Meeting:	**Scrutiny Commission**
Date/Time:	**Monday, 30 January 2023 at 10.00 am**
Location:	**Sparkenhoe Committee Room, County Hall, Glenfield**
Contact:	**Mrs J Twomey (Tel: 0116 305 2583)**
Email:	**joanne.twomey@leics.gov.uk**

Membership

Mr. M. Mullaney CC(Chairman)

Mr. T. Barkley CC	Mr. J. Morgan CC
Mrs. H. J. Fryer CC	Mrs. R. Page CC
Mr. S. J. Galton CC	Mr. T. J. Pendleton CC
Mr. T. Gillard CC	Mr J. Poland CC
Mrs. A. J. Hack CC	Mr. T. J. Richardson CC

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

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 9 November 2022.		(Pages 5 - 18)
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 35.

8.	Provisional Medium Term Financial Strategy 2023/24 - 2026/27	Director of Corporate Resources	(Pages 19 - 68)

Mr N. J. Rushton CC, the Leader of the Council, and Mr L. Breckon CC, Lead Member for Resources, have been invited to attend for this and other MTFS items below.

9.	Medium Term Financial Strategy 2023/24 - 2026/27 - Chief Executive's Department	Chief Executive and Director of Corporate Resources	(Pages 69 - 84)

In addition to the Leader and Lead Member for Resources, the following Lead Members have been invited for this item:

- Mrs D. Taylor CC (Regulatory Services)
- Mrs P. Posnett CC (Equalities/Communities)
- Mr B. L. Pain CC (Minerals and Waste)

10.	Medium Term Financial Strategy 2023/24 - 2026/27 - Corporate Resources Department	Director of Corporate Resources	(Pages 85 - 104)

Mr L. Breckon CC, Lead Member for Resources, and Mr P. Bedford CC, Lead Member for Transformation and Ways of Working, will be in attendance for this item.

11. Medium Term Financial Strategy 2023/24 - 2026/27 - Consideration of responses from other Overview and Scrutiny Committees

The purpose of this item is to enable consideration of the responses of the following Overview and Scrutiny Committees to their respective areas of the Medium Term Financial Strategy:

- Health Overview and Scrutiny Committee (meeting held on 18 January)
- Environment and Climate Change Overview and Scrutiny Committee (meeting held on 19 January)
- Adults and Communities Overview and Scrutiny Committee (meeting held on 23 January)
- Children and Families Overview and Scrutiny Committee (meeting held on 24 January)
- Highway and Transport Overview and Scrutiny (meeting held on 26 January)

12.	Corporate Asset Investment Fund Strategy 2023 - 2027	Director of Corporate Resources	(Pages 105 - 146)
13.	Date of next meeting.		
	The next meeting of the Commission is scheduled to take place on Wednesday, 15 March 2023 at 10.00am.		
14.	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 Governance and Scrutiny website https://www.cfgs.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?

Minutes of a meeting of the Scrutiny Commission held at County Hall, Glenfield on Wednesday, 9 November 2022.

PRESENT

Mr. M. T. Mullaney CC (in the Chair)

Mr. T. Barkley CC	Mrs. A. J. Hack CC
Mrs. H. J. Fryer CC	Mr. J. Morgan CC
Mr. S. J. Galton CC	Mrs. R. Page CC
Mr. K. Ghattoraya CC	Mr. T. J. Pendleton CC
Mr. T. Gillard CC	Mr. T. J. Richardson CC

32. Minutes of the previous meeting.

The minutes of the meeting held on 7th September 2022 were taken as read, confirmed and signed.

33. Question Time.

The following question, received under Standing Order 34, was put to the Chairman of the Scrutiny Commission.

Question asked by Mr Phil Sheppard

"In Leicestershire's planning for Investment Zones, please remember that land is a finite resource and that land satisfies non-financial needs such as food security and human well-being. Once it's gone, it's gone.

I would recommend that Investment Zones are based more on redevelopment than development, therefore going beyond regeneration to include areas which are not dilapidated but have become sub-optimal in terms of land and energy efficiency, functionality and aesthetics. Existing built-up areas can be optimised and green land can remain for the services it provides.

My question therefore is: what criteria will the Commission and the County Council take on which land they will discuss with the Government in respect of Investment Zones?"

Reply by the Chairman

In submitting expressions of interest in Investment Zones, the County Council followed the Government's guidance.

34. 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).

35. Urgent Items.

There were no urgent items for consideration.

36. 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.

Mr T. J. Richardson CC and Mr J. Morgan declared an Other Registerable Interest in agenda item 8 (Leicester and Leicestershire Enterprise Partnership (LLEP) Annual Update) as they were both Members of the LLEP Board.

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

There were no declarations of the party whip.

38. Presentation of Petitions under Standing Order 35.

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

39. Leicester and Leicestershire Enterprise Partnership Annual Update.

The Committee considered a report of the Interim Head of the Leicester and Leicestershire Local Enterprise Partnership (LLEP) which provided a summary of the LLEP's activity over the past 12 months. The Interim Head, with the Co-Chair of the LLEP Board also provided a presentation as part of this item on the LLEP Annual Report (April 2021 to March 2022) and the LLEP Delivery Plan (April 2022 – March 2023). A copy of the report and presentation slides are filed with these minutes.

The Chairman welcomed Sue Tilley, the Interim Head of the LLEP, and Andy Reed, Co-Chair of the LLEP Board, to the meeting.

Arising from discussion, the following points were raised:

(i) Small businesses in more rural communities were struggling and the cutting of bus services posed a new and difficult challenge. It also did not support the LLEP's Strategic aim of 'sustainability'. It was noted that the LLEP had and would continue to work in partnership with local authorities and private bus companies to ensure areas remained connected and continued to attract inward investment. However, funding public transport had always been a difficult balance. Whilst necessary to support economic growth, a lack of demand simply made some services unviable. As financial pressure on the County Council and bus companies grew this would become even more of a challenge.

(ii) The growth of logistics at East Midlands Airport meant significant focus had been given to connecting that site with areas of the County where employees lived, acknowledging that a 9 to 5 service would no longer be suitable.

(iii) A key challenge would be adjusting the economic development offer to accommodate the change in peoples working patterns with many now working from home. Some businesses were still adapting and so whilst alternative economic models would be needed, these would take time to develop. It was noted that many businesses were still adjusting to a new normal and so it was not yet clear what support they would need in the future.

(iv) Two areas of work for the future would be addressing digital poverty and digital exclusion. As many services were now delivered online and people worked in a more remote, hybrid way, digital skills and access became increasingly important.

(v) The LLEP sought to ensure a fair geographical spread in the work that it carried out and did a lot to support micro-businesses which were based in Leicester City and in towns and rural areas. It made sense to target work where there were existing business clusters and to utilise the innovation of the three universities in the area, as this was where most growth would likely be generated. However, this did not mean that work was not taking place elsewhere to support smaller business across the County. It was recognised that such work might not be on such a large scale and might not therefore be as well publicised.

(vi) The LLEP sought to improve its reach through several forms of media noting that not everyone had good digital skills. However, it had to be recognised that the LLEP supported businesses and so much of its contact was business to business, meaning digital forms of communication such as email and social media were very effective. However, it was acknowledged that alternative coverage was still needed and the LLEP still therefore made good use of newspapers and the telephone.

(vii) A Member questioned whether there was any evidence to suggest the UK was less productive than countries such as France and Germany because of its increased hybrid working approach following the pandemic. It was proposed that some recent statistics suggested that all but 5% of employees in France and Germany had gone back to work whereas some 23% of employees in the UK were still working from home. Both France and Germany had higher productivity levels than the UK.

Mr Reed agreed to raise this with colleagues at a national level but commented that productivity in the UK had been lower than in France and Germany before the pandemic struck and this was largely due to a lack of long term investment in infrastructure and skills. It was also noted that the UK economy was more service/finance based. France and Germany had significantly more manufacturing businesses and so would be less able to adopt a hybrid working approach in those sectors.

RESOLVED:

That the update now provided on the work of the LLEP during the period April 2021 to March 2022 be noted.

40. Place Marketing, Leicester and Leicestershire.

The Commission considered a report of the Chief Executive which provides an update on the work of the Place Marketing Team for Leicester and Leicestershire. A copy of the report marked ‘Agenda Item 9’ is filed with these minutes.

The Chairman welcomed Mr Mike Denby, Director of Inward Investment and Place Marketing for Leicester and Leicestershire, to the meeting.

Arising from discussion, the following points were made:

(i) Enquiries received by the Place Marketing Team (PMT) were largely data driven and much investment made as a result. However, proactive steps were also taken to seek out and attract new investment into the area. This included building relationships with existing businesses and developers and identifying clusters of businesses to understand where opportunities with their supply chain might exist, promoting opportunities wherever possible.

(ii) It was clear a lot of work was taking place, but there was a need to capture more data in a more coordinated way across the County to demonstrate how effective this work was. It had been recognised that good data was being obtained across some service areas across some districts, but this varied. Work to adopt a more consistent approach across all local authority areas was therefore being undertaken. This would enable performance to be measured more effectively, links with other organisations to be captured (e.g. referrals by the PMT to the Job Centre), and show what activity was working where, and how best to target this in the future.

(iii) A Member commented that, from their personal experience, the MIPIM real estate market event held in Cannes was not a constructive place to do business but was a very expensive event and a waste of officers' time. The Member commented that it was concerning to see a number of public sector organisations still attending the annual event which in their view was a fundamental waste of public money.

Mr Denby explained his experience of attending MIPIM as a public sector employee and provided assurance that the event was regarded as useful to build contacts directly with a number of senior representatives across the sector. Members noted that the total cost of attending was in the region of up to £2,000 (including flights and accommodation and entry to the property show). He provided assurance that spend was kept to a minimum as it was recognised that this was public sector money. Members noted that whilst the Leader had attended MIPIM previously at the request of local private businesses, since then the County Council's attendance had been through one officer from Strategic Property Services. The Assistant Chief Executive confirmed that the benefits of attending were reviewed each year.

(iv) Members noted that the PMT had been established some years ago following a review of the previous outsourced arrangements. It had been identified that a more strategic approach was needed and that this could best be delivered in house by the City and County Councils working together. The PMT had developed over time and had been working well in delivering at that strategic level. Its work balanced with the tactical support delivered directly to businesses by other organisations. It was also now looking to take advantage of some further strategic opportunities, such as acting as a pilot Destination Development Partnership, which if chosen by Government would be very good for the area.

(v) Whilst the creation of new jobs in the County was welcomed, Members questioned whether in practice businesses had been able to fill those positions given current recruitment pressures and if so, whether these had been filled locally. It was suggested that people travelling long distances from out of the County was less sustainable and did not support the green agenda. It was suggested that it would be beneficial to capture such data to provide a full and clearer picture in future.

(vi) Promoting small businesses particularly in rural areas was a key area of focus for the PMT. Campaigns had been developed to be as inclusive as possible to capture both large and small enterprises and to ensure there was a good geographical spread across the City and County areas. Members noted in the last three big campaigns delivered by the PMT the percentage of businesses engaged across County compared to the City was: Uncover the Story (68% in County), Travel Trade Guide (71% in County), and Fitcation (80% in County).

(vii) The PMT shared information with partners and they also then promoted its activities amongst its own contacts. It was not therefore just reliant on online activity. The organisation worked in partnership with businesses to pull together campaigns to maximise interest and investment to the area as well as running its own. Members noted that on average marketing spend by the PMT had been around £100,000 per annum, split 50/50 between the City and County Councils covering a wide range of activity from targeted social media campaigns to leaflets and literature material.

(viii) The single biggest barrier across tourism venues in Leicester and Leicestershire was currently the ability for organisations to share information to promote events in a more collaborative way. Better coordination and collaboration was needed and the PMT was working to develop this.

RESOLVED:

That the update now provided be noted.

41. <u>Medium Term Financial Strategy Monitoring (Period 6) and Council Assets.</u>

The Commission considered a report of the Director of Corporate Resources which provided an update on the 2022/23 revenue budget and capital programme monitoring position as at the end of period 6 (end of September) and an update on the approach to reviewing the County Council's property assets. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

The Chairman welcomed Mr L. Breckon CC, Cabinet Lead Member for Resources, to the meeting for this item.

Arising from discussion, the following points were made:

(i) The situation looked very depressing as a result of the rise in inflation and the continued increase in demand and costs, particularly regarding Special Education Needs and Disability (SEND) services. It was recognised that SEND was the single biggest issue facing the Council with the High Needs Block (HNB) cumulative deficit currently at £39m, with demand still rising.

(ii) Whilst it was recognised that this was a national issue, some Members commented that SEND services had become dysfunctional and were simply no longer working. This was demonstrated by the rising number of complaints received by the Council and by Members individually. The County had previously had one of the best records for SEND, but the position had deteriorated significantly in recent years and Members questioned why and what was being done to address this.

(iii) Members noted that following the reforms introduced by the Care Act in 2014 it quickly became apparent that demand would increase but no additional Government funding would be provided to support this. A Member commented that the Children and Family Services Department had done its best, but that it had been very difficult given the vast rise in demand for Education and Health Care Plans (EHCP) which could not have been foreseen up to that point. This was a national issue, but Leicestershire had also seen a 30% higher rise than other areas. Pressure on staff recruitment and retention also impacted the ability of the service to respond as quickly as it would like to that rise in demand.

(iv) The latest Green Paper did not look to change the position any time soon. It was suggested therefore that the Council had to try and address the continued pressures itself through improved local systems and practices. The Director reported that the Council had applied for grant funding of £1m to support the Council's Transforming SEND and Inclusion in Leicestershire programme. It had also brought in external strategic partners, Newton Europe, to help bring forward this programme. The total investment into improving the Council's SEND services was in the region of £9m.

(v) The Director confirmed that the SEND funding for the Authority was roughly mid-tier in terms of spend per capita, so it was thought that more could be done to ensure the overall budget was targeted more effectively. The Leicestershire SEND Programme would work to deliver this.

(vi) Members noted that the Children and Family Services Overview and Scrutiny Committee had recently received a report on the programme at its meeting in September, and progress updates would be received regularly throughout next year. It was suggested that a copy of that report be circulated to Scrutiny Commission Members for information.

(vii) A Member commented that a number of children were placed with independent providers which was more expensive and questioned what was being done to reduce this. It was noted that the Council was seeking to increase its own local provision which would be significantly cheaper. Funding for a new special school in Quorn was being sought but this would only provide limited spaces and whilst helpful would in no way address demand pressures. The DfE bidding process would also take time. The Director emphasised that whilst creating more local SEND places would play a part, the key aim of the Council's Transforming SEND and Inclusion in Leicestershire programme would be addressing demand and to shift resources so that less children were placed in independent special schools, instead being supported in mainstream education.

(viii) Whilst this approach was welcomed, a member commented that an added difficulty would be that Leicestershire primary and secondary schools were also under significant pressure, being lower funded than most other areas in the country. Reductions in education funding in recent years did not help the Council's position and addressing fair funding for schools, as well as for the County Council would therefore be important.

(ix) A Member commented that it was worrying given its current financial position, that the Council might be asked to contribute to the reduction of the HNB deficit.

Members noted that the DfE was running two programmes. One was called the ‘Safety Valve’ programme which targeted those local authorities with the biggest HNB deficits. In this scheme the Government provided a package of support including money to help address that deficit. Such authorities were, however, still required to put in significant amounts of their own resources, including reserves. Members noted that the Council was not in this programme at present, but had been placed in the lower level, ‘Delivering Better Value’ programme. Members acknowledged that some local authorities in this programme, including the County Council, might at some point in the future be moved into the ‘Safety Valve’ programme if their position deteriorated. A Member suggested that more should be done to ensure MPs were fully aware of the Council’s position and that current circumstances were simply not sustainable. More Government support was needed.

(x) Whilst it was recognised that progress against the Council’s Transforming SEND and Inclusion in Leicestershire programme would be monitored through the Children and Families Overview and Scrutiny Committee, it was suggested that more detailed consideration of SEND service pressures by the Scrutiny Commission would be beneficial given its wider impact on the Council’s overall budget, transport services, risk and complaints.

(xi) In response to questions raised, it was noted that property clean-up costs for Firs Farm had been accounted for in the previous financial year. The income shown in the report which was net of operating costs was therefore a fair figure to use in terms of showing the Council’s return on a revenue basis.

(xii) Members acknowledged that the Council operated a sinking fund to cover costs arising from its property portfolio from time to time. This was standard practice to deal with big spikes in expenditure. In response to questions raised, the Director confirmed that this fund was financed by income generated by the Corporate Asset Investment Fund and was offset against the income generated by those assets in the accounts. It did not come from the Council’s central budget and no new money had been added to compensate any spikes in cost as had occurred last year as a result of Firs Farm.

(xiii) When planning permission was obtained on any part of the Council’s rural estate, the value of that land was revised in the Council’s accounts as appropriate. These sites were then assessed to determine the best approach in terms of sale or retention to ensure the best gain for the Council, balancing both short and longer term benefits.

(xiv) If the County Hall campus were to be sold, the capital value for the site, whilst still substantial would be affected by the cost of demolition and re-development. The site was also complex providing a range of services and alternative premises would need to be sourced requiring a significant multi-million-pound capital investment (likely more than might be generated from the sale of the site). Members were assured that care was taken to keep the position under review and to ensure rental income was maximised where possible to make sure retention of the site was justified from a financial and operational perspective.

(xv) A Member suggested that whilst a Scruitny Review Panel on the Ways of Working Programme had been carried out the previous year, an update with regards to its impact on the Council's property assets might be beneficial.

(xvi) Regarding the forecasted net slippage of £12.6m on the Corporate Asset Investment Fund, Members noted that this had resulted from the Council's decision not to pursue a proposed site purchase.

(xvii) The Corporate Asset Management Plan covered primarily the Council's operational assets. Whilst they might generate an income in part, this was not the focus of the Plan. The focus was to ensure the Council continued to make the best use of those sites and to ensure these continued to meet its operational needs.

RESOLVED:

(a) That the update on the 2022/23 revenue budget and capital programme monitoring position as at the end of period 6 (the end of September) be noted;

(b) That the update on the Council's approach to reviewing its property assets be noted;

(c) That a copy of the report presented to the Children and Families Overview and Scruitny Committee in September regarding SEND and Inclusion be circulated to Scruitny Commission Members for information;

(d) That consideration be given to the presentation of an item on SEND to the Scrutiny Commission having regard to its wider impacts on the Council's budget, transport services, risk and complaints;

(e) That the Director of Corporate Resources be requested to provide an update on the Ways of Working Programme and its impact on the Council's property assets.

42. <u>North and Eastern Melton Mowbray Distributor Road - Cost Implications.</u>

The Committee considered a report of the Director of Environment and Transport which provided an update on the progress of the North and Eastern Melton Mowbray Distributor Road (NE MMDR) scheme, including cost implications. The report sought the Commissions' views prior to the Cabinet making a decision on whether to progress to delivery of the scheme on 16th December 2022. A copy of the report marked 'Agenda Item 11' is filed with these minutes.

In presenting the report the Director of Environment and Transport and the Director of Corporate Resources highlighted the following key points:

- Transport benefits and reasons for delivering the scheme remained. The key consideration on whether to continue to peruse the scheme would therefore be the cost of delivery which had increased significantly.
- The construction industry had been hit hard by the rise in inflation. The cost of materials in some cases had increased by more than 17%.
- The schemes forecasted outturn costs had gone up from an initial estimate of £85.3m with a £5m contingency, to an estimated £116.1m. Taking into account Treasury Guidance and therefore allowing for a contingency of plus 10% would take the costs up further to £127m. These costs had been tested extensively both internally and externally in the market.

- Some funding had been secured from the Department of Transport (£49.5m), the Leicester and Leicestershire Local Enterprise Partnership (£4m) and through developer contributions (£14m index linked). Some income had also been generated from land. This left the remaining funding which would need to be met by the County Council at £51m (up from £23m in 2021).
- Borrowing would be required to meet these increased costs at a cost to the Council in the region of £4m a year for 40 years.
- There were essentially no good options as all were technically unaffordable for the County Council making an already difficult financial position considerably worse given current pressures.

The Chairman sought the views of each Member of the Commission. The following points were made:

(i) Members noted that from a transport perspective, it was a good scheme that would benefit Melton, neighbouring areas and the wider County. The Chairman of the Environment and Transport Overview and Scrutiny Committee confirmed that when it considered the matter the overwhelming view had been to proceed with Option 1 (i.e. to proceed as planned with the scheme).

(ii) It was important to recognise some of the wider implications of not progressing with the scheme, such as the loss of seven years' work and investment in developing the project, improved air quality in the town centre, a new primary school, 1,500 new homes, and 30ha of employment land. Also, the Melton Local Plan would likely fail as would the Statement of Common Ground which would have a much bigger knock-on effect for all district council local plans.

(iii) As the County Highways Authority regard had to be taken of the consequential impacts of district council local plans failing and the costs that would give rise to for the County Council as a result of unplanned development.

(iv) Borrowing would be a significant change in approach for the Council, the previous Lead Member for Resources having been against this for many years. It was acknowledged that additional income would be generated in council tax from the houses to be built, but the demand for services that the Council provided would also increase. It was further highlighted that the cost of borrowing would also require savings to be made elsewhere which would impact other County Council services.

(v) It was important for the Council to retain credibility and to show it could deliver such schemes in order to ensure it was able to secure further government funding for other projects in the future.

(vi) It was likely that delivery of the Council's own carbon neutral targets would be negatively affected if the scheme did not progress.

(vii) The Council was in a very difficult position with the cost of not pursuing the scheme being almost as much as pursuing it. It had been assumed that the cost saving of not proceeding would be £4m per year. However, in reality, the cost saving would only be £300,000 per year and this therefore in practice made the options very limited. With this in mind, when considering the wider impacts raised and the potential reputational damage to the Council, on balance, Option 1 had to be supported.

(viii) A member questioned whether there was potential for more funding from the DfT. The Director of Corporate Resources confirmed that discussions had been held with the DfT, but it had confirmed that no further funding could be made available. This was the stance it had taken in respect of all major schemes across the country that were experiencing similar difficulties. The Leader gave assurance that discussions with the DfT and other government colleagues would continue in case additional monies became available in the future.

(ix) It was questioned whether further funding could be secured through future developer contributions on the basis that the bypass would inevitably open up more opportunities for further development in years to come. It was noted that MBC had developed a master plan for the north and south sustainable neighbourhoods in the area and had a strategic approach to contributions that would prioritise highways infrastructure.

(x) The gap between developer contributions and the cost of infrastructure schemes had been growing for some time. This was a national problem with other local authorities having similar difficulties with large infrastructure schemes. The Council was therefore looking to change its approach to enable it to seek greater contributions at the outset. In the past a flat rate for infrastructure costs across all developments in a particular district had been sought. In future, it was proposed that rates would vary to better reflect the ever-changing costs incurred by the Council over time and a better account would also be taken of inflation. A report on the Council's planned revised approach would be presented to the Cabinet in November. Members noted that this revised approach would enable greater contributions to be sought from developers in respect of future housing schemes applied for in Melton.

(xi) A Member questioned if the amount of developer contributions secured to date could be regarded as good. It was noted that on average £8,600 had been secured per house in Melton. This supported both the north and south sections of the road though funds would be prioritised to the development of this phase of the scheme. Members noted that on average higher contributions were secured in Melton than in some other areas in the County.

(xii) A Member questioned the delays in developing the scheme and how much costs had increased as a result. The Director reported that the scheme was approximately 2 years behind schedule. This had largely been due to factors outside the Council's control, for example delays in the planning and consultation process. However, the estimated timescale had been overoptimistic, and this would be a lesson learnt when bidding for schemes in future.

(xiii) If works had begun on site when planned, it was acknowledged that the scheme would have been considerably cheaper. However, it would have been impossible to anticipate the cost increases being seen on this occasion. Other similar schemes which had gone over time in the past had not seen such unprecedented price increases.

(xiv) The Council across all departments had been looking at how to avoid similar circumstances arising again for future large scale infrastructure schemes and consideration was being given to whether the Council would continue to put in bids for future government funding, and if so, whether to approach that process in a different way.

(xv) It was unfortunate that the cost of perusing the scheme would increase council tax costs for all residents across the County, and limit opportunities for other schemes elsewhere which also had air quality issues and where a similar by-pass might be of benefit. Members noted that continuing with the scheme would mean the Council would find it very difficult support other capital projects in other parts of the County for the foreseeable future unless they were fully funded.

(xvi) It had to be recognised that all district councils would have their own local plans which would place demands on the County Council to provide infrastructure to support growth in those areas. A Member suggested it would not be realistic to suggest this could simply not be delivered. Alternative approaches would need to be considered to ensure other parts of the County were not disadvantaged.

[Mr S. Galton left the meeting at this point.]

