (the ability to ensure as far as is practicable that should the Council wish to divest itself of an asset it can do so without incurring any material loss) has been confirmed, the following criteria will be considered as appropriate when assessing a potential investment (including developments):
- Security of the principal capital to be invested (both for land acquisitions and development/construction proposals);
 - Return on investment (revenue and capital growth);
 - Sensitivity analysis (i.e. returns pre and post rent reviews, voids assumption, end of life repair/disposal etc.);
 - Any legal issues (restrictive covenants etc.) with regard to the title of the land/property;
 - Any potential liabilities (such as land contamination/asbestos);
 - Sustainability (the energy performance of any existing property and its use);
 - Full cost of the acquisition (land value, fees, end of life costs etc.);
 - Fit with the current portfolio;
 - Exit strategy.

In addition, any property investment opportunities will also be considered with particular regard to:-

- **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.
- **Development potential income:** The total income assuming the site is fully developed (with cash flow timescales).
- **Tenant:** The financial standing and viability of any existing (or potential) tenants' covenants is to be considered.
- **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. There is a need, however, to be mindful of the ratio of investments within and without of the county.
- **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).

- **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, retrofits 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.
- 5.3 Once an asset/investment opportunity 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.
- 5.4 The adequacy of the estimated financial return will be judged against the certainty of the return materialising, with riskier investments expected to demonstrate a potential for higher returns.

Environment and Low Carbon

In 2018 the County Council adopted a new environment strategy ('Environment Strategy 2018 - 2030 – delivering a better future') which contains the following commitment:

"The UK Government's recent Clean Growth Strategy underlines the role that local government has in delivering and supporting our evolution to a low carbon society as we respond to these national and international commitments. The urgent need for concerted international action on climate change has been recognised by over 170 countries globally. The Paris Agreement of 2015 requires countries to work together in limiting global temperature rise to below 1.5 to 2°C, the recognised level established by the Intergovernmental Panel on Climate Change to limit the risks and impacts of climate change. The interconnection between economic development, social equity and inclusion and environmental impacts has also been recognised internationally via the 2030 Agenda for Sustainable Development. In recognition of this the County Council has recently signed up to UK 100 which commits the Council to achieving 100% clean energy by 2050."

Furthermore, in May 2019, County Councillors unanimously backed a motion calling for more to be done by the authority to cut pollution and declared a climate emergency. Leicestershire County Council now has an aim for its own operations to be carbon neutral by 2030.

In light of this, the Fund will aim to ensure that its developments will be built in as sustainable a manner as possible with the aim of being net zero carbon in the construction phase and as energy efficient to occupy and operate as possible (including the use, where viable, of on-site renewable energy sources).

Furthermore the developments will achieve net biodiversity gain and also push waste up the Waste Hierarchy by adopting a reduce, reuse, recycle approach to the management of waste particularly during the construction phase.

The wider public health agenda issues such as obesity, mental health, general health and wellbeing will also form part of the decision making criteria as to what makes a good development design and layout.



FINANCIAL RETURNS

Yield

- 6.1 The level of yield required balances security and liquidity. The term 'yield' can be defined as:

"The annual return on an investment, expressed as a percentage of the capital value"

- 6.2 For example, the annual rent received on a property investment is currently £50,000 per year gross. If the property has been valued at £1,000,000 then the revenue yield is 5%:

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

$$5\% = \frac{(50,000/1,000,000)}{\text{Capital Value}} \times 100$$

- 6.3 However, in addition there is also the potential capital growth which reflects how the value of an asset changes over time. If, for example, the value of the £1,000,000 investment had risen to £1,025,000 by the end of the first year; this would give capital growth of 2.5% and a combined gross yield / return of 7.5%
- 6.4 The yield figure will reflect the various risks involved in the investment. By and large, the higher the level of uncertainty (e.g. a tenant with a poor credit rating) the higher the required yield would be.
- 6.5 The average/balanced target yield for investments made by the Fund is 7% nominal. There will be costs incurred in managing the Fund and also costs associated with abortive work (feasibility studies, consultant work/staff time unsuccessful acquisitions bids).
- 6.6 Individual lot sizes can each be considered on their merits as long as they conform to the agreed overall portfolio mix.
- 6.7 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.
- 6.8 Whilst aiming for a yield of 7%, the Fund will seek to invest in a balanced way over several market sectors and types of investment in order to balance risk with securing the best return on investment.

Internal Rate of Return

6.9 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 a minimum IRR of 7% is a high level assessment for whether an investment is worthwhile.

Other Balancing Factors

6.10 Other balancing factors to be reviewed regularly with respect to property investments (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, lower risk for large office investments/development)
	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%	

INVESTMENT ASSESSMENTS

7.1 This Strategy places emphasis on openness, transparency and consistency. It aims to ensure maximum benefit from the effective purchase and subsequent management of the Council's assets, but within a framework which can be adaptable to market conditions. Within this framework, the Council must act within the appropriate legal framework, in a demonstrably fair and open manner, and consider whole life costs.

Direct Property Investments

7.2 Each proposed direct property investment proposal (including both proposals to acquire and/or develop property) will be subject to a three stage appraisal process as detailed below, although given the need to respond quickly to opportunities as they become available, a degree of flexibility is required and some of these stages may be combined.

STAGE 1 - Initial Assessment

7.3 The first phase of determining whether or not a direct property investment 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

7.4 Strategic Property Services, will first prepare an Initial Appraisal Report (IAR) which is intended to answer the basic question – 'is the asset worth acquiring?'

7.5 The IAR considers the likelihood of the proposed investment achieving the return required, the size and barriers to entry of the market, plus its suitability to the Council's own ethical standards, the quantum of risk and complexity, the payback period and how much the Council knows about the proposal (i.e. are there just too many unknowns?). Initial basic property details are also recorded at this time.

7.6 The answers to these key points will give a simple yet effective picture of the proposal and will allow an early decision to be made by the Director of Corporate Resources as to whether or not an investment is worth pursuing.

7.7 The process is run by the Strategic Property Services team and the decisions summarised in a regular report to the Director of Corporate Resources.

7.8 A challenge can be raised through the Strategic Property Services team, ultimately to the Director of Corporate Resources, but there must be no multiple consideration of the same proposal during the initial process. Once it has been deemed a fail, unless there is a fundamental error in the data provided or a paradigm shift on the proposal itself then the activity must cease.

STAGE 2 – Financial Appraisal and Business Case

- 7.9 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.
- 7.10 An independent property advisory firm will also be consulted on the opportunity and their report made known to the Board if the proposal is progressed beyond stage two.
- 7.11 The aim of the financial appraisal and business case is to assess how the acquisition will perform. It will consider all the acquisition costs and any potential income, the associated risks and then assess whether the asset is a suitable acquisition from a financial perspective. This process will be led by the Strategic Finance Service but the Director and the Board will be kept advised as projects are assessed and negotiated.

Other Council Consultees

- 7.12 After the identification of an asset, it will be incumbent on Strategic Property Services as Fund Manager to establish whether there may be constraints on the development or use of the asset.
- 7.13 In some cases, it may be appropriate to seek planning permission for a form of development prior to acquiring land. Strategic Property Services will consult with planning and highways colleagues (and other departments as appropriate) together with external consultants to decide whether planning permission should be sought prior to acquisition (conditional contract).
- 7.14 As part of this consultation, advice will be sought on suitable alternative uses for the site/asset. In case the existing or proposed use becomes 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.
- 7.15 Contemporaneously with the planning audit, the Council's legal section 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 that would be detrimental from a legal perspective.
- 7.16 Any existing or proposed tenant will also be credit checked.

Valuation

- 7.17 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.

STAGE 3 - Approval to Acquire/Develop

- 7.18 If the investment satisfies both stages one and two of the appraisal process, then on reaching agreement in principle as to the terms of acquisition, a detailed report will be prepared for consideration by the Board. Subject to the Board's support, acquisitions will then either be presented to the Cabinet for approval (necessary due to the size, complexity or risk (financial or reputational) of the proposed investment) or will be progressed by the Director of Corporate Resources under delegated powers. This report will set out how the acquisition is in accordance with agreed Council priorities and this Strategy.
- 7.19 Each business case will be approved by the Director of Corporate Resources (Section 151 officer) prior to presentation and discussion at the Board, which is chaired by the Lead Member for Resources.
- 7.20 All acquisitions shall have the necessary budgetary and relevant approvals before the acquisition is completed.
- 7.21 For clarity any decision that requires an approval of expenditure of more than £100,000 but less than £5 million can be made by the Director of Corporate Resources under the powers delegated by the Council.
- 7.22 Any decision that requires an approval of expenditure of less than £100,000 (and is line with a previous approved budget/scheme) can be made by the Head of Strategic Property Services'.
- 7.23 Any decision that requires an approval of expenditure of more than £5m will require Cabinet approval.
- 7.24 Cabinet approval is required for any 'out-of-county' direct property investment acquisitions.
- 7.25 Any indirect or non-property investment acquisitions 'out-of-county' are within the delegated authority of the Director of Corporate Resources

Surveys and Instructions

- 7.26 When all appropriate surveys (which must include an asbestos survey where the acquisition 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.

Other Investments

- 7.27 Other investments, such as into pooled property funds and private debt, will be subject to approval as part of the Council's overall financial management processes. This will include a specific report to Cabinet outlining the potential risks and benefits of the investment.

RISK

- 8.1 In respect of every investment there will be a number of risks that need to be assessed prior to a project being taken forward and then managed, mitigated and monitored throughout the life of a project. The key risks faced by the County Council in respect of its investment activities are set out below.

