Meeting: **Scrutiny Commission**

Date/Time: **Wednesday, 6 September 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

(Chairman)

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

AGENDA

Item		Report by	
	Webcast. A webcast of the meeting can be viewed here.		
1.	Minutes of the meeting held on 12 June 2023		(Pages 3 - 14)
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.	Investing in Leicestershire Programme Annual Performance Report 2022-2023	Director of Corporate Resources	(Pages 15 - 52)
9.	Airfield Business Park Development Proposal - Final Phase	Director of Corporate Resources	(Pages 53 - 66)
10.	Corporate Asset Management Plan 2022 - 2026 Annual Performance and Strategy Update 2022 - 2023	Director of Corporate Resources	(Pages 67 - 116)
11.	MTFS Monitoring and Strategy Update	Director of Corporate Resources	(Pages 117 - 166)
12.	East Midlands Shared Services Annual Performance Update 2022-2023	Director of Corporate Resources	(Pages 167 - 176)
13.	Date of next meeting.		

The next meeting of the Commission is scheduled to take place on 8th November 2023 at 10.00am.

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

Agenda Item 1

Leicestershire County Council

Minutes of a meeting of the Scrutiny Commission held at County Hall, Glenfield on Monday, 12 June 2023.

PRESENT

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

1. Appointment of Chairman,

RESOLVED:

That it be noted that Mr. T. Mullaney CC has been appointed Chairman of the Scrutiny Commission for the period ending with the Annual Meeting of the County Council in 2024 in accordance with Article 6.05 of the County Council's Constitution.

2. Election of Vice Chairman

RESOLVED:

That Mrs R. Page CC be elected Vice-Chairman of the Scrutiny Commission for the period ending with the date of the Annual Meeting of the County Council in 2024.

3. Minutes.

The minutes of the meeting held on 12 April 2023 were taken as read, confirmed and signed.

4. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 34.

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

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

6. Urgent items.

There were no urgent items for consideration.

7. Declarations of interest.

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

No declarations were made.

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

There were no declarations of the party whip.

9. Presentation of Petitions under Standing Order 35.

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

10. Final report of the Scrutiny Review Panel on SHIRE Community Grant and SHIRE Environment Grant Schemes

The Commission considered a report of the Scrutiny Review Panel on SHIRE Community Grants and SHIRE Environment Grants. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Mr C. Smith CC, Chairman of the Scrutiny Review Panel, introduced the report. He reminded the Commission that the Panel had been established at its request following its consideration of the Medium Term Financial Strategy 2023/24 – 2026/27 in January 2023 which included the proposal to cease delivery of both SHIRE Grant programmes with immediate effect. Members noted that the aim of the review was to determine the impact and value for money achieved through both Grant programmes and to consider the likely effects of discontinuation.

In presenting the report the Chairman welcomed and thanked external witnesses that had contributed to the review.

Arising from discussion, the following points were made:

(i) Whilst it was acknowledged that it was not unusual for organisations to seek repeat funding, the majority of the Panel had been concerned at the level of such applications, particularly as such organisations had no metrics to show the benefits and outcomes achieved with the grant provided which was sometimes substantial.

(ii) The Council had a significant funding gap of over £80m that needed to be addressed and so it had to be recognised that its resources needed to be prioritised towards its core statutory duties such as child and adult social care.

(iii) The situation was regrettable and a reflection of the current financial position of the Council which continued to be the lowest funded local authority in the country.

(iv) A Member commented that the programmes had grown significantly over the years and were being provided to organisations that were not intended to be the original recipients of such financial support. The Grants had been established to support small community groups and not to support organisations that already had other funding streams, were large enough to employ staff, or those able to raise money by way of a precept. Such organisations had rightly applied in line with the Council's criteria, but this could no longer be sustained.

(v) All Members recognised that the organisations that sought either grant funding were undertaking valuable work and providing excellent support to communities and that the Panel's recommendations were regrettable. However, the majority commented that difficult financial decisions were necessary at the current time, though it was hoped this could be reviewed again at some future date.

(vi) Members noted that there were other grant schemes available from organisations with significantly more funding, such as Lloyds Bank and the National Lottery Fund and welcomed plans to ensure officers were able to continue to provide advice, support and signpost to where such funding was still available.

(vii) A Member expressed disappointment that a reduced grant programme could not be provided for and that the Panel's proposals would mean the Council went from a position of providing a broad Grants programme to providing nothing within a year.

(viii) A Member further commented that the Grant Programmes had been expanded during the pandemic and suggested that rather than abolishing the programmes entirely, more could perhaps be done to return the scheme to pre-covid levels or for tighter rules to be imposed to prevent repeat applications.

(ix) Another Member commented that to remove the grants entirely would inevitably impact communities as many of the organisations receiving funding provided services and support where the Council was already unable to do so due to limited resources. Some Members commented that a recommendation for smaller grant fund programmes that were more targeted so as to address the concerns raised by the Panel had been hoped for.

(x) In response to the concerns raised, the Chairman of the Review Panel commented that by ensuring the Grant Programmes continued for a further year, though on a more targeted basis, this would ensure organisations would have time to seek advice and source alternative funding streams and that Council officers would be on hand to support them in that process. The Chairman further commented that no one wished to see the Grant Programmes brought to an end, but on balance, in the face of current financial pressures, this was considered the best approach. If circumstances improved, then it was hoped the matter could be revisited.

RESOLVED:

That the report of the Scrutiny Review Panel on SHIRE Community and SHIRE Environment Grants be recommended for consideration by the Cabinet at its meeting on 23 June 2023 for consideration.

(The Resolution was put and carried, 8 members voting in favour, 3 members voting against.)

11. Provisional Revenue and Capital Outturn 2022/23

The Commission considered a report of the Director of Corporate Resources which set out the provisional revenue and capital outturn for 2022/23. A copy of the report marked 'Agenda item 11' is filed with these minutes.

The Chairman welcomed Mr L. Breckon CC, Lead Member for Resources, who attended for this item.

Arising from discussion, the following points arose:

(i) A Member raised concerns that whilst the meeting held between the Leader, Deputy Leader, Lead Member for Resources, Chief Executive, Director of Corporate Resources and the Chancellor, Jeremy Hunt MP, had been promoted to be a success, it was not clear what tangible outcomes had been achieved. The Lead Member for Resources confirmed that the discussions had been helpful and promising, but that there would not be an overnight fix. Officers would next be meeting with Government officials to discuss the Council's proposed solution in more detail.

(ii) As the Government did not propose to look at Fair Funding for local government until 2025/26, the Council was seeking the early introduction of a funding floor (which was part of the overall solution for Fair Funding) as soon as possible. This had been done for schools and so was technically possible, but it was not yet clear if this would be practicable given national financial pressures. It could, however, make a significant difference to the Council's immediate financial position.

(iii) Whilst many tourist attractions were bouncing back after the Pandemic, a Member commented that Beaumanor Hall still appeared to be lagging behind and questioned if the Council had the right skill set to perhaps diversify and maximise trading opportunities at this site. Members noted that advisers had been consulted on how best to drive this part of the Council's traded service forward, particularly in respect of weddings.

(iv) Whilst Members were pleased to see business rates were being retained locally, concerns were raised about ongoing discussions as to how this would be split between the City, County and district councils. Members noted proposals for the income to be split by way of a third each, but that much of the growth coming into Leicester and Leicestershire would fall within the County and so would likely affect the County Council more than the City Council. The Lead Member commented that it was right for the Council to seek to ensure it received a fair split that would reflect where growth would fall. However, Members raised concerns that if an agreement could not be reached, there was a risk that the income would revert back to Government resulting in significant loss to all, although it would be in no local council's interest if this did happen. Members encouraged continued dialogue between the respective Council Leaders and for a resolution to be found as soon as possible.

(v) Post the Covid-19 pandemic it was clear that more resources were needed in adult social care services. The Department had done a lot of innovative work over the last four years to reduce costs but not the quality of service and that it had performed well despite the challenges faced during that period. However, a Member commented that more needed to done by the NHS locally as Leicestershire had the fewest number of nursing places funded within the community. A Member commented that this was a key issue that needed to be addressed.

(vi) Members raised concerns about the continued level of slippage within the capital programme and the impact this had on overall costs incurred. A Member commented that large schemes cost a lot in officer time which also increased with delay. The Director commented that slippage would always be incurred, and in part was due to the single cut-off date at the end of the financial year. Slippage was also more likely in time of high inflation as investments needed to be regularly reassessed in light of the latest information available. Members noted that the quarterly budget monitoring reports presented to the Commission identified where slippage would likely be incurred to keep Members informed throughout the year.

(vii) A member questioned the likely impact of slippage on the provision of additional school places and the SEND Programme. The Director commented that ultimately most of the slipped scheme would be delivered eventually. Whilst there would inevitably be some impact on delivery of required school places, much of the slippage was due to revised timelines for developer funded housing development.

(viii) The costs of repairing Zouch bridge continued to rise and delays in being able to secure government funding for the project had been an issue as the Council's initial levelling up bid had been unsuccessful. Options were being considered.

(ix) Consideration was being given to all options to pursue the Lutterworth East SDA now that the judicial review case had been resolved. Members noted that the scheme would need to be reviewed as much had changed since this had first been put together both in terms of cost estimates, and in terms of the need for office space post Covid. This was being worked on by officers and an update would be provided in due course. Members requested that a detailed update on all Investing in Leicestershire Programme projects be provided as part of the planned annual performance report on the Programme which it was due to receive in September.

(x) A Member questioned the reasons for delay in the Council, as the Highway Authority, being able to agree road schemes which were developer led. Delays resulted in costs increasing over time which in turn risked developers choosing to no longer build on the basis these schemes became unviable. A member commented that this posed a risk to residents that needed this infrastructure, and to the County Council that might then have to provide alternative highway solutions. It was questioned to what extent delays were balanced against these kinds of risks. It was suggested that this should be the subject of a separate report to the Highway and

Transport Overview and Scrutiny Committee.

(xi) A Member sought more clarity on the current position regarding delivery of the Melton Mowbray Distributor Road (MMDR). It was noted that whilst the North and Eastern section of the road had been approved and funding secured, the southern section was currently in the design and testing stage. It was suggested that a briefing for relevant local members be provided regarding current progress.

RESOLVED:

(a) That the provisional Revenue and Capital Outturn for 2022/23 be noted;

(b) That a detailed update on all Investing in Leicestershire Programme projects be provided as part of the planned annual performance report on the Programme which it was due to consider in September.

(c) That a report be presented to a future meeting of the Highway and Transport Overview and Scrutiny Committee regarding the process and balance of risk undertaken by the Council as the highway Authority in respect of developer led road schemes.

(d) That relevant local Members be updated regarding current progress on delivery of the MMDR.

12. <u>Commercial Strategy Annual Update and Performance Review</u>

The Commission considered a report of the Director of Corporate Resources which provided an update on the performance of Leicestershire Traded Services (LTS) during 2022/23. The report also sought the Commission's views on the revised Traded Services Strategy (previously titled the Commercial Strategy) for 2023-28. A copy of the report marked 'Agenda Item 12' is filed with these minutes.

Arising from discussion, the following points arose:

(i) Whilst all traded services had recovered well over the last 12 months, wage inflation and rising energy costs had unfortunately eroded these improvements and so overall contribution was still down compared to target.

(ii) Members were particularly interested in the performance of Beaumanor Hall. Whilst it had performed well, the changes having been made to address the deficits in previous years arising from Covid now coming to fruition, its financial performance had been affected by increased energy costs given the age and size of the building, and other inflationary pressures.

(iii) The school meals service had continued to face significant challenges, but these were also being experienced by other similar organisations providing such services and so the Council's position was not unusual.

(iv) Whilst it was clear that every effort was being made by officers in the face of some very significant and unexpected challenges, a Member commented that a very significant increase in turnover would be needed to address the gap in contribution versus the MTFS figure. A Member further highlighted that before Covid, the Council's traded services were making a profit and contributing to the Council's budget, avoiding the need for more cuts. Further consideration of the planned approach to return to such a position would be beneficial.

(v) In response to concerns raised, Members were reassured that in considering the profitability and future improvement of each traded service, all aspects of the business were considered as well as different types of operating models, including outsourcing. In respect of country park cafes, for example, the cost of car parking was considered to ensure this was not prohibitive. In respect of Beaumanor Hall, external advisors had been engaged to provide advice on future improvements to both its external activities and wedding services.

(vi) A Member commented that as the Council was facing some stark decisions regarding its future spending it would be necessary to shine a spotlight on all services provided, particularly those that were discretionary, like traded services.

(vii) Members requested that a Scrutiny Commission workshop be held to discuss in more depth the service action plans and the costs and income generated by all traded services noting the need to manage some commercially sensitive information. A Member further suggested that after the workshop, in approximately six months' time, a further performance update report be presented to a future Scrutiny Commission meeting.

(viii) Efforts had been made to encourage schools that had missed out on residential activities at Beaumanor Hall as a result of Covid-19, to now take these up, this being beneficial for the business but in particular the children that were otherwise missing out. However, increased transport costs were challenging for some schools. In any event, the service was actively working with head teachers to try and expand and adapt the offer to encourage more visits in future.

(ix) It was suggested that the proposed workshop would be helpful to demonstrate the journey the Council had been on over the last year and following the pandemic, as well as providing an opportunity to share the input of external advisors on how to make services like Beaumanor Hall more effective for the future.

(x) It was recognised that some organisations which the Council traded with were also going through difficult times. For example, school budgets were also being squeezed which was affecting both the school meals service and Beaumanor Hall. It was anticipated that the school meals business would be smaller going forward as schools and multi-academy trusts sought to retender their catering operations. As the ethos of the Council's school meal service is to offer food which is both affordable, but also healthy and locally sourced, where possible, a fall in customers was expected if schools valued cheap provision ahead of a quality offer. A degree of flexibility had been built into the service to respond as necessary.

(xi) A Member commented that, in terms of country parks and cafes etc. it was not entirely clear what assets the Council owned and from which it operated a traded service/generated an income and suggested that more clarity could be provided on this within future reports.

(xii) The previous Strategy had set both the strategic direction for the service and included an overall action plan of outcomes to be achieved. Such a centralised, prescriptive approach was no longer considered appropriate given the varied nature of the Council's traded services. The new Strategy had been revised to set the overall strategic principles which would guide the Council's approach to traded activity in the future. Action Plans would then be produced and included within service plans, ensuring alignment to the Council's Medium Term Financial Strategy. A Member commented that sight of those service plans would enable more detailed scrutiny to be undertaken on how well each traded service was recovering and the Director undertook to share details with Members outside the meeting.

RESOLVED:

(a) That the performance update on Leicestershire Traded Services (LTS) during 2022/23 and the revised Traded Services Strategy (previously titled the Commercial Strategy) for 2023-28 be noted;

(b) That the comments now made by the Scrutiny Commission be presented to the Cabinet at its meeting on 23 June 2023 for consideration.

(c) That a Scrutiny Commission workshop be held to consider in more depth the Council's traded services, related action plans and the costs (including capital costs) and income being generated.

(d) That following the workshop referred to in (c) above, a further report be presented to the Scrutiny Commission in six months' time providing a further update on performance.

13. Corporate Complaints and Compliments 2022/23

The Commission received a report of the Director of Corporate Resources, which presented the Corporate Complaints and Compliments Annual report, covering the period from 1 April 2022 to 31 March 2023. A copy of the report marked 'Agenda Item 14' is filed with these minutes.

Arising from discussion, the following points were made:

(i) A Member questioned if complaints regarding the delayed allocation of school places was in part due to parents not applying on time. It was noted that whilst this was an issue in some cases, this was not the cause for many complaints received.

(ii) There had been challenges with some parents not putting a catchment school within their top three choices which came with risk and resulted in appeals and subsequent delay. Members were reassured that changes in the process had been made to address this and now all parents were offered their next nearest school so as to avoid having to go through this process. Greater clarity had also been added to the guidance provided to parents.

(iii) Members noted that most complaints around school admissions focused on people moving in and out of County and changing school. There had been delays in processing these applications and this was largely due to resource issues within the school placement team. Schools being oversubscribed was also a factor. In areas such as Oadby and Wigston and Blaby schools were heavily oversubscribed, and it was therefore difficult for officers to find and allocated a school place mid-school year.

(iv) Whilst the amount paid in the settlement of complaints had risen, this was largely due to one case relating to adult social care reviews being missed during the pandemic when lock down restrictions had been eased. This case, which had been determined by the Ombudsmen, had resulted in a payment of £11,000 to the complainant. This had been the subject of a report to the Cabinet. Payments otherwise remained consistent with previous years.

(v) There had been a significant number of complaints regarding SEND and the timely conduct of EHCPs (Education and Health Care Plans). A Member questioned when it was likely that improvements in the system would be seen which would in turn reduce the number of complaints received. It was noted that the Children and Family Services Department had in place an accelerated progress plan which forecasted improvements by the Autumn. The Chair of the Children and Families Overview and Scrutiny Committee commented that performance against the delivery of this plan was being regularly monitored by that Committee, as was performance against delivery of the Department's TSIL (Transforming SEND in Leicestershire) Programme. It would also be looking in more detail at the complaints report in respect of these areas at its meeting in September. The Chair reminded Members that the papers for the Children and Family Services Overview and Scrutiny Committee were available to view on the Council's website and Members comments on the items it considered were welcomed.

(vi) Of those complaints that were not dealt with in time, the Director confirmed that most of these related to SEND issues, rather than school admissions. Significant improvements had been made over the last 12 months to improve links with senior manages to resolve admissions complaints swiftly. It was recognised, however, that SEND complaints were often complex and so by their very nature, were less easy to resolve quickly.

(vii) It was acknowledged that whilst complaints were often received when things did not go to plan, compliments were not usually submitted when things were going well. Much was done to try and capture compliments received and advice and guidance was provided to managers on what could be recorded for the purpose of this report. For example, the compliment had to be unsolicited (i.e., not a response to a survey) and more than a simple 'thank you'. Whilst it was noted that there were likely more compliments being received than captured, it was reassuring that levels had remained relatively consistent despite the challenges faced and rise in the number of complaints.

(viii) A Member commented that it would be useful to better quantify the data being presented if figures as well as percentages were included in future reports.

RESOLVED:

(a) That the Corporate Complaints and Compliments Annual report, covering the period from 1 April 2022 to 31 March 2023, be noted.

(b) That reports in future provide figures alongside the percentages to enable Members to better quantify the data presented.

14. Overview and Scrutiny Annual Report

The Commission considered the draft Overview and Scrutiny Annual Report which summarised some of the key highlights of scrutiny work undertaken during 2022/23. A copy of the report marked 'Agenda Item 15' is filed with these minutes.

Members supported the content of the report and welcomed the increase in the numbers of people viewing meetings webcast online.

A Member requested that a minor change be made to the report to add reference to the Health Overview and Scrutiny Committee to the contents page.

Members requested that following consideration of the report by the full County Council at its meeting in July a link to the report, which would be published on the Council's website, be provided to all Members for wider circulation. It was noted that this would also be publicised through Leicestershire Matters.

RESOLVED:

(a) That the draft Overview and Scrutiny Annual Report 2022/23 be approved for submission to the County Council on 5 July 2023 subject to the comment now made;

(b) That, following its consideration by the full County Council in July, a copy of the Annual Report be provided to all Members for wider circulation.

15. Dates of future meetings.

RESOLVED:

It was noted that the next meeting of the Commission would be held on the following dates:

Wednesday, 6 September 2023
Wednesday, 8 November 2023
Monday, 29 January 2024
Wednesday, 13 March 2024
Wednesday 10 April 2024
Monday 10 June 2024

Wednesday, 4 September 2024
Wednesday, 6 November 2024

10.00 am - 12.16 pm
12 June 2023

CHAIRMAN

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Agenda Item 8

Leicestershire County Council

SCRUTINY COMMISSION – 6TH SEPTEMBER 2022

INVESTING IN LEICESTERSHIRE PROGRAMME ANNUAL PERFORMANCE REPORT 2022/2023

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of the report

1. The purpose of this report is to set out the performance of the Investing in Leicestershire Programme (IILP) in 2022/23 financial year. The Annual Performance Report is attached as an Appendix to this report.

Policy Framework and Previous Decisions

2. The IILP was established as part of the Medium Term Financial Strategy (MTFS) 2023 – 27 on the review of the former Corporate Asset Investment Fund (CAIF) investment strategy, (approved by the County Council in February 2014) and the IILP Portfolio Management Strategy 2023 -27 approved to guide future investment and management decisions.

2. In 2014 the Cabinet established the principle of the management of the CAIF portfolio being overseen by an Advisory Board, comprising five Cabinet members. The Board considered the merits of any investment opportunities presented by the Director of Corporate Resources, which the Director of Corporate Resources may then approve under delegated powers (which authorise investment up to £1m per project or up to £5m with the support of the Board) or refer to the Cabinet for a decision.

3. The Cabinet in September 2018 approved the CAIF Strategy and Advisory Board's Terms of Reference. Subsequent changes were approved as part of the MTFS, reflecting, for instance, the Council's declaration of a Climate Emergency.

4. The Cabinet on 10 February 2023 agreed that the CAIF would be replaced by the Investing in Leicestershire Programme (IILP) and approved the IILP Strategy for 2023-2027 and Terms of Reference for the IILP Board.

5. The MTFS 2023-27 capital programme was approved by County Council on 22nd February 2023 and includes the provision of £57m for the further development of the IILP, subject to business case, during the period to 2027. This allocation was subsequently reduced to £43m at outturn in March 2023 as a result of additional Pooled Bank Risk Share investments of £15m made in

22/23 and slippage elsewhere in the programme. This is in addition to the £217m already invested in the Fund.

6. The Commission previously considered the CAIF's performance in September 2022. It also considered the Investing in Leicestershire Programme Portfolio Management Strategy 2023 – 2027 on 30th January 2023 which was subsequently approved by the County Council in February 2023 as part of the MTFS.

7. The Corporate Asset Management Plan 2022 – 26 covers all the Council's direct property assets, including IILP investment properties. This Plan was approved by the Cabinet on 23rd September 2022 and is aligned with the Council's Strategic Plan and promotes the management of the Council's property assets in a way that contributes to the achievement of the five strategic outcomes whilst recognising in the case of the IILP the continuing need to deliver both financial benefits and address areas of specific economic and social market failure. Performance against the CAMP for the period 2022-2023 is the subject of a separate report elsewhere on the agenda for this meeting.

Background

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

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

10. The CAIF was reviewed annually and in 2022 in order that the Strategy fully reflected the objectives and outcomes of the Council's Strategic Plan and latest Treasury guidance, the CAIF was replaced by the IILP and the current Portfolio Management Strategy adopted. The IILP Strategy will continue to be reviewed annually to ensure that in addition to maximising financial benefits the portfolio contributes to achieving the County Council's wider strategic goals, for example in the Council's Strategic Plan, mentioned previously.

11. The management of the IILP has continued along similar lines to the CAIF with an advisory Board chaired by the Cabinet Lead Member for Resources and comprises of four other Cabinet members. The Board considers the merits of any investment opportunities presented by the Director of Corporate Resources. The Director then determines whether to proceed with a scheme under his delegated powers or, where appropriate, to refer the matter to the Cabinet for a decision.

12. The Board is supported by officers from strategic property, strategic finance and legal, planning, and environment and transport 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 where appropriate. The Growth Service also provides support as necessary, now having 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.

13. The purpose of bringing the Annual Report for review is to demonstrate on both qualitative and quantitative bases, that the Programme is providing security for the Council's monies invested in it and that it is being managed professionally, prudently and in a commercially astute way to ensure it is growing in line with the Strategy and that the overall direction of travel of the Programme is still approved.

Performance of the IILP

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

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

16. Originally, funding of £15m was allocated to the CAIF to fund new investments over four years from 2014/15, and this focussed on direct managed property investments to support the funds strategic objectives. In addition, other Council assets were included in the portfolio, mainly county farms and industrial properties. Since 2014/15, funding allocated has been renewed and increased annually and used to invest more widely in indirect and non-property investments such as pooled property funds and private debt. A total of £57m has been set aside in the current MTFS to support the further development of IILP.

17. The Annual Report attached as the Appendix to this report sets out in detail the overall performance of the IILP during the 2022/23 financial year. This shows that continued prudent management of the Fund over the last financial year has led to another substantial increase in its value.

18. At the end of 2022/23, the direct property portfolio was valued at £158.1m and comprised £24.2m of rural estate, £53.1m of offices, £30.0m industrial properties, £4.6m of other property together with £46.2m of development properties.

19. Overall, the capital value of the Fund increased by £26.7m during 2022/23 (new investments/ other changes of £18.5m and £8.2m increase in valuation) to £233.5m. In addition, the Fund generated a net income of £5.8m which will contribute directly to the provision of Council services.

20. The let property investments have produced a return of 6.7% with all direct property, including the development sector, achieving a return of 11.2%. This is well above the benchmark market index of minus 14.9% due in part the stable nature of the assets comprised in the estate but more importantly to the fact that the property portfolio continues to be valued as at 1st October each year with the result that the value of the property assets did not suffer the full impact of the yield adjustments caused by the overriding economic conditions which prevailed in the second half of the financial year. However, this effect counterbalances the underperformance in capital growth in 2021/22 at a time when the wider market enjoyed sharply rising prices. The value of the portfolio will likely be subject to a further downward adjustment in 2023/24 reflecting the further outward movement in yields.

21. Also included in the IILP valuation are the financial investments that have been made in vehicles outside direct property ownership, now totalling £75.4m. This diversification, to spread risk, is in line with the Council's aim to increase its commercial activities to generate greater income that will support the Council's MTFS and future service delivery costs. In total £22.5m is invested in Pooled Property Funds, £28.7m in Private Debt plus recent investments in Pooled Infrastructure Funds and Pooled Bank Risk Share Funds of £8.7m and £15.5m respectively.

Rural Estate Management Review

22. As requested by the Corporate Governance Committee at its meeting in January 2023 when it considered a Risk Management Update, the Annual Report appended sets out the work undertaken to date to bring about improvements to the Council's management of the rural estate, with particular focus on the frequency of inspections and the clauses in the standard tenancy agreement. The review and the actions taken are detailed at pages 27 – 28 of the appendix. Alongside this, external consultants have also been tasked to look at management processes as part of a wider review of management practices and opportunities, covering the following topics: -
    a. Frequency of farm inspections, the enforcement of tenant's obligations and monitoring of tenant performance.
    b. Re-letting procedures.
    c. Tenancy Agreement terms and conditions.
    d. Ongoing financial checks.

23. The review was initiated in response to the Firs Farm incident in which large quantities of non-hazardous waste was illegally dumped on the farm. The remediation works necessary to remove the waste were commenced in June and are scheduled to be completed in late September 2023 at a cost of £2.3m.

Capital Projects

24. The Commission at its meeting in June requested that the Annual Report provide an update in respect of IILP capital projects. The Annual Report at pages 15 – 18 of the appendix provides details of the following projects: -

    a. Leaders Farm South, Lutterworth
    b. Airfield Farm Business Park (Phase 3)
    c. Solar Farm Development Quorn
    d. Lutterworth East
    e. M69 Junction 2 –Stoney Stanton

Resource Implications

25. The County Council's financial position has been challenging now for a number of years. The Council is now faced with the significant challenges linked to the war in Ukraine in terms of global energy and food supply and the resultant impact on inflation levels which have risen to levels not seen for many decades. The MTFS 2023/24 - 2026/27 balances in year 1 only and has a funding gap of £13m in year 2 rising to £88m in year 4. Delivery of the current MTFS requires savings of £150m to be made over its lifetime and identifies £37m of savings and proposed reviews that will identify further savings to reduce the £88m funding gap in 2026/27.

26. The Council's four-year capital programme totals £509m. This includes investment for services, road and school infrastructure arising from housing growth in Leicestershire, the IILP, social care accommodation and energy efficiency initiatives.

27. The MTFS 2023/24 -2026/27 which incorporates the investment strategy for that period confirmed the provision of funding to grow the IILP to £260m over the MTFS period. The exact level of investments made will be dependent on the availability of good investments, the actual cost of development and the level of funding available. The expectation is that the returns (a combination of revenue income and capital growth) generated by the IILP will have a meaningful impact on the Council's budget to reduce the funding gap.

28. The amount invested in the Programme as at 31 March 2023 was £217m (the latest valuation of the fund which includes capital growth in the valuation of the assets held is £233m). The MTFS capital programme includes an updated provision of £43m for additional investments spread over the four years 2023/24 to 2026/27 to fund further IILP investments. This would increase the amount invested in the Programme to the £260m expected level.

29. The total gross income is forecast to grow to an estimate of £8m by March 2027.

30. Whilst no borrowing is currently required to support the IILP capital programme, set against the background of rising interest rates, all projects continue to be business case tested to ensure that the returns from investment exceed the

potential opportunity cost of bank lending and repayment of debt should borrowing be necessary to deliver the programme in the future.

Equality Implications

31. There are no equality implications arising from this report.

Human Rights Implications

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

Environmental Implications

33. The IILP Portfolio Management Strategy, in relation to the acquisition, development and management of the Fund's property assets, incorporates measures that ensure that the direct property portfolio makes a positive contribution to the achievement of the Strategic Plan's Clean and Green Strategic Outcome.

Timetable for Decisions

34. The views expressed by the Scrutiny Commission will be reported to the Cabinet at its meeting on 15th September 2023.

Background papers

County Council – 19th February 2014 – Medium Term Financial Strategy 2014/15 – 2017/18
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=3961&Ver=4

Cabinet – 6th May 2014 – Corporate Asset Investment Fund
https://politics.leics.gov.uk/documents/s92357/10%20corporate%20asset%20investment%20fund.pdf

Scrutiny Commission - 7th September 2022 – Corporate Asset Investment Fund Annual Report
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6871

County Council – 22nd February 2023 - Medium Term Financial Strategy 2023/24-2026/27 - IILP Portfolio Management Strategy 2023 - 2027
https://politics.leics.gov.uk/mgAi.aspx?ID=74188#mgDocuments

Circulation under the Local Issues Alert Procedure

None.

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Appendix

Investing in Leicestershire Programme Annual Performance Report for 2022/23

Investing in Leicestershire Programme

ANNUAL PERFORMANCE REPORT 2022 - 2023

Leicestershire County Council

NET ZERO LEICESTERSHIRE

Building Business. **Boosting** Communities.

FOREWORD

I am very pleased to present the 2022-23 Investing in Leicestershire Programme annual report.

Once again, the pressures on Leicestershire County Council's finances remain unprecedented and we recognised some time ago the benefits of owning a diverse portfolio of property and other investment assets.

We have been sensible and strategic in our approach to these investments and, as you will see from this report, this has seen another increase in the value of our Investing in Leicestershire Programme portfolio.

Our portfolio has grown each year since it began in 2014/15 and now stands at £233 million, helping to provide significant income for the council.

As well as income, our portfolio and investments have helped to boost our local economy through jobs and business opportunities. We're also taking our responsibilities for the environment seriously by maintaining a portfolio which is not only sustainable but also builds towards the goal of being a net zero county by 2045.

We're planning to continue this work with the development of more diverse projects which generate clean, renewable energy in order to continue to reduce Leicestershire's carbon footprint.

There are still challenges, including the pressure of high inflation which will make things tough, alongside the backdrop of our funding continuing to be among the lowest of any council.

For all these reasons, it is vital we use what tools we can to improve our own situation and IILP (and CAIF in earlier years) has shown it can contribute to funding the high-quality public services we provide for the people of Leicestershire, boost the county's wider economy while helping us achieve the aims and ambitions of our Strategic Plan.