(xvii) A Member questioned if there might be scope for MBC to contribute more funding towards the scheme. As every council tax payer would be burdened with the cost of the project that would largely benefit only a portion of the County it was suggested that this would not be unreasonable.

(xviii) Several Members commented that it was important to recognise that the County Council as Highway Authority had its responsibilities and district councils had theirs and a blurring of the two would be problematic in the long term. It was noted that the Borough Council had already agreed to contribute some funding and some Members commented that to go back again at this late stage would not be appropriate. This was a matter of discussion between MBC Leaders and Chief Officers to negotiate as it had already done.

It was moved by Mrs Page and seconded by Mr Gillard that a letter be sent to MBC to see if there was scope for it to contribute further to the scheme.

The motion was put and <u>not</u> carried, 4 members voting for the motion, 5 against and there was 1 abstention.

RESOLVED:

(a) That the report now provided on the progress and cost implications of delivering the north and eastern sections of the Melton Mowbray Distributor Road be noted;

(b) That the Cabinet be advised that the Commission unanimously supported Option 1, to proceed to delivery of the scheme.

43. <u>East Midlands Shared Service Annual Performance Update.</u>

The Commission received a report of the Director of Corporate Resources, the purpose of which was to provide an update on the performance of East Midlands Shared Services in 2021/22. A copy of the report marked ‘Agenda Item 12’ is filed with these minutes.

The Chairman thanked Mr Breckon CC, Lead Member for Resources, for attending for this item.

Arising from questions and discussion the following points were made:

(i) In response to concerns raised regarding the functionality issues outlined in the report, Members noted that an extensive procurement process had been undertaken to ensure the system provided all that was needed for both the County Council and its partner, Nottingham City Council. However, as the system was implemented, and detailed testing undertaken, some functionality gaps were identified. For example, the system did not cater for some of the more complex, technical cases with regard to pension payments.

(ii) Members were assured that a stabilisation project had been put in place to address the gaps identified over the next 12 to 18 months. In the meantime, system work arounds had been adopted.

(iii) It was suggested that the Committee could not properly evaluate the success of service based on the information provided and that a comparison between the cost and benefits of providing these services in house compared to them being outsourced would be beneficial.

(iv) It was noted that the system upgrade would have been required however the service was to be delivered. Outsourcing the service had been considered prior to the procurement of the new system. However, it would not be beneficial to conduct such a review during the system change. The Director provided assurance that opportunities to improve, automate and outsource were considered at regular intervals as a matter of standard practice.

(v) Members noted that as a joint service with Nottingham City Council EMSS did have to account to a joint committee involving representatives from both organisations on a quarterly basis.

(vi) It was emphasised that the system had not worked as effectively as expected for 0.2% of employees (i.e. a total of 268). That meant that for 99.8% of people the system had worked well. Given the size of the system changes introduced the Lead Member for Resources suggested that this should be regarded as a success. Added reassurance was provided that those officers that had been affected had not suffered financially, as their position had been rectified immediately with same day payments having been made.

(vii) In response to questions about whether the system now delivered and met the Council’s requirements, the Director confirmed that all issues had been addressed in terms of work arounds being temporarily put in place to ensure staff would be paid accurately and on time. Whilst this was taking extra effort in the background, a plan was in place to gradually back out of those processes as system upgrades were introduced.

(viii) In response to a number of questions regarding legal issues that arose out of the procurement, the Assistant Head of Law advised that ultimately an agreement had been reached with the software provider. This agreement contained confidentiality provisions. However, these did not apply to the extent to which disclosure was required to comply with governmental accountability implications. It was therefore permissible for limited information to be provided to the Commission as follows:

- There had been a significant procurement of software that covered a number of different modules (finance, procurement, HR and payroll) from a large organisation following a public procurement exercise. One of the reasons the new software had been required was because the previous software was no longer going to be supported.
- Demonstrations had been given to Nottingham City Council and the County Council on what the system could deliver as part of that process.
- Once the software had been implemented, it was determined that the system did not quite deliver what had been represented would be provided and so a dispute ensued.
- Lawyers from Nottingham City Council and the County Council were involved in pursuing the claim. Ultimately, a settlement was agreed following extensive correspondence between the parties. The Councils had secured expert external advice on the matter and all relevant issues were explored extensively.
- A positive resolution was subsequently found involving a financial settlement. In parallel with the discussions between the parties, many of the technical issues were resolved through the release of software upgrades.

(ix) It was noted that the recent audit of the service could only provide moderate or limited assurance. It was noted that access to some parts of the system had been affected following its implementation which meant the usual audit testing could not be carried out. These issues had now been addressed and it an improved audit was therefore expected next year.

RESOLVED:

That the update on the performance of East Midlands Shared Services in 2021/22 be noted.

44. Annual Delivery Report and Performance Compendium 2022.

The Commission considered a report of the Chief Executive which presented the draft Annual Delivery Report and Performance Compendium for 2022 which set out the Council's progress and performance over the past year. The views of the Scrutiny Commission were sought on the Report and Compendium prior to its submission to the Cabinet and Full Council on 25 November and 7 December respectively. A copy of the report marked 'Agenda Item 13' is filed with these minutes.

Arising from discussion, the following points were made:

(i) The Commission welcomed the new, more streamlined approach to the Delivery Report, focusing on key delivery items underpinning progress on the Council's Strategic Plan Outcomes. It was suggested that, once finalised, a link to the report should be circulated to all Members to aid wider communication.

(ii) The good work that had been carried out this year across the Council and with partner agencies to support delivery of the outcomes was noted. A member commented, however, that it was not clear how progress was measured in some areas. It was suggested that it would be useful to include a few more metric results in the Delivery Report in future to evidence this.

(iii) It was disappointing to see that the Council continued to be the lowest funded county and third lowest funded authority, with considerable differentials between the lowest funded and those even in the middle of the funding table. It was suggested that the Council's low funded position was now impacting delivery, council tax rates and services across a range of areas, including service improvement in areas such as SEND discussed earlier in the meeting.

(iv) The significant impact of the Covid-19 pandemic on residents, communities and services was noted. This had affected outcomes and performance across a range of areas over the last 18 months. Whilst it was recognised that some service outcomes had started to move back towards previous levels pre-Covid-19, some continued to be adversely affected.

(v) It was confirmed that the annual performance benchmarking analysis had resulted in a Performance Improvement Action Plan which had been put together with service departments and fed into annual service planning processes.

RESOLVED:

(a) That the draft Annual Delivery Report and Performance Compendium for 2022 which set out the Council's progress and performance over the past year be noted;

(b) That once approved by full Council a link to the final report be circulated to all members for information and further communication.

45. Date of next meeting.

RESOLVED:

It was noted that the next meeting of the Commission would be held on 30th January 2023 at 10.00 am.

10.00 am – 12.55 pm CHAIRMAN
09 November 2022

Leicestershire County Council

SCRUTINY COMMISSION – 30 JANUARY 2023

PROVISIONAL MEDIUM TERM FINANCIAL STRATEGY 2023/24 - 2026/27

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to:

   a) Provide information on the proposed 2023/24 to 2026/27 Medium Term Financial Strategy (MTFS) as it relates to Corporate and Central Items;

   b) Provide an update on changes to funding and other issues, arising since the publication of the draft MTFS;

   c) Provide details of the Earmarked Reserves Policy and Capital Strategy;

   d) Ask members of the Commission to consider any issues as part of the consultation process and make any recommendations to the Cabinet accordingly.

Timetable for Decisions (including Scrutiny)

2. On 16 December 2022 the Cabinet agreed the proposed MTFS, including the 2023/24 revenue budget and 2023/24 to 2026/27 capital programme, for consultation. The Overview and Scrutiny Committees and the Scrutiny Commission will consider the proposals during January 2023.

3. An update of the MTFS will be reported to the Cabinet on 10 February 2023, and then to the County Council on 22 February 2023 to approve the MTFS including the 2023/24 revenue budget and capital programme. This will enable the 2023/24 budget to be set before the statutory deadline of the end of February 2023.

Policy Framework and Previous Decisions

4. The MTFS is a rolling financial plan that is updated annually. The current MTFS was approved by the County Council on 23 February 2022. The County Council's Strategic Plan (agreed by the Council on 18 May 2022) outlines the Council's long-term vision for the organisation and the people and place of Leicestershire.

The MTFS, along with other plans and strategies such as the Transformation Programme, aligns with and underpins the Strategic Plan.

MTFS Summary – Cabinet 16 December 2022

5. The draft MTFS was approved by the Cabinet on 16 December 2022.

6. The key revenue budget details were:

- Two year Local Government Settlement anticipated
- No Revenue Support Grant
- Council Tax increase of 2.99% plus 2% Adult Social Care Precept in 2022/23, and 1.99% for the following three years
- Growth of £69m was required, primarily to meet the forecast increase in demand for social care
- Provision for pay and price inflation, £110m, driven by the National Living Wage (NLW) and relatively high inflation forecasts for 2023/24
- Savings required of £155m - of which £38m were identified, £25m relate to Special Education Needs, leaving a shortfall of £92m to be found.

7. The key capital programme details were:

- The draft four-year capital programme totalled £509m
- Capital funding available totalled £380m
- Balance of £129m, temporarily funded from the County Council's internal cash balances in advance of section 106 contributions and other funding being received in the future, e.g. increased capital receipts or new grants.

Changes to the Revenue Budget 2023-27

8. A summary of the overall MTFS revenue position as reported to Cabinet on 16 December 2022 is shown in Appendix A.

9. Since the report to the Cabinet, the local government settlement was announced. Changes from the settlement and other known issues since then are summarised below.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Shortfall at 16th December 2022	0.0	16.6	53.6	91.8
Funding changes				
Grants not inflated	1.0	1.0	1.0	1.0
New Homes Bonus Grant	-0.1	0.0	0.0	0.0
Social Care Grants	-1.1	-1.1	-1.1	-1.1
Services Grant	-0.9	-0.9	-0.9	-0.9
Market Sustainability & Improvement Fund	-4.0	-4.0	-4.0	-4.0
Council Tax Base	-2.3	0.5	0.5	0.5
Other Changes				
Growth Assumptions	1.1	1.1	1.1	1.1

Service Reduction Contingency	1.0	1.0	1.0	1.0
Revenue funding of Capital	4.3	-0.1	-0.2	-0.2
Budget Equalisation Earmarked Reserve – contribution changes	1.0	-1.1	-1.2	-1.1
Revised Shortfalls	**0.0**	**13.0**	**49.8**	**88.1**

10. Grants not inflated (+£1m). The Government had indicated ahead of the provisional settlement that Revenue Support Grant would be inflated. The draft MTFS assumed that grants such as the Improved Better Care Fund, and Social Care and Market Sustainability Fund would be inflated in a similar manner. The provisional settlement did not include inflation on those grants.

11. New Homes Bonus (-£0.1m) updated estimate per the 2023/24 provisional settlement, which includes -£1.3m compared with -£1.2m anticipated in the draft MTFS.

12. Social Care Grants (-£1.1m) increased allocation in the provisional settlement. The Council's allocation from additional funding would have been c.£1.9m higher than anticipated. However, the overall allocation includes an adjustment based on the relative levels of funding that Councils can raise from council tax (via the Adult Social Care Precept), which reallocates grant from areas such as County Councils to areas with low council tax levels, particularly in London.

13. Services Grant (-£0.9m). The Settlement includes -£2.4m for this grant, compared with -£1.5m anticipated in the draft MTFS.

14. ASC Market Sustainability and Improvement Fund (-£4.0m). This Fund (-£5.6m) replaces the previous Market Sustainability and Fair Cost of Care Fund (-£1.6m). The Settlement states that "The government expects this new grant funding will enable local authorities to make tangible improvements to adult social care and, in particular, to address discharge delays, social care waiting times, low fee rates, workforce pressures, and to promote technological innovation in the sector. This will be combined with the existing £162 million in Fair Cost of Care funding to reflect the shared goal of improving market sustainability." Also there will be "reporting requirements regarding performance and use of funding to support improvement against the objectives" which are awaited from the Government. The draft MTFS includes a separate expenditure budget of £4.6m in 2023/24 rising to £21.4m by 2026/27 for the potential costs of Fair Cost of Care and ASC Reform.

15. Government have not provided the grant conditions for the new social care grants, which presents a significant level of uncertainty.

16. Council tax bases for 2023/24 provided by the District Councils are 0.6% higher than previously anticipated, leading to a £2.3m increase in income. It is assumed that the tax base will effectively remain at that level for 2024/25, rather than increasing by 0.75% as it is anticipated that the tax base will be impacted by the effects of the current economic climate. Therefore income forecasts in 2024/25 and later years show a net reduction of £0.5m compared with the draft MTFS.

17. The Growth assumptions have been updated. A £1m increase to reflect potential pressures on transport budgets relating to SEND, mainstream schools and social care. A further growth of £50,000 for the Corporate Resources department is required due to pressures arising from additional external audit requirements.

18. The improvement in the overall funding position will allow the scale of service reductions to be reviewed. A contingency of £1m has been added to reflect this.

19. The improved funding position in 2023/24 will also allow additional revenue funding of the capital programme, £4.3m has been allowed for, reducing the borrowing requirement of the draft MTFS to £124m. This will lead to reductions in the financing of capital budget of £0.1m in 2024/25 and £0.2m thereafter.

20. The improved funding position in 2023/24 will also allow an additional contribution of £2m to be made to the budget equalisation earmarked reserve, preparing for the deficits in future years. The improved estimates of grant funding for the high needs block will allow the contributions to the budget equalisation reserve to be reduced by between £1.0m and £1.2m each year. The net change to the contribution in 2023/24 is £1.0m.

21. Provisional council tax collection fund estimates for 2022/23 are due during January. The net effect of these on the MTFS will be reported to Cabinet on 10th February.

22. The above changes have not yet been reflected in the appendices to this report. The net effect of these changes and any others that may arise subsequently will be proposed to the Cabinet on 10 February 2023.

Corporate and Central Items

23. Details of the corporate and central items elements of the MTFS are shown in Appendix B.

Dedicated Schools Grant (DSG) - Central Dept Recharges

24. A total of £2.3m is set aside from the DSG to fund central department costs of schools.

MTFS Risks Contingency

25. The proposed MTFS includes a contingency of £10m in the first two years, reducing to £8m from 2025/26 for other specific key risks that could affect the financial position on an ongoing basis. Examples include:

- The non-achievement of savings.
- Uncertainty of partner funding, for example the provision of services through the BCF.
- Pressure on demand-led budgets particularly in social care.
- Maintaining the level of investment required to deliver savings.

- New service pressures that arise.
- Risks around commercial services.
- Other one-off pressures.

26. The increase in the first two years relates to significant resource requests to deal with operational pressures and service changes alongside a high level of uncertainty. If the contingency is not required resources will be directed to priority areas, e.g. reducing the shortfall in capital funding discussed later in this report.

Contingency for Inflation / Living Wage

27. A total of £42.2m has been included in the latest MTFS for 2023/24, rising to £67.0m in 2024/25, £87.9m in 2025/26, and £109.6m in 2026/27. This contingency will be allocated to services as necessary.

28. The main components of the contingency are provisions for:
    - Pay awards £34m
    - Pension contribution increase (2023/24) £2m
    - National Living Wage/ Adult Social Care fee reviews £52m
    - Other running costs, net of income, £22m

29. The main local government pay awards in 2022/23 have been based on all full-time staff receiving an increase of £1,925 equating to a 10.5% increase on the first pay point and averaging around 6.4% across the whole pay scale. The MTFS provides for an estimated average pay award increase of 5.5% in 2023/24, weighted towards higher percentage increases in lower grades, as in the 2022 pay award, followed by average increases of 3.5% in later years.

30. The central inflation contingency includes provision for an increase of 1.1% in the employer's pension contribution rate in 2023/24 in line with the requirements of the latest Leicestershire Local Government Pension Scheme (LGPS) triennial actuarial assessment. That assessment indicates that there is not a requirement to increase the contribution rate in subsequent years.

31. The Leicestershire LGPS overall funding level has improved to 105% of estimated liabilities as at 1 April 2022, mainly due to strong investment returns during the last 3 years. The improved funding position has had a positive outcome on contribution rates and has avoided increases that may have been expected given the worsening economic outlook. This outlook includes recessionary fears, increasing inflation, the Ukraine conflict (and other geo-political tensions) and climate risk, which all create uncertainty for long-term investment returns. If investment returns are lower than expected for the next 3 years, this position could be reversed, and contribution rates will need to increase again at the next triennial review.

32. The impact of the National Living Wage (NLW) is particularly significant. The NLW will rise from £9.50 to £10.42 in April 2023, an increase of 9.7%. It is expected to increase further to between £10.82 and £11.35 by 2024/25. In recent years social care costs have been driven up by its continued increases, for which

an additional provision of £52m has been made. The NLW also creates a significant upward pressure on the Council's pay costs.

33. The Government's preferred measure of inflation is the consumer prices index (CPI). In October 2022 this was 11.1%. The Office for Budget Responsibility (OBR) expects inflation to fall over 2023 to 3.8% at the end of that year and to fall below the 2% target by the end of 2024. Inflation may then turn slightly negative as energy and food prices are expected to fall.

34. However, the Council's cost base does not always reflect CPI. Energy and fuel increases, for example, have a much more significant impact (and of course there is no benefit to local authorities from the energy price cap). It is also anticipated that a significant element of the inflation being seen in 2022 will not impact on the Council's costs until 2023 due to factors such as contract renewal lagging behind headline inflation rates and forward purchasing of energy. The draft MTFS therefore assumes 10% inflation in 2023/24, 6% in 2024/25 and 3% per annum in 2025/26 and 2026/27.

35. The level of inflation contingency is assessed on an annual basis. This allows any over or under provision to be adjusted for without balances building, which could otherwise be directed to service provision, or unmanageable liabilities growing.

Financing of Capital

36. Capital financing costs are budgeted at £19.5m in 2023/24 and 2024/25 and are then expected to rise to £20m in 2025/26 and £21.5m in 2026/27, as a result of the increasing need to borrow for the capital programme

Revenue Funding of Capital

37. The budget includes revenue funding of capital expenditure, to reduce the overall need for borrowing to fund the capital programme, of £1.5m in 2023/24 and later years. The changes explained earlier in the report will propose to increase the contribution in 2023/24 by £4.3m to £5.8m.

Central Expenditure

38. The 2023/24 budget includes £2.5m for Central Expenditure consisting of:

- Pensions (£1.4m) - funding for added years, agreed before and as part of Local Government Reorganisation in 1997;
- Members' Expenses and support (£1.3m);
- Flood Defence Levies (£0.3m) payable to the Environment Agency;
- Elections (£0.2m) annual contribution to an earmarked reserve to fund County Council elections;
- Financial Arrangements (-£0.7m) – including income from Eastern Shire Purchasing Organisation (ESPO) and external audit fee costs. This includes a growth item of £170,000 for increased external audit fees in 2023/24 and

a saving of £20,000 (rising to £100,000 from 2024/25) from growth in in the County Council's share of ESPO's net income.

Central Income

39. The forecast interest income relating to treasury management investments is budgeted at £13.6m in 2023/24 and is estimated to reduce to £8.8m in 2024/25, £4.0m in 2025/26 and £1.4m in 2026/27 as balances are reduced to fund internal borrowing for the capital programme and interest rates are expected to fall.

Corporate Growth and Savings

40. G20 - Corporate Growth contingency, £4.2m in 2024/25, rising to £8.2m in 2025/26 and £11.7m in 2026/27. This has been included to act as a contingency for potential further cost pressures in the later years of the MTFS. The value has been set based upon historic levels of growth incurred. Without the use of such a contingency the Council is likely to be required to make savings in a very short time period.

Adequacy of Earmarked Reserves and Robustness of Estimates

41. The Local Government Act 2003 requires the Director of Corporate Resources to report on the adequacy of reserves, and the robustness of the estimates included in the budget.

42. The financial environment continues to be challenging with a number of known major risks over the next few years. These include:

- Ongoing impact of Covid-19.
- High inflation persisting for longer than expected.
- Non-achievement of savings and income targets. The requirement for savings and additional income totals £150m over the next four years of which £88m is unidentified. Successful delivery of savings is not wholly in the control of the County Council.
- Unforeseen service pressures resulting in an overspend, particularly demand-led children's and adult social care.
- SEN spend in excess of grant. A cumulative deficit of £91m is anticipated by the end of 2026/27. Expenditure each year is expected to be between £12m and £14m more than high needs block funding, despite £25m of savings being targeted.
- The National Living Wage is estimated for 3 of the 4 years of the MTFS and pay awards are unknown for any year.
- The strength of the economy dictates the funding of the public sector, both directly through council tax and business rate income and indirectly through the influence on Government funding decisions.
- The increasing reliance on income generated from services in other parts of the public sector (such as schools and NHS). Given the tight financial environment it will be challenging to maintain or keep increasing income.
- A number of significant government initiatives already delayed with further delays expected:

- Review of Business Rate retention, including a “reset” of the system’s baselines (delayed to 2025/26)
- Fair Funding Review (deferred to 2025/26).
- Review of SEND reforms (delayed to 2023)
- Adult Social Care charging reforms (delayed to 2025/26)
- Children’s Social Care reforms (no estimated date)

43. No budget can ever be completely free from risk. Necessarily, assumptions are made which means that the budget will always have an amount of uncertainty.

44. There are a number of ways that risks will be mitigated and reduced. These are summarised below and explained in more detail in the following paragraphs:

- General Fund
- MTFS Contingencies
- Earmarked reserves
- Effective risk management arrangements.

General Fund

45. The General Fund balance is available for unforeseen risks that require short term funding. The forecast balance at the end of 2022/23 is £19m which represents 3.7% of the net budget (excluding schools’ delegated budgets). It is planned to increase the General Fund to £23m by the end of 2026/27 to reflect increasing uncertainty and risks over the medium term, and to avoid a reduction in the percentage of the net budget covered. Examples of risks include:

- Legal challenges that result in a change in savings approach.
- Legislative changes that come with a financial penalty, for example General Data Protection Regulations (GDPR).
- Service provision issues that require investment, for example the capital investment to support the High Needs Block Development Plan.
- Variability in income, particularly from asset investments.

46. To put the level of resources into context: with the exclusion of schools, the County Council spends nearly £60m a month.

47. The proposed MTFS also includes a contingency of £10m in the first two years, reducing to £8m from 2025/26 for other specific key risks that could affect the financial position on an ongoing basis. Further details are provided earlier in the report.

Earmarked Reserves

48. The estimated balance for revenue earmarked reserves (excluding schools and partnerships) as at 31 March 2023 is £54.3m and for capital funding purposes £87.5m. This is set out in detail in Appendix C to this report. The final level of earmarked reserves will be subject to the current year budget outturn.

49. Earmarked funds and balances are held for specific purposes in line with the Council's Earmarked Reserves Policy attached as Appendix D. The main earmarked reserves and balances projected at 31st March 2023 are:

(a) Capital Financing (£87.5m). Holds MTFS revenue contributions for capital expenditure or one-off projects.
(b) Insurance (£11.6m). Held to meet the cost of future claims not covered by insurance policies.
(c) Budget Equalisation (£40.5m). Used to manage variations in funding across financial years. This includes the cash requirements of the High Needs element of the Dedicated Support Grant (DSG). The reserve includes £13.1m earmarked to offset the forecast 2024/25 net MTFS deficit and a further £7.0m to contribute to the forecast 2025/26 deficit. The intention is to manage the deficits through further ongoing cost reductions.
(d) Transformation (£8.3m). Used to invest in transformation projects to achieve efficiency savings and also to fund severance costs.
(e) Earmarked reserves are held for specific departmental infrastructure, asset renewal and other initiatives (£18.5m).
(f) Pooled Property investments (-£24.6m) – invested against the balance of earmarked reserves held.

50. The level of earmarked reserves and balances is monitored regularly throughout the year where funds have been identified that are no longer required transfers have been made. Reports are taken to members as part of the MTFS.

51. The CIPFA financial resilience index for local authorities provides a useful set of indicators of the financial risks facing local authorities that can be broadly grouped into three categories:

- Levels of reserves, with higher values considered good.
- Hard to reduce expenditure, for example social care, with lower levels good.
- Certainty of income, with higher levels good.

52. The latest index is for balances as at 31 March 2022 and broadly shows positive results. One indicator is rated as high risk, with four rated as medium risk.

- Growth above business rates baseline – high risk. Leicestershire has the highest increase across all County Councils. A provision of £7m has been included in the MTFS for the business rates reset in 2025/26.
- Reserves sustainability measure – medium risk. All County Councils scored medium risk, due to an increase in reserves being reported.
- Interest Payable / Net Revenue Expenditure – medium risk. Interest payable on external debt, due to the high debt interest rates relative to current available rates.
- Unallocated reserves – medium risk. The proposed MTFS includes plans to increase the level of the General Fund.
- Change in unallocated reserves – medium risk. In the middle range of increases made over the last three years.
- Change in earmarked reserves – medium risk.