Investment Risk

- 8.2 The main risk with any investment lies with the ability to ensure the ongoing income stream and original investment is maintained and safeguarded.
- 8.3 For direct property, measures can be taken through, for example, ensuring that the tenant is of good covenant and is financially secure.
- 8.4 If the tenant defaults then whilst there are procedures to recover the rent, this is not guaranteed and can be time consuming and costly.
- 8.5 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.).
- 8.6 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.
- 8.7 Holding an element of the fund in pooled property funds helps to mitigate against these risks although for these, and non-property based investments, there will always be a dependency on the overall economic situation, including specifically the prevailing interest rate.

Financing Risk

- 8.8 The Council is to ensure compliance with the Prudential Code for Capital Finance in Local Authorities and ensure liquidity and security of the principal capital and not to tie up resources into long term situations whereby short term cash needs cannot be met or cannot be met without a significant financial penalty.
- 8.9 The returns generated by the Fund need to reflect the potential for the principal invested to reduce and for lost liquidity. A minimum total nominal return of 6.1% is sought in every investment (3.5% Green Book * 2.5% average inflation). This is 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. Detail of how financial returns on investments will be assessed is set out in Appendix B of this Strategy below.
- 8.10 Decisions relating to the financing of investment and/or development will be taken in conjunction with the Council's Treasury Management Strategy Statement and Annual Investment Strategy both approved each year as part of the Council's MTFs.

Reputational Risk

8.11 It is important that the reputation of the Council is protected during both times of financial restraint or otherwise in the investments that it makes.

Development Risk

8.12 This risk is specifically associated with developing property and these are higher than those risks associated with acquiring an already built property investment or investing in pooled property funds. This is therefore reflected in the potential returns.

8.13 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 securing a tenant to pay the rent is higher when dealing with new builds.

8.14 This can be mitigated by not building speculatively but only with an identified occupier tenant already in place, legally secured through an Agreement to Lease. 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.

8.15 Officers will continue to keep the Director of Corporate Resources updated on projects to ensure that risks are monitored, eradicated or mitigated (or, in project management risk terms, the strategies to be employed are: treat, tolerate, transfer, terminate) where possible.

Managing Risks

Direct Property Investment Appraisal Process

8.16 In order to minimise the risks associated with any investment being considered the Director of Corporate Resources will:-

- 8.16.1 Consider the level of return required from the capital that is invested. Each proposal should review the liquidity of the proposed acquisition and a fully costed exit strategy should the asset underperform and is not capable of being improved.
- 8.16.2 Undertake a cost/benefit analysis to fully understand the likely returns, identify any hidden costs and include key metrics such as Expected Yield, Internal Rate of Return and Payback period.
- 8.16.3 Undertake a market analysis to ascertain the likelihood of success across a full range of indicators.
- 8.16.4 Consider the use of external expertise where required to enhance the internal knowledge/ skills of officers and provide a greater level of assurance on the risks and mitigations involved, with the quality of the advice measured through the performance of each individual proposal against the benchmark/ target rate as set in the original business case and reported through to the Board regularly.



- 8.16.5 Produce a risk register for each property investment opportunity and update this annually. As each risk is analysed, a score which is a factor of probability and impact will be calculated (as per chart below) to ascertain the need for prioritising any actions to either tolerate, treat, terminate or transfer each particular highlighted risk.

		Impact (Negative)				
		Minor	Moderate	Major	Critical	
		1	2	3	4	
Probability	4	Almost Certain	Medium (4)	High (8)	Very High (12)	Very High (16)
	3	Likely	Medium (3)	High (6)	High (9)	Very High (12)
	2	Possible	Low (2)	Medium (4)	High (6)	High (8)
	1	Unlikely	Low (1)	Low (2)	Medium (3)	Medium (4)

- 8.17 The property investments will be considered as part of a diverse asset portfolio, to mitigate the risk associated with any single investment proposal. This diversification will include selecting a range of proposals with mixed payback, investment levels, returns, geographical locations, investment liquidity, specialist's skills and markets.

Fraud and Corruption

- 8.18 The Director of Corporate Resources will ensure that risks of loss through fraud, error, corruption or other such eventualities in its investment dealings are mitigated as far as is practicable and that these systems and procedures in place to tackle this are robust.
- 8.19 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, procedures for verifying and recording the identity of counterparties (e.g. tenants) will be maintained, as will arrangements for reporting suspicions, and ensuring that all members of staff involved in such dealings are properly trained.
- 8.20 Items that will be regularly reviewed as part of every transaction will include: -
- 8.20.1 Powers to own property investments
 - 8.20.2 Money laundering risks
 - 8.20.3 Property fraud risks
 - 8.20.4 Changes to property legislation (e.g., Energy Act)
 - 8.20.5 Appropriate third party checks before transacting
 - 8.20.6 Due diligence in transactions
 - 8.20.7 Keeping abreast of impact of legislative changes
 - 8.20.8 Regular inspections of the assets
- 8.21 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 the decisions taken under delegated powers. Such documents will form part of the public record.

Member and Officer Oversight

- 8.22 The Council will continue to ensure the prudent management of its investments and for giving priority firstly to the security of the capital.
- 8.23 The Council will continue to ensure that procedures for monitoring, assessing and mitigating the risk of loss of invested sums are robust. The Board will play a vital role in assessing investment proposals early on and thereafter monitoring projects and overall performance of the Fund.
- 8.24 Financial performance of the Fund is monitored by officers and members on a regular basis. The Cabinet and the Scrutiny Commission will receive regular MTFS monitoring reports which include information on the operation of the Fund. These bodies also receive an annual report on investment activity undertaken during each financial year which also provides an update on ongoing projects.
- 8.25 Officers have continuous oversight of matters relating to property assets held for both service delivery and investment purposes. These are monitored through the Asset Management Working Group and the Corporate Property Steering Group chaired by the Director of Corporate Resources.
- 8.26 Effective management and control of risk are prime objectives in the management of the Fund. Any risk identified will form part of the managing departments Risk Register Which will be managed and mitigated and reassessed regularly in accordance with the Council's usual practice. Where appropriate, any significant risks will be captured on the Council's Corporate Risk Register which is overseen and monitored by the Council's Corporate Governance Committee.

RISK SUMMARY

- 9.1 The Fund is 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) and other property/strategic land (where there is an expectation of a future capital gain).
- 9.2 This could be either directly or indirectly as part of the managed fund (pooled property). The Fund is also acquiring debt but not considering, at this stage, investing in other investable assets (commodities, FTSE shares etc.).
- 9.3 The Fund is unlikely to acquire surplus operational property (that is being disposed of) where it has no development potential.
- 9.4 The Council must consider its ability to recall invested funds; including the length of time and the ease and cost with which said investments can be returned in their entirety.
- 9.5 It is important for the Council to consider the key requirement of the Prudential Code which requires authorities not to tie up resources into long term situations whereby short term cash needs cannot be met or cannot be met without a significant financial penalty. There must be a clear understanding and forecast of short term cash needs which will need to be fully provided for by the Council before it considers longer term capital tie in.
- 9.6 This portfolio view, as well as individual asset classes, will be regularly reported to the Board, the Cabinet and the Scrutiny Commission.
- 9.7 Each individual proposal will have an exit strategy clearly articulated in the original business case which will provide an indicative timeline for the repayment of capital/ returning of funds once the decision has been made to divest, subject to market conditions.



PERFORMANCE MONITORING/ BENCHMARKING

10.1 CIPFA guidance states that:-

“**Performance measurement** is a process designed to calculate the effectiveness of a portfolios or managers 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.”

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

10.3 The Fund is subject to regular valuations – 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.

10.4 It is the Council's aim to achieve a stable long term surplus, profit and value for money from its investment activities.

10.5 As part of the performance reporting of the commercial programme the Board will consider not only new investment proposals, but also ongoing reporting of commercial activity outlining:

10.5.1 the performance of the portfolio,

10.5.2 the future pipeline of opportunities,

10.5.3 the investment forecast,

10.5.4 the risks and mitigations,

10.5.5 the detailed performance and commentary of each investment/ development proposal within the portfolio.

10.6 The reporting will be effective enough to allow the Board to support decisions on the future of each investment proposal considering four key outcomes:

Increase - the proposal is performing well, and every indicator shows that the Council should increase the amount invested to generate a greater return

Continue - the proposal is performing well, and every indicator shows that the Council should continue with the existing levels of investment

Warning - the proposal is not performing well, and should be closely monitored and remedial action taken. If the proposals poor performance hasn't been reversed The Board should consider alternate strategies

Exit/Disinvest/Stop - the proposal is not performing well, despite the Council's best efforts, the proposal should be considered for closure as soon as practicable and the exit strategy evoked.

10.7 The commercial approach of the Council has to be considered against the wider CIPFA financial regulations and MHCLG guidelines.

- 10.8 Each investment made by the Council will need to be regularly valued as part of the year end accounts closure process, with different asset types requiring differing valuation methods and timings.
- 10.9 There will 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.
- 10.10 The Fund should continue to consider its exposure to both 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.
- 10.11 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.
- 10.12 Officers will report regularly to the Director of Corporate Resources and will provide an annual report to Cabinet and to the Scrutiny Commission as well as updates throughout the year.
- 10.13 The Fund uses the Investment Property Databank (IPD) Benchmark as its overall performance yardstick.
- 10.14 More financial technical benchmarks such as Expected Yield and Internal rate of Return are also used to provide accounting rigor with regard to the Fund's performance.
- 10.15 Other items such as total investment, risk profile, liquidity and exit costs for the individual activities above a certain threshold are summarised in the regular reports to The Board.
- 10.16 The Statutory Guidance on Local Government Investments (3rd Edition) which is issued under s15(1)(a) of the Local Government Act 2003 requires local authorities to develop quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its decisions (para 22 of the Guidance).
- 10.17 Therefore the Council has adopted the quantitative indicators as recommended by the Guidance (see Appendix A) and these, where appropriate, will form part of the Corporate Asset Investment Fund Annual Report.