Lee Breckon,
Lead Member for Resources,
Leicestershire County Council

SUMMARY

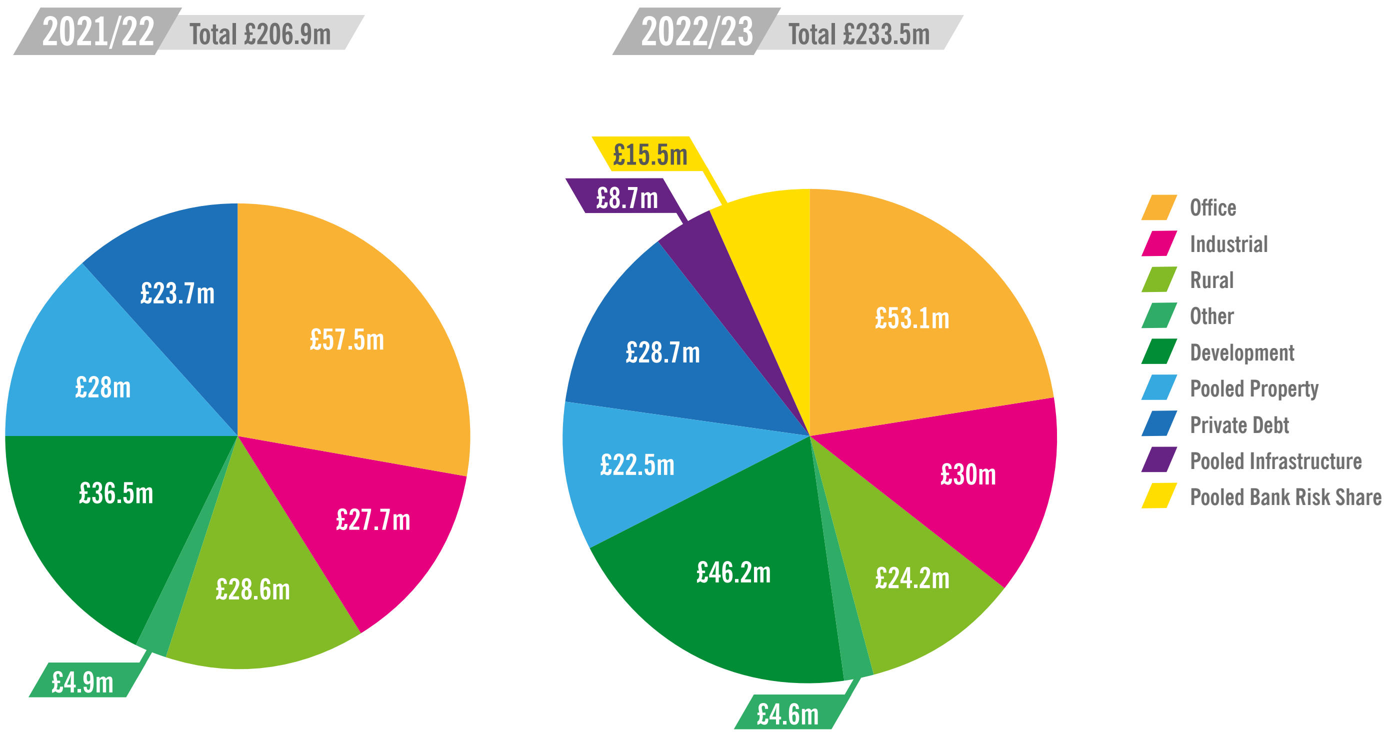
This report forms the annual review of the Investing in Leicestershire Programme (IILP) portfolio, reporting on the performance for the year to 31st March 2023.

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

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

Total Value by Sector (as of 31st March 2022)

Total Value by Sector (as of 31st March 2023)



As of 31st March 2023, the capital value of the portfolio totalled £233.5 million compared with the value as of 31st March 2022 of £206.8 million. The opening and closing valuations being calculated on the basis of a combination of internal and external asset valuations; external valuations being undertaken in 2022 – 23 in respect of the whole direct portfolio.

Financial summary

	Value on 31st March 2022 (£m)	Transactions			Valuation Change (£m)	Value on 31st March 2023 (£m)	Net Income (£m)
		Acquisitions (£m)	Capital spend (£m)	Sales & Transfers (£m)			
Office	57.5				(4.4)	53.1	3.3
Industrial and Distribution	27.7		0.1		2.4	30.0	1.4
Rural	28.6		0.1	(9.4)	4.9	24.2	(0.0)
Other Property	4.9			(0.2)	(0.1)	4.6	0.3
Total Managed Property	**118.6**		**0.2**	**(9.6)**	**2.7**	**111.9**	**4.9**
Development	**36.5**		**0.4**		**9.3**	**46.2**	**(0.2)**
Direct property	**155.1**		**0.6**	**(9.6)**	**12.0**	**158.1**	**4.6**
Pooled Property	28.0				(5.5)	22.5	0.9
Private Debt	23.7	3.8			1.2	28.7	0.2
Pooled Infrastructure	0	8.7				8.7	0.1
Pooled Bank Risk Share	0	15.0			0.5	15.5	0.0
Total Diversifiers	**51.7**	**27.5**			**(3.8)**	**75.4**	**1.2**
Overall Total	**206.8**	**27.5**	**0.6**	**(9.6)**	**8.2**	**233.5**	**5.8**

Notes: All figures are rounded to nearest 0.1m

At 31st March 2023, the Programme held managed direct property assets of £111.9m, and development property of £46.2m; a total of £158.1m representing an increase of £3.0m on the previous year. In addition, the portfolio includes external pooled property funds and private debt investments, together with holdings in pooled infrastructure funds and pooled bank share funds which have been acquired in 2022 – 23 (the 'diversifiers'); the diversifiers have a total value of £75.4 million.

Overall returns have shown a modest decline on the previous year but still compared very favourably with the wider market where the full effect of economic pressures caused an outward movement in yields negatively impacting capital values across all but the rural sector. Cushioned from the full effects of sharply falling values by the portfolio's mid-year valuation date the only direct property sectors to suffer negative capital growth were the office and alternatives (other) sectors whereas the value of the pooled property fund fell in line with the market. However, the impact is likely to be felt in the forthcoming year as values reflect the full extent of the market correction.

A debt and sinking fund provision (central charge) has been made within the revenue account in order to better represent overall IILP performance in terms of its contribution to generating additional funding for Council services.

- A sinking fund can be thought of as a savings account or contingency fund which ensures that there are funds set aside to cover one-off expenses required in the future to maintain the assets' capital value.
- A bad debt provision is a reserve used to cover the potential for incomes (e.g. rent) not being received as expected. Once a provision is established it is reassessed each year in light of what is known about outstanding monies still to be received. The value held as a bad debt provision may fluctuate as income is received to clear debtor accounts.

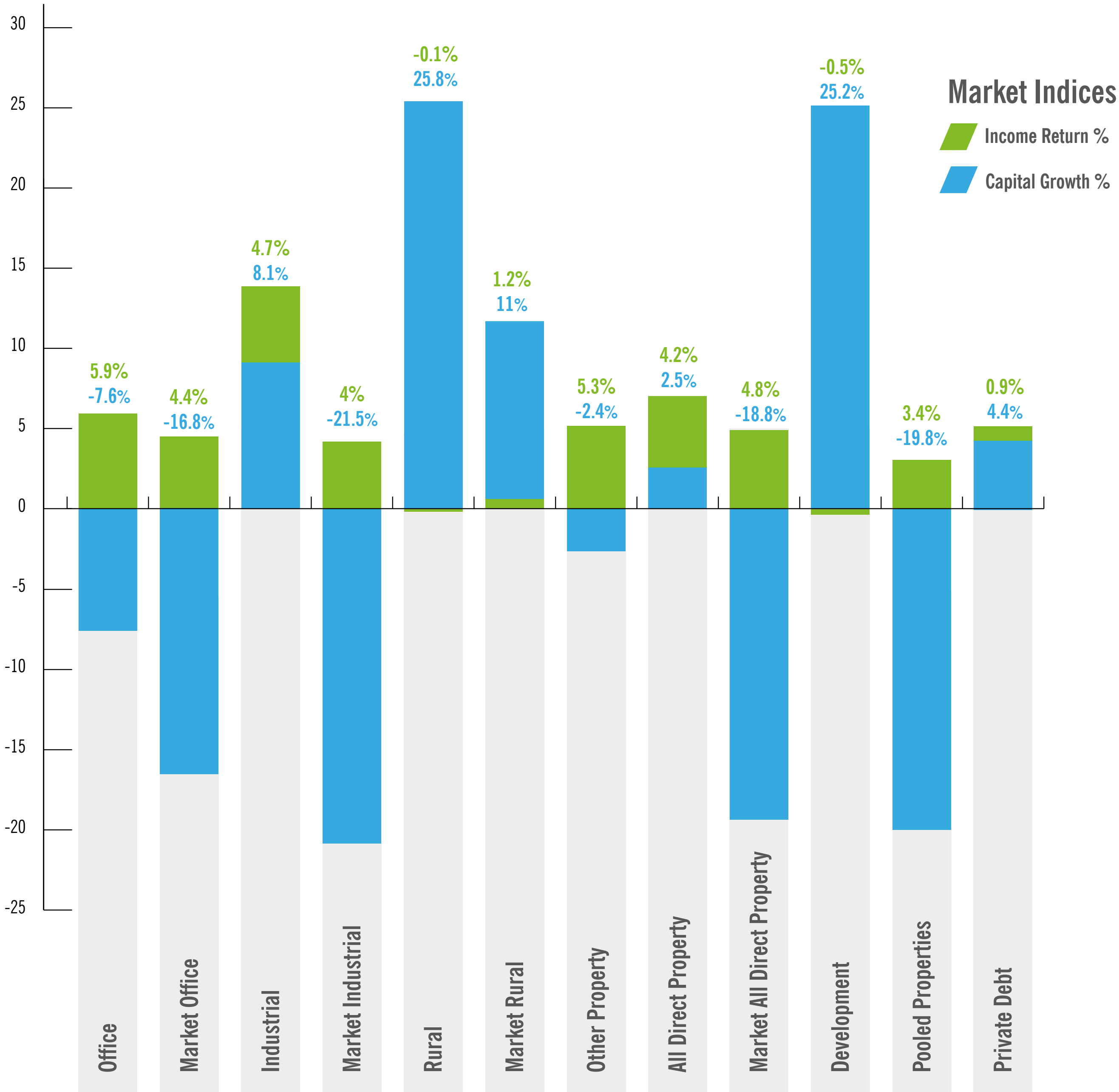
Net income includes centrally incurred costs which are allocated to the main direct property sectors. These costs include employee costs, bad debt provisions and sinking fund contributions. The current target level for the sinking fund to be built up over the period to 2026/27 is set at £5.1m.

Taking into account central charges of £1.1m set against the direct property portfolio the net income for the 2022 – 2023 year totals £5.8m.

The net income from the direct property portfolio was £4.6m for the year. Together with the income from diversified investments the total net income was £5.8m. The net income in the previous year was £6.2m which benefited from a higher income from the pooled private debt investments within the diversifiers. In the current year ended, the total portfolio generated a net income return of 2.6% compared to the 3.2% achieved in the previous year. It is worth noting that the income return expressed as a percentage is lower at the year end, due to investments made to diversifiers (pooled infrastructure and pooled bank risk share) with a total value of £24m not having paid any significant income. This is to be expected given the timing and structure of the investments, and has been factored in to future years, as we expect the pooled infrastructure fund to provide a full year of income in the coming financial year and the pooled risk share investment to start generating income in the second half of the year.

PERFORMANCE AND COMPARISON AGAINST INDUSTRY BENCHMARK

Programme Performance



The Programme's benchmark is the "All Property" total return (capital growth plus income return) of the market benchmark monthly index. The total return for the portfolio for the year to 31st March 2023 was 6.7% compared to the target level of 6%. This represents a fall of 1.3 per cent on the previous year, but is significantly above the market level of -14.9% due in part to the nature of the assets held in the portfolio, but more importantly to the fact that the property portfolio continues to be valued as 1st October each year with the result that the value of the property assets did not suffer the full impact of the yield adjustments caused by the overriding economic conditions which prevailed in the second half of the year. However, this effect counterbalances the underperformance in capital growth in 2021/22 at a time when the wider market enjoyed sharply rising prices. Due to the full effect of the yield shift occurring after the valuation date, the value of the portfolio will likely be subject to a further downward adjustment in 2023/24.

The managed direct property portfolio (i.e., excluding the development assets, pooled property, and private debt, etc.), produced a total return for the year to 31st March 2023 of 6.7% (capital and income combined), a fall of 3.9% on the previous year. However, the direct portfolio, including the development sector produced a total return of 11.2% (up from 8.1% in 2021 - 22), both, for the reasons given above, substantially better than the of the market benchmark All Property Index of minus 14.9%.

- The office sector performed well against the market benchmark. Whilst producing negative capital growth of minus 7.6%, income return was strong at 5.9% delivering an overall return of minus 1.7% better than the market return of minus 13.0% which includes negative capital growth of minus 16.8%. Net income saw an increase of £0.5m over the previous year rising from £2.8m to £3.3m due largely to significant rental growth with the rent-free periods from earlier year's new lettings coming to an end.
- The returns from the combined Industrial and distribution sectors were 12.8% compared with the previous year at 16.6% but produced positive capital growth of 8.1% and an income return of 4.7% both of which exceeded market levels. Having fallen well short of the market return in 2021/22 due to the contraction in yields post valuation, this year saw the situation reversed with yields moving outwards in the second half of the year resulting in the market benchmark falling into negative territory at minus 17.5% including negative capital growth of 21.5% with income returns edging back to 4.0% from 4.1% in the previous year. Capital growth across the sector has also benefited from a comprehensive revaluation bringing strong uplift to individual estates values.
- The rural portfolio produced a total return of 25.7% comprising 25.8% capital growth and, with central charges exceeding net income, a minus 0.1% income return (1.3% before central charges). Accordingly, the income return fell below the market level of 1.2%. The capital growth figure, enhanced by the increased value of land at Osbaston attributable to the grant of planning permission, was well above the market level which saw freehold agricultural land prices rising sharply during the year as the sector became an increasingly attractive safe haven for investors. Agricultural land prices are by their nature less volatile than other sectors, however, there has been strong growth in freehold values over the year after several years of low growth. Investment land values have also strengthened to some extent, a trend which is reflected in the rural portfolio values.

- The alternative or other property sector produced a return of 2.9% against the minus 4.3% achieved by the market. This was largely because the portfolio holds a mixed, unconventional, range of assets within this sector, including the automotive garage in Leicester city, a petrol filling station in Loughborough and a supported education school which overall makes it less vulnerable to market volatility.
- The performance of the development sector saw significant capital growth of 25.2% arising as a result of a comprehensive external revaluation of all development assets. Development properties by their nature are unlikely to be generating more than nominal income during the development phase. It is therefore normal that the cost of planning and promoting schemes will exceed any income received and consequently an anticipated small revenue loss resulted in an income return of minus 0.5%. However overall, the sector showed a total return of 24.7% compared to the minimal returns achieved over recent years. The sector should continue to show positive returns as further developments are completed, generating either rental income or capital receipts.
- The pooled property investments are spread across four separate investment managers. The returns this year reflecting wider market conditions with capital change of minus 19.8% reflecting the annual change in the value of assets held by the managers. All four managers reflected capital losses of between 16% and 24%. Those managers who held higher levels of certain asset classes (such as highly valued industrials) were affected by the resultant repricing of assets as risk free interest rates in the UK rose sharply through 2022/23. Unlike the direct estate, the pooled property assets are valued as at 31st March 2023 and so reflect the full effect of the interest rate increases on property valuations. Whilst the capital values were impacted, the effect on income generation was more business as usual with near identical levels of net income produced year on year. The effect of the capital value decrease meant the income return percentage for pooled property increased to 3.4%.
- Private debt income returns were lower than expectations in the year largely due to one of the two investments holding higher cash levels rather than distributing cash to investors whilst the volatility in exchange rates persisted during the second half of 2022/23. The investment is hedged to GBP and as such additional collateral would have been needed to maintain hedges during the selloff in GBP versus USD during 2022 which at one point reached 1.04 GBP to the USD post the mini budget announcement on the 23 September 2022. As at the end of the year the health of underlying loans was as expected and as such the investments should generate overall returns in line with expectations for the investments. The since inception internal rate of return (IRR) for both private debt investments were 4.7% and 4.8% respectively.
- During the year new investments in pooled infrastructure funds and pooled bank risk share funds were made totalling £23.7m. The aim of these investments is to provide further diversification and regular income to the IiLP, which will be realised in the coming years.

ANNUALISED RETURNS

Total – All Direct Property Portfolio (excluding development)

	2022-23	3 year	5 year
Net Income Return	4.2%	3.7%	4.0%
Capital Growth	2.5%	5.3%	5.0%
Total Return	6.7%	9.1%	9.1%

As the IiLP has now been in operation for several years, the data for returns over the longer period better demonstrates the stability of the returns achieved by the assets in the portfolio by reducing the visible impact of any in-year peaks or troughs in performance. Over the 3 year period including 2022/23, the total return of 9.1% performed extremely well against market 3 year annualised returns of 1.2%; over 5 years, the market returns perform slightly more favourably, achieving 1.8%, but still well below that achieved by the IiLP.

Valuation Sensitivity Analysis

As outlined above, due to the timing of the annual asset valuation (as part of the corporate asset valuation), the full effect of subsequent yield movements in the half year to April 2023 are not reflected in the capital values and returns reported. Due to changes in the external valuer contract, this valuation information was not readily available for April 2023.

Internally, a simple sensitivity analysis has been undertaken of the main asset classes to demonstrate the effect of the revaluation on capital values, and consequently returns. With a new valuation consultant appointed, it is intended that the 2023/24 capital values will be revalued as at 31st March 2024 (as well as October for the corporate asset register).

Asset	Capital Value (1st October 2022)	Effect on Capital Value against October valuation.	Adjusted Income Return	Adjusted Total Return
Office	£53.1m	-£6.9m	6.3%	-13.5%
Industrial & Distribution	£30.0m	-£0.4m	4.7%	11.3%
Rural	£24.2m	n/a	n/a	n/a
Other	£4.6m	-£0.1m	5.3%	1.6%
ALL DIRECT PROPERTY	**£111.9m**	**-£7.4m**	**5.7%**	**1.3%**

Although these calculations are high level, they clearly demonstrate that the market correction occurring in the second half of 2022/23 would have a marked effect on the overall returns achieved by the IiLP. Concentrated on the office sector, the significant decline in capital values reflects the falling demand for all types of office accommodation across the sector. However, there is evidence that demand for Grade A offices, such as LUSEP, Lichfield South and Embankment House remains reasonably strong, and it is likely that these will weather the changing market situation better than lower-grade office space.

Despite yields across the industrial and distribution rising, the portfolio's assets still fare better than the wider market due to the composition of the assets; as the IiLP holdings are outside of the large Grade A and warehouse sub-sectors (which saw significant loss of value), pre-existing higher yields for secondary and tertiary investments display a smaller proportionate shift in value.

The more slow-moving rural investment market has shown some increase in capital values, but this has largely been represented in the figures reported at 1st October, subsequent activity will have had little effect on the valuation of these assets.

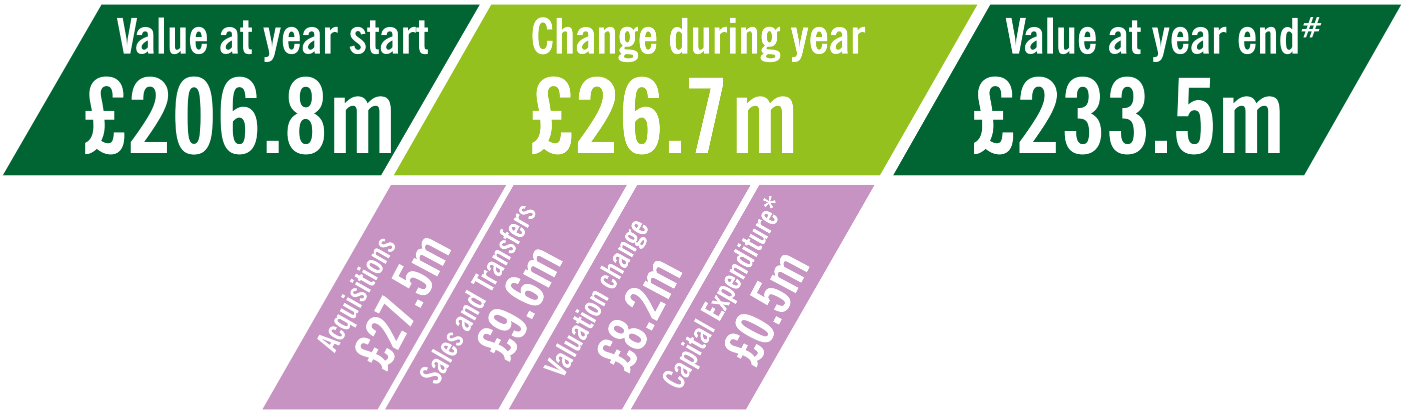
However, countering the widespread fall in capital values, hardening yields does serve to improve the Income Return performance, moving this well beyond the returns achieved in the wider market across both the industrial and office sectors.

Forecasts, borne out by first quarter 2023/24 results, indicate that the trend of increasing yields has continued, however the pace of change has slowed significantly. The current market forecasts suggest this situation will continue for the remainder of the current year, only turning around later in to 2024. On this basis, the October valuation will likely show continued negative capital growth for office and industrial investments, albeit at a slower pace; revaluation as at March 2024 may well demonstrate a turnaround, however this will be influenced by wider market factors including the ongoing inflationary pressures influence on interest rates, and rental demand.

CHANGES TO THE PORTFOLIO DURING THE YEAR

Summary of Changes

During the year, the portfolio increased in value from £206.8m as at 31st March 2022 to £233.5m as at 31st March 2023. This increase was due to a combination of valuation changes and further investment in assets and indirect holdings, as set out in the chart below.



#Direct portfolio properties valued as at 1st October 2022.

*This includes spend on farm estate buildings and the industrial premises.

TRANSACTIONS THROUGH THE YEAR

Direct property acquisitions

There were no property acquisitions during the year.

Diversified Investments

Further private debt investments to the value of £5.8m were made during the year, when balanced against repayments of £2.0m and allowing for an increase in the net asset value of the private debt investments the holding now totals to £28.7m.

In addition, investments to the total value of £23.7m have been made in Pooled Infrastructure Funds (£8.7m) and Pooled Bank Risk Share Funds (£15m).

The pooled infrastructure fund investment invests in global core infrastructure. It is relatively low risk as a result, investing into essential assets which are operational and with little investment into undeveloped markets. The investment aims to provide an income return between 4-6% pa paid quarterly with moderate capital gains.

The pooled bank risk share investment product is a mechanism that banks use to transfer the risks on existing loans, as such permitting them to hold lower levels of capital against existing loans. Because raising capital is expensive for banks, they are able to pay a healthy return to the counterparty to whom the risk is transferred to. Returns to investors in the fund come from the insurance premium paid by the bank which will be distributed quarterly to investors. There is an increased level of risk in such an investment, but this is reflected in the fact that expected returns are in excess of 8%. The returns are also directly linked to interest rates, as such there will be limited erosion of the value of returns in the light of increases to interest rates.

Pooled Property

There were no transactions completed during the year.

Property Disposals

Two property disposals were completed during the year and resulted in total capital receipts of £230,000 through the sale of a small area of access land on the Kilby Farms Estate and a residential property, 5 Cotton Croft, Shepshed.

In addition, to the above there are a number of substantial disposals in the pipeline, most notably the residential element of the development site at Sysonby Farm, Melton Mowbray which having been declared surplus, marketed and contracts exchanged this part of the property was transferred out of the portfolio at a value of £9.4m (a deposit of £458,500 being paid on exchange) being regarded, for asset management purposes, as an asset held for sale. Together with the residential site at Barton Road, Barlestone where planning permission has been secured and the property marketed combined receipts in excess of £12m will accrue in future years.

Property Transfers

Apart from the transfer of the land at Sysonby Farm, outlined above, no transfers have been made during the year.

PORTFOLIO REVIEW

Current Yield

The current yield from the direct managed portfolio is 4.0% (5.1% in 2022) somewhat below the market benchmark national figure of 5.2%, largely due to the impact of sinking fund and debt charges on the rural estate's income. The portfolio's overall yield is impacted by a low yield from the development assets which has a disproportionate sector weighting compared to other portfolios meaning that overall the portfolio will likely always fall just below the benchmark until such time as those developments are completed and become income generating or are released from the portfolio.

Sector Proportions

Although there have been relatively few direct property transactions during the year, the further purchases of diversifier assets and movements in value have resulted in further shifts in the sector weightings as illustrated earlier in the report. Whilst the long-term aim is to maintain a balance between sectors that reduces risk and maximises the potential for achieving financial resilience in the shorter term, in considering future acquisitions, the Programme will continue to focus any property purchases on assets that address market failure and provide wider economic and community benefits and the capability of contributing to the achievement of the County Council's strategic goals as well as a long-term income stream as set out in the IILP Strategy.

Rent Reviews, Lease Expiries and Tenant Only Breaks

There are 3 rent reviews, 40 lease expiries and no tenant-only break options that are falling due in 2023/24, of which 3 relate to assets earning in excess of £30k per annum. Whilst the negotiations regarding rent reviews and lease renewals form part of normal day-to-day property management, the particular circumstances of individual leases means that it is not always appropriate to action these as they fall due. In the year being reported there were 11 rent reviews undertaken, with a further 27 remaining to be agreed or held in abeyance, 75 leases expired and remain holding over either pending renewal leases or for other reasons; in many cases the rent review and lease expiry are linked events. During the same period, 14 new lettings were agreed.

New Major Lettings

Over the 2022/23 year the following major new letting(s) were achieved:

- **7 Apollo Court, Coalville** - £32,625 per annum rent (previous Tenant vacated on break notice)
- **17 Apollo Court, Coalville** - £37,250 per annum rent (previous Tenant vacated on break notice to expand to larger premises)
- **Oback Cottage Farm, Misterton** - £14,400 per annum rent (11-acre smallholding)

Future Investments

During 2022/23 the future funding made available through the Medium-Term Financial Strategy (MTFS) additional investment was committed to continuing the delivery of the following developments; these will have the effect of further transforming the portfolio, achieving excellent rates of return, delivering significant additional income, and contributing to the realisation of wider strategic goals.

Leaders Farm South, Lutterworth

Background

This site formed part of the County Farms portfolio and was identified as having possible office and industrial development potential some years ago.

Following extensive marketing of the site demand has been identified for roadside and storage uses. Two major roadside food and drink retailers expressed an interest in a parcel of land, extending to 1.6 acres at the north-western corner of the site. Whilst a departure from the Local Plan, because of a lack of demand for the Class B1 – office uses, the prospective tenants have been successful in securing planning permission for the proposed drive through units.

The drive-through units will generate an income of £190k pa. A contractor is currently being procured to build the new units. It is anticipated practical completion will be June 2024.

The future development of the balance of the 6.1-acre site is now being progressed for Light industrial/ Distribution use. Again, this would be a departure from the local plan. If the County Council is successful in obtaining planning for the employment units, they are projected to generate a rental income of circa. £215k pa. The overall construction cost is projected to be in the region of £6m (including the £2.5m already spent on the estate roads and services) giving an expected income return of c.5.3%.

Airfield Farm Business Park (Phase 3)

Background

Following completion and the successful launch of Phase 2 of the new industrial development at Airfield Farm Business Park, a masterplan has been drawn up for the final phases and a planning application for the next 82,436 sq. ft. of industrial units was submitted in July 2021. The application, as yet, has not been determined. The site is allocated in the Harborough Local Plan for a mix of B1, B2 and non-strategic B8 development. The delay to the application being caused by the fact that it seeks to depart from the local plan policy by not providing any office space as part of the development.

The proposed development reflects a general lack of demand in the market and in this site and despite marketing over a six-year period no potential occupiers have come forward. This has now been accepted and, subject to agreement of design principles, the application will move forward to determination.

As a consequence of substantial increases in construction costs since submission the scheme, as proposed, is no longer viable. Accordingly, a revised strategy and masterplan has been developed to ensure adequate returns are secured from the final phase of development.

The potential exists to deliver a viable 105,794 sq. ft. development on 7.69 acres of the site; 102,194 sq. ft for E class light industrial units (formerly known as B1 use) and 3,600 sq. ft for two Drive-thru units (Sui Generis). An indicative masterplan has been produced which incorporates within the layout one 60,000 sq. ft unit and the two Drive-thru units, for which end users have already been identified, plus a range of starter and grow on units of between 1,500sq ft and 10,000sq ft. being those elements of the original proposal for which there is a strong market demand and remain viable.

A planning application will be submitted for the revised proposal in September 2023 following the receipt of Pre-application advice. Thereafter it is envisaged the scheme will proceed as follows:

October 2023	Submission Regulation 3 planning application to the County Council
September 2023	Commence formal marketing of unlet units
March 2024	Planning permission secured
September 2024	Appointment of contractor
January 2025	Commence construction
February 2026	Practical completion of the scheme
February 2026	First occupation of units

The cost estimate is currently £16.5m (including a 10% contingency) and has an estimated annual rent roll from Phase 3: £1,075,000 producing an estimated income return of 6.8%.

Solar Farm Development, Quorn

Background

The proposal, for which planning consent has now been granted involves the development of a 10MW solar farm on County Farms land at Quorn. In addition to the financial benefits detailed below once developed the scheme will have the capability of off-setting more than 2,000 tonnes of CO_2 annually which is greater than the total carbon emissions of all County Council buildings.

The work required to discharge all pre-commencement planning conditions including further on-site archaeological investigations has commenced this summer. Tender documents are currently being finalised with a view to seeking formal tenders Autumn 2023 and appointing a contractor by December 2023 enabling construction work to commence on site in summer 2024.

- **Completion Date:** Target Summer 2025
- **Build Cost:** £10.0m subject to confirmation from formal tender
- **Based on current market prices estimated net annual income:** £900,000 (for a 5 year power purchase agreement)
- **Current estimated income return:** 9.0%

Development Sites

The Fund holds a number of assets within the portfolio that have been expressly retained or purchased with a view to realising their development potential in order to realise capital receipts or wider finance benefits to support the Council's capital and revenue programmes.

Sysonby Farm, Melton Mowbray

Outline planning permission has been granted for 290 dwellings, a primary school and local centre by Melton Borough Council on 23rd December 2020: the site forming part of the Melton North Sustainable Neighbourhood. Subsequently, the residential element of the site has been marketed and a sale agreed which is due to be completed at such time as the site access is delivered as part of the Melton Mowbray Distributor Road scheme. The school site will transfer to the Children's and Families Service.

The site of the proposed local centre has been marketed. Offers, which would also secure the delivery of either an Extra Care Scheme or a private nursing home are currently being considered. The allocated employment land to the north of the MMDR will be brought forward and as a depot site for the County Council's Environment and Transportation department upon completion of the MMDR.

Lutterworth East

The allocation of the East of Lutterworth SDA comprising 2,750 dwellings, 23 hectares of B1, B2 and B8 employment land, a community hub, two primary schools, 110 hectares of open space including a country park together with substantial highways infrastructure was secured as part of the Harborough Local Plan which was adopted on 30th April 2019.