53. Although the 2021/22 position shows that overall risks are increasing, particularly in relation to the level of reserves, the County Council is still reporting a better position than most County Councils.

54. Grant Thornton UK LLP, the Council's external auditor, have also reviewed the level of earmarked reserves held by the Council in respect of financial sustainability as part of its value for money review of 2021/22. They reported that they are satisfied that the Council had appropriate arrangements in place to manage the financial risks it faced with regard to medium term financial planning during 2021/22.

School Balances

55. Balances are also held by schools. They are held for two main reasons: firstly, as a contingency against financial risks and secondly, to meet planned commitments in future years. The balance at 31st March 2022 was £11.3m. The balance at 31st March 2023 has not been estimated but is expected to have reduced as a result of spending pressure. It is also affected by the number of schools converting to Academies.

Risk Management

56. The Council's risk management policy statement and strategy, and insurance policy are reviewed annually and will be considered by the Corporate Governance Committee on 27 January 2023.

Robustness of Estimates

57. The Director of Corporate Resources provides detailed guidance notes for Departments to follow when producing their budgets. As well as setting out certain assumptions such as inflation, these notes set a framework for the effective review and compilation of budget estimates. As a result, all estimates have been reviewed by appropriate staff in departments. In addition, each department's Finance Business Partner has identified the main risk areas in their budget and these have been evaluated by the Director of Corporate Resources. The main risks are described earlier in the report.

58. All savings included in the MTFS have had an initial deliverability assessment so that a realistic financial plan can be presented. Saving initiatives that are at an early stage of development, or require further work to confirm deliverability, have not been included in the MTFS, but are reported for information in Appendix X as savings under development.

59. The Cabinet and the Scrutiny Commission receive regular revenue and capital monitoring reports, budget and outturn reports. In addition, further financial governance reports, including those from the External Auditor are considered by both the Corporate Governance Committee and the Constitution Committee. This comprehensive reporting framework enables members to satisfy themselves about both the financial management and standing of the County Council.

Conclusion

60. Having taken account of the overall control framework, budget provisions included to support the delivery of transformation, growth to reflect spending pressures, the inclusion of a contingency for MTFS risks and the earmarked funds and balances of the County Council, assurance can be given that the estimates are considered to be robust and the earmarked funds adequate.

LGPS Pension Fund Net Zero Climate Strategy Consultation

61. The Fund is inviting scheme members, employers and other stakeholders with a chance to review and provide their thoughts on the draft strategy. It aims to manage the risk of climate change to the Fund and ensure pensions can be sustainably paid to more than 100,000 beneficiaries in the coming decades. The strategy focuses on four main pillars, including:

- Climate change risk and opportunities
- Targets and measures
- Decision making
- Stewardship, engagement, and divestment

62. The consultation closes on 5 February 2023. The Director of Corporate Resources will submit a response to the Strategy on behalf of the County Council.

Capital Programme 2023/24 to 2026/27

63. The overall approach to developing the capital programme is set out in the capital strategy (Appendix E) and is based on the following key principles:

- To invest in priority areas of growth, including roads, infrastructure, economic growth;
- To invest in projects that generate a positive revenue return (spend to save);
- To invest in ways which support delivery of essential services;
- Passport Government capital grants received for key priorities for highways and education to those departments.
- Maximise the achievement of capital receipts.
- Maximise other sources of income such bids to the LLEP, section106 housing developer contributions and other external funding agencies.
- No investment in capital schemes primarily for financial return, where borrowing is required anywhere within the capital programme (in line with the prudential code).
- In exceptional circumstances limited prudential borrowing will be considered where needed to fund essential investment in service delivery.

64. The draft capital programme totals £509m over the four years to 2026/27, shown in detail in Appendix F. The programme is funded by a combination of Government grants, capital receipts, external contributions, revenue balances and earmarked funds.

65. Where capital projects are not yet fully developed, or plans agreed, these have been included under the heading of ‘Future Developments’ under each departmental programme. It is intended that as these schemes are developed during the year, they will be assessed against the balance of available resources and included in the capital programme as appropriate. A fund of £40m is included in the draft capital programme, shown with the Corporate programme. This is a reduction of £20m compared with previous years following the promotion of schemes to the main capital programme and an updating of the latest requirements in light of increasing pressures on the Council’s financial position.

66. The proposed programme can be summarised as:

Service Improvements	£234m
Investment for Growth	£159m
Invest to Save	£76m
Future Developments	£40m
Total	£509m

Funding and Affordability

Forward Funding

67. Forward funding presents a significant financial commitment and risk for the County Council and is being undertaken to ensure:

- External funding is maximised, through successful bids.
- The final cost of infrastructure investment is reduced (compared with what it would be if construction was delivered incrementally as and when smaller developments come forward).
- The design is optimised, to the benefit of the local community.

68. There are risks involved in managing and financing a programme of this size. And an increased reliance on developer contributions through section 106 agreements means that it may take many years for investment to be repaid. Historic agreements may not be sufficient for the actual cost of infrastructure in the high inflation environment that is currently being experienced. The drivers of inflation are having a particularly profound impact upon construction schemes. Risks could be further compounded in the event of an economic slowdown, which could delay the housing development required before Section 106 funding is paid.

69. A key determinant in generating sufficient developer contributions is the approach taken by the district council, as the planning authority. The district council will set the local planning context against which section 106 agreements will be agreed and ultimately decide on planning permission.

70. The Council’s financial position, both in relation to capital and revenue funds is grave. As the lowest funded county council in England, the Council has limited capacity to provide capital funding, or forward funding (recovered over a period of time) to support planned growth and therefore the focus must be on maximising

developer contributions and delivery rather than the County Council filling viability gaps in highways infrastructure requirements.

71. The Capital Programme includes some of the infrastructure funding for 2, out of 7, district local plans. Without appropriate funding, infrastructure relating to further plans cannot be added to the programme. The limited financial resources available will need to be focused on schools, as they are the County Council's statutory responsibility, although this will need to be kept to a minimum. It is therefore critical that Local Plans are prepared with sufficient evidence to secure contributions and delivery for critical infrastructure.

72. Whilst this approach significantly reduces the financial risk faced by the County Council, in the shorter term, it does not remove it entirely. Until such time as Government policy reflects and addresses the challenges faced by local authorities in meeting housing needs whilst ensuring infrastructure is available and appropriate, district councils, as planning authorities are in the best position to manage the developer contribution risk. It is therefore necessary for the district councils to work with the County Council to ensure Local Plans include policies that balance the need to support delivery of growth without exposing the County Council to further financial risk. District councils also need to work with the County Council to direct more funding towards priority infrastructure

73. The expectation is that without new funding the County Council can only commit to constructing new infrastructure upon receipt of funds from developers. Whilst the County Council will always be mindful of its statutory duty to ensure that highway safety is not compromised, there could be adverse impacts of development, such as congestion, if sufficient developer funding is not secured through the planning process.

74. Existing forward funding commitments will continue to be supported including those for the Melton Mowbray Distributor Road (MMDR) North and East sections, MMDR south, A511 Major Road Network, and the Hinckley Hub.

Capital Programme Funding

75. The proposed capital programme funding is shown below.

Capital Grants	£217m
Capital Receipts from sales	£20m
Revenue/ Earmarked funds	£95m
External Contributions	£53m
Borrowing (from internal balances)	£124m
Total	**£509m**

Capital Grants

76. Grant funding for the capital programme totals £217m across the 2023-27 programme. The majority of grants are awarded by Government departments including the Department for Education (DfE) and the Department for Transport (DfT).

Children and Family Services

77. Capital grant funding for schools is provided by the DfE. The main grants are:

a) Basic Need – this grant provides funding for new pupil places by expanding existing schools and academies or by establishing new schools. Funding is determined through an annual submission to the DfE which identifies the need for additional school places in each local authority area. The DfE has announced details of the grant awards for 2023/24 £14.3m and 2024/25 £3.1m. No details have been announced for future years. An estimate of £2m has been used for 2025/26 to 2026/27.

b) Strategic Capital Maintenance – this grant provides the maintenance funding for the maintained school asset base. Details of the grant for 2023/24 and future years have not yet been announced. An estimate of £2m per annum is included in the capital programme. It is expected that this grant will continue but will reduce as further schools convert to academy status.

c) Devolved Formula Capital (DFC) - funding provided to schools. The DfE has not yet announced details of grant allocations. However, an estimate of £0.5m per annum can be made, based on the number of maintained schools.

d) New (Free) School bid – the programme funding includes an £8m DfE grant to fund a new Social Emotional and Mental Health special school in 2024/25 required as part of the High Needs Development plan.

Adult Social Care

78. Capital funding for the Disabled Facilities Grant (DFG) programme has not yet been announced. An estimate in line with previous years, £4.4m per annum, has been included in the capital programme.

Environment and Transport

79. The DfT grants have not yet been announced and so estimates have been included, based on previous years. These include:

a) Integrated Transport Block - £2.8m p.a. (£11.0m overall).
b) Maintenance - £9.9m p.a. (£39.5m overall).
c) Transport Infrastructure Investment Fund (inc. Pot Holes) - £7.9m p.a. (£31.6m overall).

80. Other significant Environment and Transport capital grants included are:

- DfT North and East Melton Mowbray Distributor Road funding - £49.5m
- Housing Infrastructure Fund – Melton Mowbray Southern Distributor Road - £16.7m (total £18.2m including previous years).

Capital Receipts

81. The generation of capital receipts is a key priority for the County Council. The draft capital programme includes an estimate of £20.3m across the four years to 2026/27.

82. The estimate includes potential land sales that are subject to planning permission. In these cases the value of the site is significantly increased when planning permission is approved. However, this also comes with a significant amount of uncertainty and potential for delays. For planning purposes a prudent total of £3m of future estimated sales subject to planning permission has been included.

Revenue / Earmarked Funds/ Contributions

83. To supplement the capital resources available and avoid the need for borrowing £95m of revenue/ reserves funding is being used to fund the programme consisting of:

One-off MTFS 2023-27 revenue contributions*	£10m
Departmental earmarked funds	£4m
Capital Financing earmarked fund	£81m
Total	£95m

**updated to include proposed £4.3m from changes following the local government settlement as described earlier in the report.*

84. The capital financing earmarked fund temporarily holds previous years' revenue contributions to fund the capital programme until they are required.

External Contributions and Earmarked Capital Funds

85. A total of £53m is included in the funding of the capital programme 2023-27. This relates to section 106 developer contributions, including an estimated £5.2m in section 106 receipts relating to forward funded capital schemes over the next four years.

Funding from Internal Balances

86. A total of £124m in funding required is included to fund the draft programme and enable investment in schools and highway infrastructure to be made. Over the next 10 to 15 years it is anticipated that circa £32m of this funding will be repaid through the associated developer contributions.

87. Due to the strength of the County Council's balance sheet, it is possible to use internal balances (cash balances) to fund the capital programme on a temporary basis instead of raising new external loans. Levels of cash balances held by the Council comprise the amounts held for earmarked funds, provisions, the Minimum Revenue Provision (MRP) set aside for the repayment of debt and working capital of the Council. The cost of raising external loans over the medium

to long term is forecast to exceed the cost of interest lost on cash balances by circa 1%.

88. The overall cost of using internal balances to fund £124m of investment is dependent on what happens to interest and borrowing rates over the medium to long term. Current forecasts show the cost of borrowing £124m externally would be around £8m per annum for the next 40 years, in interest and repayment of principal - minimum revenue provision (MRP). Internal borrowing would still require MRP setting aside but net interest savings could amount to £1.5m per annum. But because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

89. The County Council's current level of external debt is £262m. As described above this is not assumed to increase during the MTFS. The relative interest rates and cash balances will be kept under review to ensure that this is the right approach.

Capital Programme Summary by Department

90. Over the period of the MTFS, a capital programme of £509m is required of which £161m is planned for 2023/24. The main elements are:

- Children and Family Services - £104m. The priorities for the programme are informed by the Council's School Place Planning Strategy and investment in SEND as part of the High Needs Development Plan, explained earlier in this report.
- Adults and Communities - £21m. The programme includes £18m relating to the Disabled Facilities Grant (DFG) programme and schemes for the Social Care Investment Plan (SCIP).
- Environment and Transport - £255m. This relates to: Major Schemes such as Melton Mowbray Distributor Road North/East and Southern Sections, Zouch Bridge replacement as well as the Transport Asset Management Programme and the Environment and Waste Programme. Other significant projects include Melton Depot replacement, vehicle replacement and advanced design.
- Chief Executive's - £0.2m, for Legal - Case Management System.
- Corporate Resources - £10m. This mainly relates to investment in ICT, Transformation, Property and Environmental Improvements.
- Corporate Programme - £118m. Investment includes the Corporate Asset Investment Fund (CAIF), the Future Developments fund (subject to business cases), and Major Schemes Portfolio Risk.

<u>Changes to the Capital Programme 2023-27</u>

91. Since the report to the Cabinet, the overall borrowing requirement is proposed to reduce from £129m to £124m due to an additional revenue contribution of £4.3m arising from the provisional local government settlement, and a £0.3m contribution from reserves that is no longer required.

92. The expenditure profiles on all schemes are currently being reviewed and updated to reflect the latest known position. The updated profiles will be reported in the MTFS report to the Cabinet in February 2023.

Corporate Asset Investment Fund (CAIF)

93. The CAIF annual strategy has been updated for 2023-27 and will be included in the MTFS update to the Cabinet and County Council in February 2023. The update for 2023-27 is being reported separately to this committee on the same agenda.

Freeport

94. The County Council is acting as Lead Authority in relation to the establishment and ongoing activity of the East Midlands Freeport (EMF). The final business case is expected to be approved imminently although tax site designation has been in place since the start of the financial year.

95. The County Council has provided up front funding to support business case development and wider set up costs. This is in the form of a loan capped at £2.5m. Capacity funding has also been received from DLUHC. By the end of the current financial year it is expected that around £1.9m of the £2.5m will have been drawn down with the remainder in 2023/24. This loan will begin to be paid back by the end of the next financial year from the Freeport's retained business rates income stream and it is expected to be fully repaid, with interest, within the 2025/26 financial year.

Budget Consultation

96. The Cabinet at its meeting on 16th December 2022 approved the MTFS proposals for consultation. The consultation asked for views on the savings plan and the appetite for Council Tax increases. The consultation closed on 15th January 2023. There were 619 responses which are currently being analysed. A report on the outcome will be included within the MTFS report to the Cabinet on 10 February 2023.

Results of Scrutiny Process

97. The Overview and Scrutiny Committees and the Scrutiny Commission have received detailed reports on the revenue budget and capital programme proposals, which can be viewed via the County Council's website (www.leicestershire.gov.uk). A summary of the comments arising from the meetings of Scrutiny bodies will be presented with the MTFS report to the Cabinet on 10 February 2023.

Equality and Human Rights Implications

98. Under the Equality Act 2010 local authorities are required to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between people who share protected characteristics and those who do not; and
- Foster good relations between people who share protected characteristics and those who do not.

99. Given the nature of the services provided, many aspects of the Council's MTFS will affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those detailed assessments will be revised as the proposals are developed to ensure that decision-makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic as well as information to enable proper consideration of the mitigation of the impact of any changes on those with a protected characteristic.

100. A high-level Equalities and Human Rights Impact assessment of the MTFS 2022-26 was completed last year to:

- Enable decision makers to make decisions on an informed basis which is a necessary component of procedural fairness;
- Inform decision makers of the potential for equality impacts from the budget changes;
- Consider the cumulative equality impacts from all changes across all Departments;
- Provide some background context of the local evidence of cumulative impacts over time from public sector budget cuts.

101. This assessment will be revised and updated for the new MTFS 2023-27 and included in the proposed MTFS to the Cabinet in February 2023. Many of the proposals in the MTFS were agreed as part of the decision to adopt the previous MTFS, and others are amendments to existing plans that have already been agreed.

102. Overall, the previous assessment found that the Council’s budget changes will have the potential to impact older people, children and young people, working age adults with mental health or disabilities and people with disabilities more than people without these characteristics. This is as expected given the nature of the services provided by the Council. The findings between April 2017 and September 2022 of the Leicestershire Community Insight Survey found that a significantly higher percentage of women, non-white British people, people with health problems, people with a disability, people with a sexual orientation other than heterosexual and people who receive care support responded that they had been affected a “fair amount” or a “great deal” by national and local public sector cuts.

103. There are several areas of the budget where there are opportunities for positive benefits for people with protected characteristics both from the additional

investment the Council is making into specialist services and to changes to existing services which offer improved outcomes for users whilst also delivering financial savings.

104. If as a result of undertaking an assessment, potential negative impacts are identified, these will be subject to further assessment.

105. Any savings arising out of a reduction in posts will be subject to the County Council's Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the Action Plan. Where there are potential Human Rights implications arising from the changes proposed, these will be subject to further assessment including consultation with the Council's Legal Services.

Crime and Disorder Implications

106. Some aspects of the County Council's MTFS are directed towards providing services which will support the reduction of crime and disorder.

Environmental Implications

107. The MTFS will include schemes to support the Council's response to climate change and to make environmental improvements.

Partnership Working and Associated Issues

108. As part of the efficiency programme and improvements to services, working with partners and service users will be considered along with any impact issues, and they will be consulted on any proposals which affect them.

Risk Assessments

109. As this report states, risks and uncertainties surrounding the financial outlook are significant. The risks are included in the Corporate Risk Register which is regularly updated and reported to the Corporate Governance Committee.

Background Papers

Report to the Cabinet 16 December 2022 – Provisional Medium Term Financial Strategy 2023-27 – Proposals for Consultation.
https://politics.leics.gov.uk/documents/s173971/MTFS%202023-27%20Report%20-%20Cab%2016-12-22%20-%20at%2012.12.22%206pm.pdf

Report to the County Council 23 February 2022: Medium Term Financial Strategy 2022-26 - https://bit.ly/3Wdxiwf

County Council Strategic Plan
https://www.leicestershire.gov.uk/about-the-council/council-plans/the-strategic-plan

Report to the Cabinet 25 November 2022 – Managing the Risk Relating to the Delivery of Infrastructure to Support Growth - http://cexmodgov1/documents/s172416/FINAL%20-%20Managing%20Growth.pdf

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Appendices

Appendix A: Four Year Revenue Budget 2023/24 to 2026/27
Appendix B: Corporate and Central Items Revenue Budget 2023/24
Appendix C: Earmarked Reserves Balances
Appendix D: Earmarked Reserves Policy
Appendix E: Capital Strategy
Appendix F: Draft Capital Programme 2023/24 to 2026/27

APPENDIX A

2023/24 - 2026/27 REVENUE BUDGET *

	TOTAL 2022/23	Inflation/ Contingencies /Transfers	Growth	Savings	TOTAL 2023/24	Inflation/ Contingencies /Transfers	Growth	Savings	TOTAL 2024/25	Inflation/ Contingencies /Transfers	Growth	Savings	TOTAL 2025/26	Inflation/ Contingencies /Transfers	Growth	Savings	TOTAL 2026/27
Spending	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Services :																	
Children & Family Services	**90,576**	3,816	7,895	-1,515	**100,772**		6,680	-3,690	**103,762**		6,920	-3,725	**106,957**		7,055	-3,635	**110,377**
Adults & Communities	**171,502**	15,210	7,440	-7,270	**186,882**		4,720	-3,825	**187,777**		4,810	-300	**192,287**		4,830	-2,300	**194,817**
Public Health **	**-1,446**	0	0	-360	**-1,806**		0	-800	**-2,606**		0	-90	**-2,696**		0	0	**-2,696**
Environment & Transport	**83,222**	9,639	1,320	-825	**93,356**		1,925	-1,925	**93,356**		1,770	-1,035	**94,091**		2,110	-45	**96,156**
Chief Executives	**12,875**	2,963	-35	-895	**14,908**		0	-130	**14,778**		0	-5	**14,773**		0	0	**14,773**
Corporate Resources	**34,304**	3,144	35	-2,445	**35,038**		0	-660	**34,378**		0	-1,930	**32,448**		0	-660	**31,788**
	391,034	34,772	16,655	-13,310	**429,151**	0	13,325	-11,030	**431,446**	0	13,500	-7,085	**437,861**	0	13,995	-6,640	**445,216**
DSG (Central Dept recharges)	**-2,285**	0	0	0	**-2,285**				**-2,285**				**-2,285**				**-2,285**
Other corporate growth & savings	**0**	0	0	0	**0**		4,175	0	**4,175**		4,000	0	**8,175**		3,505	0	**11,680**
Fair Cost of Care / Adult Social Care Reforms	**0**	4,600	0	0	**4,600**	0			**4,600**	5,200			**9,800**	11,600			**21,400**
MTFS Risks Contingency	**8,000**	2,000	0	0	**10,000**				**10,000**	-2,000			**8,000**				**8,000**
Contingency for inflation/ Living Wage	**28,778**	13,417	0	0	**42,195**	24,825			**67,020**	20,850			**87,870**	21,750			**109,620**
	425,527	54,789	16,655	-13,310	**483,661**	24,825	17,500	-11,030	**514,956**	24,050	17,500	-7,085	**549,421**	33,350	17,500	-6,640	**593,631**
Central Items:																	
Financing of capital	**19,500**	0			**19,500**	0			**19,500**	500			**20,000**	1,500			**21,500**
Revenue funding of capital	**2,500**	-1,000			**1,500**	0			**1,500**	0			**1,500**	0			**1,500**
Bank & other interest	**-1,400**	-12,200			**-13,600**	4,800			**-8,800**	4,800			**-4,000**	2,600			**-1,400**
Central expenditure	**2,299**	87	170	-20	**2,536**	0		-80	**2,456**	0		0	**2,456**	0		0	**2,456**
Total Services & Central Items	**448,426**	41,676	16,825	-13,330	**493,597**	29,625	17,500	-11,110	**529,612**	29,350	17,500	-7,085	**569,377**	37,450	17,500	-6,640	**617,687**
Contributions to budget equalisation earmarked fund	**22,290**				**9,400**				**6,900**				**7,300**				**8,100**
Contributions to/from General Fund	**1,000**				**1,000**				**1,000**				**1,000**				**1,000**
Total Spending	**471,716**				**503,997**				**537,512**				**577,677**				**626,787**
Funding																	
Revenue Support Grant (new burdens)	**-10**				**-10**				**-10**				**-10**				**-10**
Business Rates - Top Up	**-40,346**				**-41,960**				**-42,070**				**-39,340**				**-36,340**
Business Rates Baseline/Retained	**-25,528**				**-26,550**				**-28,510**				**-21,690**				**-21,690**
S31 grants - Business Rates	**-8,590**				**-12,090**				**-12,980**				**-13,060**				**-13,060**
Council Tax Precept	**-351,626**				**-371,940**				**-382,190**				**-395,640**				**-409,570**
Council Tax Collection Fund net deficit / (surplus)	**-3,569**				**-1,000**				**0**				**0**				**0**
New Homes Bonus Grant	**-2,096**				**-1,200**				**-800**				**0**				**0**
Improved Better Care Grant etc.	**-14,190**				**-14,592**				**-14,592**				**-14,592**				**-14,592**
Social Care Grant	**-19,866**				**-31,475**				**-36,575**				**-36,575**				**-36,575**
New Adult Social Care Grant from 2023/24	**0**				**0**				**0**				**0**				**0**
Services Grant 2022/23 (one-off)	**-4,265**				**-1,500**				**-1,500**				**-1,500**				**-1,500**
Market Sustainability and Fair Cost of Care Fund	**-1,630**				**-1,680**				**-1,680**				**-1,680**				**-1,680**
Total Funding	**-471,716**				**-503,997**				**-520,907**				**-524,087**				**-535,017**
VARIANCE	**0**				**0**				**16,605**				**53,590**				**91,770**
Band D Council Tax	*£1,452.96*				*£1,525.46*				*£1,555.82*				*£1,586.78*				*£1,618.36*
Increase	*2.99%*				*4.99%*				*1.99%*				*1.99%*				*1.99%*