STAFF RESOURCES

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

APPENDIX C - QUANTITATIVE PERFORMANCE INDICATORS

Debt to net service expenditure (NSE) ratio	Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.
Commercial income to NSE ratio	Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.
Investment cover ratio	The total net income from property investments, compared to the interest expense.
Loan to value ratio	The amount of debt compared to the total asset value.
Target income returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.
Benchmarking of returns	As a measure against other investments and against other council's property portfolios.
Gross and net income	The income received from the investment portfolio at a gross level and net level (less costs) over time.
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.
Vacancy levels and Tenant exposures for non-financial investments	Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.



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SCRUTINY COMMISSION – 4TH SEPTEMBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**2019/20 MEDIUM TERM FINANCIAL STRATEGY
MONITORING (PERIOD 4)**

Purpose

1. To provide members with an update on the key issues impacting on the 2019/20 revenue budget and capital programme monitoring position.

Policy Framework and Previous Decisions

2. The 2019/20 revenue budget and the 2019/20 to 2022/23 capital programme were approved by the County Council at its budget meeting on 20th February 2019 as part of the Medium Term Financial Strategy.

Background

3. The latest revenue budget monitoring exercise shows a net projected overspend of £2.9m.
4. The latest capital programme monitoring exercise shows a net projected underspend of £17.1m.
5. 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.

REVENUE BUDGET

6. At this relatively early stage in the year a net overspend of £2.9m is forecast. The results of the latest exercise are summarised below and laid out in a little more detail in Appendix 1.

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget	0	0	0	n/a
Children & Family Services (Other)	75,236	77,166	1,930	2.6
Adults & Communities	139,260	137,820	-1,440	-1.0
Public Health *	-344	-614	-270	n/a
Environment & Transport	68,191	70,171	1,980	2.9
Chief Executives	10,974	10,504	-470	-4.3
Corporate Resources	34,035	34,095	60	0.2
Capital Financing	60,560	60,560	0	0.0
Other Areas	15,392	18,272	2,880	13.1
Central grants/other income	-25,894	-27,344	-1,450	5.6
Total	377,410	380,630	3,220	0.9
Funding	-377,410	-377,700	-290	0.1
Net Total	0	2,930	2,930	

7. The details of major variances are provided in Appendix 2. The key projected variances that have been identified are set out below.

Children & Families

8. For 2019/20 the High Needs budget is set at £6m above the level of Dedicated Schools Grant (DSG) funded through the DSG earmarked fund which is expected to record a deficit at the end of the financial year as set out in the High Needs Development Plan. Current estimates are that in the current year the £6m estimate is correct although it may take longer than expected for the position to be recovered. A number of activities within the High Needs Development Plan are established which include developing the capacity in mainstream schools to meet need without the need for specialist provision and the opening of special needs units and schools to prevent the need to commission higher cost places within independent schools. The impact of changes in demand associated with the actions being taken through the plan will remain under review and costs will become more certain as pupil destinations are known at the commencement of the academic year in September.
9. Children's Social Care workforce - £1.4m overspend. The recruitment of social workers is a concern nationally and that position is reflected in Leicestershire resulting in a continued need to use agency workers to fill vacancies. A number of newly qualified social workers have also been recruited over the last 12 months, which in the short term need to be supported by experienced workers which given the current market, are likely to be agency. Maintaining caseloads at a reasonable level is also an increasing pressure across many social care services. This area overspent by £1.1m in 2018/19.

10. Asylum Seekers - £0.7m overspend. Demand on this budget continues to rise, leading to the need for additional staffing. Although the Home Office has increased funding rates this is not sufficient to offset the overall pressure on this budget. The outturn for 2018/19 was £0.4m so the problem continues to grow.

Adults & Communities

11. Residential Care / Supported Living – net underspend of £0.8m arising from a reduction in the overall number of service users is forecast. A £1.7m increase in costs on supported living is offset by a £2.5m reduction in residential care costs. This is due to the departmental Target Operating Model (TOM) programme of moving service users from residential care to supported living.
12. Direct Payments / Home Care – net underspend of £0.6m. Increased service users receiving a Help to Live at Home (HTLAH) service offset by a reduction in the number of service users receiving a Direct Payment.
13. Community Income is anticipated to overspend by £0.8m due to a loss of health income following changes in the Learning Disabilities pooled budget arrangements (£1.4m, offset by reductions in commissioned demand led service budgets elsewhere, e.g.residential care) and an increase in other service user income (£0.6m).

Environment & Transport

14. Special Educational Needs (SEN) transport - £1.6m overspend. There are increasing numbers of pupils requiring transport provision and in some cases risk assessments and case conferences have highlighted that children require a higher level of transport provision (such as solo travel). Delays in implementing savings are also a factor in the forecast overspend, including those relating to the potential impact of the judicial review. Further work to reassess the overspend will be required once the new academic year transport patterns are known.
15. Public Bus Services - £0.5m overspend, largely due to the costs of subsidising additional bus services that became no longer viable during 2018/19. Delays in implementing some savings are also contributing to the overspend.

Corporate/Central

16. Commercial Services - £0.6m overspend. Income budgets will be difficult to achieve mainly as a result of the impact of pay inflation. Action is being taken to increase income and reduce costs to try to address the forecast overspend.
17. The inflation contingency of £13.9m is projected to be overspent by around £3m. Inflation pressures on the A&C budget are estimated at around £9.2m, mainly relating to the fee review, including implementing new bands and the 2019/20 inflationary uplift, as detailed in a report to the Cabinet on 25th June 2019. The financial impact is uncertain at this stage and an estimate has been included. The 2019/20 pay award and an increase to the employer pension contribution rate amount to £5.3m, and

inflation pressures of around £2.4m are anticipated on highways, transport, waste, energy and other budgets.

18. Central Grants and Other Income is forecast to underspend by £1.5m due to an increase in bank interest from higher balances and a review of prior year open purchase orders that are no longer required.
19. There are also various other smaller variances across departments, totalling £2.8m underspend. The full list of variances is shown in Appendix 2.

Business Rates

20. The County Council is undertaking quarterly monitoring with the District Councils and Leicester City Council regarding the 2019/20 Leicester and Leicestershire Business Rates Pool and 75% Business Rates Pilot. The latest forecasts show:
 - Business rates pool surplus of around £9m in 2019/20 compared with a forecast of around £8m in January 2019. The surplus is transferred to the Leicester and Leicestershire Enterprise Partnership (LLEP).
 - Business rates pilot surplus of around £14m - £15m, to be distributed to the pooling partners. The County Council's share of c.£7m is included in the MTFS as part of the Future Developments Fund.

Overall Revenue Summary

21. Overall there is a forecast net overspend of £2.9m.
22. The overspends will be kept under review in subsequent months and actions will be taken to reduce them where feasible. Given the prudent nature of budget monitoring, especially when there is such a large amount of uncertainty early in the financial year, it is anticipated that other areas of underspending will emerge which will allow the revenue budget to be balanced in overall terms.

CAPITAL PROGRAMME

23. The capital programme for 2019/20 totals £162m, including slippage of £19m from the 2018/19 outturn position. The latest position for 2019/20 shows an overall forecast variance of £17.1m. A summary is shown in Appendix 3 with details of the major variances provided in Appendix 4.
24. An update on the latest position is reported below.
25. Children and Family Services – there are pressures on the SEND programme within the four year C&FS capital programme to deliver the approved schemes within the approved budgets and the need to consider options to expand local specialist provision. The department are therefore reviewing all C&FS capital schemes and funding to try to ensure that the capital schemes remain where possible within the overall budget. As a result, no variances have been reported as at period 4 while this review takes place. An updated will be provided in the next monitoring report.
26. Three new special needs units will open in September with further provision set to open throughout 2020. This includes a new 80 place special school in Barwell to meet the needs of pupils with communication and interaction difficulties who would otherwise have needed independent school provision. A bid to the Department for Education (DfE) to fund a 125 place special school for pupils with social, emotional and mental health difficulties has been successful and negotiations with the DfE are underway to determine the nature of the capital build and date for opening.
27. Adults and Communities:
 - Records Office Relocation - £2.5m slippage due to significant changes to the design which has required a major re-write of the full business case. This is expected to be approved in October 2019. A partner workshop is planned to be held in September 2019 to confirm the detailed working relationship and define partner contributions.
 - Hamilton Court/Smith Crescent NWL Development - £1.9m slippage. A feasibility report has been completed which includes indicative timescales and milestones, that has informed the current position regarding the profile of expenditure. Pre-construction work is due to complete December 2019. Construction work will commence in January 2020.
28. Environment and Transport:
 - M1 Junction 23 and A512 - £5.2m slippage due to delays in the legal agreement being signed with the developers. The agreement has now been signed and construction works have started.
 - Melton Depot Replacement - £3.8m slippage as the winter 2019/20 service is to be provided out of the existing depot following a one-year extension of lease being granted. For winter 2020/21 onwards, there is currently no prospect of

moving to the new depot site until the Melton Distributor Road is completed. Short term options are being investigated.