A hybrid planning application (in outline for the residential and commercial development and in detail for the spine road and other highways infrastructure works) was considered by Harborough District Council's Planning Committee on 28th July 2020. The planning committee resolved to grant planning permission subject to conditions and the completion of a section 106 Planning Agreement.

The Section 106 Agreement was completed, and the decision notice issued on 17th May 2022, however, University Hospital Leicester lodged an application to seek a judicial review of the district council's decision. After an appeal, their challenge was dismissed.

Now that the judicial review has been rejected, the procurement process has been restarted with some initial soft market testing. The outcome of this is that there is still an interest from the private sector developers for the site, however, funding for the initial infrastructure requirements of circa £120m is going to be challenging. It is anticipated the procurement of a Joint Venture partner will commence January 2024.

Whilst the search for a delivery partner has re-started, it is important to recognise how the context for the proposed development has changed since the application was submitted over 4 years ago. the impact of COVID on where people work (less office space needed) and escalating costs due to build cost price inflation (as well as the lack of grant funding for this 'over ready' scheme), has made the scheme unviable in its current form. Productive discussions with the planning officers at Harborough District Council have already commenced to agree a way forward to improve the scheme's viability and ensure that the district benefits from the delivered houses that it had provided for in its Local Plan.

M69 Junction 2 – Stoney Stanton

Following the Cabinet decision in March 2020, work has been progressed on the promotion of 103 acres of County Council land as part of a larger residential-led mixed-use development of up to 5,000 houses. Working in collaboration with other landowners and their developer partners, submissions have been made to Blaby District Council's Call for Sites and Issues and Options consultation and work is ongoing to provide the necessary evidence base to support the sites allocation as part of the emerging Blaby District Local Plan. The local plan process has been significantly delayed with the result that the Regulation 19 Pre-Submission consultation is not now likely to take place until September 2024 pushing the likely date of adoption back to autumn 2025. Subject to the scheme being included as a proposed allocation in the Pre-Submission Draft, it is currently proposed that an outline planning application be submitted in January 2025 in advance of the Examination in Public. The timing of surveys and site investigations is now being geared to the revised timetable.

Throughout the process, the Landowner Consortium has engaged with Blaby District Council, key stakeholders, and the local community, including the establishment of a community liaison group the feedback from which is being used to help shape the master planning of the scheme.

Other potential sites

A further pipeline of development sites is being brought forward on an ongoing basis largely through the local plan process, by their submission to Call for Sites consultations at the start of the plan review process and thereafter by making appropriate responses to the further consultations. By securing future local plan allocations, investment returns, and a stream of capital receipts will be maintained.

In addition to potential residential and employment opportunities sites with potential to support the delivery renewable energy infrastructure or bio-diversity gains are also being identified and will form an integral part of the pipeline of future sites.

Voids

In the year to March 2023 the level of voids increased marginally from the 2022 level of 2.5% to 3.0%; the low level reflecting the continuing strong demand in the market for the types of premises LCC holds and compares very favourably to a market rate of 10.6%; currently there remains a small number of 24 units vacant across the portfolio totalling 23,058 sq. ft.

Despite a healthy turnover of units, the strong demand suggests that the low level of voids can be maintained, subject to there not being a significant downturn in the wider economy.

Rent Arrears (Direct Portfolio)

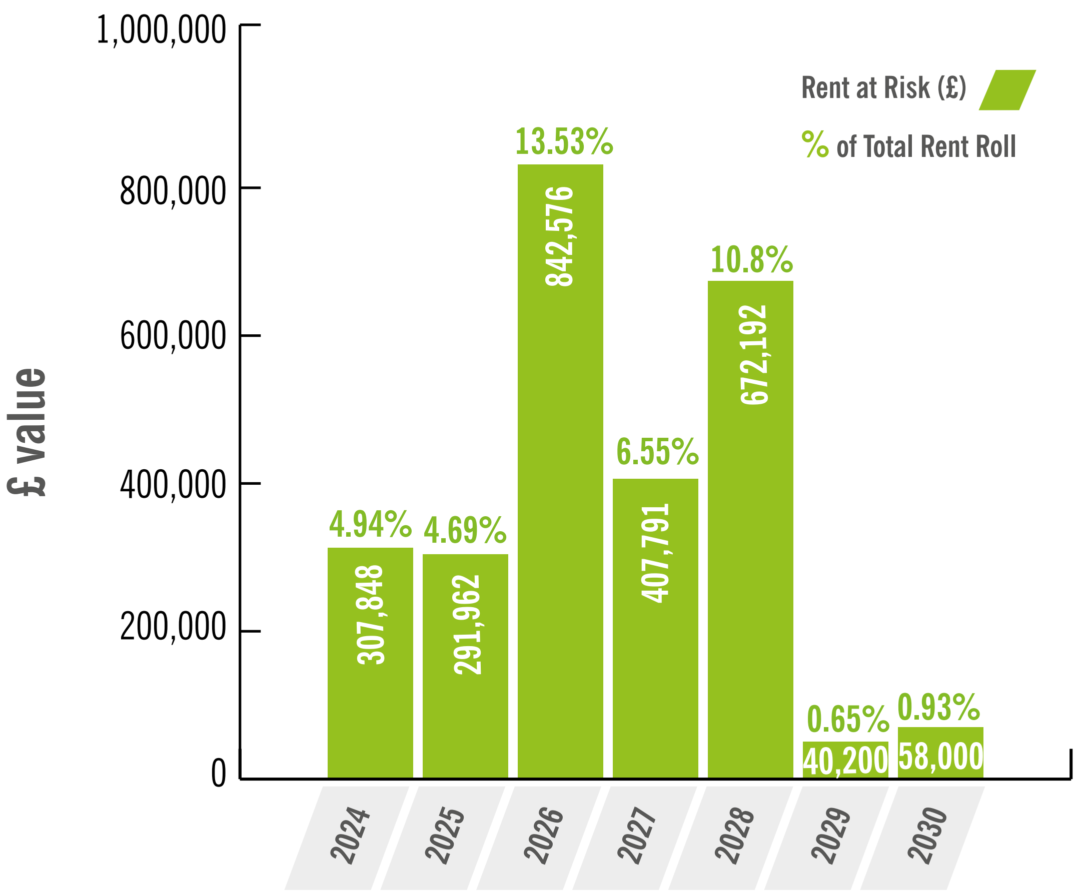
As of 31st March 2023, total 90-day debt amounted to £1.3m which equates to 18.9% of gross portfolio income and although systemic debt is greater than previous years, rent collection remains in line with wider industry performance especially during the ongoing turbulent economic conditions with over 63% of rural rents and 53% of industrial and office rents collected on time for Q4. Recent reporting suggests that the rent collection in the wider market has suffered from the impact of worsening conditions in the economy, with 63% of rents collected on time for Q1. This figure is not directly comparable with the IiLP performance due to the range of collection due dates within the portfolio but illustrates that the whole property sector is under pressure as tenants struggle. Payment of all outstanding debts is being actively pursued through debt management procedures.

It should be noted that around a fifth of the outstanding debt relates to a single property, with issues arising from the transfer of Ministry of Justice financial management to the Government Property Agency (GPA). Whilst there is minimal risk of the debt not being paid, the issues continue with both Finance and Estates colleagues in regular discussion with the GPA to provide the relevant information and bring about a resolution. Alongside this, there are a small number of long-term debtors on the rural portfolio where solutions to accelerate debt recovery and terminate tenancy arrangements are being brought forward.

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

Lease Expiry Profile (Direct Portfolio)

The table below illustrates the profile of rents receivable from leases expiring in each year within the portfolio over the next 7 years both in terms of rental value and a proportion of total rental income. Where a tenant has an option to break within a lease, the worst-case scenario that the tenant will exercise such an option is assumed, whereas in practice it is likely that not every tenant will elect to do so.



The largest figure in the table above, and presenting the greatest risk to the portfolio, relates to the 2026 financial year when two leases at Embankment House, Nottingham and 10 of the 17 leases at Apollo Court, Coalville expire. In accordance with usual practice, it is proposed to engage with the tenants at an early date with a view to agreeing lease renewals.

Firs Farm, Husbands Bosworth

As reported in previous years, the portfolio has been engaged with remediation and land restoration following the illegal dumping and disposal of non-hazardous waste at Firs Farm, Husbands Bosworth.

Following detailed consultation with the Environment Agency the specification for the removal of the waste was agreed and the contract let at a cost of £2.3m, (which is within the original cost budget) and works commenced on site on 26th June 2023. Completion is programmed for late September 2023 at which point the land will be returned to a condition suitable for agriculture and made available for re-letting as a livestock holding.

Although events such as this are rare, a sinking fund was established (together with the debt provision) to meet or contribute towards the costs of unforeseen expenditure such as that incurred at Firs Farm. The annual contribution to the sinking fund ensures that the potential for unforeseen events is recognised and the impact from an event can be absorbed. The sinking fund accrued over previous years, together with additional funds reserved in 2021/22 are expected to cover the full costs of the remediation and restoration of Firs Farm.

The experience gained from this incident will inform a review of the processes of management and re-letting, which following an initial internal appraisal, is now being expanded by external consultants to ensure the most robust structure possible is in place to further reduce the potential of a similarly damaging incident in the future, and strengthen the management procedures and processes in place for the wider benefit of the portfolio and County Council.

Environmental, Social, Governance Reporting

In line with most other “funds”, and reflecting the refreshed focus for the programme, the IiLP is looking to establish a reporting structure for non-financial outcomes. The reporting will feature aspects of environmental, social and corporate governance (ESG), in line with the emerging market norms.

The IiLP portfolio is well placed with a diverse range of assets across a wide, strong performing, economic area to deliver robust outcomes against the main target areas identified and connect with the wider corporate aspirations and strategy.

Environmental: Climate risk, carbon emissions, green supply chains, energy consumption, biodiversity, and habitats.

Social: Health, wealth, safety, diversity

Governance: Corporate governance

Whilst the wider market is establishing reporting mechanisms, and key benchmarks for some elements of ESG reporting, the individual portfolio performance will be very dependent on the nature and composition of the assets comprised in a portfolio. To best represent the IiLP performance during the development phase of this reporting it is proposed to demonstrate year on year performance where possible.

PROPERTY INVESTMENT MARKET REVIEW

Economic Conditions

Most recent GDP estimates from the Office for National Statistics indicate that the UK avoided recession at the end of 2022 with the economy stabilising in the final quarter, following a 0.2% contraction in Q3. However, monthly figures showed a significant economic slowdown in December, with GDP contracting by 0.5% m/m with the economy returning to growth (+0.3% m/m) in January 2023. Thereafter the economy has continued to show resilience to higher interest rates with UK GDP increasing by 0.1%q/q in Q1 2023, following a 0.1% q/q rise in Q4 2022. The UK has therefore avoided recession for now which had been predicted by the Bank of England in November last year. Whilst monthly figures continue to fluctuate overall it is considered that there will be continued albeit very slow growth.

Annual retail sales volumes fell by 3.0% in 2022, which is the largest decline since data records began in 1997 and follows a solid 5.2% increase in sales volumes in 2021. At the same time, retail sales values in 2022 were 6.8% higher than in 2021 which is a direct result of higher prices. However, indications are encouraging with retail sales volumes rising by 0.4% m/m in April and whilst they remain weaker than a year ago, the April shortfall was the smallest in just over a year. In addition, consumer confidence continues to improve, reaching a 15-month high in May.

Having increased marginally to 3.8% over the past 3 months the official unemployment rate still remains extremely low by historical standards. The number of people in employment is now back above pre-pandemic levels. However, the number of job vacancies continues to slowly decline with evidence that people in the 50+ age brackets are returning to the workforce. Due to the tight labour market wage growth remains strong but real wages continue to fall.

CPI inflation reached a peak of 11.1% in October 2022 but had fallen back to 8.7% in April and May with latest forecasts suggesting it will continue to slow throughout this year. Given higher than expected inflation, a tight labour market, and a resilient economy, the Bank of England may continue raising interest rates from the current 5.25% rate over the coming months. Financial markets are currently pricing in a peak in the base rate of 5.75%, but most forecasters expect rates to peak at a lower level.

Economic Outlook

High inflation and elevated mortgage rates will limit household spending and the global economic slowdown is likely to limit business investment in 2023. June HM Treasury consensus forecasts suggest the UK economy will avoid an outright GDP decline in 2023, growing by 0.3%.

The Bank of England's central forecast now suggests a peak to trough decline in GDP of -0.8%, which is significantly milder than the 2.9% decline published in its November report. The economy is then expected to grow by around 1.0% in 2024.

Investment Market

The 2022 full-year investment figure of £60.6bn was marginally above the five-year average of £59.4bn. However, following a very strong first half of 2022 during which £35.9bn was transacted, quarterly investment volumes slowed to £14.5bn in Q3 and to £11.3bn in Q4, marking the slowest end to a year since 2008 being 40% below the five-year Q4 average of £19bn. This trend has continued into 2023 with quarterly investment volumes slowing further to just under £10bn in Q1 2023, 35% below the five-year quarterly average of £15.1bn. While office and industrial investment volumes were both around 40% below their respective five-year averages, retail investment was 23% above average.

The All-Property benchmark equivalent yield softened by 0.8% in Q4 2022, having already moved out by 0.3% in Q3. according to the quarterly MSCI index. However, early evidence at the start of 2023 suggests that the outward shift in yields has slowed; the Q1 2023 outward shift was only 0.1% to 6.2%.

Property Market Forecasts

Having increased by 16.5% in 2021 all property total returns suffered a 9.1% decline in 2022, the steepest drop since 2008. Capital values fell by 12.8%, with particularly steep declines across the industrial sector (-17.4%). Equivalent yields moved from 4.90% in Q2 to 6.1% by the end of 2022. Further, although much milder, outward movement has continued into moving to 6.2% in Q1 and potentially could continue into Q2 2023 before yields stabilise with some scope for re-compression in the second half of 2023. The All Property yield is forecast for the end of 2023 at 6.2% and then it will begin to fall in line with anticipated drops in both gilt yields and interest rates.

As detailed in the table below it is now expected that total returns of 4.2% will be achieved in 2023 and 10.6% in 2024. Over the 2023-2027 forecast period, All Property total returns will average 8.3% pa. with Industrial (10.0% pa) and Retail Warehouses (9.0% pa) outperforming the other sectors.

All Property Forecasts

	Dec 2023	Dec 2024	Dec 2025	5 years to 2027
Rental Growth (% pa)	2.1	2.3	2.6	2.6
Yield (%)	6.2	6.0	5.8	5.7
Capital Growth (% pa)	-0.3	6.1	5.3	3.9
Total Return (% pa)	**4.2**	**10.6**	**9.7**	**8.3**

Whilst property values in the main real estate sectors declined in 2022 and may continue to do so in the early part of this year agricultural land, often regarded as a safe haven during uncertain economic times and a good hedge against inflation, remained resilient with prices for freehold land rising 11% over the past 12 months.

The property yield/gilt spread narrowed to a 15-year low of 2.44% at the end of 2022 but is expected to widen again from 2023 onwards. By the end of the forecast horizon in 2027, the gap will stand at 3.32%.

Office investment, in common with the market generally, was 24% below the 5-year average in 2022. However, the uptake of office space increased by 22% returning to the 10-year average before slipping back in Q1 2023. However, the demand for Grade A space continues to exceed supply with selected pre-lets achieving "premium" terms. Occupier appetite for quality over quantity is starting to feed through into revision of size requirements by blue chip companies. This may further impact 2023 transaction levels which will likely reduce year-on-year.

All office returns fell by 9.8% in 2022, marking the steepest drop since 2008 when returns declined by 22.8%. While rental growth of 2.2% was sustained last year, yields rose by almost 1% in H2, resulting in a 13.2% decline in capital values. It is anticipated that yields will continue to rise over the year, ending 2023 at 6.7%, up from 6.5% at the end of last year. Office rents will fall this year because of the anticipated recession although there are large differences between prime, where rents are stable, and secondary/tertiary where rents are expected to decline. Total returns growth is predicted to be modest this year at 1.3% before accelerating to 7.3% in 2024. Over the forecast horizon to 2027 total returns growth will average 6.1% per annum.

Whilst investment in the Industrial and Logistics sector was 23% above the 5-year average in 2022 there was sharp decline in the H2 following a strong start to the year. Demand for space was also well above the long-term average, without reaching the record figures of 2021, resulting in continued double digit rental growth across many regions including the East Midlands. However, this is predicted to fall back to 3.7% in 2023 with an average of 4.2% per annum in the period to 2027.

Yields rose faster than had been anticipated in Q4 2022 ending the year at 5.6% resulting in a sharp decline in values. Further small rises are anticipated in Q1 and potentially Q2 2023 before stabilising and re-compressing towards the end of the year. Beyond 2023, yields will compress, moving from a predicted 5.70% at the end of 2023 to around 5.00% by the end of 2027.

All Industrial total returns fell by 14.6% in 2022 but are expected to return to 6.0% growth in 2023. Total returns growth will then accelerate to 13.4% in 2024 and remain in double-digits until the end of the five-year forecast horizon.

The pricing adjustment of the Retail sector due to long term structural changes experienced over the past few years looked to be coming to an end. All retail equivalent yields having reached a recent high of 6.8% in Q4 2020 had compressed to 5.7% in mid-2022 driven by sharp yield movements across retail warehouses and supermarkets. However, the wider economic and investor uncertainty later in the year resulted in yields shifting back out to 6.6% in Q4. Given the sharp pricing adjustments that have already taken place some segments appear to have stabilised and therefore All retail yields are expected to end this year at 6.6%. Yields will then move in to 6.4% in 2024 and continue to compress slowly thereafter with Retail Warehouses seeing the sharpest fall in yields over the forecast horizon.

Total returns fell by 4.8% in 2022 but, driven by income return, will return to growth of 5.8% this year as capital values remain flat. Over the 2023-2027 period, total returns growth will average 7.9% pa, driven by Retail Warehouses at 9.0% pa.

Whilst constrained by a limited supply of investment opportunities Rural Property remains a safe haven for investors, with income returns of 1.2%, increasing capital values, especially for freehold assets, and the prospect of modest long-term capital growth achieved through the realisation of development potential.

Investment in, demand for and the general performance of the alternative sector in 2022 mirrored that of the market generally. A strong demand for investments in segments such as student accommodation in the H1 2022, which supported an average level of transactions over the year, declined sharply in Q4; a trend that appears to be continuing into 2023 especially in the leisure and hotel sector. Yields increased across the sector by 0.8% - 1% in H2 2022 resulting in negative capital growth with the further outward movements in Q1 2023 likely to impact returns this year.

In common with the market in general it would appear that the market for pooled property investments is also beginning to stabilise following significant falls in value and negative returns in 2022. However, the level of returns going forward are likely to remain modest as the wider economy continues to face challenging conditions with inflation and interest rates remaining high making gilts and other alternative investments more attractive.

Investment Strategy Update

The Portfolio Management Strategy for 2023 to 2027 is aimed at supporting the development of the Portfolio 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 direct investments during this period developing the Portfolio 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.

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.

The specific aims of this Strategy are to ensure investments funded or held in the Portfolio:

- 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)

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

The Programme's strategy continues to be reviewed annually and an updated strategy will be incorporated within the Medium-Term Financial Strategy which will be considered by Cabinet and full Council later in the year.

Rural Estate Management Review

In parallel with the strategy update an internal review has been undertaken in respect of the management procedures and processes for the rural estate with the aim of ensuring these reflect current best practice and continue to be fit-for-purpose and reduce risk in the current financial climate, and in to the future with expected changes in agricultural, environmental and rural policy.

The review examined a number of areas that it was considered could be enhanced in order to mitigate future risk. Broadly, these fall into the following categories: -

- Frequency of farm inspections, the enforcement of tenant's obligations and monitoring of tenant performance.
- Re-letting procedures.
- Tenancy Agreement terms and conditions.
- Ongoing financial checks.

As a result of the review the following measures have been actioned or are in progress to reinforce and update the management of the rural estate:-

- Recruitment of additional staff resource is now underway which will enhance the frequency of farm inspections and help improve the monitoring of tenant performance and compliance.
- Routine farm inspections are being increased, on a risk assessed basis, with newer tenants, those in arrears, or displaying any other risk factors, being targeted for more frequent formal visits, at least annually, and depending on the risk assessment and any frustrating factors, more often provided this does not breach the Landlord covenants in the tenancy. A formal reporting record will be re-established, which will also include notes of third-party status reports, etc. Regular drive-by inspections are undertaken of most farms currently, but these will be recorded more rigorously. The lowest risk tenants will be visited in the next 12 months to re-establish the baseline for future visits.
- The Council's standard farm business tenancy agreement has been reviewed by external legal advisors to ensure that terms appropriately reflect statutory changes since the last internal review, alongside some minor adjustments to the legal drafting they have recommended enhancements to the break clause provisions to enable a more robust response in the event of issues arising during the course of a tenancy. Further advice is being sought on provisions for forfeiture and how best to deal with breaches of the rent covenant.

- Modifications to the re-letting procedure, including the requirement for guarantors and deeper financial checks, have been put in place and will be applied to all future lettings. The main elements of the reletting process, in-line with industry practice, will remain in place, subject to any developments proposed in the external review, with the applicant expected to provide a substantial supporting application including background information, financial records (including capital position) and references.
  - The reletting procedure follows the industry norms, together with the specific statutory requirements relating to Council owned farms. The letting opportunity is advertised, both in the national farming press and on the Council website. Applicants are expected to attend a viewing day, inspect the farm and put together an outline business plan with supporting information for initial shortlisting. The shortlisting process is undertaken internally against a pre-established selection criteria tailored to the farm opportunity. Following shortlisting 4 or 5 applicants are invited for formal interview, providing additional supporting information (including that outlined above), a full business plan setting out their proposals for the first three years of the tenancy. The interviews are conducted at County Hall and are supported by an external, independent, agent who provides a final recommendation report for the selected tenant, based out the scoring outcome from the assessment matrix and the interviewee performance and explanation. Prior to final appointment a review of financial references, personal references and current farming activities (including, where appropriate, farm inspections) is undertaken.
- Additional support is being put in place the ensure that ongoing financial information is available in a timely manner and the system of regular financial checks actioned. Coupled with this, finance resource is being tasked to support debt monitoring and collection across the rural portfolio to help ensure that irregular, and small value arrears does not become a greater problem, and help manage the existing debtors to ensure timely responses to escalation or initiation of legal responses (where appropriate).
- Internal, cross departmental, communication channels have been improved to ensure that relevant information relating to tenant's actions or failures is acted upon at an early stage, thereby helping to reduce the risk of problems escalating with damaging outcomes.

Building upon the initial assessment, an external review of the management of the rural estate (independent of any wider review of IILP Strategy due later this year) is currently being undertaken to challenge existing practices and provide confidence that the systems and processes for management together with the measures outlined above meet current industry standards, best practice and reflect the requirements of the changing regulatory frameworks and expectations for future management of a diverse, leased, rural portfolio. The review will also look for opportunities to further improve economic and social returns and improve alignment with the wider county council objectives.

Whilst the focus of the current review is the rural estate and some of the management recommendations will have wider application, it is proposed that a similar review of the management practices and letting arrangements be undertaken across the wider commercial portfolio to ensure that these are also meeting the requirements and expectations of a modern mixed asset portfolio.

GLOSSARY

Yield: Yield is the net income (i.e., rent passing) expressed as a percentage of capital value. (Net Income)/(Opening Value). In the context of this report, yield is used as a valuation comparator rather than solely as an expression of returns.

Net Income Return: Net Income Return is the net income receivable expressed as a percentage of capital employed. This differs from the Initial Yield as it considers costs of ownership, including capital expenditure. (Net Income)/(Opening Value + Capital Expenditure).

Capital Growth: Capital Growth is the increase of the capital value, net of capital expenditure or income expressed as a percentage of capital employed. (Closing Value – Opening Value – Capital Expenditure + Capital Receipts)/(Opening Value + Capital Expenditure)

Total Return: Total Return is the sum of the Capital Growth and Net Income Return.

All Property Yield: All Property Yield is most commonly a calculation of the Initial Yield taking account a range of property asset classes (i.e., a portfolio yield)

Sinking Fund: A sinking fund is an accounting device whereby funds are held on the balance sheet to offset or mitigate possible future costs incurred such as major incidents, significant revenue expenditure, etc.

Bad Debt: Bad debt is taken as any debtor account (most likely rent) which has remained due beyond 6 months. A bad debt provision is held against the debtor sum, and when the debt is cleared the provision is credited back to the revenue account.

Rent Review: Commercial and agricultural leases usually allow for periodic review of rents. Most commonly on a 3 year cycle, the rent due is reviewed by negotiation and reference to comparable rents or a statutory formula. Occasionally rents will be reviewed by reference to RPI or other inflationary measures, although these are less common for the types of assets held by IiLP.

Lease Expiry: Most commercial and agricultural leases do not automatically terminate on expiry but continue to "hold over" with the tenant bound to perform the obligations of the lease. There is no specific requirement to renew the lease, but the tenant usually gains a more flexible position in respect of notice to quit provisions. The Landlord remains bound by statutory restrictions on termination such as grounds for notice or time limitations.

90 Day Debt: For LCC KPI purposes, debt over 90 days past due is performance benchmarked.

Voids: Where commercial or agricultural property is vacant but physically capable of being leased or occupied it is classified as a void; property which does not meet statutory requirements for letting and is pending refurbishment, or unoccupied but leased is not included within the void figures.

Rent Roll: The rent roll is the total annual income achievable by the property without deduction for rental allowances (i.e., rent-free periods) or other incentives, back-dated charges, premiums, or non-rental charges.

Leicestershire County Council

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Leicestershire County Council

SCRUTINY COMMISSION – 6TH SEPTEMBER 2023

AIRFIELD BUSINESS PARK DEVELOPMENT PROPOSAL – FINAL PHASE

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to advise the Scrutiny Commission of the development proposals for the final phase of Airfield Business Park in Market Harborough (Harborough District). Approval is to be sought from Cabinet on 15th September 2023 for the allocation of resources necessary to support the proposals, to submit a planning application for 105,794 sq. ft of light industrial units, and to proceed to tender to construct this final phase of the development. The Scrutiny Commission is asked to comment on the proposals.

Policy Framework and Previous Decisions

2. The County Council's Medium Term Financial Strategy (MTFS) is the key financial plan for the Authority. The latest MTFS for the period 2023/24 to 2026/27 was agreed by full Council on 22 February 2023.

3. The Cabinet-approved Investment in Leicestershire Programme (IiLP) has a number of objectives and the top 2 are to:

   a. 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; and
   b. 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

4. The land at Airfield Business Park has been economically unproductive since the land was transferred out of the control of the British Army (who superseded its use as RAF Market Harborough) in the 1950s. Part of the land was subsequently developed as HMP Gartree but the rest remained undeveloped until the 2000's when the first phases of Airfield Business Park were developed.

5. The land surrounding the Business Park is now the subject of residential development. The land to which the report refers has

remained undeveloped and only now has a viable scheme been brought forward that completes the Business Park. The scheme is expected to provide 20 jobs during construction and 240 jobs when completed.

6. The capital programme included an initial allocation of £8.4m for this scheme. The plan also included an allocation for new investments totalling £37m over the term of the MTFS period and this will be used to fund the increase in funding requested. The increase in funding required for this particular scheme is due to:

    a. An increase in construction costs since the original scheme was brought forward for approval in March 2021.
    b. The industrial element of the scheme has increased in floor area from 84,000 sq. ft to 105,974 sq. ft and the proposal now includes two drive-thru units.

7. The MTFS allocations, if approved by Cabinet, will bring the overall portfolio of the IiLP to the expected maximum holding of £260m, subject to satisfactory business cases.

8. The County Council's Strategic Plan 2022-26, supported by the Enabling Growth Plan, sets out the Council's objectives for the rationalisation and utilisation of its assets, maximisation of capital receipts, facilitating the delivery of affordable and quality homes and building a strong economy, generating economic growth.

9. The Council's Investing in Leicestershire Programme Strategy (the latest iteration of which was agreed by the full Council as part of the MTFS in February 2023) requires this Fund to be used to add to the Council's portfolio of land assets 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.

    - Support 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.

- Channel 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 maximising the benefit from its financial assets in a risk aware way (not including standard treasury management activity).[1]

10. On 23rd March 2021 the Cabinet considered a report regarding the proposals for the development of Airfield Business Park. The Cabinet agreed, inter alia, that £9.5m would be allocated for the development from the Corporate Asset Investment Fund (now repurposed as the Investment in Leicestershire Programme, IiLP) subject to the satisfactory outcome of the tender exercise for the construction of part of the development. The Cabinet authorised the Director of Corporate Resources to undertake the necessary work to enable submission of a planning application, determine whether to proceed with the development and enable the delivery of phase 3 and 4. The comments of the Scrutiny Commission, which had considered the matter on 15th March 2021 were reported to the Cabinet.

Background

11. The County Council acquired 15.5 acres of land at Airfield Business Park in 2016 as an opportunity to support the local economy through regeneration of a brownfield site. The strategy was to redevelop the former airfield to deliver commercial premises which would not only

meet demand in the market from local businesses but also attract new enterprises into the region.

12. Upon acquisition of the site the County Council simultaneously sold 2.5 acres of land to a local manufacturer in order to support economic growth, enabling the firm to develop a 30,000 sq. ft industrial unit to expand their existing bespoke furniture business based in Market Harborough.

13. The site is located adjacent to the A508 Harborough Road north of Market Harborough and has been identified as a Key Employment Area and allocated for B1 (now class E), B2 and non-strategic B8 development in Harborough District Council’s adopted Local Plan.

14. In July 2018, the County Council secured planning permission to build 80,000 sq. ft. of industrial units on 5.42 acres of land (12 units for B1/B2/B8 use) on part of the site.

15. Works on these units began in February 2019 and were completed in December 2019, at an overall cost of £6.85m. This development phase was valued in October 2022 at £8.8m.

16. There has been strong market interest in the development, with all twelve of the new units occupied and the rents achieved in line with expectations. The scheme received high levels of interest even during the Covid lockdowns and a number of lettings were secured during this time, emphasising the scheme’s attractiveness as a business location during what has proven to be a challenging economic period.

17. The economic benefits have been assessed in terms of the outputs of the scheme having regard to Central Government's assessment of Rural Productivity and Gross Value Added (GVA). Productivity measures are often used to indicate how well a country uses its human and physical resources to generate economic growth. GVA measures the contribution to the economy of each producer, industry or sector. An assessment of such measures has indicated a contribution to the local economy in the region of £6,810,000 for the development completed thus far having regard to the number of jobs created.

18. Five of the tenants who moved into Airfield Business Park took space to expand their existing Leicestershire-based operations. The Council has also been successful in attracting five new businesses from outside of the County. All of the Council’s Airfield Business Park tenants have continued to trade successfully throughout the Covid lockdowns and none have triggered their break options which fell due upon expiry of the third year of their leases.

19. There are a number of rent reviews which fall due in 2023, one of which has now been concluded at a rent reflecting an increase of 8% on the passing rent agreed and demonstrating positive rental growth.

Proposals for further development

20. As a result of the success of the last phase of the development, a planning application was submitted to the County Council in August 2021 for 34 individual units ranging from 1,500 sq. ft to 10,000 sq. ft to meet the market demand at the time.

21. Due to substantial increases in construction costs since the original planning application was submitted in 2021, it became apparent that the scheme proposed was no longer viable and a revised strategy and masterplan has been developed to ensure this phase of the scheme is viable.