* provisional for 2024/25 and later years

** preventative expenditure within other Deparments' budgets to be identified and absorbed into the ring fenced budget

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APPENDIX B

CORPORATE & CENTRAL ITEMS

REVENUE BUDGET 2023/24

Net Budget 2022/23 £		*	Employees £	Running Expenses £	Internal Income £	Gross Budget £	External Income £	Net Budget 2023/24 £
	CORPORATE							
-2,285,000	**DSG (Central Dept recharges)**	S	0	0	0	0	-2,285,000	-2,285,000
0	**Fair Cost of Care / Adult Social Care Reforms**	S	0	4,600,000	0	4,600,000	0	4,600,000
8,000,000	**MTFS Risks Contingency**	B	0	10,000,000	0	10,000,000	0	10,000,000
0	**Contingency for Inflation / Living Wage ****	B	11,600,000	30,595,000	0	42,195,000	0	42,195,000
5,715,000	**TOTAL CORPORATE BUDGETS**		**11,600,000**	**45,195,000**	**0**	**56,795,000**	**-2,285,000**	**54,510,000**
	CENTRAL ITEMS							
19,500,000	**Financing of Capital**	B	0	22,265,000	-54,000	22,211,000	-2,711,000	19,500,000
2,350,000	**Revenue Funding of Capital**	B	0	1,500,000	0	1,500,000	0	1,500,000
	Central Expenditure							
1,400,000	Pensions (pre LGR /LGR)	S	0	1,400,000	0	1,400,000	0	1,400,000
1,309,000	Members Expenses & Support etc	S	138,000	1,171,000	0	1,309,000	0	1,309,000
317,000	Flood Defence Levies	S	0	317,000	0	317,000	0	317,000
200,000	Elections	S	0	200,000	0	200,000	0	200,000
-841,000	Financial Arrangements	B	0	366,000	-221,000	145,000	-835,000	-690,000
2,385,000			138,000	3,454,000	-221,000	3,371,000	-835,000	2,536,000
	Central Income							
-1,400,000	Bank & Other Interest	B	0	0	0	0	-13,600,000	-13,600,000
22,835,000	**TOTAL CENTRAL ITEMS**		**138,000**	**27,219,000**	**-275,000**	**27,082,000**	**-17,146,000**	**9,936,000**

*** S/D/B** : indicates that the service is **S**tatutory, **D**iscretionary or a combination of **B**oth
** 2022/23 contingency of £28.8m transferred to Departmental budgets

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APPENDIX C

EARMARKED RESERVE BALANCES

	Revised Balance 01/04/22 £000	Forecast Balance 31/03/23 £000	Forecast Balance 31/03/24 £000	Forecast Balance 31/03/25 £000	Forecast Balance 31/03/26 £000	Forecast Balance 31/03/27 £000
Renewal of Systems, Equipment and Vehicles	3,030	2,060	1,930	1,780	1,680	1,580
Insurance						
General	9,640	7,230	4,820	2,410	0	0
Schools schemes and risk management	350	260	170	90	0	0
Uninsured loss fund	5,410	4,060	2,710	1,350	0	0
Committed Balances						
Community Grants	40	40	0	0	0	0
Other						
Children & Family Services						
Supporting Leicestershire Families	760	0	0	0	0	0
C&FS Developments	1,710	0	0	0	0	0
Youth Offending	610	610	330	190	50	0
Other	670	340	300	300	300	0
Adults & Communities						
A&C Developments	2,320	430	0	0	0	0
Adult Learning Service	530	160	160	160	160	160
Public Health	8,410	4,540	860	860	860	860
Environment & Transport						
E&T Developments	270	220	90	80	80	80
Commuted Sums	3,300	2,800	2,300	1,800	1,300	800
LLITM	1,560	1,200	270	140	450	740
Major Projects - advanced design	870	410	140	130	120	120
Waste Developments	780	540	280	50	0	0
Section 38 Income	490	0	0	0	0	0
Other	280	140	150	140	150	160
Chief Executive						
Economic Development-General	340	220	60	0	0	0
Chief Executive Dept Developments	440	270	110	20	20	20
Other	180	50	10	10	10	0
Corporate Resources						
Other	430	220	150	80	10	0
Corporate:						
Transformation Fund	12,520	8,350	3,360	300	0	0
Broadband	2,370	1,370	750	0	0	0
Business Rates Retention	3,870	570	570	570	570	570
Elections	100	300	500	700	100	300
Other	30	30	30	30	30	30
Budget Equalisation	31,960	40,470	48,880	41,610	40,740	47,740
Carbon Neutral Investment Fund	2,000	2,000	2,000	2,000	2,000	2,000
Capital Financing (phasing of capital expenditure)	136,540	87,460	63,320	640	660	1,610
Pooled Property Fund investment *	-24,550	-24,550	-24,550	-24,550	-24,550	-24,550
TOTAL	**207,260**	**141,800**	**109,700**	**30,890**	**24,740**	**32,220**
Schools and Partnerships						
Dedicated Schools Grant	-24,280	-33,060	-45,700	-56,330	-67,620	-80,590
Active Together	1,400	1,210	910	560	10	0
Health & Social Care Outcomes	14,860	7,830	3,480	2,070	2,070	2,070
Emergency Management	790	740	740	690	640	590
East Midlands Shared Services - other	30	0	0	0	0	0
Leicestershire Safeguarding Children Board	100	80	60	40	20	0
Leics Social Care Development Group	30	30	30	30	30	30
Total	-7,070	-23,170	-40,480	-52,940	-64,850	-77,900

* Pooled Property Fund investments - funded from the overall balance of earmarked funds

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APPENDIX D

EARMARKED RESERVES POLICY 2023/24

General Fund

The level of the General Fund would ordinarily reflect the overall financial environment and the key financial risks faced by the County Council. The amount held will be reviewed at least annually. Any funds in excess of the assessed amount will in the first instance be used to fund one off expenditure (capital and revenue including invest to save and pump priming initiatives) and secondly to support recurring revenue expenditure over the medium term, subject to the key consideration of sustainability.

Holding non earmarked funds is an essential component of risk management in that it enables the County Council to manage unforeseen financial events without the need to make immediate offsetting savings. This allows better decisions to be made and reduces the impact this could have on users of County Council services.

Based on an assessment of risk, the target level for the General Fund is within the range of 4% to 7% of net expenditure (excluding schools). The forecast balance of £23m (4.2%), by the end of the MTFS is within that range but towards the bottom reflecting the tighter financial pressures of the Council.

In reviewing the level of the General Fund the Cabinet will take advice from the Director of Corporate Resources.

Earmarked Reserves

Earmarked reserves are traditionally held for six main reasons. The key factors that determine their level are set out below:

- Insurance earmarked reserves – to meet the estimated cost of future claims not covered by insurance policies.
- Renewals – to enable services to plan an effective programme of systems, equipment and vehicle replacement. These earmarked reserves are a mechanism to allow a sensible replacement programme, that can vary in size from one year to the next depending upon need, without the requirement to vary annual budgets.
- Trading accounts and wholly grant funded services - in some instance surpluses in excess of the budgeted level are retained by the service for future investment.
- Other earmarked reserves will be set up from time to time to meet predicted liabilities or unforeseen issues that arise.
- Support one off costs to enable transformational and departmental change.
- Meet commitments made that will be incurred in the future. Examples include; completion of projects, County Council contributions to partnership funding, commitments in the MTFS such as the Capital Programme.

Reserves are not suitable for on-going service commitments.

Given the increased financial pressures, a range of measures are in place as set out below.

- Departments are to identify specific and potential need for planned expenditure to be funded from reserves. Where approved these will be held centrally as earmarked funds.
- After allowing for this, general departmental reserves above a minimum allowance allowing departments to manage day to day, smaller essential interventions etc, will be centralised.
  - A&C £250,000
  - CFS £250,000
  - E&T £250,000
  - CR £100,000
  - CE £50,000
  - PH £50,000
- The above limits will be reviewed annually as part of the new MTFS.
- All reserves above this amount to be brought into the general fund
- Trading surpluses, over and above what is built into service budgets, will be brought back into central control – services impacted can request funding to support specific investments along with other services.
- All reserves set aside for asset renewals will be managed centrally based on consideration of regular departmental submissions
- Schools and partnership reserves are treated outside of the above measures but a clear plan of purpose for each reserve is required to be produced

The Director of Corporate Resources has the authority to take decisions relating to the creation and management of earmarked reserves.

Schools Earmarked Funds

Schools balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to save to meet planned commitments in future years. Decisions on these funds are taken by individual schools.

Monitoring Policy

The level of earmarked reserves and balances are monitored regularly throughout the year. Reports will be taken to members as part of the MTFS and at year end.

Grant Thornton UK LLP, the County Council's external auditor, has reviewed the level of earmarked reserves held by the County Council in respect of financial sustainability as part of its value for money review of 2021/22. They reported that they are satisfied that the Council had appropriate arrangements in place to manage the financial risks it faced with regard to medium term financial planning during 2021/22.

APPENDIX E

CAPITAL STRATEGY 2023-2027

Introduction

This strategy sets out the County Council's approach to compiling the capital programme, its priorities, availability of funding and financial management.

The County Council's capital programme is derived primarily from the Strategic Plan. It aligns with departmental commissioning and service plans to ensure a prioritised, joined up use of resources to maximise outcomes for all Leicestershire service users, citizens and other stakeholders.

This strategy links to the Medium Term Financial Strategy, the Corporate Asset Investment Fund (CAIF) Strategy and the Treasury Management Strategy. The CAIF Strategy sets out the Council's approach to non Treasury Management investments made to support the Council's objectives through property and infrastructure assets that will have an element of financial return, for example supporting economic development. The level of funding available for the CAIF is determined by the Capital Strategy.

The overall approach to developing the capital programme is based upon the following key principles;

- To invest in priority areas of growth, including roads, infrastructure, economic growth;
- To invest in projects that generate a positive revenue return (spend to save);
- To invest in ways which support delivery of essential services;
- Passport Government capital grants received for key priorities for highways and education to those departments.
- Maximise the achievement of capital receipts.
- Maximise other sources of income such bids to the LLEP, section106 housing developer contributions and other external funding agencies.
- No investment in capital schemes primarily for financial return, where borrowing is required anywhere within the capital programme (in line with the prudential code).
- In exceptional circumstances limited prudential borrowing will be considered where needed to fund essential investment in service delivery.

The 4 year capital programme 2023-27 totals £509m. External funding from capital grants, section 106 agreements and third party contributions totals £270m. Without this funding being available schemes of any significant size would not be affordable by the Council.

The balance of funding required is £239m and is from one off revenue reserves, capital receipts and a funding gap of £124m to be financed by prudential borrowing at a cost to the Council's revenue budget of around £8m p.a. over the next 40 years. This is a significant commitment to the Council given its wider financial pressures.

APPENDIX E

Funding Sources

The approach to funding is:

External Funding

- Central Government Grants – passport grants to the relevant departments, even when not ring fenced.
- External Grants - maximise bids for funding from external sources including providing matched funding where appropriate to do so, subject to approval of fulfilment conditions and any contingent liabilities.
- External Contributions – maximise section 106 developer claims/ contributions to cover the full capital costs.

Discretionary Programme

- Capital Receipts – maximise individual receipts and use to fund the discretionary capital programme.
- Earmarked Capital Receipts – only to be used in situations where this is an unavoidable requirement of an external party, for example, there is a requirement to gain DfE approval for the disposal of education assets, with the related receipts to be earmarked to education assets. These will be reviewed on a case by case basis to ensure the requirement is met and to consider options for substitution of discretionary funding where appropriate.
- Revenue underspends and surplus earmarked funds – review opportunities as they arise to contribute to the discretionary capital programme.
- Prudential borrowing (internal or external borrowing) – only to be used after all other available funding. Before prudential borrowing will be considered all opportunities to maximise bids for external funding, and agreement from other partners, particularly the Government, for additional funding, will be taken. Internal borrowing (from County Council cash balances) will be prioritised over external borrowing.
- Leasing – due to the County Council's ability to access relatively inexpensive funding rental/ lease proposals need to be appraised to ensure additional benefits justify the financing cost.

Other

- Renewal reserves – held to make an annual contribution reflecting the life and replacement cost of the asset. Use when the service is externally funded (commercial, partnerships, specific grants) or small scale asset owned by an individual service. Larger more significant assets will be funded through the discretionary capital programme.
- Building Maintenance – funded through the Central Maintenance (revenue) Fund (CMF). Significant lifecycle replacements to be funded through the discretionary capital programme.
- Tax Incremental Financing (TIF) – investment repaid from additional income generated, for example additional Business Rates.

APPENDIX E

Capital Requirements

Children's and Family Services

Demand	£	Funding
Meet demand for new school places. Meet increasing demand for SEN places Children's Accommodation Strategy	High High High	Central Government grants Developer contributions (section 106) Discretionary programme and grants
Maintenance and renewal for: Maintained school estate Children's Centres	 High Low	 Central Government grants Discretionary Programme
Children's social care (minimal demand as commissioned service)	Low	Spend to save

Adults and Communities

Demand	£	Funding
Adult Accommodation Strategy	High	Discretionary programme
Heritage and Learning Collections Hub	Mid	Discretionary programme
Disabled Facilities Grant	Mid	Central Government grants
Maintenance and renewal for: Libraries & Heritage Community Libraries	 Low Low	 Discretionary programme Support external funding bids
Adult Social Care (minimal demand from commissioned service)	Low	Spend to save

Public Health

Demand	£	Funding
Public Health (minimal demand from commissioned service)	Low	Spend to save

Environment and Transport

Demand	£	Funding
Maintenance of the highway infrastructure (using asset management principles) New Waste Transfer Station Highways Depot Improvements	High High High	Central Government grants/ Discretionary programme Discretionary programme Discretionary programme
New Recycling and Household Waste Site	Mid	Discretionary programme
Improvement to the highway infrastructure Major schemes Minor Schemes Advanced Design	 High Mid Mid	External Funding Central Gov't grants (inc. LLEP, TIF) Central Government grants Discretionary programme
County Council vehicle replacement programme	Mid	Discretionary programme
Maintenance and renewal of waste management infrastructure	Mid	Discretionary programme

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Chief Executives

Demand	£	Funding
Case Management Systems	Low	Spend to save, Discretionary programme
Economic Development, e.g. Broadband	Low	Spend to save, Discretionary programme

Corporate Resources

Demand	£	Funding
ICT Infrastructure Renew and expand the current corporate estate Major ICT upgrades and replacements	Mid	Discretionary programme Discretionary programme + Spend to save
Transformation – Ways of Working Office Infrastructure End user devices	Mid	Spend to save
Property Estate* Regulatory compliance Expansion and replacement Country Parks Expansion	Mid	Discretionary programme Spend to save
Climate Change Environmental Improvements	Mid	Spend to save

* maintenance of current properties funded from central maintenance fund (revenue budget)

Corporate Programme

Demand	£	Funding
Corporate Asset Investment Fund	High	Spend to save
Major Schemes Portfolio Risk	Med	Discretionary programme
Invest to Save Schemes	Med	Discretionary programme

External Funding

To ensure that funding is at the required level the following approach will be taken.

Children and Family Services
Preference for housing developers to directly build schools as part of developments. Maximise DfE capital grant through up to date capacity assessments and school place data. Submit bids, where appropriate to do so, for additional DfE capital funding when available. Take opportunities to lobby the DfE for additional funding.

Adults and Communities
Work with District Councils and other partners to ensure that the Disabled Facilities Grant is at an appropriate level and how it is spent to reduce the costs of adult social care. Take opportunities to lobby the Department of Health for Social Care infrastructure grants.

Environment and Transport
Maintain Highways Infrastructure Asset Management Planning Level 3. Invest in advance design and business case development work focused on government priorities to access

capital grants (which are increasingly being channelled through bidding processes) and developer funding.

Section 106 Contributions / Forward Funding
Maximise section 106 contributions through recovery of the total costs of required developments and regular review of key assumptions used (at least annually).

The County Council understands the need to and has forward funded investment in infrastructure projects to enable new schools and roads to be built and unlock growth in Leicestershire before funding, mainly from section 106 developer contributions, is received. A total of £31m in forward funding is included in the proposed capital programme 2023-27 (in addition to £6m in previous years) that is planned to be repaid in the future. When the expected developer contributions are received they will be earmarked to the capital programme, to reduce the levels of borrowing required.

Forward funding presents a significant financial commitment and risk for the Council. An increased reliance on developer contributions through section 106 agreements means that it may take many years for investment to be repaid. Historic agreements may not be sufficient for the actual cost of infrastructure in the high inflation environment that is currently being experienced. The drivers of inflation are having a particularly profound impact upon construction schemes. Risks could be further compounded in the event of an economic slowdown, which could delay the housing development required before section 106 contributions are to be paid. The Council's medium and longer term financial strategies are only sustainable if this funding is recovered.

The Capital Programme includes some of the infrastructure funding for 2, out of 7, district local plans. Without appropriate funding, infrastructure relating to further plans cannot be added to the programme. The Council's limited financial resources available will need to be focused on schools, as they are the County Council's statutory responsibility, although this will need to be kept to a minimum. It is therefore critical that Local Plans are prepared with sufficient evidence to secure contributions and delivery for critical infrastructure.

The Council's approach to managing existing capital projects will therefore be:

- The funding provided by the Council is in accordance with the Council's funding strategies. The Council's medium and longer term financial strategies are only sustainable if this funding is recovered. Existing schemes are the Melton Mowbray Distributor Road (MMDR) North and East sections, MMDR south, A511 Major Road Network, and the Hinckley Hub.
- Where the Council seeks contributions from multiple developers in Area Strategies (jointly agreed strategies for specific areas), it will collect the full costs associated with highways, schools and some community infrastructure.
- The Council will ensure that delivery costs are reviewed regularly, and that inflation is applied to any cost estimates from the date that the Area Strategy is developed, not from when the relevant s106 agreement is completed.
- The justification, costs and methodology for assessing contributions will be updated and added to the Council's website as appropriate.

In order to address the significant challenge of funding infrastructure to support growth the Council's approach to managing future capital projects will be:

- The presumption that approved developments will cover the costs of all necessary infrastructure, set out by planning condition
- Where this cannot be achieved as a result of cumulative development, the Council will collate contributions.
- However, the Council will not fund the delivery of schemes until sufficient contributions are secured.
- Where funding gaps exist, developers and local planning authorities will seek contributions from third parties (including funding organisations, i.e. relevant Government departments).
- The Council will lead and support as necessary such requests where appropriate, for example funding bids to the DfT and DfE. External funding would be required for any match funding or significant bid development costs.
- It is recognised that if the Council prioritises education contributions and delivery of additional school places due to its statutory duty, it may at times be necessary to delay delivery of highway infrastructure, meaning that the Council could in principle accept a deterioration in conditions before infrastructure is delivered. In addition, in prioritising the delivery of education infrastructure, the Council may accept a permanent deterioration in conditions if it is not financially viable to deliver the highways mitigation. However this will not apply to infrastructure and improvements required to address severe safety impacts arising from development.
- Where the Council considers that the overall viability of the plan or development will not allow sufficient mitigation of its impacts and prospect of external funding is low, it may object to its adoption.

Whilst this approach significantly reduces the financial risk faced by the County Council, in the shorter term, it does not remove it entirely. Until such time as Government policy reflects and addresses the challenges faced by local authorities in meeting housing needs whilst ensuring infrastructure is available and appropriate, district councils, as planning authorities are in the best position to manage the developer contribution risk. It is therefore necessary for the district councils to work with the County Council to ensure Local Plans include policies that balance the need to support delivery of growth without exposing the County Council to further financial risk. District councils also need to work with the County Council to direct more funding towards priority infrastructure

Discretionary Funding

The 4 year discretionary capital programme totals £239m. Funding is from the sale of County Council capital assets (capital receipts), MTFS revenue contributions and surplus reserve funds. Discretionary funding also includes prudential borrowing, which is unsupported by central government with the costs of financing the borrowing undertaken falling on the County Council's revenue budget. A total of £124m of prudential borrowing is included in the 2023-27 capital programme.

Capital receipts

Property Services are responsible for identifying additional capital receipts and maximising the sale value of surplus assets. Property Services will seek opportunities to maximise the value of surplus land, for instance by obtaining planning permission. The targets for new capital receipts to fund the capital programme, are:

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	General £m	Earmarked £m	Total £m
2023/24	9.8	2.9	12.7
2024/25	5.6	-	5.6
2025/26	1.0	-	1.0
2026/27	1.0	-	1.0
Total	17.4	2.9	20.3

The estimates are higher in the earlier years reflecting the increased confidence in the sale of those assets.

Revenue Funding

The capital programme includes a total of £95m in revenue funding of capital. On-going revenue contributions total £10m (£5.5m in 2023/24 then £1.5m p.a., allocated in the MTFS). One-off revenue contributions total £85m and is allocated in the MTFS/ earmarked funds. These have arisen from past:

- Opportunities from underspends – cannot be relied upon going forward.
- MTFS risk contingency
- Surplus earmarked funds no longer required

Other

For invest to save schemes, a discount rate of 6% will be used, including inflation as part of the net present value assessment in the business case. Only projects that show a positive return using these rates will be considered for inclusion in the capital programme, unless there is an overriding policy objective that justifies a lower rate with the Director of Corporate Resources agreement.

Funding from Internal Balances

A total of £124m in funding required is included within the capital programme to fund the programme and enable investment in schools and highway infrastructure to be made. Over the next 10 to 15 years it is anticipated that the £37m forward funded will be repaid through the associated section 106 developer contributions.

Due to the strength of the County Council's balance sheet, it is possible to use internal balances (cash balances) to fund the capital programme on a temporary basis instead of raising new loans. Levels of cash balances held by the Council are currently c£400m, comprising the amounts held for reserves, provisions, minimum revenue provision (MRP) set aside for the repayment of debt, and working capital of the Council. The cost of raising external loans is estimated to exceeds the cost of interest lost on cash balances by circa 1% to 1.5%.

The overall cost of using internal balances to fund £124m of investment is dependent on what happens to interest and borrowing rates over the medium to long term. Current forecasts show the cost of externally borrowing £124m would be around £8m per annum for the next 40 years, in interest and repayment of principal - minimum revenue provision

(MRP). Internal borrowing would still require MRP setting aside but net interest savings could amount to £1.5m per annum. But because of the uncertainty on interest rates, this position will be kept under review as part of the treasury management strategy.

The County Council's current level of external debt is £262m. As described above this is not anticipated to increase during the MTFS.

Affordability

The impact of the discretionary programme on the revenue budget, and forecast at the end of the MTFS is:

£m	2020/21	2021/22	2022/23	2026/27
Revenue	1.5	2.5	5.5	1.5
MRP	6.2	6.2	6.2	8.3
Interest*	14.1	14.1	14.1	15.7
On-going revenue total	**21.8**	**22.8**	**25.8**	**25.5**
% Revenue budget	5.6%	5.2%	5.5%	4.1%
Voluntary MRP	0.0	12.0	0.0	0.0
One-off revenue	30.4	5.9	47.4	1.3
One-off revenue	**30.4**	**17.9**	**47.4**	**1.3**
Total	**52.2**	**40.7**	**73.2**	**26.8**
% Revenue budget	13.4%	9.2%	15.5%	4.3%

*includes reduction in income received from transferred debt interest, and interest cost of internal borrowing (2026/27).

To ensure the discretionary programme remains affordable the following approach is taken to manage the MRP and interest charges:

- No new external borrowing to finance capital expenditure unless a scenario arises where external borrowing is more favourable than using internal borrowing. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs.
- Temporarily use internal balances from the overall council cash balances in advance of their designated use.
- Review opportunities to repay debt.
- Re-profiled MRP in 2020/21 to be commensurate with the average age of assets funded from borrowing and delay the impact on the revenue budget. It should be noted that this does not reduce the amount to be set aside but delays the period over which it is to be paid.

Capital Financing Requirement

The CFR is the measure of the Council's historic need to borrow for capital purposes. As at 31st March 2023 the CFR is forecast to be £208m compared with actual debt of £262m. The difference is a temporary 'over-borrowed' position pending future scheduled debt repayments and new prudential borrowing requirements. The forecast annual cost of borrowing in 2023/24 is £19.5m rising to £21.5m by 2026/27. The financing costs (external interest and MRP) are met from the revenue budget.

The planned use of internal cash balances to fund the four year capital programme will add £124m to the CFR. Together with reductions made by MRP, the CFR is forecast to be £304m by the end of the MTFS (31 March 2027). Assuming no new borrowing is undertaken in this period, actual debt will by £255m at that time, resulting in an under-borrowed position of £49m. This can be managed as interest charges for new debt is forecast to continue to be higher than the interest that can be earned on cash balances.

The detailed approach to this is covered in the Treasury Management Strategy, approved by the County Council annually in February.

Financial Management of the Capital Programme

Prioritising the Programme

The approach to compiling the capital programme is through a combination of service requirements developed by each relevant department, statutory requirements and asset management planning.

For land and building assets, Strategic Property, in conjunction with service areas, develops all the estate strategies, asset management plans and property elements of the corporate capital and revenue programmes. They seek to ensure that the County Council is making full use of all assets, and any under-performing or surplus assets are identified and dealt with by either their disposal or investment to improve their usage. Outcomes from condition survey information together with on-going reviews of the property portfolio feed into the capital programme and revenue budget. The Corporate Asset Management Plan, which promotes the rationalisation of property assets, reducing running costs and cost effective procurement of property and property services is reported annually to the Cabinet.