- National Productivity Investment Fund (NPIF) Hinckley Hub - £3.5m slippage due to delays in negotiations with the land owners. Work is now unlikely to start until March 2020. The funding position will be kept under review as funding is time limited and due to expire March 2021. The project will spend NPIF funding first to mitigate this risk.
- Zouch Bridge - £1.3m slippage following a review of the scheme. Cabinet received a report on 24 May 2019 which reported a shortfall in funding for the replacement of Zouch Bridge with the Department asked to review departmental earmarked funds and the current capital programme to try to meet the funding shortfall. The department has undertaken a review of earmarked funds which has identified some capacity to partially meet the shortfall, but the amount cannot be confirmed until later in the year. In addition, the Department for Transport (DfT) has recently announced a further tranche of the Challenge Fund, which enables local highway authorities in England to bid for major maintenance projects that are otherwise difficult to fund through the usual formula funding allocations they receive from government. Consideration is being given to ascertain whether the Zouch Bridge replacement meets the criteria for this funding and whether a bid should be submitted. Subject to funding, the planned scheme start date is now Spring 2020.

29. The four-year capital programme includes £11.5m for the purchase of land to develop a new Waste Transfer Station. Following a review of potentially suitable sites it has been confirmed that a site currently owned by the County Council may be the most suitable location for this development. As a result, it is likely that the full capital allocation may not be required (part will be needed for the construction) and may offer opportunities to close the Zouch Bridge funding gap. Consultants have been engaged to develop options and plans together with associated cost.
30. In July 2019, the DfT announced an additional £348m nationally over 4 years to boost the quality of local roads. £200m of this funding will form part of the Challenge Funding which the County Council will be able to bid for. Options are currently being investigated and could include a bid to assist in funding for Zouch Bridge. The second tranche of this money, £150m, will be part of the Pinch Point Fund. This will be available in 2021/22 & 2022/23 and is for projects designed to ease congestion. The current options being investigated are for Desford Crossroads and the Market Harborough Transport Strategy.
31. Corporate Resources Programme, Watermead Park Footbridge and Cycleway, slippage of £2.0m. The scheme is now on hold as one of the landowners on which the bridge will be located is now reconsidering their involvement in the project.
32. Corporate Programme, overall net acceleration of £4.5m.
 - CAIF – Loughborough University Science and Enterprise Park, development of an office block plus car parking spaces, accelerated timescale, £6.4m.

- CAIF – Airfield Business Park, development of industrial units on part of the site, underspend £1.1m. Reduction in funding required based on the agreed fixed price contract, partly due to procuring a cheaper construction package through the OJEU process alongside some changes to the scheme.
- Energy Strategy, slippage of £0.7m. Schemes progressing, with Energy improvements at Countesthorpe College likely to proceed shortly. Work is ongoing to finalise schemes at Charnwood College, Lutterworth College and Hinckley Academy. The complexity of the process (assessment of savings and complex repayment agreements) has led to some of the delays in forecast spend.

Capital Receipts

33. The requirement for capital receipts for 2019/20 is £12m. The latest forecast of receipts is £4m, a shortfall of £8m. The shortfall is primarily due to delays with three large planned sales where planning permission is required. £3m is now expected to be received next year, with the timing of the balance of £5m uncertain at this stage. The shortfall can be managed in 2019/20 due to the overall level of slippage on the capital programme.
34. The overall position will be reviewed and updated as part of the refresh of the MTFS capital programme.

Corporate Asset Investment Fund

35. A summary of the Corporate Asset Investment Fund (CAIF) position as at quarter 1 for 2019/20 is set out below:

Asset Class	Opening Capital Value	Capital Incurred 2019/20	Net Income YTD	Forecast Net Income FY	Forecast Net Inc. Return FY
	£000	£000	£000	£000	%
Office	27,657	39	640	1,685	6.1%
Industrial	12,479	1	160	894	7.2%
Distribution	456	0	8	38	8.3%
Development	35,120	5,101	26	19	0.1%
Rural	20,585	120	23	956	4.6%
Other	4,344	0	0	283	6.5%
Pooled Property	23,110	2,500	215	1,000	3.9%
Private Debt	20,890	0	260	1,044	5.0%
TOTAL	144,641	7,761	1,332	5,919	3.9%

36. Overall the fund is forecasting to achieve a 3.9% net income return for 2019/20. If the development classification was excluded, the return would increase to 5.3%.

37. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual CAIF performance report.
38. During June 2019, an additional £2.5m was invested in Pooled Property funds bringing the total held to £25m as originally planned, the opening value in the table above includes growth in the valuation of the fund.

Future Developments Fund

39. The latest estimated balance of available resources for the future developments fund is £15m. This position is after the following allocations in 2019/20:
- E&T - Advanced infrastructure design for schemes in the County, £6m
 - E&T – Early contractor involvement and related works for the East of Lutterworth spine road £1.5m
40. The balance on the Future Developments fund is held to contribute towards schemes that have been identified but are not sufficiently detailed for inclusion in the capital programme at this time. There is a long list of projects that may require funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in health and social care service user accommodation, highways match funding of capital bids, investment in community speed enforcement (depending on the outcome of the pilot), funding for the heritage and learning collection hub, a contingency and transitional costs for the new records office, and investment for the efficiency and productivity programme. The list of future developments is continually refreshed.
41. The latest estimate of funding required is £70m, compared with the funding available of £15m. This leaves a potential shortfall of £55m.

Recommendation

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

Background Papers

County Council, 20 February 2019 – Medium Term Financial Strategy 2019/20 to 2022/23.

<http://politics.leics.gov.uk/documents/s144416/Report%20of%20the%20Cabinet%20-%20MTFS.pdf>

<http://politics.leics.gov.uk/documents/s144417/MTFS%2019-23%20-%20Cab%208-2-19%20v4%20final.pdf>

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications arising from this report.

Appendices

Appendix 1 – Revenue Budget Monitoring Statement

Appendix 2 – Revenue Budget – Forecast Main Variances

Appendix 3 – Capital Programme Monitoring Statement

Appendix 4 – Capital Programme – Forecast Main Variances and Changes in Funding

Officers to Contact

Mr C Tambini, Director of Corporate Resources,

Corporate Resources Department,

☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),

Corporate Resources Department,

☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

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REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD : APRIL 2019 TO JULY 2019

	Updated Budget	Projected Outturn	Difference from Updated Budget		
	£000	£000	£000	%	
<u>Schools Budget</u>					
Delegated	92,883	92,883	0	0.0	
Centrally Managed	103,622	103,542	-80	-0.1	
Dedicated Schools Grant (DSG)	-196,505	-196,505	0	0.0	
Balance to DSG Earmarked Fund	0	80	80	n/a	
	<u>0</u>	<u>0</u>	<u>0</u>	<u>n/a</u>	
<u>LA Budget</u>					
Children & Family Services (Other)	75,236	77,166	1,930	2.6	RED
Adults & Communities	139,260	137,820	-1,440	-1.0	GREEN
Public Health *	-344	-614	-270	n/a	GREEN
Environment & Transport	68,191	70,171	1,980	2.9	RED
Chief Executives	10,974	10,504	-470	-4.3	GREEN
Corporate Resources	34,035	34,095	60	0.2	AMBER
DSG (Central Dept. recharges)	-922	-922	0	0.0	GREEN
Other corporate savings	-300	-300	0	0.0	GREEN
Contingency for Inflation	7,779	10,779	3,000	38.6	RED
Total Services	<u>333,909</u>	<u>338,699</u>	<u>4,790</u>	<u>1.4</u>	
<u>Central Items</u>					
Financing of Capital	22,600	22,600	0	0.0	GREEN
Revenue funding of capital	31,360	31,360	0	0.0	GREEN
Revenue funding of capital- use of BR Pilot income	6,600	6,600	0	0.0	GREEN
Central Expenditure	2,835	2,715	-120	-4.2	GREEN
Central Grants and Other Income	-25,894	-27,344	-1,450	5.6	GREEN
Total Central Items	<u>37,501</u>	<u>35,931</u>	<u>-1,570</u>	<u>-4.2</u>	
Contribution to General Fund	6,000	6,000	0	0.0	GREEN
Total Spending	<u>377,410</u>	<u>380,630</u>	<u>3,220</u>	<u>0.9</u>	
<u>Funding</u>					
Business Rates - Top Up	-39,674	-39,674	0	0.0	GREEN
Business Rates Baseline / retained	-23,455	-23,375	80	-0.3	AMBER
S31 Grants - Business Rates	-3,585	-3,955	-370	10.3	GREEN
Business Rates - Levy surplus	-934	-934	0	0.0	GREEN
Business Rates Pilot - one-off additional income	-6,600	-6,600	0	0.0	GREEN
Council Tax Collection Funds - net surplus	-1,539	-1,539	0	0.0	GREEN
Council Tax	-301,623	-301,623	0	0.0	GREEN
Total Funding	<u>-377,410</u>	<u>-377,700</u>	<u>-290</u>	<u>0.1</u>	
Net Total	<u>0</u>	<u>2,930</u>	<u>2,930</u>		

* Public Health funded by Grant (£24.2m)

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

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Revenue Budget 2019/20 – forecast main variances**Children and Family Services**Dedicated Schools Grant

A net underspend of £0.1m is forecast. The main variances are:

	£000	% of Budget
Education Sufficiency - Schools Admissions	-110	-27%
Vacant posts which will be filled for only part of the year. Also increased income streams via an increase in levels of fines and school appeals.		
Other variances	30	n/a
TOTAL	-80	n/a

Local Authority Budget

The Local authority budget is forecast to overspend by £1.9m (2.6%). The main variances are:

	£000	% of Budget
Asylum Seekers	725	106%
Demand on this budget has significantly increased in recent years and is projected to do the same this financial year, which has resulted in an increased need for additional staffing to manage demand. The majority of these children arrive 'spontaneously' and on arrival are the statutory responsibility of the local authority in which they arrive. The Home Office have increased funding rates this financial year, which based on 2018/19 activity, is projected to reduce this year's budget pressure by £230k, but nevertheless is still not sufficient to fund the overall budget pressure for this financial year.		
Children's Social Care Field Work Teams / First Response	550	6%
Recruitment and retention pressures among the Children's Social workers workforce across various teams have resulted in a number of positions being filled by agency workers. There is also increased staffing levels in some services to manage workload capacity based on demand and to provide Assessed and Supported Year in Employment (ASYE) support.		
Children in Care Service	475	24%
Legislation changes around the Personal Advisor duty has resulted in budget pressures for 2019/20 which will require close monitoring. The Act has extended the duty for local authorities to provide support for young people through personal advisors from age 21 to age 25. Recruitment and retention pressures among the Children'S Social workers workforce across various teams have resulted in a number of vacant positions being filled by agency workers. There is also increased staffing levels in some teams to manage workload capacity based on demand and to provide ASYE support.		
Fostering & Adoption Service	380	12%
Increased volumes of assessments which require completing in relation to kinship, mainstream and adoption has resulted in externally commissioning these assessments to ensure compliance within court timescales. There is also increased staffing levels in some teams to manage workload capacity based on demand - especially in regards to Kinship care where numbers are increasing above what was expected. The roll out of the Permanence Pilot to enable all work to match children with prospective adopters to be rolled out county wide has resulted in short term additional costs whilst capacity in locality teams is better understood and structures stabilised whilst this function moves under a dedicated team within this service.		
Operational Placements	170	1%
Leicestershire's looked after children (LAC) number at 31/3/2019 was 585, and budgeted for an increase of 11%. Current projections indicate a LAC increase of 12%. In addition, some children have entered the system with really high and complicated needs, which have resulted in costs of almost 100% increase in comparison to the average cost of that placement type.		
Directorate	100	7%
Structural short term changes to manage and oversee departmental change programmes. Also includes use of agency to cover for long term sickness whilst recruitment of vacant post is fulfilled.		
PRU Transport	85	56%
Demand and complexities in managing travel needs of pupils have resulted in overspend position.		

Children and Families Wellbeing Service	-215	-2%
Staff turnover and in year vacancies.		
Disabled Children Service	-340	-8%
Staff turnover and in year vacancies in addition to reduced demand on direct payments budget.		
Other variances	0	n/a
TOTAL	1,930	n/a

Adults & Communities

The Department is forecasting a net underspend of £1.4m (1.0%). The main variances are:

	£000	% of Budget
Supported Living	1,665	10%
Overspend forecast due to the Target Operating Model (TOM) programme target of moving 5 Learning Disabilities service users per month from Residential Care into Supported Living. Currently there are an additional 15 service users receiving Supported Living. It is forecast that there will be a phased increase to 60 service users over the year. Additional service users are expected from the opening of Brookfields. However, this hasn't been forecast until a completion date is set and initial moves take place. There will be a corresponding underspend on Residential Care service user numbers which offsets this variance.		
Home Care	1,345	8%
Overspend forecast at this stage - additional maintenance hours being commissioned as a result of increased service user numbers receiving a Help to Live at Home (HTLAH) service compared with the budget. Current average number of service users is 1,840 with an average weekly cost of £188.(Outturn 2018/19: Average service users 1,770 and weekly cost of £184). This should be considered in conjunction with the decreasing numbers of service users in weekly Direct Payments and the underspend being reported there. It is expected that over the course of the year, there is potential for additional service users to be given Homecare packages as part of implementation and rollout of the TOM work to reduce the number of residential care admissions, whilst at the same time reducing the average package size per service user through better commissioning practice.		
Community Income	850	4%
Learning Disabilities pooled income (£1.4m) with health is lower than budgeted as the number of service users are falling and this will continue as further 100% funded service users are removed from the pool over the course of the year. The reduction in pool income should be offset by a reduction to demand led expenditure. The overall budget is offset by an additional £0.6m of income being forecast that is mainly a result of a higher average chargeable amounts being received from service users. As new service users are entering the system their average chargeable amount is higher than those exiting the system - therefore the average chargeable amount increases over time. A small increase in chargeable service users is also expected through the TOM work looking to keep service users in Non-Residential Care rather than Residential Care.		
Early Help & Prevention Secondary Services (e.g. Carers & Community Assessments)	185	75%
Correction of a 2018/19 year end reserved debtor and an increase in the cost of the Lightbulb Partnership project due to additional staffing costs arising from pay inflation increments and a new manager post increasing the County Council's contribution by £55k.		
Communities and Wellbeing	145	3%
Overspend mainly relates to further efficiency savings that to date have not been achieved, additional CCTV costs in libraries, loss of income at Bosworth Heritage Centre due to visitor numbers and staffing to cover for long term sick in museums service.		
Safeguarding, Deprivation of Liberties (DOLS) & Court of Protection	105	4%
Overspend on Safeguarding relates to additional market premia and agency costs.		
Residential Care and Nursing	-2,465	1%
Reduction in number of service users and lower average cost of packages (£1.3m). There are an average of 2,230 service users and an average gross care package cost of £741 per week (before the impact of the 2019/20 fee review which is in the process of being implemented). As part of the TOM programme a number a service users will be transferring to supported living which will result in a reduction of approximately £2m residential expenditure. These are offset by a reduction in health income of £0.9m due to changes to the LD pool budget arrangements.		

Direct Payments	-1,950	5%
The underspend is due to the net impact of a 5.7% reduction in number of service users and a 6.2% increase in package price equating to a decrease of £1.95m in total. - Forecast 2,340 service users per week receiving an average package of £320.60 (2018/19 Outturn: Annual average 2,498 per week with an average package of £292.11). - Forecast 705 Carers per week receiving an average packaged of £45.93 (2018/19 Outturn: Annual average 492 Carers per week with an average package of £45.32).		
Homecare Assessment and Reablement Team (HART) & Crisis Response	-605	-13%
Staffing and travel underspend forecast at this stage. It is expected that additional resources will be recruited as part of the TOM work to encourage transfers from HTLAH reablement into HART, however at this stage this hasn't occurred. A full review will be undertaken once the TOM work is completed.		
Community Life Choices (CLC) / Day Services Team	-535	-19%
Underspend due to changes within the services and service users (CLC policy) and vacancies being held pending the implementation of action plans for co-location as part of savings. Review of service users is still ongoing, action plan will take place once this has occurred.		
Supported Living, Residential and Short Breaks	-385	-8%
Reduction in service users in Hamilton Court residential and managing vacancies at Hamilton Court and The Trees. Review of service users ongoing.		
Aids, Adaptations and Assistive Technology	-165	-7%
Staffing vacancies pending stabilisation of services and possible changes to internal service.		
Other variances (under £100k)	370	n/a
TOTAL	-1,440	n/a

Public Health

The Department is forecasting a net underspend of £0.3m. The main variances are:

	£000	% of Budget
Local Area Co-ordination	60	8%
Forecast reduced income due to partnership income arrangements being reviewed.		
Sexual Health	-80	-2%
Community Based Services claims are 25% below budget.		
NHS Health Check programme	-75	-14%
Improved data analysis of claims has reduced the number of duplicate health check claims which has reduced forecast costs.		
Other Public Health Services	-70	-26%
Forecast income due to partnership income arrangements being reviewed.		
0-19 Children's Public Health	-60	-1%
The forecast underspend relates to the cessation of the Understanding and Managing Risk contract on 31.08.19. This contributes to the MTFS savings.		
Other variances	-45	n/a
TOTAL	-270	n/a

Environment and Transport

The Department is forecasting a net overspend of £2m (2.9%). The main variances are:

	£000	% of Budget
Special Educational Needs	1,600	15%
<p>The forecast has been updated by analysing the value of taxi invoices received to date in 2019/20 and projecting forward expenditure for the remainder of the year (including a 4% per assumption for in-year growth and inflation). The forecast position is largely due to continuing growth in demand, increased solo contracts and greater complexity of transport provision to meet passengers' needs. The cost per day of providing SEN transport rose rapidly during 2018/19 after budgets were set for 2019/20 and is continuing to increase during 2019/20. Further analysis needs to be undertaken to examine in detail the reasons for the large increase in the cost per day of providing SEN transport.</p> <p>Delays in implementing savings are also a factor in the forecast overspend. Following a delay in receiving the outcome of the judicial review into the proposed SEN post-16 Personal Transport Budget (PTB) policy, a decision was made at the end of June to pause the policy implementation for a year. This has resulted in an estimated additional £0.4m of costs in 2019/20. The judicial review found in Leicestershire's favour and it is now planned to implement the saving in 2020. A further saving of £0.2m that was due to be delivered from implementing an Alternative Fleet Provision has been suspended whilst work is undertaken on the SEN post-16 PTB pause.</p> <p>The impact of voluntary PTB take up for post-16 students could reduce the overspend, but it is difficult to forecast the numbers who may wish to follow this option. Parents have been asked to contact LCC if they wish to continue with the PTB option for the new academic year in September.</p> <p>Further work to reassess the forecast overspend will be required once new academic year transport patterns have settled down. The 4% growth / inflation assumption that has been factored into the forecasting model will also be challenged and reviewed. Given trends over the past 12 months, it may be that the 4% figure is too low and needs to be revised.</p>		
Public Bus Services	510	26%
<p>Overspend forecast largely due to the cost of subsidising additional bus services / routes that became no longer commercially viable during 2018/19. In addition to this, during 2019/20 a bus operator has unexpectedly terminated the contracts of two further services. It is estimated that it will cost an additional £50k in 2019/20 to award emergency tenders for these routes (£0.1m full year effect). This cost is included in the forecast overspend figure of £0.5m.</p> <p>Local bus service savings are being implemented during 2019/20 as part of the Passenger Transport Policy (PTP) project. Phasing and delays in implementing some savings are also contributing to the overspend position. It is still anticipated that the full £0.4m PTP saving will be achieved by the end of 2020/21, but this could be affected by further bus operator contract changes and the impact this has on bus service provision planning.</p>		
H & T Network Management - Staffing & Admin	305	n/a
<p>The department is currently reviewing the full cost and income implications from pre-application charges.</p>		
Recycling & Household Waste Sites	120	4%
<p>Forecast of overspend on income due to fall in market prices particularly for textiles. This is offset slightly by a forecast underspend on staffing due to lower agency costs and vacant posts.</p>		
Mainstream School Transport	-325	-9%
<p>Underspend forecast based on reduction in pupil numbers and fewer contracted services required.</p>		
Landfill	-200	-3%
<p>Waste tonnages are forecast to be approximately 2,000 tonnes lower than budget.</p>		
Dry Recycling	-100	-5%
<p>Market values being received for dry recycling materials are higher than budget.</p>		
Other variances	70	n/a
TOTAL	1,980	n/a