22. Consideration has therefore been given to the potential to develop a further 105,794 sq. ft. on 7.69 acres of the site: - 102,194 sq. ft of E class (light industrial) units and 2 drive-thru units fall under a Sui Generis Use Class. An indicative masterplan has been produced setting out the proposals and is appended to this report.

23. Planning permission for 16 individual units with sizes ranging from 1,539 sq. ft. up to 10,010 sq. ft. (offering a broad range of grow-on space in which tenants can expand to compliment what has already been developed on site) is currently being sought.

24. The intention is to submit a planning application for this revised scheme and proceed to tender for the construction of the development in a single final phase. This tender will seek to obtain a price to build a single unit extending to 60,000 sq. ft to meet a specific occupier requirement, as well as the 2 drive-thru units again to meet specific occupier demand.

25. The proposal to develop a 60,000 sq. ft industrial unit and the 2 drive - thru units are to satisfy specific occupier requirements and Heads of Terms for Agreements for leases extending to 10 to 15 years have been agreed. Securing these operators on a pre-let basis significantly reduces the commercial risk to the County Council as the 3 deals represents 65% of the annual rental income for this part of the scheme.

26. The sizes of the 16 smaller units have been designed with regard to the market demand experienced in the last phase of development, which highlighted a substantial demand for smaller units (up to 3,500 sq. ft.) which can offer existing tenants the opportunity to move into larger accommodation as their businesses expand in the future.

27. It is intended that the planning application will be submitted in September 2023 once Cabinet approval has been secured. Pre-application advice has been sought from County Council planning officers on an informal basis. It should be noted that this advice should not be seen as indicative of the outcome of any eventual planning

application process which will need to follow usual procedures taking into account all relevant and material planning considerations.

28. It is envisaged that the following indicative timescales will apply in terms of delivery and receipt of income for the Council should the proposal be approved by Cabinet and permission be granted by the Development and Control Regulatory Board (DCRB) in due course:

September 2023	Commence formal marketing
October 2023	Submission of a planning application to the County Council as the Planning Authority
March 2024	Planning application considered by DCRB
September 2024	Completion of procurement exercise
January 2025	(Subject to planning permission being granted) construction commences
February 2026	Practical completion of the scheme
February 2026	First occupation of units

Financial Estimates

29. The cost estimate is currently £18.5m. This includes construction costs, professional fees, marketing, letting costs and a 10% contingency of construction cost. Land acquisition costs of £2m were incurred upon acquisition of the site in 2016 which forms part of the financial appraisal to determine the overall NPV but not required as a resource to fund the next phase of development.

30. The contingency against the construction cost element at 10% is considered appropriate given that significant due diligence has been completed with respect to ground conditions and construction cost inflation given that the cost plan prepared by the appointed Quantity Surveyor assumes commencement on site in January 2025.

31. A net initial yield of 4.3% is expected to be achieved in Year 1 assuming a scheme cost (including land value costs) of £18.5m having regard to an assumed gross annual rental income of £1,074,870 and net rent in the year of year of £798k reflecting rent free periods. The net initial yield being the current net rent, net of costs, expressed as a percentage of the capital value, after adding notional purchaser's costs. The yield in year 2 once rent free periods have expired is 5.8%.

32. Of note is that the Council acquired the land in 2016 at a cost per acre of £290,000. The land proposed to be developed is now considered to be worth in the region of £420,000 per acre. If the County Council was

to dispose of the site in the current market it would expect to achieve a capital receipt in the region of £3.2m.

33. The proposed scheme would generate a net initial yield of 5.5% which is greater than the 4 to 5% rate of interest the Council could expect to achieve from short term deposits, noting that once the short-term deposit is expired it needs to be deposited at the prevailing rate which could be lower. Retaining the capital within the Council's reserve fund would also not secure the £1.075m annual rental income which the proposed scheme is predicted to generate.

34. The rationale for developing the proposed scheme includes developing high quality units which will generate job opportunities in the local market (current prediction is that the scheme will generate in the order of 20 jobs and 15 apprenticeships during the construction phase and 240 post construction), aiding economic growth and support local businesses through the provision of sustainable and high quality units from which to expand their businesses in line with the IiLP's Portfolio Management Strategy.

35. The rationale behind developing smaller units as referred in the Masterplan as Blocks H1, H2 and H3 is to address an area of market failure. The private sector rarely develops starter units as they do not generate the most advantageous returns given the increase in construction costs of delivering a number of small units as opposed to larger ones. The units serve to attract businesses in the Strategic Economic Plan priority sectors.

36. The Council is informed by its retained commercial agents that there is still strong demand post-Covid for industrial premises particularly in relation to the small to medium sized units which are proposed. This is borne out of ongoing discussions with two firms looking to agree a pre-let in relation to the units proposed.

37. The risks associated with development of the proposed scheme are mitigated by the pre let opportunities being explored. Whilst the construction of a unit extending to 60,000 sq. ft is mitigated during the term of the initial lease, there is confidence that the occupier views this location as a long-term proposition given that they are consolidating 4 other of their operations located elsewhere in the town and are likely to remain in occupation far beyond the initial 10-year term agreed. In any event, the building will be designed and constructed to enable flexibility in terms of the accommodation and enable the unit to be split into a number of smaller units if demand at the time so requires.

38. If the tenant does vacate, and the County Council is required to split the unit into smaller units to meet market demand, the cost of dividing the units will be recouped through the increase in rent per sq. ft which will be justified in offering smaller units.

39. The risks associated with the development of two drive-thru units will equally be mitigated by entering into pre-let agreements and history has shown that occupiers of such units remain in occupation, renewing their leases beyond the initial 15-year term agreed.

40. The proposed rent per sq. ft for the industrial units compared to the most recent development phase has increased 25% from £8 per sq. ft. to £10 per sq. ft. This means that the existing units are expected to achieve higher rents at rent review or at new letting/lease renewal and this has been demonstrated having agreed one of the rent reviews which reflects an increase of 8% on the passing rent payable.

41. The estimated construction costs against those achieved for the last phase have increased. These costs will be tested by completing a competitive tender procurement exercise before it is determined whether this phase of the scheme should be progressed.

42. This tender exercise will be based on a fixed cost to limit cost overruns. The details of in-scope elements within the tender and construction contract will be carefully considered to also reduce the risk of cost overruns for the Council. If the tenders received are considered too expensive having regard to the returns required, then the Council will consider alternative options and further reports will be submitted to the Committee if the alternative options present a substantial change.

43. The Director of Corporate Resources has completed the standard appraisal for this project including scenario modelling. The base case includes the following assumptions:

    a. Development costs at £18.5m.
    b. Initial gross rent at £1.075m pa.
    c. Average annual rental increase of 2% (various scenarios modelled for this input). Rent reviews will be on a 3 year basis in practice for leases granted for a 6 year term and 5 year basis for leases granted for a term of 10 and 15 years.
    d. Assumed a rental void of 7.5% of gross rent. Based on experience of voids for large, diversified property portfolio (a mandate within the Leicestershire County Council Pension Fund) which experiences around the same level of voids currently. In addition, tenant break option triggers every 3 years would allow tenants to serve notice and it is prudent to assumes rent free periods at these times (various scenarios modelled for voids as a percentage of gross rent this input).
    e. Capital growth of 2% per annum is assumed and used for the terminal value at the end of the net present value calculation period. This assumption is deemed prudent given capital growth Dec 2000 to June 2023 data received from a UK commercial property manager. The long term increase over the time period (22.5 years) for UK distribution warehouses was 3.1% and 2.2% for UK manufacturing production units.

f. £2.3m for dilapidations over a 25-year period is assumed. This is based on 0.5% of construction cost inflated by 2% pa.

44. The financial model assumes, despite all leases being granted on fully repairing and insuring (FRI) terms, that £2.3m will be spent by the County Council in relation to dealing with dilapidations and improving the units throughout a 25-year period as required. It is not envisaged that a sum to this level will be necessary, but it is deemed prudent to build in resources which may be potentially necessary to re-let vacant units.

45. The base case internal rate of return (IRR) and net present value (NPV) table is shown below highlighting the current NPV over 25 years at £1.65m. The positive NPV shown over various time frames assumes a terminal value which includes capital growth at 2%. The positive NPV allows the Council some flexibility in deciding on the right time to dispose of the site. The discount rate used is 6.09% and represents the interest rate that is used to convert future cash flows (income and expenditure) into a present value at the start of a project. The rate used is consistent across IiLP appraisals and offers simpler comparisons across multiple projects. The rate includes the effect of inflation and is a long-term assumption. If inflation assumptions were to increase it would be feasible to assume a higher discount rate as is discussed later in the paper.

	15 years	20 years	25 years
IRR	6.8%	6.7%	6.7%
NPV £	1,353,566	1,428,631	1,652,443

46. A competitive tender exercise will be undertaken to de-risk these returns estimates and only if these are shown to be at an acceptable level will this next phase of the development proceed.

47. Were inflation to stay elevated and risk free rates of return were higher it would be feasible to assume discount rates used to assess projects could be increased. This would lead to lower net present values all other things being equal in the most prudent of scenarios. In reality, however there is a likelihood that rents would increase at a higher rate than the 2% pa currently assumed and costs and capital growth would also be higher.

48. In order to take this scenario into account an alternative scenario shown in the table below uses the same assumptions as the base case described but adjusts for the discount rate to be increased from 6.09% to 7%. Using 7% results in a negative NPV (£0.8m) over 25 years. Were capital growth to increase from the base case 2% to 2.5% then the NPV with a 7% discount rate would be (£36k).

49. Finance colleagues have modelled the base case NPV over 25 years for two scenario changes, rental increases different to 2% pa and rental voids being different to the base case of a 7.5% rental void. The sensitivity of the NPV is shown below. Base case assumptions are shown in bold within the sensitivity tables below. Under the base case assumptions, a more pessimistic rental voids assumption at 10% of gross rent would still result in a positive NPV.

		Rent increase % pa				
		1.00%	1.50%	**2.00%**	2.50%	3.00%
Rental void of full rent, 1.5% to 10%	1.5%	£1578 k	£2108 k	**£2672 k**	£3272 k	£3909 k
	2.0%	£1500 k	£2027 k	**£2587 k**	£3183 k	£3816 k
	5.0%	£1032 k	£1539 k	**£2077 k**	£2650 k	£3258 k
	7.5%	**£642 k**	**£1132 k**	**£1652 k**	**£2206 k**	**£2794 k**
	10.0%	£252 k	£725 k	**£1228 k**	£1762 k	£2329 k

50. Construction costs are the highest individual cost line with the most uncertainty and as such a competitive tender process will inform the Council of more accurate financial returns. The appraisal will be re-run for the most up to date assumptions at that point.

51. The construction costs assumed in the financial model reflect current estimates of inflationary increases in such costs from the date of this report to January 2025 being the date the construction contract will likely be entered into ensuring the business case is robust.

52. Under the 25-years scenarios, an improved NPV is achieved as construction costs decrease. A competitive tender process has been chosen to maximise the chance of securing best value in terms of construction costs.

53. Tenants will be subject to due diligence assessments before lease agreements are signed. This will be based on financial credit checks and consultation with the relevant Council personnel when appropriate.

54. Alternative uses of resource have been considered and include:

- Interest from depositing cash – at present the Treasury Management Policy allows the Council to deposit (lend) money for a maximum duration of 1 year. Rates have increased over the past 6 months, with borrowers offering up to 6% for a one-year term. It is important to note that when the term expires cash would then need to be re invested at the prevailing market rate. The Council’s treasury management advisors suggest Bank of England base rates are expected to peak in the coming months and then reduce to between two to three percent over the next two to three years.

- Borrowing from the Public Works Loan Board (PWLB), as the Council has done in the past. An option exists to redeem debt when the costs saved are favourable. The debt management office (DMO) publishes rates to redeem debt. As at the time of writing these range between 4.2% and 4.8%.

55. The proposed scheme is being funded from internal resources with no direct borrowing required to take this scheme to completion.

56. The Director of Law and Governance has been consulted on the content of this report.

Equalities Implications

57. There are no Equality Implications directly arising from this report. Implications associated with the future development of the site such as planning applications for planning permission, will be subject to Equality Impact Assessments, as appropriate, prior to decisions being made.

Human Rights Implications

58. There are no Human Rights Implications directly arising from this report. Implications associated with the future development of the site such as planning applications for planning permission, will be subject to Human Rights Assessments, as appropriate, prior to decisions being made.

Environmental Impact

59. As this is a Council-led development, the scheme will ensure the Council's ambitions for sustainability are met where possible. This will include ensuring the chosen construction strategy incorporates sustainable construction methods such as the use of photovoltaic panels, electric car charging points, insulation and the use of best practice construction methods.

Risk Assessment

60. This is a medium-sized project that requires upfront investment in order to generate future financial returns. The risks relate to the size of the financial obligations which the Council could potentially commit to. These will include consultancy fees, infrastructure design costs, funding, timing commitments and construction costs. Inevitably all of these bring a degree of risk.

61. So that financial risk can be mitigated, and best value obtained, advice has been provided by external consultants. The scheme will be tendered and if the cost of tender returns is unacceptable, the proposed scheme may be redesigned to reduce cost.

Background Papers

Investing in Leicestershire Programme ~ Portfolio Management Strategy 2023 - 2027
https://politics.leics.gov.uk/documents/s174713/Appendix%20H%20-%20Investing%20in%20Leicestershire%20Programme.pdf

Circulation under the Local Issues Alert Procedure

This report will be circulated to Mr P. King CC (Market Harborough West and Foxton)

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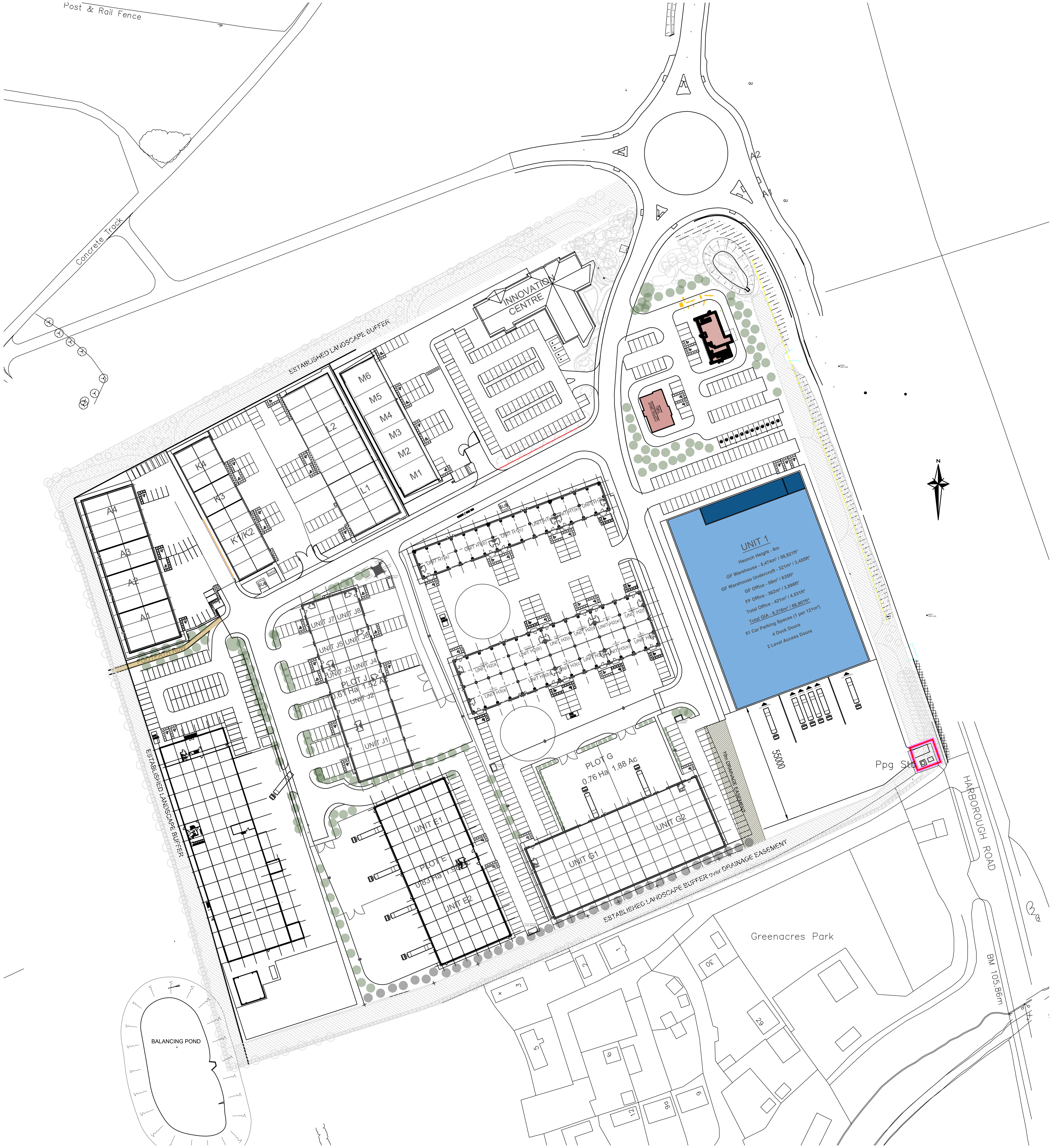
Appendix

Indicative site masterplan for phase 3 of Airfield Business Park



SCALE 1:1000 at A1

PROJECT:	LEICESTERSHIRE COUNTY COUNCIL PROPOSED EMPLOYMENT DEVELOPMENT AIRFIELD BUSINESS PARK MARKET HARBOROUGH
STATUS:	FOOTPRINT
DRAWING TITLE:	UNIT 1 LAYOUT
DATE:	14/02/2023
DRAWN BY:	BH
SCALE:	AS NOTED AT A1
CHECKED BY:	BH

ima ARCHITECTS

Blaby Business Park, Lutterworth
Road, Blaby, Leicester, LE8 4BY
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DRAWING NO: 215060-FP20 REVISION: -

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SCRUTINY COMMISSION – 6TH SEPTEMBER 2023

CORPORATE ASSET MANAGEMENT PLAN 2022 - 26
ANNUAL PERFORMANCE AND STRATEGY UPDATE REPORT
2022 – 2023

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to set out the performance achieved against the County Council's Corporate Asset Management Plan during 2022-2023, outline changes in strategy and provide details of the work programmed for 2023 - 2024. The full Annual Performance and Strategy Update is appended to this report.

Policy Framework and Previous Decisions

2. The Council's Strategic Plan 2022 - 2026, approved by full Council on 18 May 2022, provides a strategic planning framework for the Council which will ensure that all service plans and strategies contribute to delivery of the Council's vision for Leicestershire. It sets out five strategic outcomes, namely 'Clean and Green, Improved Opportunities, Great Communities, Safe and Well and Strong Economy, Transport and Infrastructure'.

3. The Medium Term Financial Strategy (MTFS) 2023 - 27 was approved by the County Council on 22 February 2023. This includes the allocation of resources to fund the Capital Programme up to 2026/27.

4. The Scrutiny Commission considered the Corporate Asset Management Plan (CAMP) 2022-26 in September 2022 prior to its approval by the Cabinet on 23 September 2022.

5. The CAMP is aligned with the Council's Strategic Plan and promotes the management of the Council's property assets in a way that contributes to the achievement of the five strategic outcomes and together with the MTFS supports the Council's corporate and service priorities. The CAMP includes the requirement that a performance and strategy update report be presented annually to the Scrutiny Commission.

Background

6. The CAMP outlines the framework for the future management of all the Council's property assets (including the IILP direct property portfolio), for the period 2022 – 2026 driving the portfolio's future strategic direction whilst continuing to demonstrate best practice in its delivery, noting that the primary purpose of these properties is support the delivery of County Council services as efficiently and effectively as possible.

7. The CAMP aligns with the Strategic Plan which embodies and drives the Council's wider strategic objectives and provides the basis of all its activities, including the management of its property assets, necessary to deliver its vision for Leicestershire over the period to 2026.

8. The key ambitions of the CAMP for the period to 2026 are:-

   - To create a greener estate which is moving towards energy self-sufficiency;
   - To ensure the focus on delivering capital projects that make a positive difference is continued with projects being delivered on-time, within budget and procured in a way that achieves value for money;
   - To have well maintained, energy efficient buildings with 70% of repairs and maintenance being delivered through a planned programme; and,
   - To rationalise the portfolio through a proactively managed asset challenge process supported by governance that facilitates early decision making enabling potential benefits to be maximised.

9. Whilst the CAMP covers the four-year period to 2026 it is subject to ongoing review throughout that period to take account of any changes to the Council's strategic objectives and the availability of resources to support its delivery.

10. The full Annual Performance and Strategy Update which is appended to this report provides a comprehensive review of performance during the 2022-23 year, necessary to provide transparency and demonstrate that value for money is being achieved in the management of the Council's assets together with a review of strategy changes and an action plan, aligned with the MTFS, for the period to 2027.

The Portfolio

11. As at 1st April 2023, the Council's portfolio comprised a total of 731 freehold and leasehold property assets with a combined value of £469 million. Such properties range from the County Hall campus, locality offices, schools, depots, libraries, farms and industrial units and land acquired to support roadbuilding and schools programmes.

12. The overall number of property assets increased by 88 from 643 in 2022 partly as a result of additional purchases and the development of new assets as detailed in paragraph 19 below, but principally as a consequence of a review of

the data held on the property information system prompted by work on the asset challenge.

13. The overall asset value of £469 million for 2023 represents a fall of £183 million compared to the previous year (£652m). Following guidance from, and in agreement with, the Council's external auditors Grant Thornton, the value of every academy school building owned by the Council was reduced to £1.00 to reflect the fact that the County Council would receive only nominal income (or benefit) from such properties for the remainder of their 125 year lease. Accordingly, the £158m of direct property assets held by IILP now represents the largest individual share (34%) of the Council's overall property portfolio.

14. There are currently 115 non-operational assets within the Council's property portfolio with a combined value of £29m, down from £48m in 2022 reflecting the effect of completed sales, the ongoing delivery of infrastructure and re-valuation. The split by value of these properties is as follows:

    - Land in Advance (property acquired to support infrastructure projects and future service needs) - £9m
    - Managed Assets (assets managed corporately including those previously held by services which generate income) - £6m
    - Surplus Properties (properties surplus to the needs of services being considered for disposal- £3m
    - Land held for Sale (properties within the disposal process) - £11m

15. The MTFS 2023 – 2027 has allocated £509m of funding to support the delivery of the capital programme over the 4-year period. Of this total, projects to the value of £351m (69%) have a property input. These include the delivery of the school place programme, the IILP investment programme and the planning and delivery of major infrastructure projects. In 2023 – 2024 the proportion of property related projects rises to 72% and have a value of £91m.

16. The estimated future liabilities in respect of essential maintenance, repair and improvements required to meet Health and Safety and regulatory compliance totals £50.6 million for the whole of the Council's property portfolio, down from £55.8m in 2021-2022; £1.3m being in the most urgent priority 1 category which requires issues to be addressed within 12 months. The current year's Central Maintenance Fund allocation is £2.59m.

<u>Performance in 2022 - 23</u>

17. The Annual Performance and Strategy Update attached as an Appendix to this report sets out in detail the overall performance of the Council's property portfolio during the 2022/23 financial year against the CAMP 2022 – 2026.; the following paragraphs providing a brief overview.

    <u>Action Plan 2022 - 2026</u>

18. The initial CAMP Action Plan was developed for the period 2022 – 2026 and included as an appendix to the CAMP. The Action Plan is divided into three

sections covering the property related input to the delivery of the MTFS capital programme, the reviews and strategy updates necessary to support service delivery and improvement, plus the ongoing annual property management programme.

Capital Programme Projects

19. The Action Plan detailed 53 capital programme projects which have a property related input. 27 of these projects were either due for completion during 2022-2023 or had a phase of works due for completion in that year. Of the 27 projects identified, 21 (78%) were completed on schedule. Further, of the ongoing projects due for completion in future years, 80% are currently on or ahead of schedule. The following were among the projects successfully completed in 2022-23:

- Foxbridge Primary School, Castle Donnington
- The provision of land to support SEND securing funding for a new school at Farley Way, Quorn
- Acquisition of 4 Multi-functional Properties to support Children's SCIP including the securing of match funding.
- Redevelopment of the Kibworth Recycling and Household Waste Site
- Achieving entry onto the land required for the Melton Mowbray Distributor Road (N & E Sections)

Reviews and strategy updates

20. A programme of 23 property reviews and strategy updates, necessary to support service improvement were detailed in the CAMP Action Plan and due to be undertaken in 2022-2023. Of these 15 (65%) were completed on schedule with work on the remaining 8 ongoing and due for completion within a timescale that does not impact service outcomes. In addition to the development and adoption of the CAMP itself, the following are of note:

- Asset Management Processes and Procedures - The review has been undertaken in parallel with work on the asset challenge. New procedures, together with supporting documentation, have been developed for acquisitions and appropriations; the existing disposals procedure being seen as fit for purpose. The three processes are detailed in the appended report (at Appendix A).
- IILP Strategy - As part of the MTFS, and in response to changes to Treasury Guidance in relation to prudential borrowing, a revised Strategy for the investment portfolio, including the repurposing of this to the Investing in Leicestershire Programme (previously the Corporate Asset Investment Fund), was developed and subsequently approved by County Council, as part of the MTFS. Performance against this Strategy is the subject of a separate report elsewhere on the agenda for this meeting.

Annual Property Management Programme

21. In respect of the Annual Property Management Programme comprising 9 equally important “business as usual” functions, the following programmes were developed at the start of the year.

- Future development sites programme
- Asset and insurance valuations programme
- Central maintenance fund repair programme
- Condition and regulatory compliance surveys programme
- Ongoing management of all let property within the portfolio
- Freedom of information requests
- Management of traded services
- Disposals programme
- Maintenance programme and updating of the property asset management system

22. The first 7 programmes were completed satisfactorily within the year. However, the disposals programme overran due to completions being delayed into 2023 - 2024 and the programmed maintenance and updating of the property information system has been re-evaluated as a result of work on the asset challenge.

Performance Indicators

23. The CAMP recognised that to deliver effective economically viable property solutions it is necessary to monitor delivery and measure its effectiveness. The CAMP put in place a set of 25 realistic, but challenging, key performance indicators which, if achieved, would drive forward improvement year-on-year; the indicators falling within 3 main areas, namely:

- The CIPFA approved indicators in respect the condition, maintenance, sufficiency and environmental performance of the portfolio.
- Local performance indicators relating to matters specific to the County Council such as the level of capital receipts.
- The IILP performance indicators comparing the portfolios performance to market benchmarks

24. Overall, 16 (67%) of the 24 performance indicators capable of assessment were achieved in 2022 – 23, including those relating to required maintenance and total maintenance spend, the level of energy use and carbon emissions, construction contracts being completed within budget, the completion of the asset challenge programme together with 6 of the 9 IILP indicators. A further 1 (4%), of the level of planned maintenance was not achieved but showed an improvement in performance on the previous year. The remaining 7 targets (29%) were not achieved. These included indicators relating the level of urgent repairs, expenditure on energy (due to global market conditions), the timeliness of completing capital projects and the capital receipts target (due to delayed

completions). One indicator was not assessed due to lack of a current benchmark data, but current performance was noted.

Asset Challenge

25. One key local performance indicator was the target of completing the asset challenge in respect of a minimum of 2 local authority areas in the year. In addition to reviewing all the operational properties within Blaby District and Oadby and Wigston Borough, all non-operational property assets across the whole County was completed. The outcomes being detailed in the Appendix attached (at Appendix B).

Action Plan 2023 - 2027

26. The CAMP Action Plan is reviewed and refreshed annually. In response to changing economic conditions, available resources and demands on services the Action Plan 2023 – 2027 has been developed in collaboration with service departments; the action plan reflecting the work required to deliver the capital programme 2023/24 – 2026/27, the property reviews necessary to support future service improvement and the ongoing “business as usual” management of the portfolio. The full Action Plan is detailed in the Appendix attached; the following key actions being identified for 2023 – 2024:

i. Meet the capital receipts target
ii. Maximise revenue income and potential cost savings
iii. Deliver the schools capital programme
iv. Progress the ACL project
v. Support the review and ongoing delivery of the SCIP programme
vi. Continue to deliver initiatives that support the Energy Strategy and Net Zero Carbon targets.
vii. Complete the development of the Decarbonisation Plan and programme its implementation
viii. Review the management and letting processes and procedures of the IILP rural portfolio
ix. Complete the Central Maintenance Fund Works programme
x. Further develop the property asset management system to support asset challenge

Resource Implications

27. The County Council’s financial position has been difficult for a number of years. The Council is now faced with the significant challenges linked to the war in Ukraine in terms of global energy and food supply and the resultant impact on inflation which have risen to levels not seen for many decades. The MTFS 2023/24 - 2026/2027 balances in year 1 only, has a funding gap of £13m in year 2 rising to £88m in year 4. Delivery of the MTFS requires savings of £150m to be made from over the period to 2026/2027 and identifies £37m of savings and proposed reviews that will identify further savings to reduce the £88m funding gap in 2026/2027.

28. The MTFS 2023 - 2027 which incorporates the investment strategy for that period provides funding of £509m for capital projects (updated to £538m at outturn to take account of slippage) for the period to 2026/27, 67% of which requires property input.

29. The updated CAMP Action Plan, outlined in the Appendix highlights how the financial resources that have been allocated to the Council's corporate property resources in the capital programme and MTFS programmes/budgets will be utilised. Delivery of individual projects detailed in the Action Plan included in the appendix attached will be considered against a clear business case methodology.

Equality Implications

30. There are no direct equality implications arising from this report. Any equality implications relating to individual projects and strategies detailed within the CAMP will be considered in detail as part of their individual governance process

Human Rights Implications

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

Environmental Implications

32. The CAMP 2022 – 2026 seeks to maximise the potential of the Council's assets to contribute to the delivery of the environmental improvements, including the achievement of Net Zero 2030, contained within the Strategic Plan's Clean and Green Strategic Outcome.

Background papers

Cabinet – 22 June 2020 – 2020/21 Provisional Revenue and Capital Outturn
http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6444&Ver=4

County Council – 18th May 2022 – Strategic Plan (2022 – 2026)
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6482&Ver=4

Scrutiny Commission – 7th September 2022 – CAMP 2022 - 2026
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6871&Ver=4

Cabinet – 23rd September 2023 – CAMP 2022 - 2026
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6776&Ver=4

County Council – 22nd February 2023 – Medium Term Financial Strategy 2023/24 – 2026/27
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6913&Ver=4

Circulation under the Local Issues Alert Procedure

None.