The County Council operates the Corporate Asset Investment Fund (CAIF) which invests in assets to achieve both economic development and investment returns. A copy of the CAIF strategy is attached to the MTFS report. The CAIF operates through the Corporate Asset Investment Fund Strategy with a view to:

- Support the objectives of the Council's MTFS, Corporate Asset Management Plan, Strategic Plan, its Economic Growth Plan and the County-wide Local Industrial Strategy.
- 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.
- Maximise returns on Council owned property assets.
- Supports the delivery of front line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
- Maintain a diverse portfolio of energy efficient and sustainable direct property and other investment assets which support economic growth and environmental sustainability
- Support the Council's strategic objectives by working with partners to maintain momentum in the development of strategic sites and renewing existing employment sites and premises where there is demand thereby addressing areas of market failure.
- Contribute towards the development and implementation of a Net Zero Carbon

2030 Plan for the Council by reducing demand for energy and increasing the generation and use of renewable energy.

- Channelling new investment into schemes that:
  - Maximise the potential to address economic and social market failure;
  - Improve property assets for a direct strategic/policy purpose
  - Enhance the value and marketability of property assets enabling capital receipts to be used to support improved service delivery
- Manage investment risk by investing in diverse sectors.
- Support the Council in maximizing the benefit from its financial assets in a risk aware way (not including standard treasury management activity).

Current holdings plus schemes in the 2022/23 capital programme will result in a total holding of £205m (original cost). A fund of £55m has been included the draft 2023-27 MTFS to bring the overall CAIF fund to the expected maximum holding of £260m, subject to satisfactory business case. Appraisal includes external due diligence performed before each purchase.

The corporate programme also includes additional funding of £40m for the Future Developments fund, and £21m as a capital programme portfolio risk contingency. 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, and investment in the efficiency and productivity programme. The list of future developments is continually refreshed. Bids against the fund will be managed through prioritisation and where possible the identification of alternative funding sources. This approach forms part of the wider strategy to ensure that the capital programme is deliverable, affordable and the risks are understood, in line with CIPFA's requirements.

The capital programme risk portfolio is there to potentially cover adverse impacts that would affect all schemes such as exceptional excess inflation. The schemes for which a portfolio risk allocation is more likely to be needed are those which are highly complex and difficult to predict costs or external funding and are likely to span many years. Individual schemes are expected to maintain a risk register and appropriate risk contingency for known risks. The contingency should be set at the 50% likelihood level, unless agreed by the Director of Corporate Resources.

Through the budget monitoring process, risks would be identified which would point to the need to utilise a proportion of the portfolio risk allocation. To access the fund there would need to be based on clear evidence that such a scenario has arisen. A full appraisal of the scheme's cost and funding would be required to ensure that delivery is still likely to be within the scheme budget and reduced risk portfolio contingency. Decisions on when money from the portfolio risk allocation is transferred to a specific project are taken by the Director of Corporate Resources following consultation with the Cabinet Lead Member for Resources.

For highways and associated infrastructure needs, the Council's key transport policy document is the Local Transport Plan. This provides the long term strategy within which the Council manages and maintains its network. In light of the continuing financial challenge the Council's priority is only to add to the highway network where this will help to enable new housing and jobs. Furthermore, additions will normally be considered only in circumstances where specific external funding can be secured to achieve this. It is recognised that by prioritising education contributions and delivery of additional school places due to its statutory duty, it may at times be necessary to delay delivery of highway infrastructure, meaning that the Council could in principle accept a deterioration in conditions and congestion before infrastructure is delivered. However this will not apply to infrastructure and improvements required to address severe safety impacts arising from developments.

Further improvements to the highway network will require continued pursuit of external resources such as Government grants and developer funding. Government grants include bids to funds including Growth Fund (through the LLEP), the Growth and Housing Fund, the National Productivity Investment Fund, Local Authorities Majors Fund and the Housing Investment Fund. In order to maximise the impact of funding that can be secured for improvements, the County Council is doing more to define the roles of the various elements of the road network so that it is able to target investment where it will be of most benefit, particularly in terms of supporting economic prosperity and growth.

Bids for funding from the discretionary programme require the completion of a capital appraisal form for each project. The forms collate detailed information on the proposed project including justification against strategic outcomes, service objectives, statutory requirements and/or asset management planning, timelines, detailed costings including revenue consequences of the capital investment, and risks to delivery. All bids for land and building projects are also supplemented by a Strategic Property scoping and assessment form. Bids are then prioritised and assessed against the discretionary funding available. The revenue costs and savings associated with approved capital projects are included in the revenue budget.

Where schemes have not yet been fully developed these are included as future developments in the capital programme. As schemes are developed they are assessed against the available resources and included in the capital programme as appropriate.

Financial Management of Delivery

The key risks to the delivery of the capital programme are overspending against the approved budget, delays in the delivery of projects/programmes thereby delaying the expected benefits and potential increased costs, and delays in or non-receipt of external contributions towards the cost of the scheme.

To ensure that capital spending and the delivery of this strategy is effectively managed:

- Programmes being reviewed in light of the most up to date information around funding available and latest priorities.
- All schemes within the programme being monitored regularly, usually monthly.
- Financial progress being reported on a regular basis throughout the year and at year end to the Cabinet and Scrutiny Commission to update them on progress and any significant variations in costs.
- Projects part or wholly funded by external contributions being separately monitored to ensure compliance with any funding conditions applicable.
- All projects are assigned a project manager appropriate to the scale of the scheme.
- The procurement of projects within the capital programme following the Council’s approved contract procedure rules and where applicable the Public Contract’s Regulations 2015.

APPENDIX E

The County Council confirms that it complies with paragraphs 51 to 53 of the prudential code 2021. Extracts of the relevant paragraphs are included as an annex to this strategy.

APPENDIX E

Annex 1 – Prudential Code 2021

The Council confirms that it complies with paragraphs 51 to 53 of the prudential code 2021 as below.

51. **The Prudential Code determines that certain acts or practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment:**

- **In order to comply with the Prudential Code, an authority must not borrow to invest primarily for financial return.**
- **It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.**

52. The UK government's rules for access to PWLB lending at the date of this publication require (May 2022) statutory chief finance officers to certify that their local authority's capital spending plans do not include the acquisition of assets primarily for yield, reflecting a view that local authority borrowing powers are granted to finance direct investment in local service delivery (including housing, regeneration and local infrastructure) and for cash flow management, rather than to add debt leverage to return-seeking investment activity. Since:
    - access to the PWLB is important to ensure local authorities' liquidity in the long term, and
    - leveraged investment always increases downside risks, local authorities must not borrow to fund acquisitions where obtaining financial returns is the primary aim.

53. Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios. However, authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management or investment strategies. The reviews should evaluate whether to meet expected borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties.

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APPENDIX F

CHILDREN & FAMILY SERVICES - CAPITAL PROGRAMME 2023-27

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
		MAIN GRANT FUNDED PROGRAMME					
							0
Mar-27	65,831	**Provision of Additional School Places**	**30,243**	**16,393**	**12,688**	**6,507**	**65,831**
		SEND Programme					
Mar-25	8,000	SEMH Special School - Free School	0	8,000			8,000
Mar-26	18,472	Expansion of Special Schools	9,572	7,650	1,250		18,472
		Sub-total - SEND Programme	**9,572**	**15,650**	**1,250**	**0**	**26,472**
Mar-27	8,000	Strategic Capital Maintenance	2,000	2,000	2,000	2,000	8,000
Mar-27	2,000	Schools Devolved Formula Capital	500	500	500	500	2,000
Mar-25	400	Schools Access / Security	200	200			400
Mar-24	5,500	Children's Residential Homes	1,502				1,502
		Other Capital	**4,202**	**2,700**	**2,500**	**2,500**	**11,902**
		Overall Total	**44,017**	**34,743**	**16,438**	**9,007**	**104,205**

		Future Developments - subject to further detail and approved business cases Additional School Infrastructure arising from Housing Developments					

ADULTS & COMMUNITIES - CAPITAL PROGRAMME 2023-27

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Mar-27	17,788	Disabled Facilities Grant (DFG)	4,447	4,447	4,447	4,447	17,788
							0
			4,447	**4,447**	**4,447**	**4,447**	**17,788**
		Social Care Investment Plan (SCIP):					
Mar-25	10,000	SCIP - Additional Schemes to be confirmed - balance	1,560	940	955		3,455
		Sub-Total SCIP	**1,560**	**940**	**955**	**0**	**3,455**
		Total A&C	**6,007**	**5,387**	**5,402**	**4,447**	**21,243**

		Future Developments - subject to further detail and approved business cases					
		Records Office					
		Heritage and Learning Collections Hub					
		Adult Accommodation Strategy (Social Care Investment Plan)					
		Digital for A&C					

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME 2023-27

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
		Major Schemes					
Mar-26	116,110	Melton Distributor Road - North and East Sections (Subject to Cabinet Approval)	49,417	41,427	9,322		100,166
Mar-26	37,500	Melton Distributor Road - Southern Section (Subject to Cabinet Approval)	5,803	23,446	4,663		33,912
Mar-25	12,430	Zouch Bridge Replacement - Construction and Enabling Works (Subject to funding bid)	5,427	4,933			10,360
Mar-27	13,164	County Council Vehicle Replacement Programme	3,501	3,196	3,357	3,110	13,164
Mar-27	12,203	Advance Design / Match Funding	3,108	3,021	3,582	2,493	12,204
Mar-24	5,430	A511/A50 Major Road Network - Advanced design (S106)	2,429				2,429
Mar-26	9,960	Melton Depot - Replacement	648	2,127	6,968		9,743
Mar-25	2,230	Leicester and Leicestershire Integrated Transport Model - Refresh	1,250	450			1,700
			71,583	**78,600**	**27,892**	**5,603**	**183,678**
Mar-27	44,269	Transport Asset Management	0	14,531	13,127	16,611	44,269
Mar-24	2,656	Capital Schemes and Design	2,656				2,656
Mar-24	1,084	Bridges	1,084				1,084
Mar-24	305	Flood Alleviation- Environmental works	305				305
Mar-24	1,456	Street Lighting	1,456				1,456
Mar-24	438	Traffic Signal Renewal	438				438
Mar-24	4,075	Preventative Maintenance - (Surface Dressing)	4,075				4,075
Mar-24	9,066	Restorative (Patching)	9,066				9,066
Mar-24	21	Public rights of way maintenance	21				21
Mar-24	159	Network Performance & Reliability	75	28	28	28	159
Mar-27	450	Plant renewals	100	150	100	100	450
Mar-24	701	Property Flood Risk Alleviation	701				701
Mar-25	5,830	Hinckley Hub (Hawley Road) - National Productivity Investment Fund	351	300			651
Mar-27	1,866	Safety Schemes	516	250	250	250	1,266
Mar-25	770	Highways Depot Improvements - subject to business case	370	400			770
Mar-24	267	Externally Funded Schemes	267				267
			21,481	**15,659**	**13,505**	**16,989**	**67,634**
		Environment & Waste					
Mar-24	8,600	Waste Transfer Station Development (Commitments b/f)	569				569
Mar-27	3,510	Recycling Household Waste Sites - General Improvements	232	1,160	250	250	1,892
Mar-25	360	Recycling Household Waste Sites - Lighting	91	195			286
Mar-24	540	Mobile Plant	150				150
Mar-24	650	Ashby Canal Reed Bed	650				650
Mar-27	580	Ashby Canal	40	40	40	40	160
			1,732	**1,395**	**290**	**290**	**3,707**
		Total E&T	**94,796**	**95,654**	**41,687**	**22,882**	**255,019**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME 2023-27 (continued)

		Future Developments - subject to further detail and approved business cases					
		New Melton RHWS					
		Additional bid development/match funding					
		Windrow Composting Facility					
		Compaction equipment					
		Green vehicle fleet (update/ strategy needed)					
		DIY Waste Equipment					

CHIEF EXECUTIVES - CAPITAL PROGRAMME 2023-27

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Mar-25	200	Legal - Case Management System - subject to business case	100	100			200
							0
		Total Chief Executives	**100**	**100**	**0**	**0**	**200**

		Future Developments - subject to further detail and approved business cases					
		Legal - Commons and Village Green Register					

CORPORATE RESOURCES - CAPITAL PROGRAMME 2023-27

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
		ICT					
Mar-26	900	Network Equipment	0	100	600		700
Mar-26	240	Replacement of IT Service Management toolset and User Portal	0	0	240		240
Mar-26	100	Remote Access Refresh	0	0	50		50
Mar-26	1,700	Hyper-Converged Infrastructure (HCI) Refresh/re-license	0	0	1,500		1,500
Mar-24	150	Wireless Access Points	150				150
Mar-27	80	Solaris Hardware Refresh	0	0	0	60	60
							0
		Sub total ICT	**150**	**100**	**2,390**	**60**	**2,700**
		Transformation Unit - Ways of Working					
Mar-24	1,630	Workplace Strategy - Office Infrastructure	250				250
Mar-27	10,130	Workplace Strategy - End User Device (PC, laptop)	1,169	862	1,293	1,530	4,854
Mar-25	2,000	Workplace Strategy - property costs, dilapidations and refurbishments	210	400			610
							0
		Sub total Transformation Unit	**1,629**	**1,262**	**1,293**	**1,530**	**5,714**
		Property Services					
Mar-24	440	County Hall Lift Replacement Scheme	176				176
Mar-24	50	Bosworth Battlefield Car Park Resurface	45				45
Mar-24	50	County Hall Sewage Replacement	50				50
Mar-24	160	Library Replacement windows	155				155
Mar-24	110	Tree Planting Programme	47				47
							0
		Sub total Property Services	**473**	**0**	**0**	**0**	**473**
		Climate Change - Environmental Improvements					
Mar-24	380	Electric Vehicle Car Charge Points	90				90
Mar-24	4,290	LCC Public Sector Decarbonisation Scheme	325				325
Mar-27	400	Energy initiatives	100	100	100	100	400
							0
		Sub total Energy	**515**	**100**	**100**	**100**	**815**
		Total Corporate Resources	**2,767**	**1,462**	**3,783**	**1,690**	**9,702**

CORPORATE RESOURCES - CAPITAL PROGRAMME 2023-27 (continued)

		Future Developments - subject to further detail and approved business cases Major System Replacements, IAS, Mosaic, Capita One, STADS, PAMS, s106 system ICT Future Development - continual refresh of infrastructure Strategic Property Future Developments Snibston Ancient Monument - (SAM) County Hall MUGA surface replacement Country Parks Future Developments, including cafes, play areas and car parking Green energy and insulation initiatives					

CORPORATE - CAPITAL PROGRAMME 2023-27

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
		Corporate Asset Investment Fund (CAIF)					
Mar-25	8,400	Airfield Business Park - Phase 3-4	4,200	4,200			8,400
Mar-24	10,000	Quorn Solar Farm	6,249				6,249
Mar-25	2,750	M69 Junction 2 - SDA	0	170			170
Mar-24	2,900	Lutterworth Leaders Farm - Drive Thru Restaurants	262				262
Mar-25	5,000	Lutterworth East - Planning and Pre-Highway construction Works	2,100	1,500			3,600
Mar-27	37,000	New Investments - subject to Business Case	0	10,000	10,000	17,000	37,000
Mar-27	1,000	County Farms Estate - General Improvements	250	250	250	250	1,000
Mar-27	1,000	Industrial Properties Estate - General Improvements	250	250	250	250	1,000
							0
		Sub total CAIF	**13,311**	**16,370**	**10,500**	**17,500**	**57,681**
		Future Developments					
		Future service projects - subject to business cases	0	10,000	15,000	15,000	40,000
		Capital Programme Portfolio Risk	0	600	10,000	10,000	20,600
		Sub total Future Developments	**0**	**10,600**	**25,000**	**25,000**	**60,600**
		Total Corporate Programme	**13,311**	**26,970**	**35,500**	**42,500**	**118,281**

		Future Developments - subject to further detail and approved business cases					
		Sustainability / Invest to Save Schemes					

Leicestershire County Council

SCRUTINY COMMISSION - 30th JANUARY 2023

MEDIUM TERM FINANCIAL STRATEGY 2023/24 – 2026/27 CHIEF EXECUTIVE'S DEPARTMENT

JOINT REPORT OF THE CHIEF EXECUTIVE AND THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to:

   a) provide information on the proposed 2023/24 – 2026/27 Medium Term Financial Strategy (MTFS) as it relates to the Chief Executive's Department; and

   b) ask the Commission to consider any issues as part of the consultation process and make any recommendations to the Cabinet accordingly.

Policy Framework and Previous Decisions

2. The County Council agreed the current MTFS in February 2022. This has been the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2023/24 – 2026/27 was considered by the Cabinet on 16th December 2022.

Background

3. The MTFS is set out in the report to Cabinet on 16th December 2022, a copy of which has been circulated to all members of the County Council. This report highlights the implications for the Chief Executive's Department.

4. Reports such as this one have been presented to the relevant Overview and Scrutiny Committees. The Cabinet will consider the results of the scrutiny process on the 10th February 2023 before recommending an MTFS, including a budget and capital programme for 2022/23, to the County Council on the 22nd February 2023

Service Transformation

5. The functions delivered by the Chief Executive's Department play critical roles in supporting transformation and lawful decision- making in accordance with

public sector legal and governance requirements. The Department takes the corporate lead on developing and delivering the Strategic Plan and the Communities Strategy. The work of the Chief Executive's Department includes: Legal Services, Democratic and Civic and Member Support, Strategy and Business Intelligence (including Resilience, Communities, Economic Growth and Planning and the Historic and Natural Environment) and Regulatory Services which includes Trading Standards, Registration and Coronial services the latter of which is subject to a consultation on merger of coronial areas with the Leicestershire South coronial area to be determined by the Lord Chancellor’s department.

6. The Department has resilience responsibilities (including, for example, in relation to issues such as the Council’s response to Covid-19, the impact of the EU Exit, and cases of Avian Influenza) through the involvement of Departmental Management Team (DMT) members, Heads of Service and many staff, including the partnership-funded Resilience Team. The current Avian Influenza breakout together with other possible incidents (seasonal flu, floods, storms, industrial action etc) are expected to place substantial demands on the Department for the rest of 2022/23 and into 2023/24. Regulatory Services and the Resilience Team have been especially involved (but with other sections also involved) and very actively committed to supporting the Council’s response. Longer term recovery work to the Covid-19 challenge will remain a priority for many years, including for the Economic Growth and Communities teams.

Proposed Revenue Budget

7. Table 1 below summarises the proposed 2023/24 revenue budget and provisional budgets for the next three years thereafter. The proposed 2023/24 revenue budget is shown in detail in Appendix A.

Table 1 – Revenue Budget 2023/24 to 2026/27

	2023/24 £000	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Original prior year budget	12,875	14,908	14,778	14,773
Budget transfers and adjustments	2,963	0	0	0
Add proposed growth (Appendix B)	-35	0	0	0
Less proposed savings (Appendix B)	-895	-130	-5	0
Proposed/Provisional budget	**14,908**	**14,778**	**14,773**	**14,773**

8. Detailed service budgets have been compiled on the basis of no pay or price inflation. A central contingency will be held which will be allocated to services as necessary.

9. The central contingency also includes provision for a 1.1% increase in the employers’ contribution to the Local Government Pension Scheme in 2023/24 only, based upon the latest triennial actuarial revaluation of the pension fund.

10. The total proposed expenditure budget for 2023/24 is £21.4 million with contributions from grants, fees and charges and other income sources totalling £6.5 million. The proposed net budget for 2023/24 of £14.9 million is distributed as shown in Table 2 below:

Table 2 - Net Budget 2023/24

	£000	%
Democratic Services and Civic and Member Support	1,639	11.0
Legal Services	4,425	29.7
Strategy and Business Intelligence	5,138	34.5
Emergency Management and Resilience	358	2.4
Regulatory Services	3,053	20.5
Planning, Historic and Natural Environment	428	2.9
Departmental Items	-133	-0.9
Total	**14,908**	**100.0**

<u>Budget Transfers and Adjustments</u>

11. Budget transfers totalling a net increase of £2.9m were made during the 2022/23 financial year. These transfers are:
    - £1.2m for pay and pension inflation (including the apprenticeship levy) transferred from the central inflation contingency
    - £1.8m transferred from a number of Departments for external Legal and associated litigation costs (mainly court issue fees payable to HMCTS and expert evidence fees).

12. Growth and savings have been categorised in the appendices under the following classification:

    * item unchanged from previous MTFS

    ** item included in the previous MTFS, but amendments have been made

    No stars - new item

13. This star rating is included in the descriptions set out for growth and savings below.

14. Savings have also been highlighted as ‘Eff’ or ‘SR’ dependent on whether the saving is seen as an efficiency or service reduction or a mixture of both. ‘Inc’ denotes those savings that are funding related and/or generate more income.

Growth

15. Details of proposed growth are set out in Appendix B and provide for a reduction in the growth previously applied of £0.35m in 2023/24. This is described in the following paragraph.

16. <u>**G14: Connectivity (Broadband) Team - formalise revenue funding; -£35,000 in 2023/24</u>

This growth bid formalised the funding of the Connectivity (Digital Team), as the cost of the team had historically been offset against future expected gainshare receipts. Formalising the revenue funding of the team on an ongoing basis will provide greater flexibility in relation to the deployment of future gainshare returns received and enable the team to continue to exploit external sources of funding for digital connectivity across the county.

Savings

17. Details of proposed savings are set out in Appendix B and total £1,030 million by 2026/27. These are detailed in the following paragraphs.

18. <u>*CE1: SR/Eff Staffing (Vacancy control and agency costs); £50,000 in 2023/24 rising to £100,000 in 2024/25</u>

All vacancies are scrutinised via the Department's recruitment and expenditure board assisted by advice from Corporate Resources and HR Business support. Where there is a vacancy, there is generally a time lag between the postholder leaving and a new appointee starting, which will contribute to the savings.

The Department is reliant on using Agency staff at times for certain posts due to a shortage of skills within the marketplace. This applies especially in Regulatory services, Legal services and Planning Historic and Natural Environment. Stricter controls are being applied to this through scrutiny via the board. It is also expected that the recruitment incentive packages will assist in making the council more competitive in the marketplace as an employer. The impact of the pandemic and hybrid working has also extended the geographic pool of potential candidates for appointment which it is expected will assist the department to avoid costly agency placements.

19. <u>**CE2: Inc Planning, Historic and Natural Environment - Fee Income; £35,000 in 2023/24 rising to £60,000 in 2024/25</u>

The increased planning application fees targets have been set based on recent years' income trends, which have shown a steady increase in planning application fees income. However, the first six months of 2022/23 suggest a significant reduction in planning application fees income, but it is expected that high income-generating planning applications will be submitted once again in the 2023/24 financial year.

It is expected that there will be a national review of planning application fees following the Levelling Up and Regeneration Bill gaining Royal Assent but at present no date has been set for the secondary legislation which will flow from this and which will be required to achieve the new fee structure. Based on the frequency of previous reviews, it is estimated that this may take place in 2023 or 2024.

20. **CE3: Eff Review of Legal Case Management and New Ways of Working; £200,000 in 2023/24**

A review of case work systems and processes was undertaken in Legal Services in partnership with Newton Europe assisted by colleagues in the Transformation Unit. The purpose of the review was to identify efficiencies and provide savings to the Legal Services budget.

The outcome of the review will be used to inform efficiencies across the department thorough sharing knowledge and good practice.

£100,000 of the CE3 target has been achieved and working with colleagues in the TU, a means of achieving the balance of £100,000 has been identified through a number of initiatives.

21. CE4: Inc Democratic Services Income; £15,000 in 2023/24, £20,000 in 2024/25 and £25,000 in 2025/26

Democratic Services provides services to the following external bodies ESPO, the Combined Fire Authority and the Pensions Board. As part of the MTFS the section has undertaken a review of its charges some of which have not been reviewed for a number of years. That review also includes an agreement to allow for an annual uprating to allow for pay and other inflationary increases.

22. CE5: Eff Heritage team structure review; £20,000 in 2023/24

The limited number of LCC planning applications requiring dedicated historic building advice, does not warrant the on-going provision or cost of retaining in-house staffing/advice. Historic buildings advice is now predominantly provided by the District and Borough Councils.

23. CE6: Inc Trading Standards Charging Review; £25,000 in 2023/24

A review of the fees charged by Trading Standards will be conducted to identify where charges can be increased without reducing the demand for the service.

24. CE7: SR Review of SHIRE Grants Programme; £550,000 in 2023/24 and £600,000 in 2024/25

A review of the SHIRE grants programme, which provides grant funding to charities and other voluntary/ community organisations and social enterprises, will be conducted to consider if the programme achieves Value for money and whether it should cease in full or part. The grants programme is a mechanism for investing in community-based projects which provide solutions to local issues and provide an important contribution to the Safe and Well and Improved Opportunities Strategic plan outcomes. These include:

• Community-based Mental Health recovery and wellbeing services

• Services for people experiencing homelessness, substance misuse issues or who have been victims of domestic and/or sexual abuse/violence

• Projects supporting people who are experiencing financial hardship, energy and fuel poverty

• Projects which help to reduce loneliness and social isolation in communities

• Projects for people of all ages experiencing a range of disabilities/long term health conditions

Savings Under Development

25. Increased Income Generation

Increased income generation from partners and other bodies by leveraging an increase in existing charges and exploring further support provision. A number of areas are in scope including but not limited to: Business Intelligence, Ecology and heritage advice, Freeport management/admin and additional Planning, Historic and Natural Environment fee income.