Chief Executives

The Department is forecasting a net underspend of £0.5m (4.3%). The main variances are:

	£000	% of Budget
Planning Services	-330	-74%
Increase in planning fee income, which is not expected to be ongoing, and there are a number of vacancies for which recruitment is proving difficult.		
Democratic Services and Administration	-145	-10%
There are vacancies due to staff turnover. These are being held whilst a review of support services across Member Services and Civic Support is carried out.		
Other variances	5	n/a
TOTAL	-470	n/a

Corporate Resources

The Department is forecasting a net overspend of £0.1m (0.2%). The main variances are:

	£000	% of Budget
Commercial Services	550	-21%
Continuing challenge from a 2018/19 outturn overspend of £0.4m, pay inflation of £0.8m and the 2019/20 savings target of £0.5m means it is likely that Leicestershire Traded Services (LTS) will have a shortfall in contribution during 2019/20.		
Customer Service Centre	340	17%
The Customer Service Centre is facing increased pressures and has only achieved previous years' savings target as a result of one off savings from attrition. In order to maintain service levels, the service has agreed to over recruit by ten posts to ensure attrition is covered. Additionally, Customer Service assistants have recently had their posts regraded, increasing expenditure by £70k per annum. Additional workloads are also anticipated from the change in legislation from August 2019 regarding Blue Badge eligibility for people with 'hidden disabilities'.		
Information & Technology	-430	-4%
The Information & Technology Service has carried some vacancies since last financial year awaiting an action plan to review middle management of the service. The action plan is now complete and posts are starting to be filled, but some vacancies still exist, resulting in underspends across the service.		
Insurance	-315	-17%
Early achievement of saving in relation to contributions to liabilities. Earmarked funds are at an appropriate level allowing the planned saving to be made early. This will see the contribution to earmarked funds reduce from £1.1m to £0.8m.		
Commissioning Support Unit (CSU)	-60	-6%
An action plan implemented at the end of 2018/19 to deliver a new structure. Savings partly off-set by some one-off work to update contract documentation which required agency input.		
Other variances	-25	n/a
TOTAL	60	n/a

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CAPITAL PROGRAMME MONITORING STATEMENT (PERIOD 4)

	Original Budget 2019/20	Outturn adjustments	Changes in Funding 2019/20	Updated Budget 2019/20	Forecast	Updated Budget v Forecast Variance
	£000	£000	£000	£000	£000	£000
Children & Family Services*	24,060	1,355	0	25,415	25,415	0
Adults and Communities	11,700	569	178	12,447	7,021	-5,426
Environment & Transport	51,020	12,659	3,286	66,965	54,068	-12,897
Chief Executive's	710	0	0	710	261	-449
Corporate Resources	7,805	2,310	336	10,451	7,590	-2,861
Corporate Programme	44,150	2,110	-453	45,807	50,324	4,517
Total	139,445	19,003	3,347	161,795	144,679	-17,116

*Excludes Schools Devolved Formula Capital

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Capital Budget 2019/20 – forecast main variances**Children and Family Services**

The department are undertaking a detailed review of all capital schemes and funding to be reported in the next monitoring report. At this stage the forecast expenditure is in line with the updated budget.

Adults & Communities

Net slippage of £5.4m is forecast compared with the updated budget. The main variances are:

	£000
Records Office Relocation	-2,500
A Partner workshop is scheduled for 6 September 2019 to confirm the detailed working relationship and define partner contributions. A formal agreement will significantly reduce the financial risk to LCC and will be included in the revised Full Business Case (FBC). The FBC, which has required a major re-write due to the number of significant changes to the design of the new records office, is due to be finalised in November.	
Hamilton Court/Smith Crescent - NWL Development	-1,930
Slippage due to the programme of work required for the re-development has significantly changed since the capital funding was requested. The project now has a feasibility report, which includes indicative timescales and milestones, that has informed the current position regarding funding requirements across the financial years. Pre-construction work is due to complete December 2019. Construction work will commence in January 2020.	
Hinckley, The Trees (refurbishment)	-444
There has been a delay to the commencement of the works following a significant redesign of The Trees. Works are now due to commence in January 2020.	
Brookfields Supported Living Scheme (refurbishment)	-383
Underspend forecast based on the agreed contract value.	
Mobile Library Vehicles	-109
The final vehicle is due to be delivered in 2019/20. No further expenditure on mobile library vehicles is anticipated. The surplus is an underspend.	
HART Rostering System	-105
Tendered value below the estimate.	
Other variances	45
TOTAL	-5,426

Environment and Transport

Net slippage of £12.9m is forecast compared with the updated budget. The main variances are:

<u>Environment and Transport - Transportation</u>	£000
A46 Anstey Lane	1,097
Acceleration of programmed funding from 2020/21 due to the target price being higher than the estimated budget. Additional funding has been agreed with the external partner, which will be added to the 20/21 capital programme.	
A50 Overbridge Markfield	194
Overspend due to issues encountered with exposed bridge deck which required extensive repair at each of the three joints. The problems created an unanticipated delay in the works.	
M1 Junction 23 & A512	-5,175
Slippage due to delays in the legal agreement being signed with the developers. The agreement has now been signed and construction works have started.	

Melton Depot - Replacement	-3,791
The Winter 2019/20 service is to be provided out of existing depot due to one-year extension of lease being granted. Winter 2020/21 onwards there is currently no prospect of moving to the new depot site until Melton Distributor Road is completed and contractor has moved out and so short term options are being investigated. Design work will continue on the long term option but this cannot be developed at this time.	
National Productivity Investment Fund (NPIF) - Hinckley Hub	-3,491
Slippage of budget due to delay in negotiating with land owners. This has meant that work is now not likely to start until March 2020 and so minimal expenditure is expected this year. Careful monitoring is now required as the funding is time limited and due to expire March 2021. The project will first spend any NPIF and time sensitive money which will help to mitigate this risk.	
Zouch Bridge Replacement	-1,335
Cabinet received a report on 24 May 2019 which reported a shortfall in funding for the replacement of Zouch Bridge with the Department asked to review departmental earmarked funds and the current capital programme to try to meet the funding shortfall. The department has undertaken a review of earmarked funds which has identified some capacity to partially meet the shortfall, but the amount cannot be confirmed until later in the year. In addition, the Department for Transport (DfT) has recently announced a further tranche of the Challenge Fund, which enables local highway authorities in England to bid for major maintenance projects that are otherwise difficult to fund through the usual formula funding allocations they receive from government. Consideration is being given to ascertain whether the Zouch Bridge replacement meets the criteria for this funding and whether a bid should be submitted. Subject to funding, the planned scheme start date is now Spring 2020 so initially there is some slippage.	
Advanced Design	-380
Slippage as the first bid for the Major Road Network was unsuccessful, further bidding for the project will occur and work is being completed on this, but it has meant a delay in the profile of spend.	
IT Renewals	-112
Slippage is expected pending a review of options by the department.	
Other variances	96
TOTAL	-12,897

Chief Executives	
Net slippage of £0.4m is forecast compared with the updated budget. The main variances are:	
	£000
Rural Broadband Scheme - Phase 2	161
Outstanding payments from 2018/19, notified late by British Telecom.	
Rural Broadband Scheme - Phase 3	-610
Phase 3 contract let for West Leicestershire. East Leicestershire programme to be retendered. Work due to commence in 2020/21.	
Other variances	0
TOTAL	-449

Corporate Resources

Net slippage of £2.9m is forecast compared with the updated budget. The main variances are:

	£000
Watermead Park Footbridge and Cycleway	-1,979
The scheme is now on hold as one of the landowners on which the bridge will be located is reconsidering their involvement in the project.	
Workplace Strategy	-500

Investment in workplace strategy related schemes to achieve savings, subject to the business case. The Workplace Strategy is still in the embryonic stage and it is unlikely at this stage that the capital funding will be required. Any slippage to 20/21 will be reviewed as part of updating the capital programme for 2020-24.	
Snibston & Country Park Future Strategy - Masterplan	-284
Early projections suggest the programme may be delivered under budget as a result of value engineering exercises.	
ICT - Marval Replacement Programme	-120
Programme is now not due to begin until 2020/21 as other priorities and calls on resources have taken precedence.	
CSC Telephony System Replacement	-97
It is likely that the programme to replace the Telephony system in the CSC and other 'Help Desk' based areas will be delayed as the procurement process has had to be restarted, following a review of the requirements and specifications.	
Storage Area Network (SAN) Replacement	70
Initial quotations received from suppliers suggests that work will cost nearer £320k, as opposed to budget of £250k.	
Other variances	49
TOTAL	-2,861