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Appendix

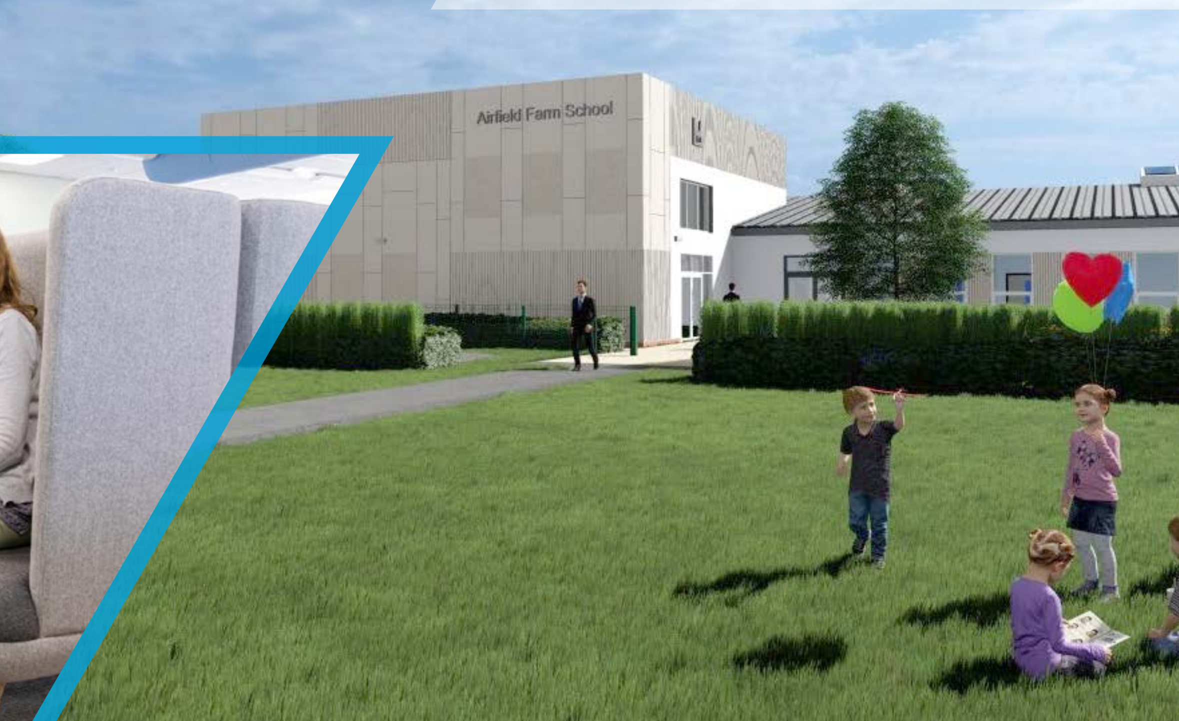
Corporate Asset Management Plan Annual Performance and Strategy update report 2022 - 2023

NET ZERO LEICESTERSHIRE

Corporate Asset Management Plan 2022 – 2026

ANNUAL PERFORMANCE AND STRATEGY UPDATE REPORT

2022 - 2023



Leicestershire County Council

Property supporting the people of Leicestershire

CONTENTS

1 INTRODUCTION

Leicestershire has a long reputation of being one of the best performing authorities in the country providing quality services to the public. Key to this continued success is a high performing, fit-for-purpose, property portfolio capable of supporting those services now and in the future. The Corporate Asset Management Plan 2022 – 2026 (CAMP) set out how this will continue to be achieved through both the maintenance and improvement of the County Council's building stock and the delivery of a range of new programmes and projects that will meet future challenges and the growing demands on the Council's resources. Being closely aligned with the Strategic Plan 2022 – 2026 over the four-year period it seeks to make a major contribution to the delivery of the five Strategic Outcomes.

As important as having the right policies and strategies in place to deliver effective economically viable property solutions that meet those wider strategic objectives, is the need to monitor that delivery and measure its effectiveness. Accordingly, the CAMP put in place a set of realistic, but challenging, key performance indicators which, if achieved, will drive forward improvement year-on-year.

This, the first, Annual Performance and Strategy Update Report details the achievements of the 2022 - 2023 year, identifying areas of improvement and providing the necessary background information to support future reviews of strategy. In addition, it provides an overview of the portfolio and the future changes in its development following the adoption of the Medium Term Financial Strategy 2023 - 2027 and in particular the revised Capital Programme.

2 CORE DATA

This section of the report provides data on the number, type and value of the Council's property assets as of 31st March 2023 aligned to the Council's Balance Sheet which is published as part of the Annual Statement of Accounts. It also sets out information on the Council's capital investment programme from 2026 - 2027 with particular reference to property related projects and programmes and the current maintenance backlog across the portfolio.

2.1 The Portfolio

As at 1st April 2023, the Council's Land and Buildings portfolio comprised a total of 731 freehold and leasehold property assets with a combined value of £469 million, as summarised in the following Table

Corporate Asset Management Plan 2022 - 2026 Schedule of Assets				
Asset Category	**Number of Freehold and Leasehold Assets Held**	**Asset Value £m**	**Asset % (by number)**	**Asset % (by value)**
Primary School	223	£131	31	28
Secondary School	41	£2	6	0
Special School	14	£27	2	6
C&FS/Other	41	£15	6	3
A & C	27	£21	4	4
Offices (Including County Hall)	16	£40	2	9
Libraries Museums/Records	51	£20	7	4
Investing in Leicestershire Programme	152	£158	21	34
Depot	8	£5	1	1
Waste HWRS	14	£11	2	2
Park and Ride	1	£0	0	0
Travellers Sites	2	£2	0	0
Country Parks	25	£5	3	1
Outdoor Residential Centre (Beaumanor)	1	£3	0	1
Managed Assets and land in Advance	82	£15	11	3
Surplus Property & Assets Held for Sale	33	£14	5	3
Total	731	£469	100	100

The overall asset value of £469 million for 2023 represents a fall of £183 million compared to the previous year (£652m). Following guidance from, and in agreement with, the external auditor the value of those schools let on 125-year leases to academies was reassessed to reflect the fact that the County Council would receive only nominal income (or benefit from the property) over that period without the benefit of any reviews. Accordingly, the value of each was reduced to £1. As a result of the schools' revaluation the £158 million of direct property assets held by the Investing in Leicestershire Programme (IILP) now represents the largest share measured by value at 34%.

The overall number of operational assets increased as a result of additional purchases especially relating to the Social Care Investment Programme (SCIP) and road schemes, the development of new assets and a review of the data held on the property asset management system prompted by work on asset challenge.

Whilst the proportion of assets held for each service varies little from previous years, with schools contributing 45% of the overall asset number, there has been a fall of 10% in the number of non-operational assets due to sales and appropriations, as detailed in Appendix A.

2.2 Capital Programme

The MTFS funded capital programme totals £509m over the four years to 2026 - 2027, which represents a reduction of £6m from £515m of funding allocated in the MTFS 2022 – 2026. The programme is funded by a combination of Government grants, capital receipts, external contributions, revenue balances and earmarked reserves.

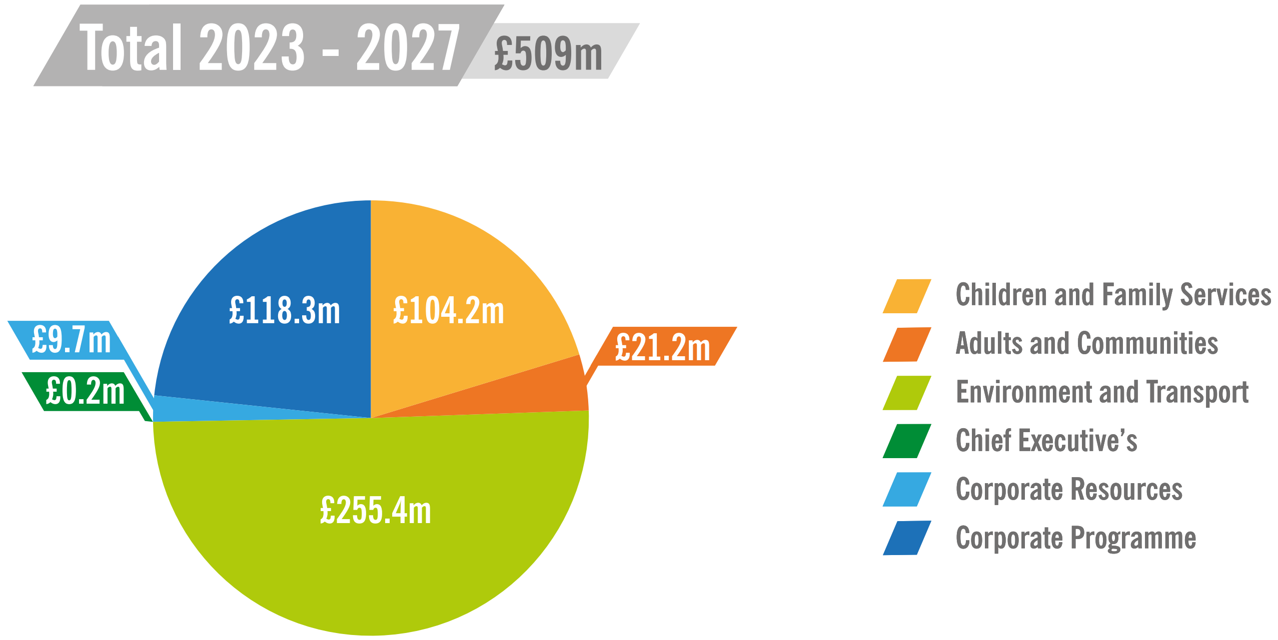
The overall approach to developing the capital programme forms part of the capital strategy and has been based on the following key principles:

- 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 as bids to the LLEP, section 106 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.

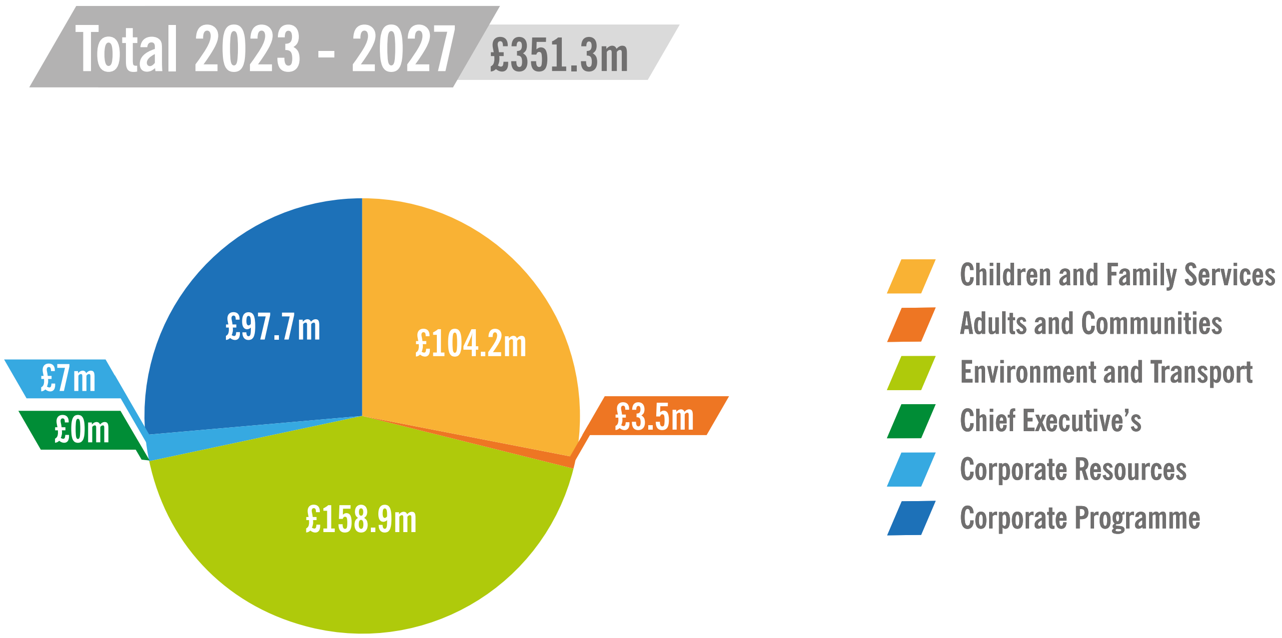
The proposed capital spend on projects either delivered or supported by Strategic and Operational Property Services, over the four year period to 2027 is £351.3 million which represents 69% of the overall capital programme of which projects to the value of £204.4 million will be delivered directly through Property Services.

The figures below show illustrate the overall programme to 2027 and the proportion of projects supported by Property Services.

Overall Programme



Projects with property element



2.3 Maintenance

The Central Maintenance Fund, which supports the routine maintenance of the operational portfolio, stands at £2.59m for 2023 - 2024 (supplemented by capital funding for major refurbishment schemes) an increase of £300k on 2022 - 2023. This is set against estimated future liabilities in respect of essential maintenance, repair and improvements required to meet health and safety and regulatory compliance totalling £50.6 million split over three categories of priority, for those properties within the portfolio where the County Council has a maintenance liability which excludes academy schools; academies being responsible for repairs and maintenance under the terms of the 125-year lease.

Approximately 4% of the total (£1.3m) is in the most urgent category (priority 1) which requires issues to be addressed within 12 months otherwise there may be an impact on service delivery, or a building may close for a period of time. The majority of the remaining repairs are attributable to those ongoing repairs and maintenance issues that need to be programmed and undertaken in forthcoming years; the use of the central maintenance funding being targeted through the planned maintenance programme to prioritise the most urgent repairs and those preventative repairs that deliver the greatest long term value thereby ensuring that all operational properties continue to support service delivery.

Note: The maintenance and repair of the IILP portfolio is not included in above as it is paid for out of the fund's revenue budget, notwithstanding that the majority of ILLP properties are let on full repairing terms or the equivalent thereof.

3 PROJECT DELIVERY

3.1 Overview

3.1.1 Capital Programme Delivery

The MTFS 2022 – 2026 approved by the Council in February 2022 allocated funding of £515m to support the Capital Programme for the 4 years to 2026 of which £129 million related to expenditure to made in 2022 - 2023 with £91m (71%) having a property related input. The Action Plan appended to the CAMP identified 53 Capital Programme projects with property related input that was required to support them over the MTFS period. Of the projects detailed, 27 were either due to be completed during the 2022 - 2023, had a phase of works due for completion in 2022 - 2023 or actively developed to facilitate delivery in future years with the balance scheduled for further development or completion in future years.

Projects due for completion in 2022 - 2023

Completed	Not completed – mitigating circumstances	Cancelled or failed to complete
78%	7%	15%

In summary, a total of 21 projects (72%) were successfully completed in the year including;

- Foxbridge Primary School, Castle Donington
- The provision of land to support SEND securing funding for a new school at Farley Way, Quorn
- Acquisition of 4 Multi-functional Properties to support Children's SCIP including the securing of match funding.
- Redevelopment of the Kibworth RHWS
- Achieving entry onto the land required for the Melton Mowbray Distributor Road (N & E Sections)

Two projects (7%) that were not completed on target, namely the Quorn Solar Farm and the Drive Through Restaurants at Leaders Farm, Lutterworth falling behind schedule due to a combination of lengthy planning delays and technical and procurement issues. Both projects now have planning permission and are being progressed. Of the 4 projects that failed to be completed only the Score + project was cancelled, due to external funding being withdrawn, and the remaining 3 projects relating to future developments remain ongoing into 2023 - 2024.

Projects due for completion in future years

On target	Behind target – mitigating circumstances	Cancelled or falling behind target
80%	12%	8%

Except in circumstances where schemes have been reviewed or delayed by a subsequent strategy review undertaken by the service in response to changing needs or market demands, for example the two SCIP projects, delivery is generally running to timetable. However, a small number, particularly those within the IILP portfolio, are behind their original delivery targets as a result of lengthy delays in either achieving planning permission, in the case of Lutterworth East where the planning permission was subject to Judicial Review, delays in the local plan system in respect of the M69 J2/Stoney Stanton strategic development site or in the case of Airfield Farm, Market Harborough the need to redesign the scheme to meet changing market demands and conditions before submitting a new planning application.

3.1.2 Reviews

Further, the Action Plan detailed a programme of 23 property reviews and strategy updates that were due to be undertaken in 2022 - 2023, including the preparation and adoption of a new Corporate Asset Management Plan, either as a one-off review or on an annual rolling basis.

2022 - 2023 Review programme

Completed on target	Partially completed behind target with work on-going	Cancelled, failed to complete / substantially behind target
65%	35%	0%

Of the total; 15 were completed or are progressing in-line with the original programme. The remaining eight projects are behind target, however, all have been partially completed with work ongoing and will be completed within a timescale that does not impact service outcomes. The delays to these projects have resulted from a combination of resourcing and procurement issues combined with the need for services to review future service delivery to take account of changing demand and economic circumstances.

Of the completed projects the following are of note:

3.1.2.1 Corporate Asset Management Plan

Before 2022 the CAMP had not been refreshed for a number of years contrary to the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. The last review pre-dated the development of the Strategic Plan and was therefore reviewed on an annual basis to reflect the new MTFS and any strategic policies or initiatives developed during the previous 12 months. With the introduction of the Strategic Plan in 2018 and, in particular, the adoption of the updated Strategic Plan 2022 - 2026 the opportunity was taken to align the CAMP with its strategic aims and objectives embodied in the five strategic outcomes. Accordingly, the CAMP 2022 - 2026 was developed in a way that ensured the management of the Council's property assets, in addition to meeting the requirements of CIPFA guidance, fully reflected the wider aims and objectives of the Strategic Plan for the period to 2026.

A copy of the CAMP 2022 - 2026 which was adopted by Cabinet on 23rd September 2022 can be found at

https://politics.leics.gov.uk/documents/s171212/Appendix%20-%20CAMP%202022-26.pdf

3.1.2.2 Asset Management Processes and Procedures

The CAMP made a commitment to review the Governance and in particular the processes and procedures previously adopted in relation to management of the County Council's property assets.

The review has been undertaken in parallel with work on the Asset Challenge. New procedures, together with supporting documentation, have been developed for Acquisitions and Appropriations reflecting the more effective approach adopted for the investment portfolio in 2015 and ensuring that all proposals are fully business case tested and funded in advance of purchase or transfer. The Disposals Procedure remains largely unaltered from its previous form subject to additional requirements being added to the supporting documentation.

The adoption of the revised procedures and the updating of the supporting documentation will ensure that all transactions are undertaken in a timely manner, all property records held on PAMS are accurate and up to date and all property costs are met by the appropriate service or minimised in the event of them being met centrally.

The three processes are detailed in Appendix A hereto and will guide all future property transactions for the period to 2026.

3.1.2.3 IILP Strategy

As part of the Medium Term Financial Strategy, and in response to changes to Treasury Guidance in relation to prudential borrowing, a revised strategy for the investment portfolio, including the establishment of the Investing in Leicestershire Programme, was developed and subsequently approved by County Council, as part of the MTFS.

The revised strategy 2023 - 2027 aims to deliver the Council's five strategic outcomes, is aligned with the 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.

A copy of the full strategy can be found at https://politics.leics.gov.uk/documents/s174974/Appendix%20H%20%20Investing%20in%20Leicestershire%20Programme.pdf

3.1.3 Property Management

In addition, Strategic and Operational Property Services are responsible for undertaking the ongoing equally vital "business as usual" functions included in the Annual Property Management Programme. The programme comprises the following 9 elements:

- Capital acquisitions and disposals programme
- Future development sites programme
- Asset and insurance valuations programme
- Central maintenance fund repair programme
- Condition and regulatory compliance surveys programme
- Ongoing management of property portfolio including IILP direct property assets
- Freedom of information requests
- Management of traded services
- Maintenance of property information and financial property management and reporting systems

Ongoing Annual Management Programme

Completed	2022-23 workstream ongoing
78%	22%

Programmes were developed for all 9 workstreams at the start of the year and implemented on an ongoing basis. Seven of the 9 programmes were completed satisfactorily within the year. However, the disposals programme has overrun due to completions being delayed into 2023 - 2024 and the programmed maintenance and updating of the property information system has been re-evaluated as a result of work on asset challenge with the required modifications being carried forward into this year's programme.

3.1.4 Development of New Initiatives

Following the publication of the CAMP, in addition to the projects detailed in the Action Plan and in response to changes in Central Government Policy and guidance, changing service needs that require a strategic change in direction and the significant impact of inflation on budgets and the wider economy additional work has been undertaken in respect of the following new initiative:

Delivery of the Children's Hubs where property services, in collaboration with the service, ensured that the property assets earmarked to deliver the service were fit for purpose and met service needs within the review period.

3.2 Key Actions 2022 – 2023

Whilst the Action Plan outlined the extent of property related services to be delivered by Strategic and Operational Property Services in 2022 - 2023 and future years from the overall programme the CAMP identified the ten Key Actions listed below with a summary of the outcomes delivered or the current status of the project achieved in collaboration with colleagues across the council.

- **Meet the capital receipts target**

  All the properties within the disposals programme were successfully marketed. However, as it was necessary to re-market a development site at Barton Road, Barlestone the completion of that sale was delayed into 2023 - 2024 resulting in the original target not being achieved within the year.

- **Maximise revenue income and potential cost savings**

  In the management of the IILP direct property portfolio and all corporately managed assets 3 rent reviews, 9 lease renewals and 19 new lettings were completed ensuring that potential income is maximised. The drive towards maximising income is further supported by the portfolios low rate of voids, currently 3% which is substantially below the national benchmark of 10.6%. In addition, the ongoing implementation of the Ways of Working Programme identified further under-utilised premises and office space which, by rationalising the portfolio, continues to generate significant savings and additional rental income.

- **Deliver the schools capital programme**

  The schools capital programme for 2022 - 2023 as detailed in the Action Plan was delivered in full with the ongoing projects in the school places delivery programme remaining on target to meet planned school opening dates.

- **Progress the SEND programme**

  The academy lease for the new Bowmans School in Shepshed has now been negotiated and completed with the project progressing to the construction phase under the control of the Department for Education. In addition, Department for Education funding has been secured for a 90 place SEND school to be built on County Council owned land at Farley Way, Quorn as part of a proposed mixed-use development. Procurement of an academy partner will be progressed during the current year with a view to the school opening in 2026.

- **Continue the delivery of the SCIP programme**

  The business cases for both Children's and Adult SCIP were reviewed during the year. With the benefit of match funding secured to purchase and adapt suitable properties the Children's SCIP remained viable with all programmed work completed within the year. However, the delivery of Adult SCIP remains in obeyance whilst further feasibility work continues; the work examining all potential delivery options including private sector provision utilising sites currently within the County Council's ownership. In addition, surplus properties previously thought suitable for supporting the programme are being marketed in a way that both maximises receipts but encourages the delivery of extra care or supported living.

- **Deliver the Energy Strategy and continue to support Net Zero Carbon targets.**

  Further significant progress was made in the delivery of the programme of projects funded by the £3.6m of grant funding allocated from the Public Sector Decarbonisation Scheme. Having installed additional solar arrays and completed the transition to LED lighting at County Hall in the previous year the programme was substantially completed in 2022 – 2023; the works including the extension of the district heating system across the whole of the County Hall campus together with improved bio-mass storage and the installation of solar arrays at Embankment House, Nottingham. In addition, work continued to ensure that minimum energy standards are met across the whole estate which, coupled with stricter monitoring of temperature levels within buildings with the appropriate downward adjustment of thermostats, resulted in further positive contributions towards the achievement of net zero.

- **Develop a 'Decarbonisation Plan' for the County Council's buildings**

  The survey work required to inform the Decarbonisation Plan was paused enabling external funding to be secured to support the work. The programme of surveys which include all County Council occupied buildings heated by gas is now being progressed with a target completion date of 31st March 2024. Thereafter, a full decarbonisation plan will be developed and programmed in a manner that prioritises the maximisation of carbon reduction across the portfolio.

- **Complete the Central Maintenance Fund Works programme**

  A full programme of planned and reactive maintenance was completed at a cost of £2.68m. Whilst this represents a 5.1% overspend it is set against the background of construction costs rising at above the rate of inflation which peaked at 11.1% in October 2022.

- **Deliver the CAIF Developments funded by the capital programme**

  The capital programme allocated funding to support the delivery of 7 projects on sites within the IILP (formerly CAIF) portfolio including 3 development projects, the promotion of 2 residential led mixed-use strategic development areas and 2 minor capital works programmes to upgrade premises within the industrial and rural portfolios. The Quorn Solar Farm and the Drive Through Restaurants at Leaders Farm, Lutterworth were initially programmed for completion in 2022 – 2023. Both fell behind schedule due to a combination of lengthy planning delays, technical and procurement issues. Both projects now have planning permission and are being progressed. Substantial delays in achieving planning permission also impacted the Lutterworth East project where the planning permission was subject to Judicial Review, delays in the local plan system slowed the promotion of the M69 J2/ Stoney Stanton strategic development site and in the case of Airfield Farm, Market Harborough the need to redesign the scheme to meet changing market demands and conditions before submitting a new planning application. However, both minor works programmes were completed on target.

- **Undertake a review of governance procedures and processes**

  In parallel with the undertaking of the planned programme of asset challenge, a review of the governance procedures and processes was undertaken identifying specific areas of improvement that would ensure a robust structure responsive to both the needs of services and the management of risk was developed. This work has been concluded and, working in co-operation with the Transformation Unit, the draft procedures for the Acquisition, Disposal and Appropriation of property assets set out in Appendix B developed and subsequently approved by the Corporate Property Steering Group.

4 PERFORMANCE MEASURED AGAINST KEY INDICATORS

The CAMP recognised that as important as having the right policies and strategies in place to deliver effective economically viable property solutions, is the need to monitor that delivery and measure its effectiveness.

As part of the CAMP proposals a set of realistic, but challenging, key performance indicators which, if achieved, will drive forward improvement year-on-year were put in place. These KPIs fall into three main categories:-

- Those recognised by CIPFA which look beyond the County Council's internally set targets and, instead, are capable of monitoring performance against suitable comparators.
- Those internal KPIs with a particular focus on the needs of the County Council
- Those applicable to the IILP portfolio which has a robust set of KPIs which provides a direct comparison with the wider investment market.

Overall, 67% of all performance indicators were achieved in 2022 - 2023, a further 4% were not achieved but either showed an improvement on the previous year or failed as a result of mitigating circumstances with the balance of 29% failing to be achieved; the results being used to identify areas of improvement and provide the necessary background information to support future reviews of strategy.

In respect of the three separate categories of KPI the individual outcomes were as follows:

4.1 CIPFA Performance Indicators

4.1.1 Condition and Required Maintenance

In the 2022 - 2023 year; 4 of the 6 performance targets were achieved as illustrated in the table below. Of particular note was the sharp real terms fall in both the level of required maintenance (19.9%) and annual maintenance spend (7.7%), which includes both the operational and IILP portfolios with a lesser reduction (3.8%) in the real cost of maintenance per m2. Whilst, failing to reduce the real terms level of urgent repairs per m2 which showed a slight increase (1.5%) as a result of utilising maintenance resources effectively the overall condition of the portfolio improved. In addition, significant progress was made in meeting the 70% target for planned maintenance rising by 23% year on year to 58% compared to 42% reactive. Overall, the condition of the portfolio continues to improve with the proportion of poor and badly performing properties continuing to fall; the ongoing asset challenge process identifying those that are capable of improvement to better meet service needs and those that should be declared surplus and sold with the targeted planned maintenance programme addressing any repair issues.

Property Performance Indicator and Description	Performance		Target
	2021-22	2022-23	
1 A The % of gross internal floor area (GIA) in condition categories A to D A: Good – Performing as intended and operating efficiently	**4%**	**4%**	**Seek to increase the proportion of properties in categories A or B (Good or Satisfactory) year on year**. **Achieved:** The proportion of properties with categories A & B rose from 48% to 52%
B: Satisfactory – Performing as intended but showing minor deterioration	**44%**	**48%**	
C: Poor – Showing major defects and/or not operating as intended	**50%**	**46%**	
D: Bad – Life expired and/or serious risk of imminent failure	**2%**	**2%**	
1 B Required maintenance expressed as a % in priority levels 1 to 3 and as a cost per sqm (£m2 GIA) P1 – 0-1yr - Urgent work required to prevent the immediate closure of premises and/or address H&S or regulatory issues	**£1.83 (£2.01)**	**£2.04**	**The level of priority 1 urgent repairs should fall in real terms year on year to ensure that services are maintained** **Failed:** In real terms the level of Category 1 repairs per sqm GIA rose by 1.5%
P2 – 1-2yrs - Essential work to prevent serious deterioration of the fabric or services and/or address a medium risk to H&S or breach or legislation	**£43.57 (£47.97)**	**£41.71**	
P3 – 3-5yrs – Desirable work to prevent deterioration of fabric or services and or address low risk H&S or regulatory issues	**£40.69 (£44.80)**	**£37.16**	
1C Total cost of required maintenance	**£55.8m (£61.4m)**	**£50.6m**	**The level of required maintenance should fall in real terms year on year** **Achieved:** In real terms the total cost of required maintenance fell by 19.9%
1 D i Total annual maintenance spend (including expenditure incurred in respect of operational properties with the IILP portfolio)	**£3.07m (£3.38m)**	**£3.12m**	**The total annual maintenance expenditure for operational property should not exceed 2021/2022 levels in real terms.** **Achieved:** In real terms the total expenditure fell by 7.7%
1 D ii Total annual maintenance spend per m2	**£4.73 (£5.21)**	**£5.00**	**Annual maintenance expenditure per m2 should fall in real terms year on year** **Achieved:** In real terms expenditure per sqm fell by 3.8%
1 D iii Ratio of spend on planned and responsive maintenance	**35%**	**58%**	**Planned maintenance should be a minimum of 70% of the annual spend** **Failed:** but showed significant improvement

Note: All real terms calculations based on March 2023 CPI inflation figure of 10.1%
Figures shown in brackets are cost plus inflation

4.1.2 Environmental

Inflation within the energy markets over the year and the re-procurement of energy contracts have resulted in unit cost increases to the County Council of 72% for natural gas and 65% for electricity. Against this background, whilst clearly failing to reduce total net energy expenditure the rise of 46% (32% in real terms) is well below the level of market increases and is reflected in reductions in both total consumption (7.6%), where the level of on-site renewable energy generation made a significant contribution, and CO_2 emissions (10.6%); the latter reflecting the additional reduction in carbon emission resulting from the ongoing transition away from gas. The data currently available does not enable accurate comparisons to be drawn on a m2 of GIA basis (the preferred CIPFA measure of performance), however, a new data set is currently being developed to facilitate reporting at this level in future years.

Water usage based on billing details was also much reduced, although much of the billing during the Covid pandemic was based on estimated readings and therefore it is recognised that part of the reduction could be due to a post covid correction.

Property Performance Indicator and Description	Performance		Target
	2021-2022	2022-2023	
Total Annual energy spend (gas electricity oil etc) £ net of income generated from selling energy to the grid	£1.44m	£2.10m	**Reduce net annual expenditure on energy in real terms year on year** **Failed:** Expenditure rose 32% in real terms
2A Annual energy costs and consumption	18.2m Kwh	16.8m Kwh	**Energy used (Kwh) should reduce year on year to achieve a minimum 30% reduction in annual energy consumption from Council buildings by 2030.** **Achieved:** A fall of 7.6% pa would facilitate a minimum 30% reduction by 2030
2B Water costs and consumption	186,451m3	73,664m3	**Water used should reduce year on year** **Achieved**
2 C Annual CO_2 emissions	3,491 tonnes	3,120 tonnes	**Reduce corporate property CO_2 emissions year on year to contribute to the achievement of zero carbon emissions from Council operations by 2030.** **Achieved**

Note: All real terms calculations based on March 2023 CPI inflation figure of 10.1%

4.1.3 Sufficiency, Capacity and Utilisation

The way in which office space is being utilised is changing and the working week profile is now considerably different to when the last government data was published. The government benchmark was 8.8 sqm per FTE based on its portfolio compared to 8.8 per sqm being achieved and 7.24 per sqm per workstation where our Ways of Working approach has been completed. With office space being re-designed to incorporate collaborative, project and other dedicated space types coupled with the continued increase in home working for at least part of the week the emphasis has moved from fixed workstations to cost. Accordingly, this year Indicator 3A has been assessed against the last published data available and is reported below. Post-COVID no reliable data is available in respect of Indicator 3B. CIPFA are currently considering appropriate alternatives but until such time as that data becomes available it is proposed to measure performance in future years against progress in attaining the Ways of Working target model.