26. Department Structure and Functions

Undertake a full review of business support, and revisit existing structure and functions to identify wider opportunities across the department. Potential to reduce duplication with other departments, or to move functions to provide better collaboration and service delivery.

27. Process and Service Efficiencies

A detailed review will be undertaken of areas where there is high volume of standardised work to consider if there are efficiencies that can be achieved through streamlining processes or greater digitalisation. This work will link in with emerging corporate programmes around customer and automation to support departmental and corporate savings

28. CEX Corporate Review –Data Strategy

Instigation of a data strategy, aligning IT and Business Intelligence to drive a culture of data-led performance management across the Council. Review the infrastructure, skills, roles and responsibilities required to deliver the Data Strategy for the council to improve data management practices and identify where data collection could be improved and/or automated – driving efficiencies.
The project is underway and in discovery stages with board oversight in place. Gartner are providing strategic and peer challenge and support and have sizable experience in this area.

29. CEX Corporate Review - Communities

Detailed review of service including consideration of other departmental needs and activities, staffing and efficiencies, grants provision and management, and partner contributions to overheads. Project underway and in discovery stages with board oversight in place.

30. CEX Corporate Review – Growth Functions

Detailed review of how growth is managed across the council including but not limited to provision of housing, commercial space and infrastructure (including broadband), activity which supports businesses to grow and helps people access work (eg skills/ training provision), and measures to support growth consistent with net zero and environmental objectives. The review has recently received approval to commence by Transformation Delivery Board and is now at an early stage.

31. Further CEX Corporate Reviews

Reviews of the following services in the Strategy and Business Intelligence Branch and closely related services based in other Departments under the branch: Policy and Strategy, Consultation and Engagement. Scoping papers have been prepared.

32. Place Marketing Team

Through discussions with partners, seek to secure revenue funding from the Business Rates Pool to replace the funding currently provided by the County Council and City Council.

External Influences

33. The Department will continue to support the Council's response to the Covid-19 recovery as well as managing the current Avian Influenza outbreak which will place additional pressure on business as usual and the Communities, Resilience, Trading Standards services.

34. The Levelling Up and Regeneration Bill which is expected to receive Royal Assent in May 2023 is likely to create additional demand on most sections of the Department.

35. All the services delivered by Legal, Trading Standards, Coroners and Registrars are demand led. The expected growth in the local population, coupled with the increase in the average age of residents, will increase the demand on certain services. Consumer fraud is on the increase, which will place more demand on Trading Standards to tackle scams and other forms of financial crime.

36. The planning fee income will be subject to any national guidance or regulations that may be issued in due course. Whilst all sections in the Department will be affected by the general economic position, there is the potential that this will

impact the Planning, Historic and Natural Environment most significantly if there is a continuing downturn in development.

37. Increases in Legal Services fee income are limited to the rules that apply to an in-house local authority legal department to the effect that charges imposed are to recover costs and not make a profit. Accordingly, existing notional hourly rates for the Council's professional legal staff will be reviewed. Legal Services is also restricted in its ability to undertake traded work with non-council clients requiring Regulatory Body approval. Legal Services will monitor any relaxations in restrictions to be able to explore this opportunity further. In the meantime, it will promote its expertise and availability through the 'buy- back' scheme it operates to provide legal advice and support to Leicestershire academy trusts and schools and will explore other options around recruitment (for example specialist advocacy posts) to reduce external expenditure.

Other Funding Sources

38. For 2023/24, the following Government grant is expected:
The Local Reform and Community Voices Grant (£294,000 expected in 2022/23) provides funding to support the local Healthwatch and Independent Complaints Advocacy services. Local Healthwatch is the consumer champion for patients and the public in health and social care. The Independent Complaints Advocacy Service (ICAS) provides support to people who wish to make a complaint about the service they have received from the NHS. The level of funding has yet to be confirmed for 2023/24.

Capital Programme

39. The Chief Executive's Department capital programme totals £0.15 million in 2023/24 and £0.25million over the four years. Details are provided at Appendix C and in the following paragraphs.

40. Shire Community Solutions Grants

The funding requested is to continue the capital scheme at a reduced level of funding of £0.05 million in 2023/24. The Shire Community Grants scheme provides funding to voluntary and community sector organisations for projects supporting the implementation of the Communities Strategy, in particular the support of vulnerable and disadvantaged people and communities. Providing support to these communities in the form of grant funded projects should also reduce demand for Council services in the longer term.

41. Legal Case Management System

Dependent on the outcome of the review of case management and ways of working, there may be a requirement for a new case management system to enable better case management and data analysis. £200,000 has been included in the capital programme subject to a business case. The current system is not meeting the needs of the service in full. A new system has the potential to allow greater understanding of case load per lawyer and cost per case as well as the opportunity to streamline processes and maximise the use of standard and template material where possible. The system will need to include a case bundling system as at present this is time and labour intensive, reliant on a software package that is not compatible with the current system. The system will also need to allow the continued use of electronic case filing systems to avoid a return to paper files.

Equality implications

42. Public authorities are required by law to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between people who share protected characteristics and those who do not; and
- Foster good relations between people who share protected characteristics and those who do not.

43. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure decision makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

44. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the action plan.

Human Rights Implications

45. There are no human rights implications arising from the recomendations in this report.

Background Papers

Cabinet 16 December 2022 - Medium Term Financial Strategy 2023/24 to 2026/27
(Public Pack)Item 4 - MTFS supplementary report Agenda Supplement for Cabinet, 16/12/2022 11:00 (leics.gov.uk)

Circulation under Local Issues Alert Procedure

None.

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List of Appendices

Appendix A – Revenue Budget 2023/24

Appendix B – Growth & Savings 2023/24 – 2026/27

Appendix C – Capital Programme 2023/24 – 2026/27

APPENDIX A

CHIEF EXECUTIVE'S DEPARTMENT

REVENUE BUDGET 2023/24

Budget 2022/23 £		*	Employees £	Running Expenses £	Internal Income £	Gross Budget	External Income £	Net Total £
	DEMOCRATIC SERVICES, ADMIN & CIVIC AFFAIRS							
1,448,607	Democratic Services and Administration	B	1,382,684	114,256	0	1,496,940	-63,333	1,433,607
69,000	Subscriptions	D	0	69,000	0	69,000	0	69,000
136,459	Civic Affairs	D	30,649	111,810	0	142,459	-6,000	136,459
1,654,066	**TOTAL**		**1,413,333**	**295,066**	**0**	**1,708,399**	**-69,333**	**1,639,066**
4,624,648	**LEGAL SERVICES**	D	3,790,716	1,773,083	-597,151	4,966,648	-542,000	4,424,648
	STRATEGY AND BUSINESS INTELLIGENCE							
1,662,032	Business Intelligence	D	2,480,858	141,862	-620,990	2,001,730	-339,698	1,662,032
1,958,725	Policy and Communities	B	955,725	987,822	-184,822	1,758,725	-300,000	1,458,725
1,510,127	Growth Service	B	1,190,680	999,243	-539,852	1,650,071	-283,742	1,366,329
437,375	Management and Administration	B	663,205	5,793	-17,832	651,166	0	651,166
5,568,259	**TOTAL**		**5,290,468**	**2,134,720**	**-1,363,496**	**6,061,692**	**-923,440**	**5,138,252**
357,884	**EMERGENCY MANAGEMENT AND RESILIEN**	S	760,016	105,655	-177,618	688,053	-330,170	357,883
	REGULATORY SERVICES							
1,880,303	Trading Standards	B	1,981,963	136,340	-60,000	2,058,303	-203,000	1,855,303
1,196,810	Coroners	S	0	1,196,810	0	1,196,810	0	1,196,810
1,462	Registrars	S	1,215,833	60,991	0	1,276,824	-1,275,362	1,462
3,078,575	**TOTAL**		**3,197,796**	**1,394,141**	**-60,000**	**4,531,937**	**-1,478,362**	**3,053,575**
588,032	**PLANNING SERVICES**	B	1,210,233	144,999	-29,911	1,325,321	-897,282	428,039
-32,955	**DEPARTMENTAL ITEMS**	D	11,880	-144,835	0	-132,955	0	-132,955
15,838,509	**TOTAL CHIEF EXECUTIVES**		**15,674,442**	**5,702,829**	**-2,228,176**	**19,149,095**	**-4,240,587**	**14,908,508**

*** S/D/B** : indicates that the service is **S**tatutory, **D**iscretionary or a combination of **B**oth

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APPENDIX B

References				2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
			GROWTH				
			Demand & cost increases				
**	G14		Connectivity (Broadband) Team	-35	-35	-35	-35
			Total	**-35**	**-35**	**-35**	**-35**
			SAVINGS				
*	CE1	SR/Eff	Staffing (vacancy control and agency reduction)	-50	-100	-100	-100
*	CE2	Inc	Planning, Historic and Natural Environment - fee income	-35	-60	-60	-60
**	CE3	Eff	Review of Case Management and New Ways of Working	-200	-200	-200	-200
	CE4	Inc	Democratic Services Income	-15	-20	-25	-25
	CE5	Eff	Heritage team structure review	-20	-20	-20	-20
	CE6	Inc	Trading Standards charging review	-25	-25	-25	-25
	CE7	SR	Review of Shire Grants programme	-550	-600	-600	-600
			Total	**-895**	**-1,025**	**-1,030**	**-1,030**

* items unchanged from previous Medium Term Financial Strategy

** items included in the previous Medium Term Financial Strategy which have been amended

Eff = Efficiency saving; SR = Service reduction; Inc = Income

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APPENDIX C

CHIEF EXECUTIVES - CAPITAL PROGRAMME 2023/24 to 2026/27 - Draft

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Mar-27	400	Leicestershire Grants	50	0	0	0	50
Mar-25	250	Legal - Case Management System	100	100	0	0	200
		Total Chief Executives	**150**	**100**	**0**	**0**	**250**

Future Developments - subject to further detail and approved business cases					
Rural Broadband Scheme					
Relocation of Coroner's Court					

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Leicestershire County Council

SCRUTINY COMMISSION - 30th JANUARY 2023

MEDIUM TERM FINANCIAL STRATEGY 2023/24–2026/27
CORPORATE RESOURCES DEPARTMENT

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to:

   a) Provide information on the proposed 2023/24 to 2026/27 Medium Term Financial Strategy (MTFS) as it relates to the Corporate Resources Department.

   b) Ask members of the Scrutiny Commission to consider any issues as part of the consultation process and make any recommendations to the Cabinet accordingly.

Policy Framework and Previous Decisions

2. The County Council agreed the current MTFS in February 2022. This has been the subject of a comprehensive review and revision in light of the current economic circumstances. The draft MTFS for 2023/24–2026/27 was considered by the Cabinet on 16th December 2022.

Background

3. The MTFS is set out in the report to Cabinet on 16th December 2022, a copy of which has been circulated to all members of the County Council. This report highlights the implications for the Corporate Resources Department.

4. Reports such as this one is being presented to the relevant Overview and Scrutiny Committees. The Cabinet will consider the results of the scrutiny process on 10th February 2023 before recommending a MTFS, including a budget and capital programme for 2023/24 to the County Council on 22nd February 2023.

Service Overview

5. Corporate Resources (CR) provides front line, traded and support services to enable the organisation to be efficient and effective through the Customer, Digital and Information Technology, People, Ways of Working and Commercial agendas.

6. Demand for CR services remain high as the organisation continues to adapt to new ways of working post the pandemic whilst also responding to unprecedented levels of change required in response to economic pressures, driving the need for significant financial savings, as well as staff recruitment challenges and other market pressures.

Proposed Revenue Budget

7. **Table 1** below summarises the proposed 2023/24 revenue budget and provisional budgets for the next three years. The proposed 2023/24 revenue budget is shown in detail in Appendix A.

Table 1 – Revenue Budget 2023/24 to 2026/27

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Original prior year budget	34,304	35,473	34,813	32,883
Budget transfers and adjustments	3,579	0	0	0
Add proposed growth (**Error! Reference source not found.**)	35	0	0	0
Less proposed savings (Appendix B)	-2,445	-660	-1,930	-660
Proposed/Provisional budget	**35,473**	**34,813**	**32,883**	**32,223**

8. Detailed service budgets have been compiled on the basis of no pay or price inflation, a central contingency will be held which will be allocated to services as necessary.

9. The total proposed expenditure is £95.9m gross budget for 2023/24 resulting in £71.2m after accounting for internal income, recharges and contributions from earmarked funds of £24.8m and £35.5m net budget after £35.7m of trading income and other grants. This is allocated as per the following table:

Table 2 – Revenue Budget Summary 2023/24

CR Net Budget	**2023/24 £m**
Information Technology, Communications & Digital and Customer Service	15.7
Corporate Services and Operational Property	14.2
Finance, Strategic Property and Commissioning	11.1
East Midlands Shared Services	2.4
Corporate Asset Investment Fund (net contribution)	-7.6
Commercialism (net contribution)	-0.3
Department Total	**35.5**

Other Changes and Transfers

10. A number of budget transfers totalling a net increase of £3.6m, were made during the 2022/23 financial year. These transfers comprise:
    a) +£3.1m budget cost increase for the staff pay awards for the financial years 2022/23 and 2021/22 funded from the central inflation contingency
    b) +£1m budget cost increase for inflation transferred from the central inflation contingency for inflationary price increases relating primarily to property, maintenance costs, ICT and Insurance.
    c) -£0.5m budgets transferred from CR to and from other departments with the majority transferring to A&C for property commissioning budgets and the Integrated Adults System (IAS)

11. Growth and savings have been categorised in the appendices under the following classification:

*	item unchanged from previous MTFS;
**	item included in the previous MTFS, but amendments have been made;
No stars	new item.

12. This star rating is included in the descriptions set out for growth and savings below.

13. Savings have also been highlighted as “Eff” or “SR” dependent on whether the saving is seen as an efficiency or a service reduction or a mixture of both. “Inc” denotes those savings that are funding related or to generate more income.

Growth

14. The total amount of net growth requested is £35k for 2023/24 and the next three years. Gross growth is £135k offset by a reduction of £100k temporary growth provided in a previous MTFS for the Customer Service Centre as summarised and detailed below:

Table 3 - Summary CR Growth 2023/24 to 2026/27

Refs		**Demand & cost increase**	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
*	G15	Customer Service Centre - support service levels (temporary growth removed)	-100	-100	-100	-100
*	G16	Health, safety & wellbeing - increased demands and legislative changes to fire safety regulations	25	25	25	25
*	G17	Increased demand for Communications Team	70	70	70	70
	G18	Lone Working app	40	40	40	40
		TOTAL	**35**	**35**	**35**	**35**

15. * G15 Customer Service Centre – removal of temporary growth from previous years -£100k from 2023/24

The Customer Service Centre (CSC) is the first point of contact for customers of Adult Social Care, Highways and Transport enquiries, Waste Management, Regulatory Services and School Admissions; answering a half a million customer contacts every year across a range of channels.

Additional temporary resources of £0.3m were provided for 2020/21 to meet additional demand due to the extension to the Blue Badge scheme; and the delay in realising efficiencies and savings from technological improvements to working practices. The additional budget was profiled to be reduced by £0.1m each subsequent year of the MTFS and this is the last year of that reduction.

16. * G16 Health, safety & wellbeing – increased demands and legislative changes to fire safety regulations £25k from 2023/24

This growth is unchanged from the previous MTFS and is required to fund the legislative changes to fire safety regulations to ensure buildings remain both safe and to support staff wellbeing through change arising for staff from the pandemic and the cost of living crisis.

17. * G17 Increased demand for Communications Team £70k from 2023/24

Following the pandemic and remote working, communications for managers and staff have increased and these remain a critical part of ensuring staff remain connected and are able to perform their jobs with the right context.

These resources are currently already in place and have been funded for over the last two years from the Contain grant but now require ongoing budgeted funding.

18. G18 Lone working app £40k from 2023/24

This funding enables a standard lone worker app to be rolled out across all departments to provide greater level of protection for staff who are working more flexibly and remotely.

Savings

19. The MTFS proposed savings for Corporate Resources total £2.4m for 2023/24 rising to £5.7m by 2026/27. The savings are summarised in the table below and Appendix B with more detail in the next section.

Table 4 - Summary CR Savings 2023/24 to 2026/27

References			Saving	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
**	CR1	Eff/Inc	Ways of Working - Use of office space	-600	-670	-1,380	-1,380
**	CR2	Eff/Inc	Increasing Commercial Services contribution	0	0	-195	-355
**	CR3	Inc	Increase returns from Corporate Asset Investment Fund	-1,150	-1,250	-1,250	-1,250
*	CR4	Inc	Place to Live - Accommodation income	-40	-80	-80	-80

**	CR5	Eff	Customer & Digital Programme	0	-110	-640	-640
**	CR6	Eff	Operational Finance process improvements	-100	-150	-200	-200
**	CR7	Eff	Transformation Unit efficiencies	-80	-80	-150	-150
	CR8	SR	Sale of Castle House	-15	-30	-30	-30
	CR9	Eff	Energy Initiatives	0	-100	-100	-100
	CR10	Eff	Insurance review	-100	-100	-100	-100
	CR11	Eff	ICT Efficiencies	-100	-250	-625	-1,125
	CR12	Eff	Operational Property	-90	-90	-90	-90
	CR13	Eff	Strategic Property	-45	-45	-45	-45
	CR14	Eff/SR	Customer Service Centre	-100	-100	-100	-100
	CR15	Eff/SR	Reduce County Hall running costs	-25	-50	-50	-50
			TOTAL	**-2,445**	**-3,105**	**-5,035**	**-5,695**

20. <u>**CR1 (Eff/Inc) Ways of Working – Use of office space - £0.6m in 2023/24 rising to £1.4m by 2026/27</u>

The Ways of Working programme is a multi-disciplinary taskforce working collaboratively to drive out new, more flexible ways of working. With representatives across IT, Property, Transformation, HR/OD and Communications, focus has been not only on how we use our physical workplace (desks and buildings) but also on culture and infrastructure changes that will maximise the potential benefits of embedding new ways of working within the Council.

A refreshed business case was produced in November 2021 with savings expected to be generated from reductions in property rental costs, service charges and running costs as premises are exited; rationalised or sold as part of the original workplace strategy, as well as increased income generation through further rental income for the County Hall campus.

There are also a number of other benefits which may derive efficiency savings resulting in cost reduction which are unknown at present but likely to include:

- Increased productivity
- Reduction in carbon
- Reduced operating costs
- Improved recruitment and retention

21. <u>**CR2 (Eff/Inc) Increasing Commercial Services contribution - £0.2m in 2025/26 rising to £0.36m by 2026/27</u>

Commercial services are delivered under the umbrella Leicestershire Traded Services (LTS) and include the provision of various traded services including school food, catering, property and facilities.

Trading circumstances are extremely challenging with inflationary pressures affecting margins as rising costs have an acute impact in particular on school food. LTS continues to face significant staffing pressures due to wider economic impacts being seen by the Catering and Hospitality industry on top of additional short-term pressures from sickness due to Omicron. The option to increase prices accordingly is limited due to contract obligations and Government’s fixed free school meal funding that hasn’t risen in line with inflation.

To partially mitigate against the adverse financial climate, some progress has been made and this includes the rationalisation of teams within Operational property, and Leisure and Hospitality which have been undertaken to deliver sustainable cost savings. Further consideration of the staffing structures and services offered by LTS continues to both increase contribution and minimise risk. Increased income is expected from Country Parks arising from increased visitor numbers and an investment in parking infrastructure.

Last year operating model changes were implemented and commercial agreement reviews undertaken. However, due to the scale of the challenge, a £1.8m loss is expected in 2022/23, a fundamental review of services is now underway to deep dive into the financial, commercial and operational models to identify additional actions and present options for moving forward in a sustainable way.

22. **CR3 (Inc) Increased Returns from Corporate Asset Investment Fund (CAIF) - £1.15m from 2023/24 rising to £1.25m by 2024/25

The Corporate Asset Investment Fund (CAIF) exists support the policy objectives of the County Council, whilst providing income to support provision on services. The CAIF holds mainly property assets which are let to a variety of tenants mainly within the County. It also holds institutional property funds, a niche bank risk transfer investment and private debt funds in order to diversify risk from purely owning property assets. In the future additional non property holdings, such as solar farm infrastructure, will be added to further diversify the risk. The proposed solar farm at Quorn is the main contributor to the additional savings target.

Asset investment opportunities are appraised and taken forward, subject to the business case and appropriate Member approvals.
These investments will generate an additional ongoing revenue stream (for example, rental income from farms or industrial units) or future capital receipts in excess of what is required for the initial investment. To help manage the financial risk associated with these investments a proportion of the CAIF income is diverted to a sinking fund. When unforeseen issues arise, the sinking fund can be used to support its resolution.

23. *CR4 (Inc) Place to Live – Accommodation income - £40k in 2023/24 rising to £80k by 2024/25

The Council has invested in developments linked to Social Care Investment Programme objectives. As an upper tier authority with no housing function the Council has contracted Nottingham Communities Housing Association (NCHA) to act as a landlord on its behalf. NCHA leases the housing that the Council develops and rents them to vulnerable tenants nominated by the Council. This saving represents the rental income from this arrangement, recognising the capital investment.

24. **CR5 (Eff) Customer and Digital programme - £110k in 2024/25 rising to £640k by 2025/26

The Customer and Digital programme was initiated in 2021 to drive efficiencies through reducing demand across current customer channels, and shifting these to a more cost-effective solution e.g. moving from phone calls to signposting to information on the website. To date the programme has delivered many improvements in digitalisation of processes across departments, as well as supporting with improving the customer experience around home to school transport and school admissions.

The programme is now being rescoped and will focus on:

- Customer – focussing entirely on demand reduction, channel shift and development a new target operating model for our customer contact.
- Automation – Development and implementation of automated systems that can remove the need for manual intervention – driving further efficiencies and productivity internally. These systems will be implemented in areas where processes can be readily automated, with a series of proof of concepts being scoped.

25. **CR6 (Eff) Operational Finance process improvement - £100k from 2023/24 increasing to £200k from 2025/26

The Operational Finance programme was set up to maximise best practice and improve processes and interactions following the implementation of Oracle Fusion with the focus being around 5 core themes of:

- Procure to Pay
- Order to Cash
- Reporting
- Support Model
- Business Process Interactions

The aim is the ensure that the technology is fully exploited and efficiencies will be generated by reduced processing times, reduced error, improved controls and a review of target operating models.

Benefits will also be sought from introducing a new scheme of supplier early payment discounts. Suppliers signing up to the scheme will discount their invoices which are paid earlier than the standard payment terms (usually 28 days).

26. **CR7 (Eff) Transformation Unit Efficiencies - £80k in 2023/24 rising to £150k by 2025/26

The 2023/24 savings have already been achieved following a review and restructure of the Transformation Unit (TU) operations and structure in 2021. The resulting service plan provides for ongoing efficiencies through improved ways of working – primarily focused on reducing management costs and improving the connections to departmental decision making.

Future year's savings will be achieved through continuous improvement activity and vacancy management.

27. CR8 (SR) Sale of Castle House - £15k from 2023/24 rising to £30k from 2024/25

Castle House is an LCC owned property that has up to recently been let to the Ministry of Justice.

Selling enables net £30k p.a. revenue savings from avoided costs such as repairs and maintenance with the sale also delivering a capital receipt in the region of £700k.

28. *CR9 (Eff) Energy Initiatives: -£100k from 2024/25

These are the next phase of savings identified as part of The Strategic Property Energy Strategy 2020-2030 to drive reductions in annual energy consumption, savings on energy bills and investment in the provision of renewable energy.

These savings are the returns from investments already made in greener sources of energy across the LCC property estate as well as achieving residual returns from the SCORE+ (Schools Collaboration on Reducing Energy) partnership.

29. CR10 (Eff) Insurance review – £100k from 2023/24
A full review of the insurance cover purchased by the County Council is currently being undertaken alongside the annual provision made to pay for claims that are expected to be made. Due to good claims experience over the last few years it is expected that a saving will be delivered.

30. CR11 (Eff) ICT Efficiencies - £100k from 2023/24 rising to £1.1m by 2026/27
Following a review undertaken with consultants Gartner, a number of changes are proposed in the following workstreams to result in efficiencies including:

- Reskilling and reorganising teams to support the new Digital, Data, Technology approach.
- Removal and refocusing of Technology and its Architecture to reduce complexity, licensing requirements and allow a focusing of skill sets and service cover.
- A review of support and consultancy contracts with a view to optimising the costs and value achieved.