Corporate Programme

Net acceleration of £4.5m is forecast compared with the updated budget. The main variances are:

	£000
CAIF - Loughborough University Science & Enterprise Park (LUSEP)	6,371
Acceleration of scheme following a request by the tenant to move into the facility in July 2020.	
CAIF - Airfield Business Park Phase 1	-1,127
Underspend forecast based on an agreed fixed price contract and managing the risks for completion of Phase 1 by November 2019. Overall underspend is in part due to procuring a cheaper construction package through the OJEU process alongside some changes to the scheme.	
Energy Strategy	-667
Schemes progressing, with Energy improvements at Countesthorpe College likely to proceed shortly. Work ongoing to finalise schemes at Charnwood College, Lutterworth College and Hinckley Academy.	
CAIF - Leaders Farm Site Infrastructure	-206
Underspend due to the remaining works at the site, such as topping the road off and some grounds works being cheaper than anticipated.	
Other variances	146
TOTAL	4,517

Capital Programme - Changes in Funding

Outturn Adjustments - 2018/19	£000
Children & Family Services	1,355
Adults & Communities	569
Environment & Transport	12,659
Corporate Resources	2,310
Corporate Programme	2,110
	19,003

2019/20 Budget Adjustments

<u>Adults & Communities</u>	
Disabled Facilities Grant - addtl sum following confirmation of 2019/20 allocation.	288
Earmarked capital receipt no longer being received.	-110
<u>Environment and Transport</u>	
Lutterworth East (road) - funded from Future Development reserve (Cabinet 290319)	1,500
Croft-Billesdon Depot Scheme - funded from earmarked capital receipt	200
Hinckley Hub (Hawley Road) - LLEP funding	80
West Lane, Victoria Road - funded from Section 278 developer funding	1,496
Barwell Civic Amenity Site - funded from Insurance reserve	10
<u>Corporate Programme</u>	
Windows 10 and Office 2016 - ICT reserve	130
Country Parks and Forestry - Capital Grants receipts in advance	11
Beacon Hill Café and Investment - Corporate Resources reserve	195
<u>Corporate Programme</u>	
Coalville Workspace Project - management fee deduction from LLEP grant	-53
Coalville Workspace Project - reduction due to capital receipt not being received	-400
CAIF - East of Lutterworth SDA - additional land purchase, from unallocated Asset Acquisitions	750
CAIF - Asset Acquisitions/new Investments - to East of Lutterworth SDA budget to purchase additional land	-750
Sub Total	3,347
Overall Total	22,350



SCRUTINY COMMISSION – 4TH SEPTEMBER 2019

MEDIUM TERM FINANCIAL STRATEGY UPDATE

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to explain the approach to updating the current Medium Term Financial Strategy (MTFS).
2. This report is also being taken to Cabinet on 13th September 2019.

Policy Framework and Previous Decisions

3. The Medium Term Financial Strategy for 2019/20 to 2022/23 was approved by the County Council in February 2019. Over the autumn and winter of 2019, it will be reviewed and updated.

Background

4. 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 (2020/21 to 2023/24) will set out the County Council's response to the financial position.
5. Based on current information, it is very unlikely that the County Council, when it rolls forward the MTFS into 2023/24, 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.
6. The Savings under Development will be reviewed further during the autumn and winter and will be incorporated into the 2020-24 MTFS as appropriate.
7. The assumptions around savings deliverability, resources available and expected future funding gaps are currently being reviewed in light of the outcome of the recent star chamber exercise alongside latest information emerging from the Government.
8. The Chancellor of the Exchequer announced on 8th August 2019 that there will only be a one-year spending round for 2020/21 (expected in September 2019) with a multi - year spending review being delayed until 2020.

9. This will obviously lead to greater uncertainty relating to later years and further compounded by the fact that whilst The Leicester and Leicestershire Business Rates Pool was successful in bidding to be a 75% Business Rates Pilot for 2019/20, the position regarding the Business Rates system in 2020/21 is currently unclear.
10. The Director of Law and Governance has been consulted on the content of this report.

National Position in the Medium Term

11. There is very little clear evidence that austerity budgets for Local Government are coming to an end within the medium term. While the out-going and new Prime Ministers have made a series of announcements regarding increased public expenditure, there is a lack of detail as to how that money will impact on local authorities in any meaningful way.
12. The UK economy contracted by 0.2% between April and June 2019, its worst performance since 2012, raising fears of a recession. The unemployment rate in the same period increased slightly by 0.1%, against the downward trend in recent years. Great uncertainty remains over the economic impact of Brexit.
13. There are a growing number of local authorities in financial trouble. Despite low funding, Leicestershire is in a relatively good position due to difficult decisions that have been taken over recent years. However, finding savings to balance growth and income pressures is not sustainable over the longer term.
14. The Government has shown some indication that it will increase public spending and investment in appreciation of the sector-wide issues facing local government. The delayed green paper on Adult Social Care has now potentially been abandoned by the Prime Minister in order to inject more urgency into the process. The Government is now expected in the autumn to publish a white paper proposing a clear course of action to address the social care crisis, which according to the LGA faces a £3.6 billion funding gap between councils' resources and demand by 2025. However, there appears to be little recognition of the urgent pressures in children's social care or special educational needs.
15. The new Chancellor announced on 8th August that a Spending Review (SR) will be issued in September. It will cover one year only, 2020/21, and is likely to include significant one-off spending. It had been anticipated that a multi-year Local Government Finance Settlement would be issued, reflecting the outcome of the Fair Funding Review and changes to the Business Rates Retention Scheme, which would have aided medium term planning. According to HM Treasury the SR "Will support the commitments made by the Prime Minister since he came to office including the recruitment of 20,000 extra police officers and his ambition for additional funding for schools, as well as delivering the government's promises on the NHS".

16. Given the one year nature of the spending round and Brexit related political uncertainty it is entirely possible that the local government finance settlement and specific grants announcements will not take place until very late in 2019 or even early in 2020. The level of funding uncertainty has not been higher in the last 10 years.

Leicestershire Position

17. The current MTFs includes a savings requirement of £74m over the four years to 2022/23, of which £20m are still to be identified. An additional year of austerity, growth and inflation will increase the financial gap by a further circa £10-£20m.
18. At this stage there are a number of potential issues which may impact on the overall position:

Positive

- Potential removal of “negative Revenue Support Grant”. In 2019/20 the Government wrote off potential “negative RSG”, benefitting the County Council by £2.1m. The MTFs assumes that “negative RSG” will be applied in later years, with an impact of around £11m each year.
- Potential increase in “core” council tax. In 2019/20 the Government allowed an extra 1% increase (circa £3m). Currently the Government makes any such changes on a year-by-year basis. The MTFs assumes only the previous allowance of a 1.99% increase each year.
- The Adult Social Care Precept allowed for increases of a total of 8% spread over the four years 2016/17 to 2019/20. It is not known if the government might extend this mechanism to allow for further increases in 2020/21 and later years. (Each 1% would generate circa £3m.)
- Increased council tax and business rates collection rates. The Districts are working with Leicester City and Rutland Councils to identify possible ways of improving the levels of collection. A review of Single Person Discounts is also being undertaken. (Each 0.1% change in council tax collection rate equates to around £0.3m for the County Council.)

Negative

- Growth set aside for increases in Children’s Social Care and other service areas may not be sufficient.
- Inflation - there is uncertainty over future pay awards, the impact of the National Living Wage and other inflation pressures, especially around social care fees. Indications from Departments are that current assumptions on inflation rates may need to be increased.
- Supporting Leicestershire Families – Government grant funding is expected to cease after 2019/20 (£2.3m). No indication of a continuation has been given.
- Funding for new school places is not fully covered by Government grant – 23 new primary and 2 new secondary schools are expected to be built in Leicestershire in the medium to long term; depending on the timing of schools an annual shortfall in funding of circa £2m could occur from 2022/23.
- Business Rates Baseline reset, potential loss of up to £3m.

- Capital Programme - likely increases in pressure on the capital programme to fund infrastructure costs, linked to the expected increase in housing infrastructure around the County, cost increases (such as Zouch Bridge) and the limited remaining resources available to fund future developments.
19. 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 Council's budget.
 20. 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.

Special Education Needs (SEN)

21. The County Council, along with the majority of upper tier authorities, faces a growing funding crisis for services for children with SEN. An overspend of £6m on the schools' budget is forecast in 2019/20 and this pressure will increase in later years before the high needs recovery plan has an impact. Given the increasing pressure on this service the plan, previously approved by the Cabinet is currently being worked on, and an update on the position will be provided at the meeting.
22. SEN services are defined by Government and funded by specific grant. Within these confines the Council is putting in place change that aims to bring the budget back into balance. The recovery plan also includes lobbying Government and local MPs as the only way a long term sustainable system can operate is if the current approach is redesigned and adequately funded.
23. The Cabinet and the Scrutiny Commission will be updated regularly updated on this as it is the most significant pressure being faced by the County Council.

Other Future Funding Issues

24. Whilst there are indications that the County Council may benefit from changes arising from the fair funding review (and initial indications are that many of the features that the County Council has proposed through its Fair Funding campaign are being reflected in the Government's latest thinking), given the delay to the issuing of a full multi-year Comprehensive Spending Review, it is also anticipated that the results of the Fair Funding Review will also be delayed until at least 2020/21. Furthermore, any changes that are made are likely to include an element of "damping" and it may take several years before the results are fully reflected.
25. Other Local Government funding reforms are also likely to be delayed - the key one is the Government's intention to change the Business Rates Retention Scheme from 50% to 75%. Details on how this will work, including the grants and services affected, are still relatively scant.