Property Performance Indicator and Description	Performance 2022 - 2023	Target
3A Average office floor space (sqm) per FTE staff member	8.8	Maintain at a level below central government benchmark of 8.9 msq/per FTE
3B Average office floor space per workstation	7.24	Maintain at a level below central government benchmark No available benchmark data

4.1.4 Project Time and Cost Predictability

With the exception of one contract where the contractor went into administration part way through the contract all major construction contracts required to support County Council services were completed on time. However, the delayed delivery of two IILP developments, detailed earlier in the report, meant that overall 78.6% of schemes were delivered within the origin project programme period, below the target 90% level.

Of the schemes actually completed within the 2022 - 2023 year, including those where the project programme overran from earlier years, 90.9% were completed within the contract budget

Property Performance Indicator and Description	Performance 2022-23	Target
4A Project Time Predictability	78.6%	A minimum of 90% of projects due to be completed in 2022 - 2023 to be completed within original project programme period
4B Project cost predictability	90.9%	A minimum of 90% of projects completed in 2022 - 2023 to be completed within original contract price

4.2 Local Performance Indicators

4.2.1 Capital Receipts

The initial capital receipts target for the 2022 - 2023 year was £8.219m comprising £6.469m general receipts and £1.750 earmarked receipts and set on the basis that none of the properties within the provisional disposals programme would be retained to support services. As the disposals process was progressed 3 properties were identified as potentially being suitable to support the SCIP and SEND programmes. To take account of this and with the agreement of the Director of Corporate Resources and CPSG the target was reduced to £4.869m (£4.369m general receipts, £0.500m earmarked). Within the year all the properties were successfully marketed, albeit that one development site had to be re-offered. Consequently, capital receipts of £1.346m were achieved from completed disposals; the outstanding balance from the delayed completion of the development site being carried forward into 2023 - 2024 would have ensured the target was met.

Property Performance Indicator and Description	Performance 2022 - 2023	Target
5A Capital Receipts	£1.346m	To achieve the agreed Capital Receipts target for the year (£4.869m)

4.2.2 Asset Challenge

During the year the Asset Challenge of all Operational properties within Blaby District and Oadby and Wigston Borough were completed together with all Non-operational property assets across the whole County. Details of the outcomes are contained in the Report attached as Appendix B.

Property Performance Indicator and Description	Performance 2022 - 2023	Target
5B Asset Challenge	Blaby District Oadby & Wigston Borough plus Non-Operational Property	To undertake the Asset Challenge in respect of a minimum of two Districts or Boroughs in each year. Achieved

4.3 Investing in Leicestershire Programme Performance Indicators

Full details of the performance of the IILP portfolio are provided in the Investing in Leicestershire Programme Annual Report 2022 – 2023. That performance measured against the portfolio's KPIs is detailed in the table below which indicates a further year of sound performance with 67% of targets being achieved. The current suite of IILP KPI's is currently under review, as part of a wider review of the portfolio and its management, ensuring that they remain fit for purpose and reflect benchmarks within the wider market.

Property Performance Indicator and Description	Performance 2022 - 2023	Target	
6A i Rate of Return	6.8%	Meet Investment Strategy target Rate of Return	> 6 %
6A ii Rate of Return	6.8%	Meet with average market return on capital over the whole portfolio	> minus 14.9%
6B Income return	2.6% (3.6% excluding development sector)	Meet with average market net income return target	> 4.8%
6C Capital growth	4.2%	Meet with average market yearly capital growth target	> minus 18.8%
6D Net Rental Income	£4.6m	Increase net rental income from managed property year on year.	2021-22 £2.3m
6E Voids	3.0%	Meet average market level of voids by area	< 10.6%
6F Debt	18.9%	Meet 90 day debt target	< 10% of gross income
6G Revenue Surplus	£5.8m	Increase revenue surplus over the whole portfolio (including diversified investments) year on year	2021-22 £6.2m
6H Management costs	5.1%	Meet management cost target	< 15%

5 ACTION PLAN 2023 - 2027

In response to the changing economic conditions and available resources detailed in the MTFS coupled with the ever changing demands on services the Action Plan 2023 – 2027 has been developed.

The major programmes and projects detailed in Table to Section 5.1 below will be funded by the Capital Programme, supported by any available grant funding, developed as part of the MTFS which seeks to balance the resources available against the need to achieve improved service provision. The successful delivery of those capital programmes and projects remains a major focus of the CAMP Action Plans for the period 2022 to 2026. Together with the review of existing projects and the development of new programmes and strategies set out in Section 5.2 and the "business as usual" operations listed in Section 5.3 the Action Plan identifies the work necessary to meet the aspirations of the Strategic Plan.

5.1 Capital Programme Project Delivery

PROGRAMME	PROJECT	DELIVERY PROGRAMME				
		Previous Years	2023-2024	2024-2025	2025-2026	2026-2027
CHILDREN AND FAMILY SERVICES						
School Place Programme	Overall Programme					
	Primary School Normandy Way, Hinckley					
	Rothley Primary School Extension					
SEND Programme	SEMH Special School - Free School					
	Expansion of Special Schools					
Childrens SCIP	Childrens Residential Homes					
Capital Maintenance Programme						
Schools Devolved Formula Capital						
Schools Access and Security						
Section 106 Schools Infrastructure	South East Coalville New Primary Schools					
	Primary School Airfield Farm, Market Harborough					
Future Developments Programme						
ADULTS AND COMMUNITIES						
SCIP	Additional Accomodation Schemes (Supported Living)					
	Extra Care - Holliers and Snibston					

PROGRAMME	PROJECT	DELIVERY PROGRAMME: Previous Years	2023 - 2024	2024 - 2025	2025 - 2026	2026 - 2027
ENVIRONMENT AND TRANSPORT						
Major Schemes	Melton Mowbray Distributor Road - North and East Sections					
	A511/A50 MRN					
	Zouch Bridge					
	Melton Mowbray Distributor Road - Southern Section					
	Melton Depot - Replacement					
Environment and Waste	Waste Transfer Site Development					
	Recycling Household Waste Sites - General Improvements					
	Recycling Household Waste Sites - Lighting					
	Recycling Household Waste Sites - S.106 funded schemes					
CORPORATE RESOURCES						
Transformation Unit - Ways of Working	Workplace Strategy - Office Infrastructure					
	Workplace Strategy - End User Device					
	Workplace Strategy - Property Costs, Dilapidations and Refurbishments					
Property Services	County Hall Lift Replacement Scheme					
	Library Replacement Windows					
Country Parks	Bosworth Country Park - Re-surface Car Park					
Tree Planting						
Climate Change - Environmental Improvements	Electric Vehicle Car Charge Points					
	Energy Initiatives					
	LCC Public Sector Decarbonisation Scheme					
CORPORATE						
Investing in Leicestershire Programme	Airfield Business Park - Phase 3 & 4					
	Quorn Solar Farm					
	M69 Junction 2 - SDA					
	Lutterworth Leaders Farm Drive Through Restaurants					
	East of Lutterworth SDA (Planning & Preparitory Work)					
	County Farms Estate - General Improvements					
	Industrial Properties Estate - General Improvements					
	Asset Acquistions / New Investments					

5.2 Reviews and Development of Future Strategies

SERVICE	REVIEW / STRATEGY	DESCRIPTION	2023 - 2024	2024 - 2025	2025 - 2026	2026 - 2027
Corporate	Corporate Asset Management Plan	Prepare Annual Performance and Strategy Update Report and review Action Plan to align with MTFS and obtain Cabinet approval to any proposed modifications. Undertake full review of CAMP in 2026 - 2027.				
	Asset Challenge Programme	Review of all publicly owned property assets within each District or Borough Council Area to ensure the retention of good performing assets and the improvement replacement or disposal of those which fail to meet agreed performance targets (2 local authority areas to be completed annually)				
	Review of the Vacant Properties Strategy	Develop a protocol for the effective management of vacant properties which makes best use of resources, minimises the period from vacation to disposal or re-use and delivers cost savings to the Council				
	Review of Property Holdings in Market Harborough	Complete the review of the property portfolio in Market Harborough with a view to its rationalisation and the adoption of Ways of Working principles necessary to achieve savings				
Adults and Communities	SCIP Business Case Review	Complete the review of the SCIP Business Case to ensure the programme when delivered meets the needs of the community and provides value for money				
	Libraries and Museums Enhancement Programme	Develop a progamme for the utilisation of Section 106 monies to enhanse the customer experience across the Libraries and Museums portfolios				
	Records Office and Heritage and Learning Collections Hub	Complete the review of the Business Case and bring forward proposals including a delivery programme for the development of an ACL hub on the County Hall campus ensuring the scheme provides value for money				
Chief Executives	Coroners and Registrars Service	Review the portfolio of properties supporting the Coroners and Registrars Services.				
Childrens and Family Service	Forward Planning of the Future Years School Places Delivery Programme	Working with partners and engaging with the Local Plan process to ensure that the future School Places Delivery Programme reflects the need for places based on future population and housing growth across the County				

SERVICE	REVIEW / STRATEGY	DESCRIPTION	2023 - 2024	2024 - 2025	2025 - 2026	2026 - 2027
Corporate Resources	IILP Investment Strategy Review	Annual review of the IILP Investment Strategy to ensure that the management of the portfolio and investment decisions reflect current market conditions and reflect wider Council objectives				
	IILP Portolio Review	Annual Review of individual assets within the IILP Portfolio against performance targets to ensure the retention of good performing assets and the identification of underperforming asset with a view to their improvement or disposal				
	EV Charge Points Delivery Plan	Working with partners, using dedicated resourses, initiate the roll out of a programme to deliver EV Charge Points to all County Council sites together with private residences and workplaces across the county				
	Renewable Energy Feasibility Study	Initiate a feasibility study to assess the potential to generate renewable energy on sites in County Council ownership and bring forward detailed proposals for the the delivery of the most commercially attractive options with fully costed business cases				
	Corporate Buildings Decarbonisation Plan	Undertake a full energy assessment of all corporate buildings together with an assessment of the potential for securing grant funding and bring forward a programme of measures that maximises the potential to achieve the decarbonisation of the operational and investment portfolios				
	Tree Planting Scheme Delivery Strategy	Continue, in conjuction with partners, the rollout the Tree Planting Scheme and undertake a review of the Council's land holdings to identify sites suitable for tree planting that could make a positive contribution to the delivery programme in future years				
	Future Years Ways of Working Programme	Work with partners and provide support in the delivery of the ongoing Ways of Working Programme across the authority				
	Further Development of the Project Management Office	Further develop the functionality of the Project Management Office to provide additional ongoing support in the procurement and delivery of all capital and major revenue projects ensuring that value for money is achieved, risk is managed positively and projects are delivered on time and on budget.				
	Review of property asset manement data system (PAMS)	Review specification of existing K2 property PAMS sytem and future market opportunities for the procurement of a replacement system at the termination of the current contract in Sept 2024				
Environment and Transport	Forward Planning for Major Schemes Programme	Providing property advice in respect of all future Major Schemes necessary to support the preparation of scheme budgets and compulsory purchase process				
	Highways Depot Review	Review of the Highways Depot Portfolio to ensure that it continues to meet the needs of the community and provides value for money				
	HRWS Review	Review of the HRWS Portfolio to ensure that it continues to meet the needs of the community and provides value for money				
	Fleet Transition Feasibility Study	Support the delivery of the Fleet Transition Feasibility Study to ensure the delivery of service improvements maximises both carbon reduction and value for money through a co-ordinated approach across the Council				

5.3 Annual Property Management Programme

Programme	Description
Capital acquisitions and disposals programme	Annually prepare and deliver acquisitions and disposals programmes necessary to ensure the delivery of effective services and support the Council's Capital Programme respectively
Future development sites programme	Identify through the asset challenge and annual review of the CAIF Portfolio potential future development sites and promote them through the planning system to achieve local plan allocations or planning consent to achieve best value from future disposals or development by the CAIF
Asset and insurance valuations programme	Undertake the revaluation of a proportion of the overall portfolio each financial year in order to meet statutory compliance
Central maintenance fund repair programme	Prepare and implement a comprehensive repairs and maintenance programme which maximises planned maintenance but provides for some reactive /emergency maintenance to be undertaken, as required
Condition and regulatory compliance surveys programme	Re-survey a proportion of the overall portfolio each financial year in order to meet statutory compliance and inform future years Central Maintenance programme
Ongoing management of property portfolio including IILP direct property assets	Day to day management of the Council's overall property portfolio including, as appropriate, facilities management, maintenance and repair, re-lettings, lease renewals, rent reviews, compensation claims and dilapidations and management of day to day property enquiries.
Freedom of information requests	Provide support and information, as required, to respond to requests for information in accordance with the provisions of the Freedom of Information Act
Management of traded services	Undertake the management and ongoing performance review of all property related traded services
Maintenance of property information and financial property management and reporting systems	Maintain accurate up to date property and property related financial information and data providing the reports necessary to support the ongoing management of all property assets and the assessment of performance of individual assets measured against targets in the development of future strategies.

5.4 Key Actions 2023 – 2024

Against the background of the next four years programme detailed in the Action Plan, the following list contains the key deliverables to be achieved in the 2023 - 2024 financial year.

- Meet the capital receipts target
- Maximise revenue income and potential cost savings
- Deliver the schools capital programme
- Progress the ACL project
- Support the review and ongoing delivery of the SCIP programme
- Continue to deliver initiatives that support the Energy Strategy and Net Zero Carbon targets.
- Complete the development of the Decarbonisation Plan and programme its implementation
- Review the management and letting processes and procedures of the IILP rural portfolio
- Complete the Central Maintenance Fund Works programme
- Further develop the property asset management system (PAMS) to support asset challenge

It is recognised that a significant proportion of the key actions mirror those that were adopted in respect of the 2022 – 2023 year. All remain of the highest priority in order for the portfolio to achieve the improvements necessary to deliver the Strategic Plan's five Strategic Outcomes.

APPENDIX A

Corporate asset management plan 2022 -2026
Annual performance and strategy update report
Asset management - processes and procedures

Background

1. The Corporate Asset Management Plan (CAMP) 2022 - 2026 was approved by the Cabinet in September 2022. This promotes the rationalisation of the Council's property assets, reducing property running costs, generating new property income streams, ensuring cost effective procurement of property and property services, and creating capital receipts to support capital programme or other beneficial investment proposals. The CAMP included a commitment to review asset management processes and procedures.
2. The acquisition and disposal procedures were last reviewed in 2011. No formal process has been put in place in respect of appropriations since all property assets became held and managed corporately in 2008.
3. The current property asset management system (PAMS) -'K2' replaced the earlier PMIS system in January 2016 and, subject to minor outstanding upgrades, now holds all the information required to manage the portfolio and undertake the asset challenge process.
4. In parallel with the asset challenge the opportunity was taken to review the acquisitions and disposals procedures, develop an appropriations procedure and identify necessary improvements to the administrative functions required to support the property information system. The revised procedures were considered and approved by the Corporate Property Steering Group in May this year.

Proposals

5. The following sections detail, separately, the revised procedures to be followed in respect of acquisitions, disposals and appropriations. However, to deliver effective asset management a clear audit trail which shows when the terms of a transaction have been agreed, instructions issued to action the transaction, and when the matter is completed is a first essential. Accordingly, the completion and authorisation of delegated powers certificates and completion statements are a priority and accordingly, the standard forms are being updated to include all relevant data, cost codes etc necessary to establish and maintain full accurate records on K2 in accordance with the approved recommendations.
6. Wherever possible a common approach has been adopted for all assets across the portfolio, including those held by the Investing in Leicestershire Programme (IILP).

Acquisitions

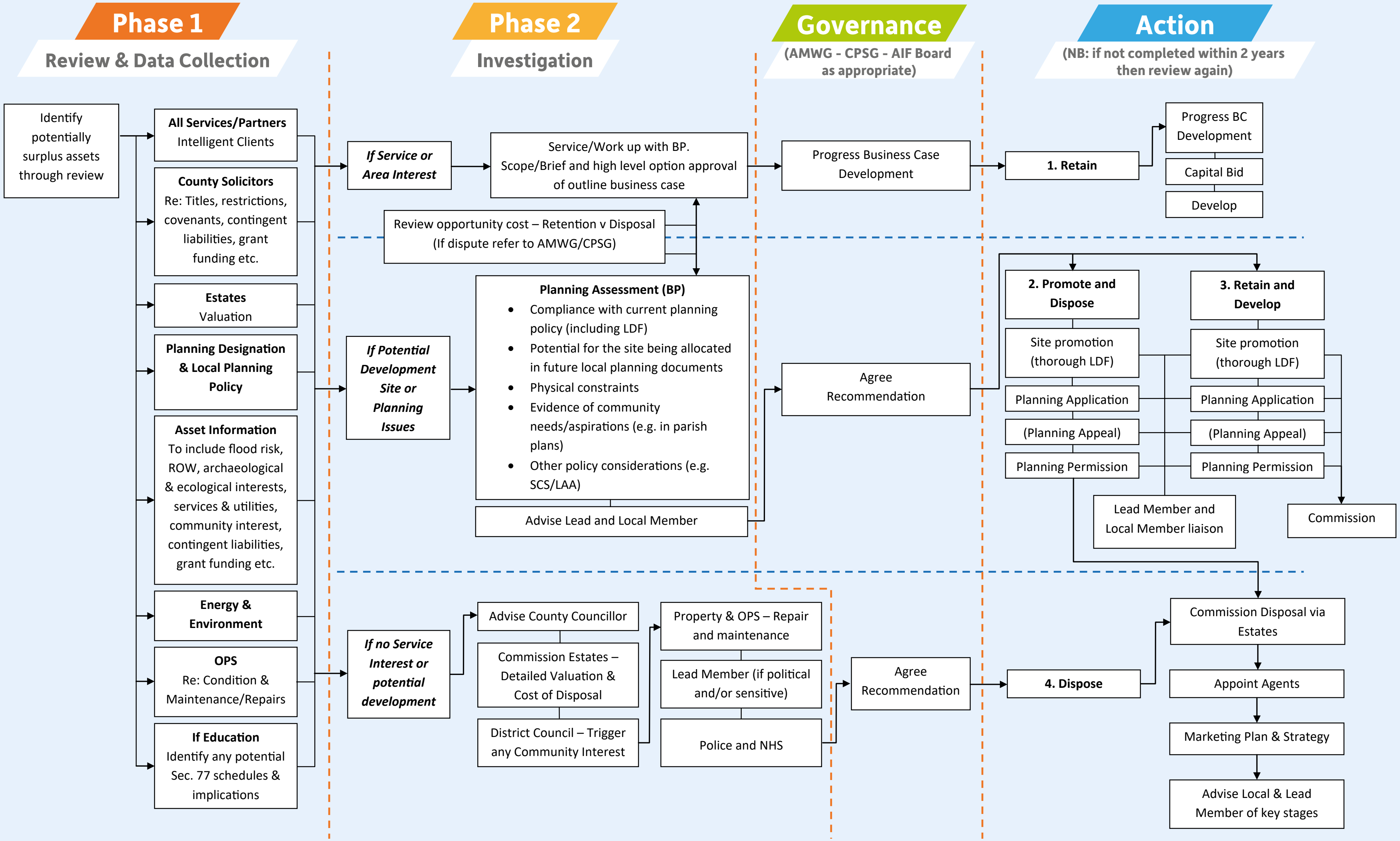
7. An effective and time critical acquisitions process was adopted by the Corporate Asset Investment Fund as part of the investment strategy approved in 2017. This approach now forms part of the current IILP Strategy agreed by Council as part of the Medium Term Financial Strategy 2023 - 2027. A table setting out the procedure, amended to meet the needs of service departments, is set out below.

Category	Pre-conditions	Stage 1 Initial Assessment	Stage 2 Financial Appraisal and Business Case	Stage 3 Approval
Service Property	1. Identified Service requirement 2. Funding approved as part of MTFS 3. Outline Business Case agreed 4. No suitable property capable of meeting need within portfolio	1. Strategic Fit 2. Potential to deliver wider strategic objectives 3. High Level Business Case 4. Planning Overview 5. Legal Considerations 6. Site Inspection 7. Valuation **Additional IILP information** 8. Investment profile 9. Tenancy terms 10. Risk profile - **Preliminary Report to Head of Service and/ or Director of Corporate Resources** Recommendation and seek approval to proceed (or dismiss)	1. Finalise Heads of Terms. 2. Detailed business case to establish full service / financial / budgetary implications of acquisition / operation at the proposed purchase price 3. Assessment of wider benefits to the County Council. 4. Detailed planning/ development appraisal in respect of proposed use and future development potential. 5. Title check. 6. Buildings survey. Additional IILP information 7. Financial check of tenants 8. Advice of independent investment advisor	1. Business Case to be approved by Head of Service /Service Delivery board & Director of Corporate Resources prior to seeking approval 2. Detailed Report prepared for consideration of CPSG (or Head of Service/ Lead Member for urgent decisions). 3. Acquisition approved using delegated powers or Cabinet decision **Note - any conflict of decision in consideration of business case to be referred to CPSG and or Cabinet**
Investing in Leicestershire Programme Investments	Funding approved as part of MTFS			1. Business Case to be approved by Director of Corporate Resources prior to seeking approval 2. Detailed Report prepared for consideration of IILP Board 3. Acquisition approved using delegated powers or Cabinet decision

8. The main additional requirements over and above that of the basic IILP model is that:
    - the service has a fully funded business case tested requirement in advance of Strategic Property Services being instructed to source a suitable property; and,
    - the requirement cannot be met from within the existing portfolio.
9. The other procedural difference is that in cases requiring a timely decision the Head of Service in consultation with the appropriate Lead Member should agree an acquisition and where possible the purchase progressed under the delegated powers of the Director of Corporate Resources in advance of being reported to the Corporate Property Steering Group or Cabinet.
10. The Delegated Powers Certificate (DPC) required to instruct the County Solicitor will provide the following information, for use by Finance and Strategic Property Information Team in addition to the terms of the acquisition:-
    - Any change in the valuation of the asset resulting from its future operational use.
    - Insurance and rating valuations
    - An assessment of condition based on the pre-purchase survey
    - A full set of cost codes for the payment of property related costs
    - Transfer utilities/services to corporate contract.
    - Instructions relating to maintaining the property in a safe secure state in the period between completion and occupation.

Disposals

11. The current disposals procedure set out below was seen as being fit for purpose.



12. However, the following minor amendments were made to the existing procedure:-

    - Where a service expresses an interest in acquiring an otherwise surplus asset that expression of interest should be supported by a business case setting out how the property would meet a strategic requirement, that the proposal was viable and that no suitable property existed within the services portfolio capable of meeting that requirement. Further, the business case should be provided within 6 months of the service submitting the initial expression of interest, for consideration by CPSG.
    - Local Members should be briefed at each stage in the process with sensitive issues referred to Lead Member or Cabinet, as appropriate
    - Insurers will be notified when a property first becomes vacant and at the point it has remained vacant for 3 months.

13. The DPC will include the following additional information:-

    - Where only part of an asset is disposed of revised asset, rating and insurance valuations should be provided for the retained portion of the property.
    - All rights reserved for the benefit of the retained land and any rights granted.

Appropriations

14. Appropriations arise either as a result of a service declaring a property surplus to its requirements and becoming subject to the disposals procedure or following an evaluation as part of the asset challenge.

15. The acquiring service will need to provide an identical fully funded business case to that required for acquisitions. Thereafter, the proposal will be considered by CPSG for approval in accordance with the procedure set out below

Category	Pre-conditions	Stage 1 Initial Assessment	Stage 2 Financial Appraisal and Business Case	Stage 3 Approval
Service Property	1. Identified Service requirement 2. Funding approved as part of MTFS 3. Outline Business Case agreed 4. Suitable property capable of meeting need identified via Asset Challenge or Declared Surplus by another Service Department	1. Strategic Fit 2. Potential to deliver wider strategic objectives 3. High Level Business Case 4. Planning Overview 5. Legal Considerations 6. Site Inspection 7. Valuation **Additional IILP information** 8. Investment profile 9. Tenancy terms 10. Risk profile - **Preliminary Report to Head of Service and/ or Director of Corporate Resources** Recommendation and seek approval to proceed (or dismiss)	1. Detailed business case to establish full service / financial /budgetary implications of acquisition / operation to include opportunity cost of retention 2. Assessment of wider benefits to the County Council. 3. Detailed planning/ development appraisal in respect of proposed use and future development potential. 4. Title check. 5. Buildings survey **Additional IILP information** 6. Financial check of tenants	1. Business Case to be approved by Head of Service and Director of Corporate Resources prior to seeking approval 2. Detailed Report prepared for CPSG consideration and approval
Investing in Leicestershire Programme Investments	1. Funding approved as part of MTFS 2. Suitable property capable of meeting need identified via Asset Challenge or Declared Surplus by Service Department			1. Business Case to be approved by Director of Corporate Resources prior to seeking approval 2. Detailed Report prepared for IILP Board consideration and support 3. Appropriation approved by CPSG

16. A bespoke DPC is being developed in respect of appropriations which would include the following key information:-
    - Plans and clarity over boundaries and other responsibilities
    - Up to date asset, rating and insurance valuations.
    - Details of existing cost codes used in respect of the relinquishing service's running costs and the cost codes of the acquiring service to be used in respect of future transactions.
    - An up-to-date assessment of condition/maintenance backlog.

Consultations

17. Service Departments, Members and other stakeholders were consulted in advance of the revised procedures being approved. Future consultations in respect of all transaction will be conducted in accordance with the agreed procedures.

Conclusion

18. The adoption of the revised processes and procedures will enable all property transactions to be undertaken in an efficient and timely manner ensuring that effective transparent governance is maintained throughout. Further, the agreed improvements to the administrative systems will facilitate the maintenance of accurate and up to date property information vital to effective asset management, the maximisation of potential savings and the achievement of value for money.

APPENDIX B

CORPORATE ASSET MANAGEMENT PLAN 2022 - 2026 ANNUAL PERFORMANCE AND STRATEGY UPDATE REPORT ASSET CHALLENGE 2022 – 2023

1. The Corporate Asset Management Plan (CAMP) 2022 - 2026 was approved by the Cabinet in September 2022. This promotes the rationalisation of the Council's property assets, reducing property running costs, generating new property income streams, ensuring cost effective procurement of property and property services, and creating capital receipts to support capital programme or other beneficial investment proposals. Specifically, it contains a requirement to undertake an asset challenge in respect of the assets held in a minimum of two districts/boroughs each year.
2. The Asset Challenge 2022 - 2023 considered the assets held in Blaby District and Oadby and Wigston Borough. In addition, this year it considered all non-operational assets held across the county.
3. The asset challenge followed the process detailed in the CAMP considering the following:
   - the strategic purpose for which the property is held;
   - the opportunities and risks presented by its continued ownership;
   - the current performance of the property in terms of suitability and value for money;
   - the potential future options in respect of improved service delivery and better utilisation of the asset, including any latent development potential
4. The outcome of this assessment was then used to support evidence based conclusions regarding the retention, re-use or disposal of the property. Following consultation with the current service user, or reference to the Corporate Property Steering Group (CPSG) in circumstances where a dispute arises, the outcome is confirmed and implemented.
5. At the end of the process those freehold properties considered to be potentially surplus to requirements become subject to the disposals process; will be declared surplus by CPSG and sold. The leases of any surplus leasehold property will be surrendered to the landlord.
6. The initial assessment of all properties subject to asset challenge in 2022 - 2023 were completed in March 2023. The outcomes and recommendations are detailed in the following sections.

Blaby District.

7. Excluding non-operational properties that have been considered on a countywide basis in the 2022 - 2023 asset challenge, on 1st April 2022 there were a total of 97 properties within Blaby District of which 83 were owned freehold and 2 held on long leases; the remaining 12 properties categorised as assets 'Not Held' being properties (or in some cases a single room) occupied by a County Council service on the basis of an insecure licence or hiring agreement.

8. The table below shows the breakdown of the 97 properties between asset categories and provides a summary of the asset challenge outcomes.

BLABY DISTRICT					
Category	**Retain**	**Retain / Improve**	**Further Review**	**Re-use**	**Dispose / Surrender**
Primary Schools	23	4			
Secondary Schools	2	1			
Special Schools	1				
Other Education	3				
Libraries	8	1			
A&C Other	1				1
Depots	1				
Highway Assets	4				
Offices	2				
IILP Assets- Farms	28				
IILP Assets - Industrial	1		1		
RHWS Sites	1				
Transport Fleet Base	1				
Travellers Sites	1				
Assets not Held	11				1
TOTAL 97	**88**	**6**	**1**		**2**

9. In respect of the 34 Childrens and Families Service properties there are a total of 31 schools of which 23 (74%) are academies. Further, 2 of the other education assets are former premises officer's accommodation which although potentially surplus cannot be released due to their position within school grounds.

10. The other major portfolio holder within Blaby District is IILP with 28 County Farms Assets and 2 commercial properties. In addition to fulfilling their primary function 15 have been identified as possibly having some long-term development potential and are being promoted through the local plan process. These include Boundary Farm, Sapcote which is being promoted as part of the M69 J2/Stoney Stanton SDA and land at Hall Farm, Blaby where in addition to a housing development biodiversity net gains can also be achieved. The one site requiring further ongoing reviews is the leasehold Narborough Oaks Industrial Estate where returns are permanently constrained by the terms of the County Council's long lease which has 6 years to run.

11. Other points to note are as follows:
    - The Romulus Court Office property will be retained until an alternative data and resilience centre can be secured.
    - All the Highways Assets are within the extents of public highway and have no value.
    - The two potentially surplus properties are both leasehold and, since completing the asset challenge the leases have been surrendered.

Oadby and Wigston Borough

12. On 1st April 2022, excluding non-operational properties there were a total of 37 properties within Oadby and Wigston Borough of which 32 were owned freehold; the remaining 5 properties being assets not held.

13. The table below shows the breakdown of the 37 properties between asset categories and provides a summary of the asset challenge outcomes.

OADBY & WIGSTON BOROUGH					
Category	**Retain**	**Retain / Improve**	**Further Review**	**Re-use**	**Dispose / Surrender**
Primary Schools	11	3			
Secondary Schools	5	3			
Special Schools	2				
Museums	1				
Libraries	3				
A & C Other	1				
Highway Assets	1				
Offices	1				
RHWS Sites		1			
Assets not Held	4				1
TOTAL 37	**29**	**7**			**1**

14. The major portfolio holder within the borough is the Childrens and Families Service with a total of 24 schools (65%). Of these 21 (87%) are academies. Of the schools requiring improvement 3 already have fully funded improvement programme in place.

15. In relation to the remaining properties:

- The County Records Office is to be retained pending the completion of the Archive Collections and Learning Hub (ACL) project on the County Hall campus.
- The potentially surplus "asset not held" where the County Council enjoyed nomination rights has already been sold with the proceeds accruing to the County Council.

Non-Operational Properties

16. At the start of the 2022 - 2023 year there were a total of 103 freehold non-operational properties detailed on the asset register and 7 assets not held.

17. The table below shows the breakdown of the 110 properties between asset categories and provides a summary of the asset challenge outcomes.