In total £300k of new gross savings are proposed in each year rising to £1.2m by year 4. Some of these savings will need to be recycled to invest in software and security infrastructure such as a roll-out of Windows 11, hence the lower headline amounts quoted.

31. CR12 (Eff) Operational Property £90k from 2023/24
Half of these savings have already been achieved during the financial year 2022/23 through a restructured property team and premises officers. The other half of savings are expected from staff attrition with workloads reviewed and redistributed.

32. CR13 (Eff) Strategic Property - £45k from 2023/24
This saving will be delivered through a reduction in posts by not recruiting to the asset lead post.

33. CR14 (Eff/SR) Customer Service Centre (CSC) - £100k from 2023/24
Inherently there is high labour turnover in Customer Service Centres and with CSC staff also transferring into the Adults and Communities department for career progression, this is also the case for LCC thus the efficiency element of this saving will be achieved from the regular underspend created in the period vacancies are being recruited to.

Additionally, efficiencies and some level of service reduction will be pursued both within the Customer and Digital programmes by increasing digital adoption for residents and reducing the channels and availability for customer contact.

34. CR15 (Eff/SR) County Hall Running Costs - £25k from 2023/24 to £50k by 2024/25
Efficiency savings will be achieved through reduced expenditure on internal décor and landscaping on the County Hall site (such as the reduced number of grass cuts). Merging the reception and car park security activities will enable further savings.

Savings Under Development

35. The financial climate for the Council, along with other Local Authorities remains challenging and to bridge the significant funding shortfall projected in future years; each department is required to identify additional savings. The following have been identified as potential opportunities to take forward following further evaluation and planning.

36. Department Structure and review of services
Corporate Resources consists of a large number of functions split under three assistant directors. All services in general focus on organisational compliance and/or provide support to the wider authority across a variety of functions and so it is important to ensure the right teams, structure, function and skills are in place. A full review will take place focussed on the areas below:

1. management structure,
2. duplication of corporate functions across the authority,
3. the wider support

37. Technology and Hardware Costs
Over the last three years the council's eco-system of IT tools and infrastructure has matured. Service delivery has also evolved post-pandemic and in some cases has moved away from remote/virtual delivery to face-to-face, seeing the systems and technology once previously used pre and during the COVID-19 pandemic, no longer being a core requirement to deliver services. This brings the potential to reduce our internal costs from revisiting staff's technology and licence costs for the tools and software they are using – ensuring this meets organisational need in the most cost-effective way.

38. Country Parks and Cafes
Work is underway to explore additional commercial opportunities and improve profitability of our country parks and cafes. Opportunities to generate further revenue includes parking and development of a pay to play adventure play facility at land leased from the estate at Bosworth Battlefield.

39. Oracle Recruitment Cloud and People Hub
The council is aiming for the new recruitment portal to be in place in April 2023 which will streamline the process and provide opportunities for increased efficiencies across the County Council. A scoping exercise for the People Hub is underway.

40. Asset Challenge
A review is planned on the management, planning and use of the County Council's property assets. The aims of this review are to:

- Align asset management planning with the corporate and service delivery needs having regard to financial and resource planning.
- Identify the future property and asset management requirements necessary to deliver service priorities.
- Set out a programme of strategic reviews and initiatives together with an asset management delivery plan.

41. Additional CAIF savings
Further schemes could be developed, likely in the areas of economic development or green energy generation, that would have the added benefit of provide increased income.

Corporate Resources Capital Programme

42. The proposed CR capital programme totals £9.7m over the next four years including £2.8m in 2023/24 as summarised in the table below and Appendix C and described in more detail in the following paragraphs.

Summary CR Capital Programme 2023/24 to 2026/27

	2023/24	2024/25	2025/26	2026/27	Total
ICT	150	100	2,390	60	**2,700**
Ways of Working	1,629	1,262	1,293	1,530	**5,714**
Property Services	473	0	0	0	**473**
Climate Change - Environmental Improvements	515	100	100	100	**815**
	2,767	**1,462**	**3,783**	**1,690**	**9,702**

43. ICT - £150k in 2023/24 amounting to £2.7m over the MTFS period
Investment in technology and digital capability throughout the organisation is a priority to increase efficient and modern ways of working in addition to maintaining security and robust systems and infrastructure. This investment includes replacement, capacity growth and upgrade across the corporate estate for 2023/24 including £0.2m investment in Wireless Access Points to help provide security to the networks.

44. Ways of Working programme - £1.6m in 2023/24 amounting to £5.7m over the MTFS period
This programme is to redesign the ways in which the Council delivers its services freeing up property space to generate rental and reducing associated costs.

The investment is based on changing office infrastructure costing £0.2m in 2023/24 (£0.2m across the MTFS); PC’s and Laptops costing £1.2m 2023/24 (£4.9m across the MTFS) and property costs costing £0.2m 2023/24 (£0.6m across the MTFS).

The associated £1.4m annual savings from this investment by year 4 are outlined in CR1. Additional savings are expected to materialise in other departments via increased efficiency and reduced travel costs.

45. Property major maintenance and improvement - £0.5m in 2023/24 and in total over the four-year MTFS

For 2023/24 significant elements of the programme includes:

- £0.2m (£0.2m across the MTFS) for the replacement of County Hall lifts
- £0.2m (£0.2m across the MTFS) for the essential replacement of library windows

46. Climate Change - environmental Improvements - £0.5m in 2023/24 amounting to £0.8m over the MTFS period.

"Clean and Green" is one of the Council's key strategic aims reflecting the need to protect and enhance the environment and tackle climate change.

The 2015 Paris Agreement requires countries to limit temperature rise to below 1.5 to 2°C. Government has committed to reducing the UK's net emissions of greenhouse gases to zero by 2050. The County Council has declared a climate emergency and is committed to achieving net zero carbon emissions from its own operations by 2030 and to work with partners to achieve net zero carbon emissions in Leicestershire by 2045.

This investment in environmental improvements includes for 2023/24:

- £0.3m (£0.3m across the MTFS) to support LCC Public Sector Decarbonisation scheme to reduce the carbon out footprint of LCC asset

- £0.1m (£0.1m across the MTFS) for additional investment in Electric Vehicle Car Charging Points. The additional charging points will be targeted at public locations managed by the Council, such as Bosworth Battlefield and Beacon Hill, dependant on feasibility studies.

- £0.1m (£0.4m across the MTFS) to investigate other energy initiatives.

Future Developments

47. Capital projects that have not yet been fully developed or plans agreed have been excluded from proposed bids and will be treated as 'Future Developments'. It is intended that as these schemes are developed during the year and where there is a financial justification, or an investment required to maintain delivery of the service, they are included in the capital programme.

48. The potential programmes and schemes that may require capital investment in the future include:

- ICT Investment: There is a need for significant investment in the ICT infrastructure including network connectivity, data centres and data storage, telephony, system back up and security. Major systems will need replacement and investment will be based on the need and business case.

- Country Parks: A number of initiative are being scoped to generate additional income from country parks including development of café and community/work space; expansion of ANPR ticketless car parking at various country parks, refurbishment of Broombriggs Farm cottage for short hold tenancy/holiday rental, adventure play facility, a bridge in Watermead and maintenance work at Snibston ancient monument site.

- Climate change: Continued development of Energy asset upgrades to corporate buildings to reduce running costs, and deliver on corporate energy strategy, environmental strategy and climate targets.

Equality Implications

49. Public authorities are required by law to have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation;
- Advance equality of opportunity between people who share protected characteristics and those who do not;
  and
- Foster good relations between people who share protected characteristics and those who do not.

50. Many aspects of the County Council's MTFS may affect service users who have a protected characteristic under equalities legislation. An assessment of the impact of the proposals on the protected groups must be undertaken at a formative stage prior to any final decisions being made. Such assessments will be undertaken in light of the potential impact of proposals and the timing of any proposed changes. Those assessments will be revised as the proposals are developed to ensure decision makers have information to understand the effect of any service change, policy or practice on people who have a protected characteristic.

51. Proposals in relation to savings arising out of a reduction in posts will be subject to the County Council Organisational Change policy which requires an Equality Impact Assessment to be undertaken as part of the action plan.

Human Rights Implications

52. There are no human rights implications arising from the recommendations in this report.

Background Papers

Cabinet: 16th December 2022 – Medium Term Financial Strategy 2023/24 to 2026/27

Circulation under local issues alert procedure

None.

<u>Officers to Contact</u>

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<u>Appendices</u>

Appendix A – Revenue Budget 2023/24
Appendix B – Growth and Savings 2023/24 – 2026/27
Appendix C – Capital Programme 2023/24 – 2026/27

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Appendix A - Corporate Resources Revenue Budget 2023/24

Net Budget 2022/23 £		*	Employees £	Running Expenses £	Internal Income £	Gross Budget £	External Income £	Net Budget 2023/24 £
	AD Finance, Strategic Property and Commissioning							
2,423,112	Strategic Property	D	2,102,821	1,526,069	-623,865	3,005,025	-437,046	2,567,979
2,243,692	Audit and Insurance	S	1,945,503	3,426,495	-1,191,287	4,180,711	-1,892,929	2,287,782
4,241,450	Strategic Finance and Pensions	S	6,263,788	421,964	-1,891,559	4,794,193	-208,859	4,585,334
375,762	Corporate Resources Projects	D	27,530	481,910	-51,000	458,440	0	458,440
1,166,952	Commissioning Support	B	1,362,004	35,031	-154,906	1,242,129	-25,000	1,217,129
10,450,968			**11,701,646**	**5,636,794**	**-3,912,617**	**13,425,823**	**-2,563,834**	**11,116,664**
1,975,881	**East Midlands Shared Services**		**4,400,245**	**2,198,901**	**-337,509**	**6,261,637**	**-3,856,249**	**2,405,388**
	AD IT, Communications & Digital, Customer Services							
12,116,857	IT	B	7,791,064	5,344,626	-715,660	12,420,030	0	12,420,030
1,057,126	Communications & Digital Services	D	1,402,865	202,096	-386,090	1,218,871	-9,300	1,209,571
2,258,818	Customer Service	D	2,152,817	97,759	-106,454	2,144,122	-54,850	2,089,272
15,432,801			**11,346,746**	**5,644,481**	**-1,208,204**	**15,783,023**	**-64,150**	**15,718,873**
	Commercialism							
	LTS Catering							
171,411	Leisure & Hospitality	D	605,187	590,145	-31,594	1,163,738	-1,002,636	161,102
-252,630	Education Catering	D	12,036,857	6,159,878	-8,279,248	9,917,487	-10,119,117	-201,630
-72,466	Beaumanor	D	1,027,547	494,650	-52,612	1,469,585	-1,544,219	-74,634
-153,685			13,669,591	7,244,673	-8,363,454	12,550,810	-12,665,972	-115,162
	LTS Professional & Other Services							
-21,576	Bursar Service	D	214,251	14,536	-74,821	153,966	-181,775	-27,809
-396,679	LEAMIS	D	764,482	238,400	-861,737	141,145	-495,189	-354,044
-105,478	HR Services	D	1,173,968	70,366	-211,217	1,033,117	-1,147,533	-114,416
-523,733			2,152,701	323,302	-1,147,775	1,328,228	-1,824,497	-496,269
234,365	**LTS Infrastructure**	D	225,972	185,876	-116,423	295,425	0	295,425
-443,053	**Total Commercialism**		**16,048,264**	**7,753,851**	**-9,627,652**	**14,174,463**	**-14,490,469**	**-316,006**
	AD Corporate Services							
	Operational Property							
3,598,418	Building Running Costs	B	275,025	4,333,217	-86,581	4,521,661	-1,455,629	3,066,032
2,548,300	Building Maintenance	B	0	3,936,000	-1,350,000	2,586,000	0	2,586,000
2,014,752	Operational Property	B	2,112,195	188,642	-254,270	2,046,567	0	2,046,567
68,821	Traveller Services	B	249,529	52,585	-15,000	287,114	-222,666	64,448
8,230,291			2,636,749	8,510,444	-1,705,851	9,441,342	-1,678,295	7,763,047
	Corporate Services							
973,299	Business Support Services	D	1,047,983	157,640	-194,057	1,011,566	-17,440	994,126
686,255	Management	B	730,649	10,894	-41,756	699,787	0	699,787
2,128,353	HR	B	2,696,524	97,693	-572,169	2,222,048	0	2,222,048
1,413,877	L & D	D	1,691,662	69,347	-160,091	1,600,918	-156,678	1,444,240
-29,533	LTS Property Services	B	3,122,207	1,775,437	-4,390,182	507,462	-999,771	-492,309
194,860	Country Parks	B	498,685	404,811	0	903,496	-892,297	11,199
1,506,010	Transformation	D	3,869,293	16,961	-2,369,453	1,516,801	0	1,516,801
6,873,121			13,657,003	2,532,783	-7,727,708	8,462,078	-2,066,186	6,395,892
15,103,412			**16,293,752**	**11,043,227**	**-9,433,559**	**17,903,420**	**-3,744,481**	**14,158,939**
	Corporate Asset Investment Fund							
-47,300	Rural	D	0	650,455	0	650,455	-1,308,500	-658,045
-950,115	Industrial	D	0	1,093,715	-250,000	843,715	-1,992,000	-1,148,285
-4,480,314	Office	D	0	583,286	0	583,286	-5,088,814	-4,505,528
-978,000	Other	D	0	1,273,000	0	1,273,000	-2,572,000	-1,299,000
-6,455,729			**0**	**3,600,456**	**-250,000**	**3,350,456**	**-10,961,314**	**-7,610,858**
36,064,280	**TOTAL CORPORATE RESOURCES**		**59,790,653**	**35,877,710**	**-24,769,541**	**70,898,822**	**-35,680,497**	**35,473,000**

* S/D/B : indicates that the service is Statutory, Discretionary or a combination of Both

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Appendix B - Corporate Resources Growth and Savings

References			GROWTH	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
			Demand & cost increases				
*	G15		Customer Service Centre - support service levels (temporary growth removed)	-100	-100	-100	-100
*	G16		Health, safety & wellbeing - increased demands and legislative changes to fire safety regulations	25	25	25	25
*	G17		Increased demand for Communications Team	70	70	70	70
	G18		Lone Working app	40	40	40	40
			TOTAL	**35**	**35**	**35**	**35**

References			SAVINGS	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
*	CR1	Eff	Ways of Working - Use of office space	-600	-670	-1,380	-1,380
**	CR2	Eff/Inc	Increasing Commercial Services contribution	0	0	-195	-355
**	CR3	Eff	Increase returns from Corporate Asset Investment Fund	-1,150	-1,250	-1,250	-1,250
*	CR4	Inc	Place to Live - Accommodation income	-40	-80	-80	-80
**	CR5	Eff	Customer & Digital Programme	0	-110	-640	-640
**	CR6	Eff	Operational Finance process improvement	-100	-150	-200	-200
**	CR7	Eff	Transformation Unit efficiencies	-80	-80	-150	-150
	CR8	SR	Sale of Castle House	-15	-30	-30	-30
	CR9	Eff	Energy Initiatives	0	-100	-100	-100
	CR10	Eff	Insurance review	-100	-100	-100	-100
	CR11	Eff	ICT Efficiencies	-100	-250	-625	-1,125
	CR12	Eff	Operational Property	-90	-90	-90	-90
	CR13	Eff	Strategic Property	-45	-45	-45	-45
	CR14	Eff/SR	Customer Service Centre	-100	-100	-100	-100
	CR15	SR/Eff	Reduce County Hall running costs	-25	-50	-50	-50
			TOTAL	**-2,445**	**-3,105**	**-5,035**	**-5,695**

References used in the following tables

* items unchanged from previous Medium Term Financial Strategy
** items included in the previous Medium Term Financial Strategy which have been amended
Eff - Efficiency saving
SR - Service reduction
Inc - Income

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Appendix C - Corporate Resources Capital Programme 2023-7

Estimated Completion Date	Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
			2023-27 Capital Programme				
		ICT					
Mar-26	900	Network Equipment	0	100	600	0	700
Mar-26	240	Replacement of IT Service Management toolset and User Portal	0	0	240	0	240
Mar-26	100	Remote Access Refresh	0	0	50	0	50
Mar-26	1,700	Hyper-Converged Infrastructure (HCI) Refresh/re-license	0	0	1,500	0	1,500
Mar-24	150	Wireless Access Points	150	0	0	0	150
Mar-27	80	Solaris Hardware Refresh	0	0	0	60	60
		Sub total ICT	**150**	**100**	**2,390**	**60**	**2,700**
		Transformation Unit - Ways of Working					
Mar-24	1,630	Workplace Strategy - Office Infrastructure	250	0	0	0	250
Mar-27	10,130	Workplace Strategy - End User Device (PC, laptop)	1,169	862	1,293	1,530	4,854
Mar-25	2,000	Workplace Strategy - property costs, dilapidations and refurbishments	210	400	0	0	610
		Sub total Transformation Unit	**1,629**	**1,262**	**1,293**	**1,530**	**5,714**
		Property Services					
Mar-24	440	County Hall Lift Replacement Scheme	176	0	0	0	176
Mar-24	50	Bosworth Battlefield Car Park Resurface	45	0	0	0	45
Mar-24	50	County Hall Sewage Replacement	50	0	0	0	50
Mar-24	160	Library Replacement windows	155	0	0	0	155
Mar-24	110	Tree Planting Programme	47	0	0	0	47
		Sub total Property Services	**473**	**0**	**0**	**0**	**473**
		Climate Change - Environmental Improvements					
Mar-24	380	Electric Vehicle Car Charge Points	90	0	0	0	90
Mar-24	4,290	LCC Public Sector Decarbonisation Scheme	325	0	0	0	325
Mar-27	400	Energy initatives	100	100	100	100	400
		Sub total Energy	**515**	**100**	**100**	**100**	**815**
		Total Corporate Resources	**2,767**	**1,462**	**3,783**	**1,690**	**9,702**

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Agenda Item 12

SCRUTINY COMMISSION – 30TH JANUARY 2023

DRAFT CORPORATE ASSET INVESTMENT FUND STRATEGY 2023 TO 2027

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to seek the Commission's views on the Corporate Asset Investment Fund (CAIF) Strategy (the Strategy) for 2023 to 2027 (attached as an Appendix to this report) which sets out the proposed approach to the management and future acquisitions, strategy utilising the Capital Programme funding, together with amended Terms of Reference for the CAIF Advisory Board (the Board) which reflect the core provisions of the Strategy and will support the future management of the Estate.

Policy Framework and Previous Decisions

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

3. In May 2014 the Cabinet established the Corporate Asset Investment Fund Advisory Board, comprising five Cabinet members. The Advisory Board acting in accordance with its Terms of Reference consider the merits of any investment opportunities presented by the Director of Corporate Resources, on which the Director may then make a decision under delegated powers or refer to the Cabinet for a decision.

4. The current Investment CAIF Strategy and the Board's Terms of Reference were approved by the Cabinet in September 2018 with subsequent updates approved as part of the MTFS.

5. The Strategic Plan 2022-26, approved by County Council on 18th May 2022 sets out five key strategic outcomes- Clean and Green, Great Communities, Improved Opportunities, Strong Economy, Transport and Infrastructure, Safe and Well. CAIF strategy will seek to make a positive contribution to the delivery of these objectives through measures including the generation of renewable energy, improving the energy efficiency of buildings, maximising opportunities to decarbonise the estate, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.

Background

6. The Council has owned and managed investment properties in the form of the existing Industrial and County Farms estate for many years. These properties are held for the purposes of supporting the delivery of various economic development objectives and also generate revenue and capital returns to the Council.

7. The creation of the CAIF and associated Board in 2014 was aimed at increasing the Council's property portfolio and ensuring investment in a more diverse range of properties, to continue to support economic development and generally increasing the quality and sustainability of the land owned by the Council and the income this generated.

8. The Board, chaired by the Cabinet Lead Member for Resources, is supported by an officer group formed from strategic property, strategic finance, planning and legal services to provide advice on risks, deliverability and financial implications. Specialist property investment support and advice is also available to provide an independent view and robust challenge. Following consideration by the Board, the Director of Corporate Resources may make a decision on investments (under his delegated powers) or refers the proposals to the Cabinet for a decision.

9. Since the first formal CAIF Strategy was adopted in 2017 it has been reviewed annually and developed to ensure that in addition to maximising financial benefits the portfolio contributes to achieving the County Council's wider strategic goals. In 2018 the aims of the CAIF Strategy were aligned with the five Strategic Outcomes set out in the Council's Strategic Plan and the purpose of the Fund was consequently broadened.

10. The Strategy was further updated in 2019 to reflect the Council's declaration of a Climate Emergency to ensure all Fund developments are, where possible, low carbon and energy efficient. Support for the 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 and Climate Change projects being managed through the Fund.

11. The Council's Growth Service (Chief Executive's Department) also provides support as necessary. It has general oversight for the delivery of large growth schemes to ensure these are assessed and prioritised against the resources available and balanced against the need to deliver the aims of the Fund and the Council's Strategic objectives.

12. In order to maintain access to any potential prudential borrowing over the period of the MTFS it is necessary to ensure that any new investments are compliant with the updated CIPFA Prudential Code For Capital Finance In Local Authorities (2021) (*The CIPFA Code)* and HM Treasury guidance. The key change is that an authority must not borrow to invest primarily (more than 50% of the reason) for financial return.

13. Local authorities are required by regulation to have regard to the CIPFA Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011. HM Treasury have issued guidance reinforcing the position that local authorities need CIPFA Code compliant capital plans to access to the Public Works Loan Board.

14. Local Authorities need to be compliant with the updated CIPFA Code from 2023/24, the CAIF Strategy has been revised in response.

15. Key developments included in this version of the CIPFA Code include strengthened and clear provisions for prudent investing, definitions and disclosures for service, treasury and commercial investments. This new Prudential Code contains a new objective for proportionate service and commercial investments.

16. CIPFA and HM Treasury issued their respective documents on the back of some authorities borrowing in a potentially reckless manner and by such a degree relative the financial size of the authority as to put the authorities' finances in jeopardy. Some of these authorities are now having to deal with the poor performance of their property portfolios and are the subject of close scrutiny by their independent auditors.

17. It should be noted that the revenue implications of CAIF are small in comparison to the size of the County Council's total budget and no external borrowing was needed for the Fund. To date the County Council's auditors have not raised any issues with regard to the size or management of the Fund.

18. In light of the CIPFA Code, the County Council will ensure that it will only undertake investments where they are directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. This includes service delivery, housing, and regeneration of areas, that addresses areas of economic or social market failure and should only be made within the Council's area of economic influence. Renewable energy generation is also included as a reduction in carbon emissions is a stated aim of the County Council as part of its Declaration of a Climate emergency in May 2019.

19. In summary, investments should not be made primarily for yield.

20. The updated Prudential Code does not require authorities to sell existing primary for return investment assets that were acquired (or committed to) prior to November 2020. However, where a Council has an expected need to borrow (internally or externally), as does the County Council for the wider capital programme, the Code requires an annual review of investments held primarily for return to evaluate the benefit of continuing to hold such assets against the cost of borrowing and any risk reduction benefits. This will be undertaken annually. The

Prudential Code allows continued investment in such assets to maximise their value, including repair, renewal and updating of the properties. Any new investment in the CAIF will be assessed to ensure compliance with the updated Prudential Code and HM Treasury guidance.

21. Given the need to change the focus and approach to the future management and investment in the portfolio it is felt appropriate to reshape the activities of CAIF in a way that reflect these changes. It is likely that a new name for the CAIF will be necessary in due course to appropriately and properly reflect the primary role of the CAIF.

Management and Acquisitions Strategy 2023-27

22. The key priorities of the revised Strategy are to ensure its alignment with the Council's Strategic Plan 2022 – 26 and address any future financial risk to the Council by having due regard to Government guidance in relation to future investments.

23. As part of the prudent management of the Council's finances any future capital expenditure will need to continue to be well managed and deliver a financial return commensurate with the level of risk. This is applicable even where the primary purpose is delivery of wider County Council policy objectives.

24. Accordingly, having regard to the above the proposed aims of the Strategy 2023 - 27 are to ensure investments funded or held in the Fund:

    - Support the objectives of the Council's MTFS, Corporate Asset Management Plan, Strategic Plan, Economic Growth Plan, and the County-wide Local Industrial Strategy.
    - 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.
    - Maximise returns on Council owned property assets.
    - Supports the delivery of front-line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
    - Maintain a diverse portfolio of energy efficient and sustainable direct property and other investment assets which support economic growth and environmental sustainability
    - Support the Council's strategic objectives by working with partners to maintain momentum in the development of strategic sites and renewing existing employment sites and premises where there is demand thereby addressing areas of market failure.
    - Contribute towards the development and implementation of a Net Zero Carbon 2030 Plan for the Council by reducing demand for energy and increasing the generation and use of renewable energy.
    - Channelling new investment into schemes that:

    - Maximise the potential to address economic and social market failure
    - Improve property assets for a direct strategic/policy purpose
    - Enhance the value and marketability of property assets enabling capital receipts to be used to support improved service delivery
- Manage investment risk by investing in diverse sectors.
- Support the Council in maximizing the benefit from its financial assets in a risk aware way (not including standard treasury management activity).