26. Proposals are currently being developed around dealing with the impact of climate change. There will be a need for some investment which is currently being assessed and quantified.

MTFS Refresh

27. The MTFS will be refreshed over the autumn, with a similar approach taken to that followed in previous years. Namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. This needs to be done in the context of significant uncertainty ahead that may need to be mitigated by the use of contingencies.
28. As this will be the tenth austerity budget and savings of £206m (excluding DSG), to the end of 2019/20, have already been achieved, the identification of new savings will be very challenging. New savings are likely to require much more radical service transformation.
29. A further year of austerity combined with the current savings gap would cause the MTFS shortfall of £20m to potentially increase by a further £10m-£20m by 2023/24.
30. To reduce the shortfall the 2019-23 MTFS included a set of Savings under Development. The savings proposals have been reviewed over the summer and an update on progress is provided in Appendix A.
31. The savings under development and the savings and growth items incorporated in the 2019-23 MTFS will be reviewed over the autumn and winter as part of the process to produce the draft 2020-24 MTFS.
32. Within the existing MTFS there is a savings target of £4m in 2020/21 rising to £8m in 2022/23 for productivity and efficiency measures. This will need to be increased and allocated as a target to each Department as part of the MTFS refresh.
33. The main objective for refreshing the MTFS will be to maintain a strong financial position. And until the position is clearer on funding reforms and funding of legislation changes will need to be based on prudent financial assumptions. This year the budget will reflect the outcome of the detailed public consultation conducted over the Summer.

Planning Framework

34. The next three key Government announcements will be;
- One-year Spending Round in September.
 - Budget, anticipated in November.
 - Local Government Finance Settlement expected mid/late December. Although there are clear risks that will result in a later settlement.
35. The broad MTFS timetable is:

- September to November 2019 – Refresh growth and savings including consideration by Lead Members.
- November 2019 – results of public consultation exercise considered and overarching EHRIA undertaken.
- December 2019 – the Cabinet is requested to approve the draft MTFS for consultation taking into account the outcome of the public consultation.
- December 2019 – receipt of the Local Government Finance Settlement
- January 2020 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2020 – the Cabinet is requested to approve the final draft MTFS for submission to the County Council.
- February 2020 – County Council is requested to approve the MTFS for 2020/21 to 2023/24.

Business Rates – 75% Pilot and Pooling

36. The Leicester and Leicestershire Business Rates Pool was successful in bidding to be a 75% Business Rates Pilot for 2019/20. Forecasts show a gain of around £14m to £15m. The additional income will be used by the City Council, District Councils and the County Council to fund improved sustainability for services, including social care, and infrastructure linked to housing developments, city and town centre improvements.
37. In addition, the Pool is forecast to generate a further surplus of £9m in 2019/20, to be provided to the Leicester and Leicestershire Enterprise Partnership (LLEP) for investment in the wider sub-regional area.
38. The position regarding the Business Rates system in 2020/21 is currently unclear. It appears likely that any major changes to the system will be deferred until 2021/22. At this stage it is unclear as to whether the existing Pilots might continue into 2020/21.

Timetable for Decisions

39. The Cabinet will be asked to approve the draft MTFS for consultation in December 2019. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the MTFS in late January 2020 and the Cabinet will then make a final recommendation to the County Council in February 2020.

Recommendation

40. 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 Medium Term Financial Strategy;
 - c) Note the updated information regarding Savings under Development, as set out in Appendix A.

Equality and Human Rights Implications

41. Departments will complete Equality and Human Rights Impact Assessments (EHRIA) on the 2020-24 four-year MTFS as detailed proposals are developed. A review of the overall impact of the proposals will also be undertaken as part of the MTFS to ensure any cumulative impacts on protected groups has been identified.

Background Papers

Report to County Council -20 February 2019 – Medium Term Financial Strategy 2019/20 to 2022/23

<http://politics.leics.gov.uk/documents/s144416/Report%20of%20the%20Cabinet%20-%20MTFS.pdf>

<http://politics.leics.gov.uk/documents/s144417/MTFS%2019-23%20-%20Cab%208-2-19%20v4%20final.pdf>

Appendix

Appendix A – Savings under Development.

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

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Savings Under Development (SUDs)**Children & Family Services**1. Children's Innovation Partnership

The County Council has established a Children's Innovation Partnership (CIP) with Barnardo's. It focuses on three workstreams:

- Placement sufficiency and stability;
- Redesign of the Special Education Needs and Disability Information Advice and Support Services; and
- Redesign of short breaks for children

The focus of this work will be to develop options that will address growth and service costs pressures.

2. Defining Children and Family Services for the Future

Working alongside the Transformation Unit the Department is carrying out an examination/review to ensure that services are robust and fit for purpose taking into account recent changes in legislative duties and partner expectations. It will explore current budget/spend pressures, the flow of demand through services as well as looking at the current service offer compared to statutory responsibility. Opportunities arising from the work that can be taken forward will be considered during Autumn 2019.

3. High Needs Development Plan

This plan is focused on developing capacity in mainstream schools to be inclusive and support pupils with SEND in mainstream schools. Demand for Education, Health and Care Plans (EHCPs) continues to increase nationally and so it is difficult to assess the extent to which the availability of these new places will allow savings against existing costs or help to reduce future underlying growth pressures.

Adults & Communities4. Social Care Investment Plan (SCIP) [formerly 'Place to Live']

The overall strategic goal is to reduce the numbers of people placed in residential care. One route to achieve this is through increasing the supply of community accommodation. The overall approach of the SCIP was agreed by Cabinet in June 2019. Some developments are already underway – Brookfields in Great Glen being the first. Other business cases for specific capital investment projects will be presented to the Cabinet as they are developed.

5. Home First

Home First services aim to care for people at home, wherever possible, to prevent hospital admissions/ensure timely discharges. Development work is being undertaken in collaboration with NHS partners to develop a more integrated health and social care response to people experiencing a crisis in the community, and to patients on discharge from hospital. Savings are still to be identified but the changes will help to manage demand hence reducing growth requirements in future years.

6. Digital Technology

The Department is currently reviewing the use of assistive technology and its digital offer to residents with a view to agreeing a new approach to delivering alternative forms of care. Significant savings have been evidenced in other local authorities through embedding technology in the Care Pathway. This is being reviewed and analysed within a Leicestershire context to determine whether a business case can be brought forward.

Environment & Transport

7. Street Lighting review

An outline business case has been approved by the Departmental Change Board to review the Street Lighting service that manages the maintenance of existing street lighting assets and provides design and technical approval functions for new installations. In 2014, the Street Lighting LED Replacement project commenced, and an additional G12 Senior Engineer post was created specifically for the project. In 2016, following an agreed change request the LED project was accelerated from a 4-year to a 3-year delivery timeline. This required additional operational resource to deliver the programme in the medium term. A review will consider the shape of the current and future service offer.

8. Strategic Challenge Programme

The Department has implemented a Strategic Challenge Programme to encourage staff within Highways Delivery to identify issues, solutions and business opportunities within their service area, providing a programme of work based on the principles of continuous improvement, to realise efficiency and productivity gains alongside potential cash savings and the development of commercial opportunities. Two specific initiatives, temporary traffic management and street lighting have been identified that could provide a combined potential future saving of £0.7m. Business cases are being completed.

Public Health

9. Contract Reviews

A number of contracts are expected to deliver additional savings when they are reviewed/retendered. The main areas are for substance misuse and the understanding and managing risk aspects of the Young Persons' Tobacco Programme. It is hoped that these reviews can produce savings to balance out the shortfall of savings forecast on the Early Help and Prevention Review.

10. School Traded Offer

There are a number of current services that are delivered to schools including young person's physical activity as well as various specialist training elements. The department are exploring the option of moving these to a traded service model. Work is underway to identify which strands of the delivery could be included in such an offer as well as identifying an aligned date for possible transition.

Corporate

11. Corporate Asset Investment Fund (CAIF)

In May 2014, the Cabinet approved the establishment of the CAIF to be used to purchase commercial properties and land assets. The Council already held an existing stock of Industrial Properties and County Farms and has since made a number of investments. New savings will be dependent upon completion of developments within the fund and will relate to the revenue income received (not any capital appreciation which would be realised if an asset was sold). On the basis of a total fund of £200m by 2022/23 there is the potential to increase the current £3m per annum additional revenue contribution in the MTFs by a further £5m per annum.

12. Commercialism

Leicestershire Traded Services (LTS) was created by bringing services in Corporate Resources together creating a new brand and introducing a commercial approach involving sales, marketing and regular financial reporting. LTS has a target to increase the contribution to the revenue budget by £2m p.a. Activity was undertaken to support

two potential new area in Service to Schools and Highways Development, but the opportunities found there were not deemed significant or achievable without substantial disruption and impact on other services. The principle of Commercialism is still being explored along with the potential to impart some of the learnings from LTS in to other Council service areas, any savings which are identified through this process will be quantified and included in future MTFS documents.

13. Customer Service Centre

Since its creation in 2006 a number of improvements have been made to the way the CSC operates. However, there are still areas where service performance is not in the place it should be. There are constant challenges with multiple priorities which are further impacted by the need to allocate resource to clunky processes that require manual work to be fulfilled. Additionally, there are a number of costly practices in place that require review and improvement. The CSC requires investment to enable future efficiency savings. A CSC Transformation Board has been formed to oversee an emerging programme of work to improve customer experience and enable more efficient and joined up working across the Council. The programme will aspire to enable:

- faster resolution of customer queries;
- reduced operational costs; and
- a more empowered customer services agent.

With an ever-evolving array of digital options and customer expectations only likely to grow, the programme will ensure that the council is better placed to face future challenges.

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