NON-OPERATIONAL ASSETS					
Category	**Retain**	**Retain / Improve**	**Further Review**	**Re-use**	**Dispose / Surrender**
Land in Advance	26		7		13
Managed Assets	17	1	1		9
A & C Non-operational	7				
Surplus Property	2		1		13
Assets Held for Sale			2		9
Land Reclamation					2
TOTAL 110	**52**	**1**	**11**		**46**

18. The following provides a brief resume of the outcomes:

- **Land in Advance –** Value £9m - The 46 assets within the Land in Advance category include 42 (91%) that are areas of land that have been purchased to deliver highways infrastructure. Whilst some were of high value when initially purchased for new highway improvement schemes, for example the land acquired for the M1 J24/A453 improvements originally valued at in excess of £7m, the majority of the 26 assets that are to be retained are small areas of land left over from completed schemes, situated outside the designated extents of public highway, providing sites for supporting infrastructure such as attenuation basins, drainage channels, cable ducting and other allied uses. However, it should be noted that regardless of the initial acquisition cost once incorporated within the public highway the asset is of little or no value.
- The 7 Land in Advance sites that are subject to further review include a plot of land at Camelford Road, Hugglescote where future development potential is being assessed and 6 that may need to be retained to support highway infrastructure. The remaining sites are potentially surplus and will become subject to the disposal procedure.

- **Managed Assets –** Value £6m - The Managed Assets category is almost entirely comprised of properties that either no longer support the original purpose for which they were purchased or formed part of a larger purchase not required to support a service but have been leased out, some on long term leases, and provide rental income and a financial return on the original investment. Where there are no interdependencies with an adjoining service held property or legal constraints to the contrary, consideration has been given to the investment potential of these assets and to this end 6 have been appropriated to the IILP portfolio with CPSG approval.
- Nine properties have been identified as surplus to requirements including the Judge's Lodgings, Castle House where the sale is being progressed and a residential property in Braunstone which has been sold.
- **A & C Non-operational –** The 7 assets in this category are all Assets Not Held, being occupied on the basis of insecure licences, often on a long-term basis in properties (or single rooms) owned by the public or voluntary sector enabling Adults and Communities to deliver services to the community in locations accessible to clients. The use of all these assets, will be retained until such time as suitable space becomes available in an appropriately located County Council property.
- **Surplus Property –** Value £3m - At the start of 2022 - 2023 there were 16 surplus assets on the register. Following the asset challenge, in the short term, it was proposed to retain the former Billesdon Highways Depot to realise future development potential and land acquired in connection with the A511 improvements to assess its potential for achieving biodiversity net gains necessary to support other projects in the area. In addition, a further review was proposed in relation to the potential re-use of Birkett House to support the SEND or SCIP programmes. The status of the other 13 properties remains unchanged.
- **Assets Held for Sale –** Value £11m - Of the 11 assets held for sale 9 have either been marketed already or remain available for disposal. However, the former primary school at Holliers Walk, Hinckley and the second tranche of potential development land at the former Snibston Discovery Park are subject to further review having been identified as potentially suitable to support the SCIP extra care programme.
- **Land Reclamation Sites –** The two assets within this category both relate to the Ashby Canal project and is currently being transferred to the canal association.

Potential Disposals

19. A total of 49 assets, including the bulk of those previously declared surplus to requirements, have been identified as remaining or being potentially surplus to requirements, as detailed in the table below. Only 14 represent viable marketing opportunities, being a disposal where the potential sale value exceeds the costs associated with that sale; 7 having already been successfully marketed. 21 of the remaining 35 assets are saleable but would only be attractive to a single special purchaser, normally a neighbouring owner. The final 12 freehold properties whilst available for sale are of nominal/no value. In addition, there are 5 properties held on a lease/licence that would be surrendered.

Challenge Area	Total Surplus	Market Opportunity	One Potential Purchaser	No Value	Surrender Lease
Blaby District	2				2
Oadby & Wigston Borough	1				1
Non-operational Properties	46	13	19	12	2
Total	**49**	**13**	**19**	**12**	**5**

20. With the exception of those assets of nominal or no value all potentially surplus assets that have not already been declared surplus are being progressed through the disposals procedure and where no viable alternative service user is identified they be declared surplus to requirements and will be disposed of at best value, subject to the sale representing a viable marketing opportunity.

21. Subject to the sale representing a viable marketing opportunity, the disposal of those properties already declared surplus (not identified as suitable for retention by asset challenge) that have yet to be marketed, is currently being progressed.

22. Further, in circumstances where a sole special purchaser has been identified the asset is to be offered to that purchaser at an appropriate early date. However, the realisation of capital receipts will be dependent upon the potential purchaser's willingness and ability to proceed.

Capital receipts

23. At such time as all the sales have been completed, the sale proceeds realised from the 7 assets already successfully marketed will amount to £18.4million.

24. The total value of the 7 other potentially viable marketing opportunities, as detailed on the asset register, either being marketed or yet to be marketed amounts to the sum of £5million. In respect of these properties detailed valuations and estimates of costs are being obtained in advance of marketing to ensure a viable surplus can be achieved.

25. Additional capital receipts would also accrue from any sales to single special purchasers.

26. In respect of those properties yet to be formally declared surplus a detailed assessment of the potential capital receipts, revenue and cost implications will be provided as an integral part of the report presented to CPSG.

Revenue Savings and Cost Avoidance

27. The revenue resource implications in respect of sales of freehold properties and surrenders of leased properties has resulted in property operating cost savings and cost avoidance resulting from repairs and maintenance and other commitments not required, as detailed in the table below

Property operating costs	£48,500
Cost Avoided	£230,000
Total savings	£278,500

Notes: The above cost savings are based on the last recorded full year's data and condition survey

Tenants are responsible for running costs in respect of let properties

Service Department Consultation

28. Service Departments are being consulted in accordance with the agreed asset challenge and disposal procedures.

Asset Challenge 2023 - 2024

29. Asset challenge in 2023 – 2024 will review properties in Charnwood Borough and North West Leicestershire District

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SCRUTINY COMMISSION - 6TH SEPTEMBER 2023

MEDIUM TERM FINANCIAL STRATEGY - LATEST POSITION

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to provide members with an update on the County Council's short and medium term financial position in light of the current economic climate. The report also details the changes to the previously agreed 2023-27 capital programme following the latest review, and covers the specific revenue budget monitoring position as at the end of period 4 (the end of July).

Policy Framework and Previous Decisions

2. The Medium Term Financial Strategy (MTFS) for 2023/24 to 2026/27 was approved by the County Council on 22 February 2023. The MTFS forms part of the Budget and Policy Framework as set out in Part 4C of the Council's Constitution.

Timetable for Decision (including Scrutiny)

3. The Cabinet will consider a report on the MTFS position on 16 September 2023, including the proposed changes to the previously agreed 2023-27 capital programme.

4. The Cabinet will be asked to approve the draft MTFS 2024 to 2028 for consultation in December 2023. All Overview and Scrutiny Committees and the Scrutiny Commission will consider the draft MTFS in late January 2024 and the Cabinet will then make a final recommendation to the County Council in February 2024.

Medium Term Financial Strategy

5. The County Council continues to face a challenging financial outlook. The current MTFS anticipated a funding gap of £13m in 2024/25 rising to £88m by 2026/27, despite savings of £62m being targeted. An initial review of the position in light of the continuing inflation pressures, including the 2022/23 pay offer, indicates that the Council will face additional costs in 2023/24 and future years.

6. At this stage last year the Bank of England was forecasting that inflation would peak at 13% in October 2022, although other commentators were predicting even more ominous levels. The Bank expected inflation to fall quickly but it is staying higher for longer than expected, meaning that inflation pressures exceed those anticipated in the December 2022 Local Government Finance Settlement, which has been an ongoing issue with the Settlement over many years.

7. CPI did indeed peak in October 2022 at 11.1%, remained above 10% until March 2023 and has slowed to 6.8% in the latest set of figures, for July 2023. The Bank of England is currently forecasting that inflation will be around 5% by the end of 2023. Then the Bank expects inflation to keep on falling and that it will reach the Bank's 2% target by early 2025. There are no indications that prices will fall back towards their historic level, resulting in a permanent increase in the Council's underlying cost base.

8. The pressures of high inflation levels, coupled with an ever-increasing demand for core services, is presenting a challenge across the whole local government sector. However, as a very low-funded authority Leicestershire is much worse placed than most to be able resolve the problem.

9. In the short term, the County Council will benefit from higher than anticipated investment interest income due to continued higher level of interest rates. The Bank of England has increased the base rate of interest 14 times in a row since December 2001 in a bid to tackle high inflation. The latest rise in August 2023 took the base rate from 5% to 5.25%, its highest level since the 2008 financial crash. With inflation falling, experts now believe the rate will peak at around a lower-than-expected 5.75% in Spring 2024 before falling to just below 4% over the next five years. In the longer term, the levels of interest are likely to fall, leaving the County Council with the need to find additional savings to offset the longer term impacts of inflation.

10. Based upon the available information, and assuming Government support is not forthcoming, the County Council's budget gap is set to grow from £13m in 2024/25 and could realistically exceed £100m by 2027/28. It is inevitable that the £62m of savings planned will have to increase significantly and that the County Council will need to give serious consideration to further Council Tax increases. The County Council will not be able to resolve this problem on its own, either expectations of what can be delivered will have to reduce or new funding found. £100m is almost one fifth of the Council's net budget.

11. The Council will continue to pursue efficiencies. However, it is clear that in the current climate, and on the back of the £250m of savings already delivered since 2010, it will not be possible to balance the Council's financial position without impacting on front line service delivery. Statutory responsibilities will have to be prioritised, and whilst there may be scope for assessing service levels, it will primarily be discretionary services where most savings will need to be identified.

12. The Capital Programme will also need to be prioritised with only essential projects progressing. The current four-year capital programme includes a shortfall in funding of £122m which will be funded by borrowing. The additional revenue costs arising from this borrowing total £9m per annum, on the basis of internal borrowing.

13. The County Council continues to press the Government to address the imbalance on relative funding levels between local authorities. However, the Government appears to be maintaining the current funding position until the next parliament.

14. Furthermore, the financial situation also requires the Government to deal with the structural national issues around funding for those services, such as social care and Special Educational Needs and Disabilities (SEND), which are experiencing a relentless growth in demand. Proposals currently being pursued provide little comfort that the financial pressures falling on local authorities such as Leicestershire will be reduced in the short or medium term.

15. It is vital that the County Council continues to act as quickly as possible to address its financial problems. The challenges being faced are being felt by most authorities, including the best funded, and the authorities unable to balance their budget first will ultimately face the biggest impact upon services. The number of authorities issuing Section 114 notices, or raising the prospect of doing so, continues to grow.

2023/24 REVENUE BUDGET MONITORING – PERIOD 4

16. The period 4 revenue budget monitoring exercise shows a net projected overspend of £8.9m.

17. The 2023/24 revenue budget and the 2023/24 to 2026/27 capital programme were approved by the County Council at its budget meeting on 22 February 2023 as part of the Medium Term Financial Strategy. The monitoring information contained within this report is based on the pattern of expenditure to the end of July 2023.

18. A summary of the position is shown below and set out in more detail in Appendix A.

REVENUE BUDGET MONITORING STATEMENT
FOR THE PERIOD: APRIL 2023 TO JULY 2023

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-2,090	-2,090	
Schools Budget – High Needs	0	13,970	13,970	
Net Total	0	11,880	11,880	
Children & Family Services (Other)	103,362	111,242	7,880	7.6
Adults & Communities	202,455	210,265	7,810	3.9
Public Health	-1,806	-1,806	0	0.0
Environment & Transport	93,766	93,056	-710	-0.8
Chief Executives	15,430	15,350	-80	-0.5
Corporate Resources	38,815	39,445	630	1.6
Capital Financing	26,520	25,020	-1,500	-5.7
Contingency for Inflation	21,865	25,865	4,000	18.3
Other Areas	346	-9,054	-9,400	n/a
Contribution to budget equalisation earmarked reserve	10,400	22,200	11,800	113.5
Contribution to General Fund	1,000	1,000	0	0.0
Total	512,152	532,582	20,430	4.0
Funding	-512,152	-523,652	-11,500	2.2
Net Total	0	8,930	8,930	

19. The key projected variances that have been identified are set out below. Further details of major variances are provided in Appendix B.

<u>Children and Family Services – Schools Budget</u>

20. Overall a net overspend of £11.9m is forecast on the Dedicated Schools Grant (DSG). This is made up mainly of overspends of £14.0m on the High Needs Block, offset by a forecast underspend of £1.6m on the Early Years Block, and an underspend of £0.5m on the Schools Block from schools' growth, which will be retained for meeting the costs of commissioning school places in future years.

21. The High Needs Block projected overspend of a net £14.0m in 2023/24 is £0.7m more than the £13.3m forecast included within the original MTFS.

22. Nationally, concern over the impact of Special Educational Needs and Disabilities (SEND) reform on High Needs expenditure, and the financial difficulties this exposes local authorities to, is growing. Whilst the Government's recent Green Paper is set to result in systemic changes to the national SEND system, such changes may take a number of years to deliver and none appear to address the funding issues.

23. Leicestershire has been invited into the Department of Education's (DfE) Delivering Better Value (DBV) in SEND programme as a result of the deficit. At the end of 2022/23 the accumulated High Needs deficit stood at £35.5m. Leicestershire has received £1m to support the transformation of the SEND system. The Transforming SEND in Leicestershire (TSIL) programme is mobilised and is supported by colleagues across the Authority and by an external strategic partner, Newton Europe, (independent consultants appointed by the Council); this programme and the DBV programme will be closely aligned. Discussions have taken place with the DfE regarding the strategic partner and funding. Whilst the cost of the strategic partner cannot be charged to DSG the investment in TSIL is recognised as a key step in reducing the DSG deficit and as such would be taken into consideration if there was a call on the County Council to contribute to the deficit reduction, as has been the case for authorities with even more serious deficits.

24. Without new interventions the High Needs block deficit is forecast to continue to increase over the MTFS period and is not financially sustainable. This creates a significant and unresolved financial risk to the Council. Work is underway to reassess the financial impact on the budget over the coming months.

25. The Early Years budget is showing an underspend of £1.6m. The budget is based on the number of hours used to calculate the original 2023-24 Early Years DSG income in December 2022. The 2023-24 Early Years DSG income was increased in July 2023 by £1.7m to allow for the Spring Term 2023 census. This includes a prior year adjustment of £0.6m relating to 2022/23. The forecast hours paid to Providers for 2023-24 are £1.2m more than the budget, reflecting the increase in Spring 2023. There is also a planned underspend of £0.9m as part of the payback of previous years' Early Years deficits. The deficit as at 31 March 2023 was £5.3m, so this projected £1.6m underspend will reduce this. The plan is to clear this deficit over 4 years.

Children and Family Services – Local Authority Budget (Other)

26. The Local Authority budget is projected to overspend by a net £7.9m (7.6%), mainly relating to projected overspends on the Children's Social Care Placements budget (£5.5m) and Unaccompanied Asylum Seeking Children's budget (£1.9m).

27. The actual number of Children in Care (CIC), currently circa.686 and broadly consistent with CIC numbers in Leicestershire since early 2021, has continued to stabilise through the work of the Defining CFS Programme. The number of older children with complex emotional needs requiring higher levels of support in residential care has also remained in line with current MTFS projections, circa.10-11% of overall children in care numbers.

28. The projected overspend on the Children's Social Care Placement budget (£5.5m) is largely due to the average weekly cost per residential placement having increased from £4,800 per week (budgeted average cost included in the MTFS) to the current average of £5,750 per week which equates to a 20% increase in the last 12-18 months. The increase is partly related to the cohort of children (those with the most appropriate fit for residential care) but the main contributing factor is market pressures. A lack of provider capacity and volatility in the market, as well as increasing complexity and/or different

cohort of children and young people needing placements, has significantly increased the cost of new placements compared to those placements ending.

29. Market instability and provider choice is resulting in children with a range of complex needs being ‘unattractive’ to the market (needs includes violence, aggression as a result of experiencing trauma) and results in the use of high cost (£10,000+ pw per child) interim provisions until behaviour stabilises or another placement can be found. Other sufficiency issues impacting on budget pressure include a lack of step-down options from residential provision (circa.10 children who have been waiting long periods for family-based placements), with continued searches and work with providers to try to identify suitable provision, not helped with a low recruitment pipeline for mainstream carers which particularly impacts on availability of placements for older children and those with more complex needs.

30. As part of the actions being taken to mitigate against these financial pressures, the Defining Children and Family Services for the Future programme has several workstreams to enable MTFS benefits to be achieved alongside the Social Care Investment Programme (SCIP) working in partnership with Barnardo’s. This will have a positive impact through the creation of additional residential provision capacity for under 16’s, over 16’s and parent and children places. The Council has been successful in obtaining additional capital grant funding (match funded by LCC) to enable investment in nine properties and up to 27 placements over the MTFS, of which one unit is currently up and running with children placed and several other units are to become operational later this financial year. Although part of the registration process of these units requires each unit’s operational infrastructure to be live in preparation for Ofsted to grant its registration. This subsequently adds one-off additional costs to the placement budget forecast. These have been factored into the forecast (current estimate circa £1m), several units are planned to take place over the course of this financial year.

31. The £1.9m projected overspend position in relation to the Unaccompanied Asylum-Seeking Children (UASC) budget is largely due to the rapid increase in UASC in care and care leavers, which has required a greater resource requirement to meet their needs. The different entry routes include both the National Transfer Scheme (NTS), as well as spontaneous arrivals. But more recently through the hotel dispersal scheme where requests to accommodate people placed in Asylum Dispersal Hotels in Leicestershire are made. Whilst they have been deemed adults by the Home Office they subsequently claim to be children which creates an additional pressure for the service to manage which is not fully funded. In addition, delays in asylum claim processes mean that the Council is often accommodating young people well past the age of 18. Home Office funding drops significantly at the age of 18, but the costs do not.

32. Currently there are 97 UASC in care. This is an increase of 37 young people (62%) since 31 March 2022. This rise continues the upward trend experienced in 2021/22, an expected increase due to the NTS becoming mandatory and two dispersal hotels opening in Leicestershire. UASC over 18’s is currently 122, which represents almost a 77% increase since March 2022, and this is linked to the increasing number of care leavers, for whom a reduced funding rate is received in comparison to the costs being incurred.

33. The SENA Service budget is currently forecast to overspend by £1.1m in 2023/24. During the previous financial year increased service demand and complexity resulted in the need for additional service resource to ensure demand can be managed in the most efficient and effective manner, with this position continuing into 2023/24. A heavy reliance on agency workers to undertake Education, Health and Care plan writing and tribunal work has resulted in a significant forecast overspend in this area. Meanwhile mediation costs remain high adding to the overall in year budget pressure.

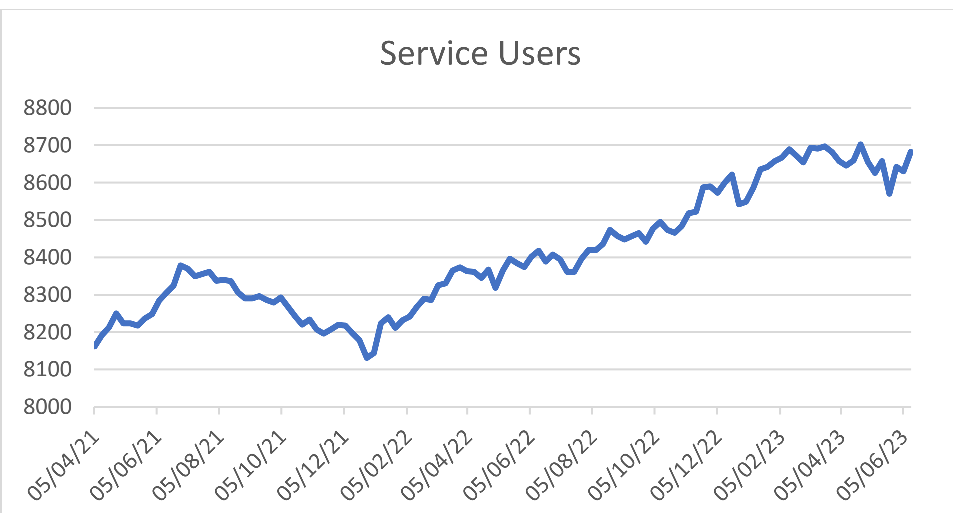
34. As a direct response to the projected overspends as described above, the departmental management team has led a review of non-statutory services together with a robust management and review of vacancies within the department. The output of this work is projecting to deliver some one-off in year efficiencies and budget opportunities of £0.6m which includes delaying recruitment to non-essential posts where appropriate. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.

<u>Adults and Communities</u>

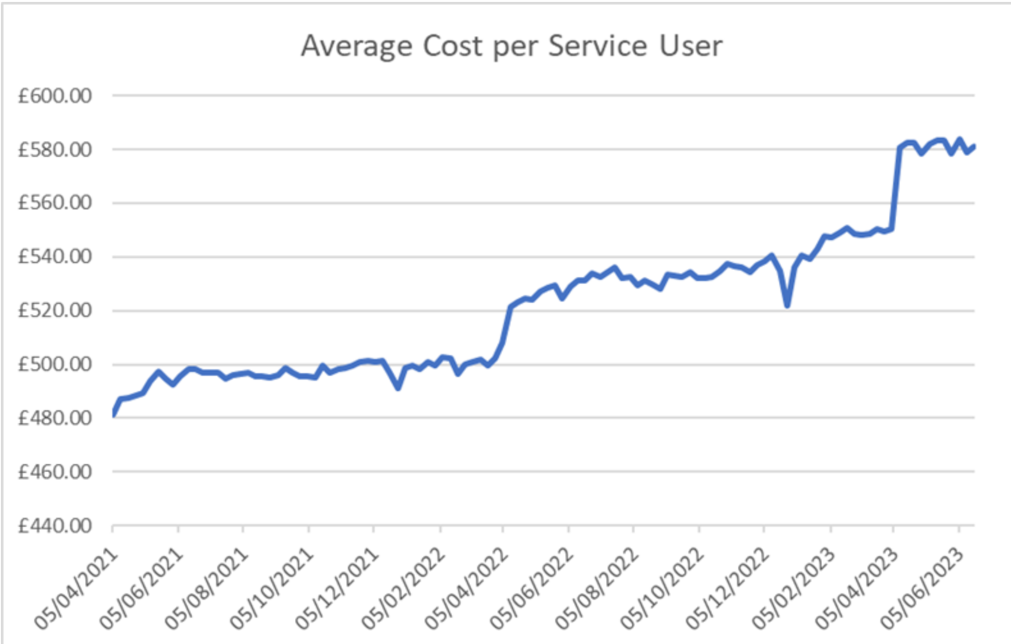
35. A net overspend of £7.8m (3.9%) is forecast for the departmental revenue budget for 2023/24.

<u>Overall Demand Trends</u>

36. The following chart shows the overall numbers of service users being supported across Residential Care, Homecare, Supported Living, Cash Payments and Community Life Choices from April 2021 through to June 2023. Typical growth would be approximately 1-1.5% per annum. However, the current number of service users supported is around 3% per annum.



37. The following chart shows the average cost per service user over the same time period. The steep rise from April relates to the annual fee review uplift.



38. Note the average cost per service user was not static and rose over the course of 2022/23 mainly driven by higher cost packages within residential care from market pressures to secure a placement and increasing hours being commissioned within Homecare from increasing numbers of discharges from hospital.

39. The main areas of variance are:

<u>Homecare - £7.3m overspend.</u>

40. The current weekly homecare payments are estimated to be £0.9m per week. The forecast provides for an average of 2,700 service users for the year which is 6% higher than the budgeted number of 2,540. Current average package costs (or hours) are also 6% higher than budgeted (excluding the fee uplift of 8.4%) at £332 per service user per week compared to the budgeted value of £313. The increase is from delaying admission into residential care and increased provision within the service user's own home, and lower numbers of service users opting to take a direct cash payment.

41. The department has established a wide-ranging demand management programme. This is prioritising an analysis of home care data to establish whether any internal changes in practice have led to the higher spend and to what extent this has been as a result of external influences. The project is also reviewing existing savings activity to ensure these are on track to meet the MTFS targets.

Residential Care - £3.4m overspend.

42. The projected overspend is mainly due to increases in the average weekly cost per residential placement over and above the planned inflationary increases to the banded rates. This is a continuation of the pressure experienced in 2022/23 which led to an overspend. There are an average 2,390 service users with an average weekly rate of £1,017.

43. The main driver of the increases is where the authority has agreed funding above the banded rates to ensure that the service is provided with a suitable care placement, known as Local Authority Agreed Funding (LAAF). The forecast cost of LAAFs in 2023/24 (based on current volumes and values of LAAFs) is £14.6m. This compares to the 2022/23 cost of £12.6m, and 2021/22 of £10.0m. The 2023/24 forecast is a 46% increase on the 2021/22 costs. This increase is a combination of both an increase in the volume and value of LAAFs. The volume of LAAFs has increased from 742 service users per week in 2021/22 to 951 in 2023/24. The value of LAAFs has increased from an average of £258 per service user per week in 2021/22 to £294 in 2023/24. The increase in LAAFs (both volume and value) is predominantly in the older adult’s area.

44. This overspend is offset by additional service user income of £1.5m which is mainly due to backdated arrears from working through a backlog of financial assessments. The department is also investigating the allocation of the latest tranche of Market Sustainability and Improvement Fund to reduce this overspend by £3.7m.

Supported Living - £2.9m overspend.

45. The forecast assumes a projected increase of 40 service users over the course of the financial year from 470 to 510. The majority of the increase in service users are from those either transitioning from Children's Social Care, living at home with their parents or moving from a Hospital/Residential setting into Supported Living. They represent new growth in numbers rather than a movement of existing service users from Residential Care, which was the primary driver under the TOM Programme. The Dynamic Purchasing System used by Supported Living commissioners is increasing the supply of additional Supported Living schemes facilitating the increase in the number of placements that can be made. Average placement costs currently stand at £1,400 per week per service user.

Better Care Fund / Other NHS Income - £1.1m loss of income.

46. A total of £6m income was budgeted for from the NHS for additional costs relating to Covid-19 mainly due to hospital discharges. However, current indications are that there will be a £2.8m shortfall in this income for 2023/24. The overall position is offset by additional BCF income and new Discharge Grant of £1.7m.

Community Income - £1.3m additional income

47. The majority of the additional income is for home care packages for people with a temporary health condition (£0.8m). The numbers of people receiving this type of care

increased during 2022/23 due to the removal of hospital discharge funding for home care mid- year. The numbers funded seen at the end of 2022/23 have continued into 2023/24. There is also a continuing increase in the number of chargeable service users who are receiving other non-residential services and the average amount per service user is also increasing.

Other Areas

48. There has been a further allocation of the Market Sustainability and Improvement Fund (tranche 2) of £3.7m which is currently uncommitted and available for offsetting the overspend potentially in Residential Care with the allocation still to be decided. (The £3.7m has been already included in the overall departmental forecast overspend.)

49. These costs are offset by a net £1.9m underspend from staffing and other minor variations.

50. A robust demand management plan will continue to be in place during 2023/24 which will focus on managing demand particularly for homecare:

- reviews of all service users' packages that have commenced or changed since April 2022
- working with NHS partners to help improve the discharge pathway including reviewing funding arrangements
- ensure financial and funding assessments are undertaken
- reviewing internal processes.

Public Health

51. The Department is forecasting an underspend of £0.2m, mainly due to staffing vacancies in the Quit Ready, First Contact Plus, Programme Delivery and Teen Health teams. The underspend will be transferred to the Public Health earmarked reserve.

Environment and Transport

52. A net underspend of £0.7m (0.8%) is forecast.

53. Across Highways and Transport Operations a net £1.0m overspend is reported as a result of:

- Social Care Transport / Passenger Fleet - net overspend £1.0m. Increased costs following a rise in the number of commissioned journeys for Social Care Transport, additional vehicle hire and maintenance costs, net of underspends on Passenger Fleet due to vacant driver and escort posts.
- SEN Transport – £0.6m overspend. Delays in receipt of applications for SEN transport combined with the effects of a shrinking transport sector.
- Mainstream School Transport - £0.5m overspend. Delays in processing mainstream school transport applications, allocation of placements outside residential area and limited bus capacity.

- Staffing vacancies – net £0.7m underspend. On-going staffing vacancies caused by an inability to recruit to vacant posts across teams.
- Additional fee income – net £0.2m underspend. Increase in issues of Temporary Traffic Regulation Orders (TTRO) and network licenses/permits.
- Concessionary travel - £0.2m underspend. Lower than budgeted reimbursement.

54. There is a net underspend of £0.4m on Environment and Waste Management services. Additional income from the sale of dry recyclable materials and electrical items (£0.4m) and net underspends arising from the diversion of waste from Energy from Waste (EfW) and Refused-derived fuel (RDF) facilities into landfill (£0.1m). These offset the cost of legislative change to divert the disposal of upholstered domestic seating containing Persistent Organic Pollutants (POPs) from landfill to incineration (£0.2m). Balance relates to underspends on delivery of Environmental policy and initiatives (£0.1m underspend).

55. At this stage, there are also forecast increased pressures on environmental and reactive maintenance works, total £0.5m. A compensating forecast savings target of £0.5m has been included to offset these additional costs, pending agreement of mitigating actions and approval of any resulting overspend by the Asset Programme Board.

56. The balance relates to vacancies across teams within Development & Growth (£0.4m underspend) and additional income from S38 and S278 fees (£0.9m underspend).

Chief Executive's

57. The Department is reporting a net underspend of £0.1m (0.5%). There are underspends mainly due to increased Registrar's income (£0.4m) and staffing vacancies (£0.1m), offset by additional costs of £0.4m relating to the Coroner's Service.

Corporate Resources

58. The Department is forecasting a net overspend of £0.6m (1.6%). There are continuing pressures on Commercialism budgets, projected as a £0.7m overspend, due to increases in the national living wage and general inflationary pressures. The forecast position is after a one-off transfer of £2m from the MTFS Risks Contingency has been added to the School Meals service budget to mitigate the impact of the inflationary pressures arising from the difficult economic climate. Work is continuing to review pressures and to identify mitigating actions.

Central Contingencies

59. Growth contingency (£1m). At this stage the contingency is show as being released, to offset the overspends due to increased spending pressures in departments.

60. Fair Cost of Care / Adult Social Care Reforms (£4.6m). An element of £3.5m of this contingency is required to fund additional spending in Adults and Communities. The balance of £1.1m is shown as being released as an underspend reflecting the additional expenditure in the department.

61. MTFS Risks Contingency (£10m). £2m of the contingency has been released to provide temporary support to the Commercial Services budget. At this stage no further release of the contingency has been assumed in the projection. However, it is planned to be required to offset the overall forecast revenue overspend.

62. Inflation Contingency (£21.9m balance). The contingency is currently projected to be exceeded by around £4m in the current year. The pay offers on the table for Local Government staff for the current year exceed the amount assumed in the contingency by around £1.6m (and given the fact that votes have been to reject the offer, this could end up being higher still). The position on a number of other key requirements, such as energy and other running cost inflation, should become clearer as the year progresses so at this stage there is considerable uncertainty in this estimate.

Central Items

63. The Financing of Capital budget is forecast to be £1.5m underspent due to a reduction in interest payments following the early repayment of £42m of external debt principal to the Public Works Loans Board (PWLB) over the period June to August 2023. Following market expectations of higher and for longer inflation in the UK, there has been an increase in the discounts/reduction in the premiums available for the premature repayment of debt. At the start of the year the Council was £54m overborrowed against the capital financing requirement (the level of historic capital expenditure required to be funded). The premature repayment rates will continue to be monitored for any further opportunities to repay existing debt early.