25. A copy of the full revised draft Strategy is appended to this report.

26. The Strategy continues to seek to minimise risk principally by ensuring robust governance arrangements are in place and that investment decisions are only made considering appropriate financial, commercial, and legal advice. However, property investment and development will always have an element of risk much of which is outside the control of the Council as it relates to the strength of the wider economy.

27. The Strategy sets out procedures to ensure risks associated with investments are monitored, assessed, and mitigated and the Board will play a vital role in this. Its Terms of Reference reflect the core provisions of the Strategy and align its functions with its key aims and objectives. The draft Terms of Reference for the Board are included within the draft Strategy.

28. Members will continue to receive regular MTFS monitoring reports which will include information on the operation of the Fund, as well as an annual report on investment activity undertaken during each financial year which will provide an update on ongoing projects together with an updated Strategy covering the next MTFS period.

Resource Implications

29. The Council is operating in an extremely challenging financial environment following a decade of austerity and spending pressures. This has been further exacerbated by the Covid-19 pandemic, uncertainty around future funding levels and the current inflationary pressure within the economy. The draft MTFS 2023-27 (the subject of a separate report on the agenda for this meeting) sets out the future challenges and the need for further savings of £155m to be made by 2026/27, of which £92m is unidentified. In light of inflation and other emerging pressures the funding gap has the potential to grow.

30. The draft MTFS 2023-27 identifies capital funding of £55m to further develop the portfolio over the MTFS period. The exact level of expenditure made will be dependent on the availability of suitable property assets, the actual cost of development and the level of funding available.

31. No borrowing has been required to date. The changes to CIPFA's Prudential Code place restrictions on an authority's ability to borrow if investments are made primarily for financial return (yield). To ensure the Council retains the option of borrowing in the future the strategy has been updated to guide future investments.

Conclusion

32. The revised CAIF Strategy is aimed at maintaining a portfolio of assets that will benefit Leicestershire and provide a long term and relatively stable source of income, from existing investments, to support the funding in the MTFS. With future investments the focus on delivering the Council's wider strategic objectives will increase, such as addressing areas of economic and social market failure, in line with CIPFA Prudential code and HM Treasury guidance.

Equality Implications

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

Human Rights Implications

34. There are no human rights implications directly arising from this report.

Environmental Implications

35. Where possible, the environmental impact of the Fund's developments will be as low as possible and be low carbon and energy efficient. Renewable energy schemes will be brought forward on CAIF land, where appropriate, to reduce the overall carbon emissions from the county as relates to energy consumption.

36. 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.

Circulation under the Local Issues Alert Procedure

None.

Background Papers

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

Report to Council, 18 May 2022 – Leicestershire County Council's Strategic Plan 2022 – 2026 - https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6482&Ver=4

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Appendix

Draft Corporate Asset Investment Fund Strategy 2023 - 2027

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Corporate Asset Investment Fund

STRATEGY 2023/2027

Leicestershire County Council

Building Business. Boosting Communities.

FOREWORD

Lee Breckon
Lead Member for Resources Leicestershire County Council
and Chair of the Corporate Asset Investment Fund Advisory Board

With a strong track record in owning and managing a diverse portfolio of property and other investment assets over a long period of time, we are proud to have a proactive approach to investment, especially against the backdrop of increasingly tight financial settlements from central government.

Our sensible, strategic and careful way of investing has led to a significant increase in the value of our Corporate Asset Investment Fund (CAIF) portfolio, which is in turn providing millions of pounds for the council as you will read in this strategy.

Investments have created a number of jobs and business opportunities which has stimulated the local economy. Going forward our goal is to continue this positive economic impact along with maintaining a portfolio which is environmentally sustainable and builds towards the goal of being a net zero county by 2045.

The importance of investing taxpayer's money safely and wisely is a priority, and this strategy will work to ensure that our portfolio continues from strength to strength in the coming years and help to ensure our continued strong and resilient foundation to our property holdings

Chris Tambini,
Director of Corporate Resources

This CAIF is important in providing land and buildings for jobs and regeneration, and our investments have also seen us benefit from a healthy return on the assets we own.

Leicestershire County Council has always invested in a prudent and careful manner. This approach protects the portfolio's value as well as boosting the local economy and, importantly, generates a vital and sustainable income for front line council services.

Not only will this strategy support the council's Medium Term Financial Strategy (MTFS) objectives but will also support our other strategic objectives and goals for the council, including opportunities for investment in green infrastructure and renewable energy solutions.

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Appendix B 30

Updated January 2023

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 whilst contributing to the wider strategic objectives of the Council and the economic wellbeing of the area. 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 and add social and economic value for the people of Leicestershire despite the ongoing pressure on public finances. In addition to its wider social dimension 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 2023 to 2027 is aimed at supporting the growth of the Fund to further enhance its contribution to the delivery of strategic goals whilst continuing to improve the Council's financial resilience, as 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 to address areas of specific economic or social market failure 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 deliver positive outcomes 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 2023-27 includes reference to indirect and non-property investments. These forms of investments have gained greater prominence within the Fund which now includes investments in Pooled Property Funds and private debt. This diversification is an important component in financial risk management.

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.

1.7 The Council is committed to ensuring the Fund owns effective and efficient assets which enhance the environment and biodiversity in the county where possible and improves the lives of communities in the county whilst generating secure, long term, income streams that allows the Fund's existing investments to assist the Council in the delivery of its front line services.

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 2023 to 2027 will be at the heart of the Council's ability to deliver these objectives and other Council policies and programmes going forward.

Strategic outcomes

Clean and Green
People act now to tackle climate change
Nature and the local environment are valued, protected and enhanced
Resources are used in an environmentally sustainable way
The economy and infrastructure are low carbon and environmentally friendly

Great Communities
Diversity is celebrated and people feel welcome and included
People participate in service design and delivery
Communities are prepared for and resilient to emergencies
Cultural and historical heritage are enjoyed and conserved
People support each other through volunteering

Safe and Well
People are safe in their daily lives
People enjoy long lives in good health
People at the most risk are protected from harm
Carers and people with care needs are supported to live active, independent, and fulfilling lives

Improved Opportunities
Every child gets the best start in life
Every child has access to good quality education
Families are self-sufficient and enabled to be resilient
Everyone is able to aim high and reach their full potential

Strong Economy, Transport and Infrastructure
There is close alignment between skill supply and demand
Leicestershire has the infrastructure for sustainable growth
Leicestershire is an attractive place where businesses flourish
Economic growth delivers increased prosperity for all
Leicestershire has the right homes in the right places to meet needs

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, Corporate Asset Management Plan, Strategic Plan, its Economic Growth Plan and the County-wide Local Industrial Strategy.
- 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.
- Maximise returns on Council owned property assets
- Supports the delivery of front-line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
- Maintain a diverse portfolio of energy efficient and sustainable direct property and other investment assets which support economic growth and environmental sustainability
- Support the Council's strategic objectives by working with partners to maintain momentum in the development of strategic sites and renewing existing employment sites and premises where there is demand thereby addressing areas of market failure.
- Contribute towards the development and implementation of a Net Zero Carbon 2030 Plan for the Council by reducing demand for energy and increasing the generation and use of renewable energy
- Channelling new investment into schemes that:
  - Maximise the potential to address economic and social market failure;
  - Improve property assets for a direct strategic/policy purpose
  - Enhance the value and marketability of property assets enabling capital receipts to be used to support improved service delivery
  - Manage investment risk by investing in diverse sectors.
- 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 could 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 2023 TO 2027

4.1 The Corporate Asset Investment Fund Strategy is a high-level summary of the Council's approach to new investments. 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 2023 to 2027 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 economic and social benefit. It is designed to provide a framework that is flexible enough for the Council to participate in the property 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, thereby securing benefits for the Council;

4.3.2 continue to acquire both parcels of land for development and standalone direct property investments that contribute to the attainment of policy goals or address areas of economic or social market failure;

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 address areas of market failure;

4.3.4 maintain progress in the restructuring and rebalancing of the property portfolio

4.4 The Fund will also utilise Treasury Management investments to provide diversification to the overall portfolio of the Fund subject to any associated risks being monitored and managed. This is likely to include investments in different sectors, assets classes and geographies

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 used to reduce borrowing in accordance with Government guidance.

Growth of the Fund

4.6 The amount invested in the Fund as at 31 March 2022 was £191m. The latest valuation of the fund which includes capital growth in the valuation of the assets held is £207m from which an annual income of approximately £6.2m per annum was derived. The value of the fund is forecast to increase further by 31st March 2023 as underlying growth (capital growth) is achieved on the value of the assets.

4.7 An overall target return for the Fund's existing portfolio is 7%, reflecting the related risk, made up of a combination of capital growth and revenue income.

4.8 Decisions on how the investment programme is funded will be defined by the Council's Treasury Management strategy and considered as part of the MTFS.

4.9 The current holdings plus the anticipated expenditure on schemes in the 2022/23 capital programme will result in a total investment of £202m by 31st March 2023. A fund of £58m has been included in the draft 2023-27 MTFS to bring the overall CAIF fund to the notional target of achieving a holding of £260m. Appraisal includes external due diligence performed before each purchase.

4.10 The County Council has not and does not intend to borrow to fund the investments within the CAIF programme. The proposed investments in CAIF included within the MTFS 2023-27 are entirely funded from revenue reserves. Decisions on the availability and proportionality of funding to fund the Capital Programme, are made through the Capital Strategy (which includes funding for CAIF) are reviewed annually as part of the MTFS, and the Treasury Management Strategy Statement and Annual Investment Strategy. These documents take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

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);
- The ability of the investment to make a positive contribution to attainment of strategic objectives or addressing areas of market failure;
- The financial return commensurate with the risk being taken, under a range of economic scenarios (market conditions, repairs etc.) Any legal issues (restrictive covenants etc.) regarding the title of the land/ property;
- Risk of securing planning permission, including conditions
- 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 regard to:

- **Economic Benefit:** The number of jobs and business opportunities created/ supported and the ability of the asset to address market failure are the key elements of a potential investment together with the level of Gross Value Added to the economy
- **Development potential income:** The total income assuming the site is fully developed (with cash flow timescales) and the restrictions on use of the funds e.g., requirement to be recycled into further such schemes/investments.
- **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/or the development of property assets in an area of the county requiring regeneration in order to maximise benefits by stimulating the local economy through sustainable financial and economic growth, over the lifetime of the investment.
- **Sector:** The strength of the investment or development sector should be considered in relation to its location, rather than in isolation.

- **Building:** The age and construction of any existing buildings should be considered 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 benefits will be judged against the certainty of the anticipated outcomes materialising.

ENVIRONMENTAL, SOCIAL GOVERNANCE (ESG)

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 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).

A net Zero Strategy will be developed and implemented for the whole portfolio containing the following provisions:

a Quantify the protfolio's emissions on a sector basis to establish a baseline position.

b Set a trajectory for each sector with a view to achieeving Net Zero within the corporately agreed timescales with targets incorporated within all future management plans

c In respect of direct property sectors the strategy shall contain the following elements

- **Commercial property -** retrofit and energy efficiency, renewable energy generation, links to MEES regulations
- **Rural -** transition plans for farms, renewable energy generation
- **Developments -** supply chain engagement, materials guide, low carbon construction

d Sustainable procurement guides, a net zero decision making matrix and an emmissions offset policy shall be developed as part of the strategy together with appropriate KPIs monitoring and reporting

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. When deciding how and where to invest, the County Council is cognisant of the economic, social and environment considerations and will seek to ensure that any development it is involved with is a sustainable development.

The County Council will ensure that the relevant environmental, social, and governance (ESG) standards are met when seeking to screen potential investments.

a Environmental criteria will be used to consider how the County Council performs in its responsible use and protection of the natural environment through conservation and sustainable practices to enhance ecosystem resilience and human well-being.

a Social criteria will examine how it manages relationships within the communities around the county where the County Council owns assets.

Governance criteria will ensure that the controls and processes for the Fund are appropriate and followed.

FINANCIAL RETURNS

Yield

6.1 Whilst it is intended that future investments should be judged primarily on the basis of the County Council's wider policy objectives; it is important to ensure that the financial performance of the assets held is acceptable.

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

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

6.3 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%:

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

$$\textbf{5\%} = \textbf{(50,000/1,000,000)} \times \textbf{100}$$

6.4 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 investment return of 7.5%

6.5 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.

6.6 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).

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

6.8 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.

6.9 Whilst aiming for a yield of 7%, the Fund will seek to invest in assets that guarantee at least a market yield in order to manage future risk by securing a return on investment attractive to the market.

Internal Rate of Return

6.10 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 the key 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.

Independent Review

6.11 It is proposed that the performance of the portfolio and the overall Strategy be subject to an independent review at no greater than 3-year intervals. The last such review was undertaken in December 2020.

6.12 In December 2020, Hymans Robertson undertook a strategy review of the CAIF portfolio and made recommendations in respect of the portfolio distribution (by value) as set out in the following table.

Asset Class	Value at 31 March 2020	% of Total Fund	Strategic Recommendation (Hymans Robertson Dec. 2020)
Direct Portfolio (inc. Dev.)	£125.8m	73.6%	
Direct Portfolio (Exc. Dev.)	£67.0m	39.2%	
Offices	£27.2m	15.9%	Maintain or reduce
Industrials	£12.4m	7.3%	Increase
Distribution	£0.5m	0.3%	Increase
Rural	£22.5m	13.2%	Maintain or reduce
Other	£4.4m	2.6%	n/a
Development	£58.8m	34.4%	n/a
Residential Property	-	-	New Allocation
Pooled Fund Portfolio	£45.1m	26.4%	
Property (Core Commercials)	£24.8m	14.5%	Decrease
Private Debt	£20.3m	11.9%	Maintain or reduce
Residential Property	-	-	New Allocation
Infrastructure	-	-	New Allocation
Total	**£170.9m**	**100.0%**	

6.13 Since publication of the Hymans Robertson report in December 2020, CAIF has not acquired any new direct property investments, and has completed the Armstrong Building (LUSEP) and the developments at Airfield Business Park and Apollo Court. Except for the office asset class, the value of which has been significantly boosted by the completion and occupation of the Armstrong Building, the distribution by value of the remaining asset classes has broadly followed the strategic recommendation set out in the report. Within the rural, other and pooled property fund, capital value uplifts have been achieved due to improvements in market yields rather than transfer of assets or acquisitions.

6.14 The current position is set out below:

Asset Class	Value at 31 March 2022	% of Total Fund	Movement in fund since December 2020
Direct Portfolio (inc. Dev.)	£155.1m	73.5%	
Direct Portfolio (Exc. Dev.)	£118.6m	56.2%	
Offices	£57.5m	27.3%	*Increased*
Industrials	£27.2m	12.9%	*Increased*
Distribution	£0.5m	0.2%	*Maintained*
Rural	£28.6m	13.5%	*Increased value of existing assets*
Other	£4.9m	2.3%	*Increased value of existing assets*
Development	£36.5m	17.3%	*Assets moved to different classes*
Residential Property	-	-	
Pooled Fund Portfolio	£55.8m	26.5%	
Property (Core Commercials)	£27.6m	13.1%	*Increased value of existing assets*
Private Debt	£28.3m	13.4%	*Increased*
Residential Property	-	-	
Infrastructure	-	-	
Total	**£210.9m**	**100.0%**	

6.15 Whilst the increase proportion of the fund within the Offices asset class appears to depart from the Hymans Robertson advice, the 2020 review was undertaken with the knowledge of the development pipeline at the time due to bring forward the Armstrong Building, and the intention that this asset would be held by CAIF. Similarly, the Airfield Business Park and Apollo Court estates moving in to the Industrials asset class accounts for the major part of the uplift in the Industrial class.

6.16 The increase in value of the Property (Core Commercials) class reflects a deliberate action by CAIF to delay withdrawal of capital in response to the delay in the call for investment in the agreed Infrastructure fund. At the time this is actioned, there will be a consequent reduction in the value held in the Core Commercial's fund.

6.17 Likewise, the Private Debt funds have been held at a higher level than Hymans Robertson recommended due to slower than planned investment in the direct property portfolio. The recurring maturation of these funds allows for ongoing investment and provides a stable income to the Fund.

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 a direct property investment opportunity is worth proceeding with consists of a number of separate assessments:

1. Fit with other CAIF holdings
2. Fit with County Council priorities
3. Risk Profile
4. High level financials (revenue and potential for capital growth),
5. Tenancy Terms
6. Planning Overview
7. Site Inspection
8. Legal considerations and fit with statutory guidance
9. 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 outcomes 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 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 failure, 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 Corporate Asset Investment Fund Advisory Board (the Board) if the proposal is progressed beyond stage two.

7.11 The aim of the financial appraisal 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 financial perspective. The business case will also develop the non-financial benefits that are being sought from the acquisition. 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 less than £5 million can be made by the Director of Corporate Resources under the powers delegated by the Cabinet.

7.22 Any decision that requires an approval of expenditure of less than £100,000 (and is line with a previous approved budget/scheme) has been subdelegated by the Director to the Head of Strategic Property Services'.

7.23 Any decision that requires an approval of expenditure of more than £5m will require Cabinet approval.

Surveys and Instructions

7.24 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

7.25 Other investments, such as into private debt, will be subject to approval as part of the Council's overall treasury 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 several 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 value of the original investment is maintained and safeguarded through securing an ongoing income stream.

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 more regional/location factors.

8.7 Continuing to hold an element of the fund in treasury management investments helps to mitigate against these risks although 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 A 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 and 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. This is therefore reflected in the business case analysis.

8.13 Build cost over runs and delays during the pre and the main construction phases will directly affect the ability of the scheme to deliver its full economic benefits 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 need and potential 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 Expected Yield, Internal Rate of Return and Payback period.

8.16.3 Undertake a market analysis to ascertain the likelihood of the investment being required for and successfully delivering the desired economic and social outcomes 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, acting in accordance with the Terms of Reference set out in Appendix B hereto, 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.

8.27 The Fund is to acquire property investments (where the Fund is buying a property with the ability to address market failure), property development sites (where the Fund will be involved in finding tenants and building schemes out for the same purpose in mind) and other property/strategic land (where there is an expectation of a future improvement and capital growth).

9.28 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.).

9.29 The Fund is unlikely to acquire surplus operational property (that is being disposed of) where it has no potential to deliver future strategic or financial benefits.

9.30 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.

9.31 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.

9.32 This portfolio view, as well as individual asset classes, will be regularly reported to the Board, the Cabinet and the Scrutiny Commission.

9.33 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.

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 value for money from its investment activities. This will be through support to the County Council's priorities whilst safeguarding the value and integrity of the initial investment and delivering financial returns commensurate with the level of risk undertaken.

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 enhanced benefits.

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 must 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 Financial performance will be benchmarked against other organisations.

10.14 More financial technical benchmarks such as Expected Yield and Internal rate of Return are also used to provide accounting rigor regarding 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 A

Quantative Performance Indicators		Estimate 2022/23	Estimate 2026/27
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.	n/a	n/a
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.	1.37%	1.43%
Investment cover ratio	The total net income from property investments, compared to the interest expense.	n/a	n/a
Loan to value ratio	The amount of debt compared to the total asset value.	n/a	n/a
Target income returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.	2.8%	3.2%
Benchmarking of returns	As a measure against other investments and against other council's property portfolios.	4.8%	5.2%
Gross and net income	The income received from the investment portfolio at a gross level and net level (less costs) over time.	£9.1m £6.4m	£13.1m £9.0m
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.	£2.6m	£4.1m
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.	10.20% (20,700 sq. ft.)	5.0% (45,000 sq. ft.)
Amount of tenanted farmland disposed of vs acquired	Monitoring the size of the County Farm Estate.	0 acres sold vs 0 acres acquired (7,401 acres held)	100 acres sold vs 0 acres acquired (7,150 acres held)
Number of tenant farmers	Monitoring how many farmers have taken leases on County Farms Properties with particular reference to new entrants to the farming sector.	1 new letting 1 new entrant	2 new letting 1 new entrant
Note 1. No borrowing has been incurred to fund CAIF			

APPENDIX B

Corporate Asset Investment Fund Advisory Board

Terms of Reference and Governance Arrangements

Function

- To support the increase, improvement and management of the County Council's investment portfolio which -
- Supports the objectives of the Council's Medium Term Financial Strategy. Addresses areas of economic and social market failure and development of Leicestershire's infrastructure.
  Supports the delivery of front line services through increased income generation from existing investments, or through capital investments that will reduce operating costs.
- Supports the delivery of the Council's Strategic Plan's five strategic outcomes and wider strategic objectives.
- Ensures investment risk is managed through the opportunity to invest in diverse sectors.
- Meets the objectives of the Council's Corporate Asset Management Plan, Corporate Asset Investment Fund Strategy, the Economic Growth Plan and Local Industrial Strategy.
- Increases the size of the property portfolio and improves the mix and quality of land and property available across the County and its area of economic influence. Maximises returns on Council owned property assets.
- Supports 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 Council's aims, including economic development and regeneration.
- Supports the Council in maximising the benefit from its financial assets in a risk aware way (not including standard treasury management activity).

Note: Treasury Management activity with banks, local authorities and the capital market are not in the scope of this Board, such activates being undertaken by the Director of Corporate Resource in accordance with the Treasury Management Strategy and Investment Strategy agreed annually by the County Council.

Role

- To consider matters relating to assets held, or to be held, in the Corporate Asset Investment Fund, including:
- Property transactions which would require a decision by the Cabinet or a decision by the Director of Corporate Resources under delegated powers where there is an obligation to first consult the Board.
- Proposals to acquire property for development, or to develop or redevelop existing property assets currently used for service delivery into economic development/ investment assets.
- Proposals to acquire land to support housing development within the County
- Significant disposal proposals.
- Other investment proposals, compliant with Government guidance, aimed at generating an income and return where this is considered appropriate by the Director of Corporate Resources.
- The development of investment policies and strategies covering property and financial investments not categorised as ‘specified’ in the Council’s Investment Strategy.
- Performance (financial and non-financial) in relation to investment activity and the achievement of strategic objectives.

Governance Arrangements

The Board will comprise of 5 Cabinet members to be appointed by the Leader, including the Cabinet Lead Member for Resources who will be Chairman of the Board.

A quorum of three Members will be required to conduct business.

The Board will meet as and when required.

Support will be given to the Board by the following (or their representative) –

- The Director of Corporate Resources
- The Head of Strategic Property
- The Director of Law and Governance
- The Head of Planning, Historic and Natural Environment (as required)
- Independent investment advisors (as required)

Meetings of the Board will be held in private in view of its function and the nature of business to be considered.

Independent Investment Advisors

Support is primarily expected from a specialist advisor with proven expertise and experience in the property investment market and access to specialist industrial, agricultural, office and retail investment areas will be appointed to provide property investment consultancy advice to the Board and to officers regarding proposed property investment activities.

The Independent Advisor will also –

- Provide market information and strategic advice on an ongoing basis in order that the Corporate Asset Investment Fund Strategy can be reviewed and updated to respond quickly to changing economic and market conditions.
- Upon request by the Director of Corporate Resources, actively source investment opportunities and pursue those and such other investment opportunities as directed by the Authority on behalf of the Council, providing detailed property appraisals to assist the governance process as necessary.

Where non-property investments are being considered external advice will be taken, as appropriate. Depending upon the nature of the investment this could range from an advisor specialising in the investment area or utilisation of advice received by the Pension Fund.

Ongoing Reporting Arrangements - Management and Monitoring of Investments

Regular performance reports regarding the CAIF portfolio will be presented to the Board as is considered appropriate by the Director of Corporate Resources.

Financial performance of the CAIF will be monitored regularly through a specific section in the MTFS Monitoring reports presented to the Cabinet and the Scrutiny Commission on a regular basis.

Reports will be presented to the Cabinet and the Scrutiny Commission annually in the summer regarding matters considered and supported by the Board and actions taken by the Director of Corporate Resources under delegated powers. Such reports will also set out the performance of the portfolio against the targets set out in the Corporate Asset Investment Fund Strategy.

Decisions taken by the Director of Corporate Resources under delegated powers will be published on the Council's website in accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) Regulations 20102.

The Corporate Asset Investment Fund Strategy will be reviewed and refreshed on an annual basis and the Corporate Asset Management Plan will be reviewed and refreshed every four years with additional annual updates during the period. Both will be presented to the Scrutiny Commission for consideration, and thereafter the Cabinet for approval.

Leicestershire County Council

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