64. Bank and other interest, £6.4m increased investment income due to continued increases in the Bank of England base rate, and higher than estimated average Council balances. The base rate now stands at 5.25% with market forecasts for it to continue to increase, possibly to around 5.75% before starting to reduce. Average balances remain strong due to increases in reserves, slippage on the capital programme and government grants paid in advance.

65. Central expenditure budgets are currently forecast at a net underspend of £0.9m. This comprises a forecast £1m underspend on Prior Year Adjustments, due primarily to the cleansing of receipted aged purchase orders that are no longer required and Pensions (pre LGR/LGR) which are projected to be overspend by £0.1m due to the annual pensions increase of 10.1% from April 2023.

66. Additional business rates income, as set out below, are shown as being contributed to the Budget Equalisation Reserve, to be used to offset the anticipated gap in the MTFS projection in 2025/26.

Business Rates

67. Additional Business Rates income of £5.1m is forecast in 2023/24, based on the latest information from districts on their NNDR1 forms and forecast section 31 grants. The MTFS adopted a prudent approach and did not allow for potential real terms growth or for the full impact of inflation in charges to businesses and S31 grants.

68. The latest projection of Leicester and Leicestershire Business Rates Pool shows levies for 2023/24, based on quarter one forecasts to be a total of £18.3m, of which one third (£6.1m) will be allocated to the County Council under the revised treatment of levies reported to Cabinet on 23 June 2023. In addition, there are amounts of £0.2m due as a third share of previous years' levies held by the LLEP and £0.2m relating to interest on 2020/21 and 2021/22 levies, giving an overall forecast of £6.5m.

Overall Revenue Summary

69. At this stage there is a forecast net overspend of £8.9m but given that the impact of inflation on the County Council budget is difficult to assess, this is uncertain. The position will be updated as more information is known during the financial year.

70. The 2023/24 outturn position is very concerning and despite actions to reduce expenditure a significant overspend for the financial year is the most likely outcome. The MTFS Risks contingency (£8m) will be the initial source of funding for the overspend. If this is not sufficient earmarked reserves will need to be diverted from their intended purpose to make up the shortfall. Any use of reserves to meet part of a 2023/24 overspend will have a consequence on the funding available to the County Council in future years, when pressures upon finances are expected to worsen significantly.

CAPITAL PROGRAMME – CAPITAL REVIEW

71. Over the summer the four-year capital programme has been reviewed and refreshed to reflect the latest estimates and profile of capital schemes, new capital grants and other funding changes.

72. The original MTFS 2023-27 capital programme totalled £510m. This was increased to £541m after adjustments from the 2022/23 outturn mainly due to slippage on schemes.

73. Following the review over the summer the revised capital programme has increased to £570m. The increase of £29m in forecast expenditure is fully funded by additional capital grants, external contributions and revenue reserve contributions.

74. The revised 4-year programme is summarised below and is shown in detail in Appendix C.

Capital Programme Expenditure 2023-27	Original MTFS 2023-27 Programme £000	In year and Outturn adjustments (from 22/23) £000	Updated MTFS 2023-27 Programme £000	Revised MTFS 2023-27 Programme £000	Revised Programme Change £000
Children & Family Services	104,205	14,888	119,093	128,163	9,070
Adults and Communities	21,243	314	21,557	21,557	0
Environment & Transport	256,100	8,097	264,197	283,570	19,373

Chief Executive's	200	30	230	230	0
Corporate Resources	9,652	2,392	12,044	12,223	179
Corporate Programme	118,281	5,738	124,019	124,054	35
Total	**509,681**	**31,459**	**541,140**	**569,797**	**28,657**
Capital Programme Funding 2023-27					
Grant Funding/ Specific Contributions	269,665	2,904	272,569	291,036	18,467
Discretionary Funding – capital receipts/ Revenue/ Reserves	116,216	28,555	144,771	156,250	11,479
Discretionary Funding – borrowing required	123,800	0	123,800	122,511	(1,289)
Total	**509,681**	**31,459**	**541,140**	**569,797**	**28,657**

75. Overall, the net funding required for the programme has decreased by £1.3m following the review of the capital programme. This has the impact of reducing the overall amount of borrowing required to fund the capital programme to £122.5m (from £123.8m) in the original approved 2023-27 MTFS. An additional contribution of £1.3m has been able to be added to the overall capital programme following a review of earmarked reserve balances.

76. The key changes from the capital review are described below.

<u>Children and Families</u>

77. The overall programme has increased by £9m due to the following changes:

- Additional DfE 2025/26 Basic Need grant £17m. The additional funding has been added to the provision of additional school places capital programme.
- Removal of a new project to build a new social, emotional and mental health (SEMH) special (free) school. This was to be funded by a DfE capital grant of £8m. This project is now being commissioned and managed directly by the DfE and therefore the capital expenditure and equivalent funding has been removed from the County Council's capital programme.

<u>Adults and Communities</u>

78. Minor reprofiling of spend but no other significant changes.

<u>Environment and Transport</u>

79. The revised capital programme has increased by £19.4m, which is entirely funded from additional capital grants and discretionary funding.

80. The main changes are:

- Zouch Bridge – increase of £7.5m, funded from the Council's share of the Business Rates Pool levies, approved by the Cabinet in June 2023.
- A511/A50 Major Road Network £3.8m - funded from Department for Transport capital grant
- Transport Asset Management (maintenance) schemes - increased by £7.5m, funded by £3.2m additional DfT pothole grant funding, £3m set aside for capital maintenance from the 2022/23 revenue outturn, and section 106 contributions.

Chief Executives

81. No significant changes.

Corporate Resources

82. The overall programme has increased by £0.2m due to new grant funding from the Salix low carbon skills fund. The additional funding has been included in the Energy Initiatives capital scheme allocation.

Corporate

83. No significant overall changes. Some schemes within the Investing in Leicestershire Programme (IILP) have been reprofiled resulting in £13m being moved from 2023/24 to 2024/25. The main area is the Quorn Solar Farm project due to revised timescales following the identification of a relevant framework. Additional time to complete legal review of framework documentation and time to prepare tender documentation was also needed.

Capital Receipts

84. There is no change in the estimate for capital receipts.

Capital Summary

85. The review of the capital programme has resulted in updates to the capital programme for the latest known funding available and latest estimates of profiled spend. The revised four-year capital programme totals £570m.

86. The overall capital programme has increased by £29m, entirely funded by additional resources from capital grants, section 106 contributions and reserve contributions. In addition £1.3m has also been added to the overall programme funding which has reduced the overall borrowing required to fund the capital programme from £123.8m to £122.5m.

Investing in Leicestershire Programme – 2023/24 Quarter 1 Monitoring

87. A summary of the Investing in Leicestershire Programme (IiLP) position as at quarter 1 for 2023/24 is set out below:

Asset Class	Opening Capital Value	Capital Incurred / (Returned) 2023/24	Net Income YTD	Forecast Net Income FY	In year forecast net income return %	Since Inception IRR / Target
	£000	£000	£000	£000	%	%
Development	**46,187**	**0**	**(35)**	**(136)**	**(0.3%)**	n/a
Rural	**24,212**	**0**	**(65)**	**452**	**1.9%**	n/a
Office	53,103	0	643	3,047	5.7%	
Industrial	29,514	0	504	1,424	4.8%	
Distribution	454	0	6	9	2.0%	
Other	4,588	0	33	226	4.9%	
Central costs – additional sinking fund	0	0	0	(262)	0	
Directly Held Properties	**87,658**	**0**	**1,186**	**4,444**	**5.0%**	n/a
Pooled Property (three open ended and one closed ended fund)	22,471	0	225	759	3.4%	2.3%
Private Debt MAC 4 2017	8,739	(1,247)	659	659	7.5%	4.7%
Private Debt MAC 6 2021	19,969	(371)	459	459	2.3%	4.8%
Pooled Infrastructure Fund	8,693	0	0	338	3.9%	6%
Pooled Bank Risk Share	15,541	0	0	635	4.0%	8.5%
Indirect Holdings	**75,413**	**(1,618)**	**1,343**	**2,850**	**1.8%**	
Total (All IiLP)	**233,469**	**(1,618)**	**2,429**	**7,610**	**3.3%**	
Total excl. development and rural	**163,071**	**(1,618)**	**2,530**	**7,294**	**4.5%**	

88. Overall the fund is forecasting to achieve a 3.3% net income return for 2023/24. The forecast net income of £7.6m is in line with the budget.

89. The rural asset class shows a small deficit for quarter one due to the front loading of certain payments and one-off payments. However, the full year budget of £0.5m is still forecast to be achieved.

90. The indirect holdings are made with the purpose of reducing overall portfolio risk by investing in differing asset classes and geographies. The aim is to provide diversified income from a variety of differing sources. During 2022/23 two new investments were made totalling £23.7m, comprising £15m to a bank risk sharing investment and £8.7m into a pooled infrastructure fund.

91. The valuations for the indirect holdings include the four pooled property funds which in 2022/23 fell in aggregate by £5.5m in the year. The position for quarter one 2023/24 shows a decrease in net asset value (NAV) of £0.2m, or -0.7%. Property valuations are sensitive to interest rate expectations with an increase in peak UK rates and or increase in duration before rates reduce to have a negative impact on valuations, all other things being equal. The reduction in valuation of the pooled property funds is due to the repricing of property assets versus the risk free UK bank base rate increases since mid-2022. Income from the underlying holdings is still considerable and is expected to in line with the budget of £0.8m.

92. Private debt income was lower than budgeted by £0.5m in 2022/23 due to the manager holding higher than normal cash levels whilst the volatility in exchange rates persisted during the second half of 2022/23. The exchange rates have since normalised, the manager has distributed £1.1m in quarter one alone. This level of income is not envisaged to continue through the year, some of which was a catch up from last year. A revised cashflow forecast is awaited from the investment manager.

93. Income from the bank risk share investment should commence quarterly later this financial year and the IiLP should receive two payments. Income is expected to be at least in line with the budget.

94. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual IiLP performance report.

MTFS REFRESH 2024-2028

National Position

95. As noted above, at the Monetary Policy Committee meeting in August, the Bank of England raised interest rates by 0.25% to 5.25%, the fourteenth time in a row that the rates have been increased. The increases are an attempt to help to lower the levels of inflation. Further increases are expected in the coming months with interest rates expected to peak at 5.75% in spring 2024 before falling to 4% over the next five years.

96. CPI inflation is now expected to fall from 6.8% in July to around 5% by the end of 2023. Furthermore, it is forecast that it will remain in excess of the 2% target through 2024 before falling back in line in early 2025. As income is not expected to increase at this rate these forecasts suggest an increasing squeeze on resources throughout 2023 and 2024. As inflation is expected to fall back to the Bank of England’s target, rather than go negative, the consequence is that there will be a permanent reduction in the level of services the Council is able to deliver.

97. UK GDP growth is expected grow by around 0.3% in 2023 and 0.7% in 2024, although some forecasters predict declines of -0.4% in 2023 and -0.2% in 2024.

98. Rising wages and continued relatively low unemployment levels will to some extent boost tax revenues although the increase in interest rates will increase the costs of servicing the national debt.

99. However, the UK unemployment rate has increased in the latest quarter, with the largest quarterly increase since August to October 2021. The unemployment rate was estimated at 4.2%, 0.3% higher than the previous quarter and 0.2% above pre Covid-19 levels. The unemployment rate had generally been falling from late 2013 until the start of the pandemic. Thereafter it increased until the end of 2020 but had returned to pre-pandemic rates. Unemployment rates by region show the East Midlands to be at 3.7%, relatively lower than the national average of 4.2%.

100. It is possible that the country will experience a significant recession, driven by inflation. A recession would normally reduce inflation, but the UK is forecast to move into stagflation where the economy is squeezed by slow growth, high unemployment, and rising prices. The fall in GDP resulting from a recession would have a direct impact upon tax revenue, both locally and nationally. It would not just reduce income, but service demand increases as inflation impacts the most vulnerable.

101. There are growing numbers of local authorities that are reporting significant overspends in the current year, with some implementing spending controls and warning of the prospect of having to issue a section 114 notice, often viewed as effectively declaring the particular Council to be bankrupt. Some recent examples of Councils encountering financial difficulties include:

- Guildford Borough Council needs to finance debts of £300m and has issued financial controls and is seeking further external support and advice, and will reconsider if it needs to issue a section 114 notice in October;
- Kent County Council had a significant £47m overspend last year and faces a £44m overspend this year, both mainly relating to children's and adults social care services and is undertaking a consultation on how it can manage spending within the finance available, or its budget will "become unsustainable".
- Hampshire County Council had to offset a £51m budget gap in 2022/23 with funding from its budget bridging reserve and faces a £132m gap in its budget for 2025/26. The leader of the opposition attributed the financial situation to the "underfunding of social care services from central government over many years".
- Warwickshire County Council faces "highly volatile" financial circumstances and "difficult choices" on how it will fund its capital expenditure and services.
- Middlesborough Council has projected a £12m overspend this year and is taking "stringent" action to cut costs and to avoid a section 114 notice. The overspend is due to inflation and increasing demand for children's and adult social care and homelessness services.

102. Rob Whiteman, CEO at CIPFA, wrote in a Municipal Journal article on 31 July that:

"My judgement is that we may see more s114s from commercialism and excessive borrowing that were in the pipeline before the rules tightened. But generally, new local proposals with excessive risks that breach prudential guidance appear to have ceased, for now. Also, we may see particular technical issues or liabilities such as the HRA or single status give rise to specific potential s114 cases.

More likely, however, if we see more councils in close proximity to issuing a s114 it will be owing to difficulty covering significant pressures, such as adult and children's social care. These may be more like Northamptonshire where over-optimism and poor governance causes them to lose control of their finances and need external help. To avoid this, the first step to recovery is recognising that change is needed. I'm afraid I see some councils that could avoid failure but are still not taking that critical first step. That said, sooner or later we will reach a point when a well managed authority, whose costs benchmark well and resources are managed effectively, hits the buffers through a lack of funding to meet service demands."

103. Andrew Burns, associate director at CIPFA, was also quoted in a Public Finance article on 17 August, saying "We are starting to see councils who traditionally have been well run and well led, starting to report that they are under financial pressure from service demand and the cost of living. We are probably nearer a section 114 notice being served in a council that has traditionally been well led and well managed than we have been for a while."

104. The Local Government Association chair, Cllr Shaun Davies, has warned that "Inflation, the National Living Wage, energy costs and increasing demand for services are adding billions of extra costs just to keep services standing still."

105. County Councils' Network chair Cllr Tim Oliver has said that high inflation and rising demand have left its member authorities "facing some of their toughest budgetary decisions to date. County authorities will do all they can this year to deliver savings while protecting vital frontline services, particularly care services, but there is now little fat to cut after a decade of financial restraint, and many councils are facing significant in-year overspends as a result."

106. The Government's stance is that there is no more funding and that the current framework of the Local Government Settlement will remain in place until the next parliament.

Leicestershire Position

107. The MTFS will be refreshed over the autumn, with a similar approach taken to that followed in previous years, namely continued investment in organisational change, planning and robust delivery of savings and a realistic allowance for growth. However, as with last year's MTFS, this will be done with greater urgency in the context of the serious financial position the County Council is facing, with a significant funding gap in 2024/25 (usually at this stage the following year's financial position would be balanced). There is also a great deal of uncertainty around the likely ongoing impact of inflation, the impact of other service reforms (in particular Adult Social Care) as well as the Council's core income levels.

108. Also, as well as the impact of inflation there are a number of other risks and challenges that will feed into the financial position.

Pay award

109. An offer has been made on the national employers' side of a pay award which is a fixed increase of £1,925 up to Grade 13 (equating to a range from 9.5% to 3.94%), 3.88% for Grades 14 to 17 and 3.5% for Grades 18 and above. At this stage it is unclear whether this will be accepted. The overall impact on the pay bill is estimated at around 6.2%. This will add an additional cost of £1.6m for 2023/24 over and above what was budgeted for, which will continue through the life of the MTFS. It is estimated that the assumptions included regarding pay increases in 2024/25 may need to be increased by a further £2.5m as a consequence. Any increases in subsequent years over and above the 3% provided for will add further to the gap. In simple terms, each extra 1% would add around £2m to the Council's bottom line. So, for example if each of those later years in the MTFS saw a pay award of 5%, the gap by 2027/28 would be £17m higher.

National Living Wage

110. The National Living Wage (NLW) interacts with the impact of the pay award for internal staff. But there are additional costs associated with commissioned services, especially in Adult Social Care. Each 50p increase on the rate adds approximately £10m to the Council's bottom line. The provision made within the corporate inflation contingency for the increased costs in 2023/24 has proved to be adequate and significant provision was made for the 2024/25 to 2026/27 period, but there is a risk that those amounts could prove to be insufficient. The position will be reviewed as part of the preparation of the 2024-28 MTFS. An announcement of the NLW for the next financial year is usually made alongside the Autumn Budget. The Government takes into consideration the recommendations of the Low Pay Commission, who are anticipating that the NLW from April 2024 will be between £10.90 and £11.43, with a central estimate of £11.16, compared with the April 2023 figure of £10.42.

Running costs

111. The current MTFS allowed for running cost inflation of 9% for 2023/24, 6% for 2024/25, and falling back to 3% after that. The inflation assumptions reflect the impact of time lags, so the 9% used for 2023/24 reflects the relatively high inflation levels experienced in 2022/23. At present the assumption for 2023/24 is anticipated to be generally adequate but there are a number of significant inflation items which are still to be resolved over the coming months, and any amounts in excess of the provision made in the current MTFS will impact on the position for the new 2024-28 MTFS.

Adult Social Care Reform

112. The current MTFS included significant provision for the potential impact of ASC Reform. As part of the Autumn Statement in November 2022, the Government announced that the reforms will be delayed by two years to October 2025. If the Government does not start preparations very soon this revised date will not be possible. The new MTFS will need to reflect any additional information that is released by the Government and there is a risk that the current assumptions may prove to be inadequate.

Special Education Needs and Disabilities

113. The underfunding of Special Education Needs and Disabilities (SEND) has caused a significant financial problem for the County Council for a number of years. At the time the budget was set, the cumulative deficit between SEND costs and High Needs funding was expected to reach £53m by the end of the current financial year and grow to £91m by the end of the MTFS. Predictions going forwards are uncertain but the latest forecast shows a relatively improved position, with forecast deficits of £49m at the end of 2023/24, rising to £82m by the end of 2026/27. There seems little prospect of support from Government to help alleviate this position. The DfE seems to be hardening its position with on-going overspends seen as local government's problem.

Services Demand

114. The existing pressures within the MTFS are continuing, this could require increases in growth and adverse in year budget variations for Adult's and Children's social care services. When the MTFS is refreshed and extended for a year, 2027/28 in this case, the new year adds between £25m and £30m to the financial deficit. With higher inflation in the intervening 4-years it is likely that the deficit increase will be closer to £30m.

Mitigations

115. There are also a number of factors that could potentially help mitigate the financial risks:

Main element (core) Council Tax	Permitted increase without referendum is increased from 1.99%. Higher inflation would usually create expectations of a higher cap, as happened in the 2023/24 Settlement - a 1% increase to 2.99% was allowed. Will be confirmed as part of the 2024/25 Settlement due in December. A 1% increase in council tax precept would generate c.£3.7m for each year permitted.
Adult Social Care Precept	Precept permitted to continue. A 2% increase was allowed for 2023/24 and the precept was included for 2024/25 in the last spending review, but it has not been formally confirmed by the Secretary of State and it was therefore excluded in the current MTFS for 2024/25 and later years.
Council Tax Collection funds net surplus	2024/25 currently includes a net nil forecast. Latest forecasts show that a net surplus of £1m from 23/24 will be available.
Business rate reset	Provision of £7m built in against the Government resetting the business rates baselines in 25/26, in line with policy. Every year this gets delayed provides an additional £7m one off funding. (Figure will be reviewed in new MTFS and likely to increase due to higher than anticipated growth in business rates.)
Fair Funding Review	The review implementation date has been postponed several times and has been delayed until after the General Election. The shift in Government priorities has lowered the County

	Council's expectations even if a review does progress. The County Council formed the F20 group that promoted a temporary solution for the worst funded councils, expectations of progress are similarly low.
Business Rates Pool surpluses	LCC share of Pool surplus 22/23 estimated at £5.8m (one-off) – decision on use to be reviewed in new MTFS.
Additional interest on cash balances	Upward movement on interest rates leads to greater returns on treasury management activity
Adult Social Care Grants	The Government indicated that more funding for ASC would be provided in 2024/25.

116. The implications of the various issues described above will be assessed based on the latest emerging information over the coming months and fed into the December Cabinet report. However, in short the financial position is dire and an initial estimate of the challenge is that the current MTFS projected gap of £88m will rise above £100m. Whilst this forecast will undoubtedly change, the scale of the challenge is highly unlikely to diminish to the point that the County Council would not need to take significant corrective action.

117. Facing a 2024/25 MTFS gap of £13m, which assumes currently programmed savings of £17m will be delivered, so close to the budget being set is concerning. Even this challenge pales into insignificance compared to the prospect of a gap exceeding £100m in 4-years' time.

118. To balance the budget the use of reserves or other short-term measures will undoubtedly be adopted by some authorities. Whilst this can deal with short term problems of a one-off nature it does not solve the structural imbalance between income and expenditure that inflation is causing. It is vital that all resources are targeted at solving the problem rather than just delaying tackling it. Options would also need to include a review of the capital programme to cut back on activity in order to release reserves.

119. It is important that the savings that are already under consideration are progressed and delivered on as soon as possible. Furthermore, there will be a need to add in significantly more savings as part of the MTFS refresh in the autumn.

120. However, this will be insufficient to address the financial challenges ahead.

121. In order to identify further areas where savings can be made Departments are being asked to present options for how they could reduce their budgets. Focussing on options around cheaper provision, increased efficiency, increased income and reduced demand. However, this will be far from easy given the savings already being targeted and the significant savings delivered in previous years.

122. Crucial in progressing this is the need to push on crystalising the Savings under Development. The latest position on these is included in Appendix D.

123. Additional savings and reductions in growth will be brought forward for inclusion in the December Cabinet report. Growth will be subject to significant scrutiny to ensure future projections are robust. Additional growth will only be included for unavoidable demand driven pressures. Growth for service improvements is clearly unaffordable and so will not be included.

124. With respect to capital schemes and projects, there is no room for additional schemes to be added unless they are invest to save, related to end of life of assets needed for essential service delivery, or fully funded from external sources.

125. The capital funding gap totals £123m. With interest rates now having increased significantly the annual costs to fund the borrowing will increase and hence the funding gap needs to be reduced.

126. Core service capital schemes (such as Highways Maintenance and Schools) will be restricted to the annual capital grant allocations and banked developer funding only. And services such as ICT and Property will need to be focussed on maintaining service delivery rather than enhancing it. In some cases where it is possible, there will be a need to mothball schemes until they can be delivered after inflationary or acute current cost pressures subside.

127. Whilst there will be a strong focus on identifying and driving out further efficiencies, the reality is that after £250m worth of savings having been made over the last 13 year period there is limited scope. As such this work will also need to involve looking at service reductions across all service areas. Any non-statutory services, or those where service levels are above statutory minimum levels, will need to be considered for reduction or for being stopped following appropriate consultation being undertaken.

128. Many Councils are increasingly putting control measures in place to address overspends. The control measures would be adapted to reflect the severity of the financial position and cover:

- Targeted recruitment controls to restrict non-essential hiring including a focus on agency, consultants and specialist advisors
- Procurement controls to ensure greater commissioning support unit input into contract renewal/extension, use of frameworks and exceptions
- Greater scrutiny of external expenditure
- Limited approval of new projects to essential schemes only
- Controls on grants to ensure that wherever possible they are used to cover existing spend pressures rather than for new service initiatives.
- Restriction of budget inflationary increases where service levels can be amended

129. The County Council introduced similar controls during the Covid-19 pandemic. These controls do not replace the financial responsibilities that officers have in their roles. For the spend controls to be successful, continued ownership by everyone who has a part in spending or generating income is vital. The forecast 2023/24 overspend at period 4 of £8.9m raises the prospect that spend controls could be required until the MTFS gap and delivery risk are at an acceptable level.

130. It should be noted that spending controls do not mean service cuts, although it should influence how services are delivered. Future savings will not be prioritised based on where spend was reduced through the controls and managers will need to consider the potential to make permanent changes to their services.

131. If progress towards resolving the medium-term financial gap is limited, and there is not enough confidence in delivering existing and newly identified savings and managing demand growth in the coming months, spend controls providing greater levels of scrutiny on individual budgetary decisions, will need to be put in place.

Planning Framework

132. The key Government announcements in the coming months will be;

- The Autumn Budget Statement anticipated in November.
- The Provisional Local Government Finance Settlement expected mid/late December.

133. The broad MTFS timetable is:

- September to November 2023 – refresh growth, savings and capital including consideration by Lead Members.
- Autumn - National Budget and National Living Wage announcements
- December 2023 – the Cabinet will be asked to approve the draft MTFS for consultation.
- December 2023 – receipt of the Provisional Local Government Finance Settlement
- January 2024 – consultation on the draft MTFS, including Overview and Scrutiny Committees and the Scrutiny Commission.
- February 2024 – the Cabinet will be asked to approve the final draft MTFS for submission to the County Council.
- February 2024 – County Council is requested to approve the MTFS for 2024/25 to 2027/28.

Recommendation

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

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications of this report.

Background Papers

Report to the Cabinet – 26 May 2023– 2022/23 Provisional Revenue and Capital Outturn
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7076&Ver=4

Report to County Council -22 February 2023 – Medium Term Financial Strategy 2023/24 to 2026/27
https://politics.leics.gov.uk/ieListDocuments.aspx?CId=134&MId=6913&Ver=4

Appendices

Appendix A: Revenue Position as at Period 4, 2023/24
Appendix B: Revenue budget major variances
Appendix C: Revised Capital Programme 2023-27
Appendix D: Savings Under Development

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APPENDIX A

REVENUE BUDGET MONITORING STATEMENT 2023/24
(AS AT PERIOD 4)

	Updated Budget £000	Projected Outturn £000	Difference from Updated Budget £000	%
Schools Budget				
Schools	98,038	97,548	-490	-0.5
Early Years	39,283	37,683	-1,600	-4.1
DSG Funding	-137,321	-137,321	0	0.0
	0	-2,090	-2,090	
Earmarked reserve - start of year			*-5,374*	
Earmarked reserve - end of year			*-7,464*	
High Needs	103,482	117,452	13,970	13.5
Dedicated Schools Grant (DSG)	-103,482	-103,482	0	0.0
	0	13,970	13,970	
Earmarked reserve - start of year			*35,534*	
Earmarked reserve - end of year			*49,504*	
LA Budget				
Children & Family Services (Other)	103,362	111,242	7,880	7.6
Adults & Communities	202,455	210,265	7,810	3.9
Public Health *	-1,806	-1,806	0	0.0
Environment & Transport	93,766	93,056	-710	-0.8
Chief Executives	15,430	15,350	-80	-0.5
Corporate Resources	38,815	39,445	630	1.6
DSG (Central Dept. recharges)	-2,285	-2,285	0	0.0
Growth Contingency	1,000	0	-1,000	-100.0
Service Reduction Contingency	95	95	0	0.0
Fair Cost of Care / Adult Social Care Reforms	4,600	3,500	-1,100	-23.9
MTFS risks contingency	8,000	8,000	0	0.0
Contingency for Inflation/Living Wage	21,865	25,865	4,000	18.3
Total Services	485,297	502,727	17,430	3.6
Central Items				
Financing of capital	19,500	18,000	-1,500	-7.7
Revenue funding of capital	7,020	7,020	0	0.0
Bank & other interest	-13,600	-20,000	-6,400	47.1
Central expenditure	2,536	1,636	-900	-35.5
Total Central Items	15,456	6,656	-8,800	-56.9
Contribution to budget equalisation earmarked reserve	10,400	22,200	11,800	113.5
Contribution to General Fund	1,000	1,000	0	0.0
Total Spending	512,152	532,582	20,430	4.0
Funding				
Revenue Support Grant (new burdens)	-27	-27	0	0.0
Business Rates - Top Up	-40,527	-40,527	0	0.0
Business Rates Baseline / retained	-27,997	-29,527	-1,530	5.5
S31 Grants - Business Rates	-12,090	-15,610	-3,520	29.1
Allocation of Business Rates Pool Levies	0	-6,450	-6,450	n/a
Council Tax Precept	-374,208	-374,208	0	0.0
Council Tax Collection Funds - net suplus	-1,687	-1,687	0	0.0
New Homes Bonus Grant	-1,257	-1,257	0	0.0
Improved Better Care Fund Grant etc.	-14,190	-14,190	0	0.0
Social Care Grant	-32,012	-32,012	0	0.0
Services Grant	-2,504	-2,504	0	0.0
ASC Market Sustainability & Improvement Fund (tranche 1)	-5,653	-5,653	0	0.0
Total Funding	-512,152	-523,652	-11,500	2.2
Net Total	0	8,930	8,930	

* Public Health funded by Grant (£26.2m)

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APPENDIX B

Revenue Budget 2023/24 – forecast main variances (Period 4)

Children and Family Services

Dedicated Schools Grant

A net overspend of £11.9m is forecast. The main variances are:

	£000	% of Budget
DSG High Needs Block (HNB) earmarked reserve drawdown	**13,330**	**n/a**
The DSG budget in the original MTFS includes an estimated HNB drawdown of £13.3m as the forecast in year overspend.		
Special Educational Needs	**595**	**1%**
The SEND Capital Programme is developing new resource bases with the aim of reducing the reliance on expensive independent sector places. The increase in demand however has resulted in these places being filled with new demand as opposed to having the desired impact on existing numbers. Additional Early Years specialist places have been identified as required from September 2023. These were not budgeted for and have resulted in an overspend in the Special School budget. Meanwhile a significant number of places in the C&I (Communication & Interaction) units and SEMH (Social, Emotional and Mental Health needs) units created over the last few years still remain empty - this particular area reports a £800k underspend against budget. Students continue to be placed in Independent Specialist Provisions (ISP). This has resulted in an overspend in the ISP budget. Decisions to agree placements in increasingly expensive ISPs whilst our own bases are underoccupied will have a substantial impact on the deficit position.		
Specialist Teaching Service (STS)	**245**	**10%**
The STS Service is a fully HNB funded service, with a fixed budget envelope, and does not receive inflation in response to pay awards. It also has a built-in annual savings target which is usually achieved through in-year vacancy savings. As yet, these potential savings are yet to be fully identified.		
Early Years / Nursery Education Funding	**-1,600**	**-4%**
The budget is based on the number of hours used to calculate the original 2023-24 Early Years DSG income in December 2022. The 2023-24 Early Years DSG income was increased in July 2023 by £1.7m to allow for the Spring Term 2023 census (this includes a prior year adjustment of £600k relating to 2022-23). There is also a planned underspend of £0.9m as part of the payback of previous years' Early Years deficits. The forecast hours paid to Providers for 2023-24 are £1.2m more than the budget.		
Schools Growth / Budget Allocations	**-500**	**-18%**
This funding has been earmarked to help meet the revenue costs associated with new schools. The underspend will be transferred to the DSG earmarked fund to fund pupil growth in future years.		
Early Years SEN Inclusion	**-130**	**-10%**
Staff turnover and vacancy management controls are the main contributing factors driving the underspend.		
Education - Medical Grounds	**-80**	**0%**
This is due to increased recoupment and vacant posts in year.		
Other variances	**20**	**n/a**
TOTAL	**11,880**	**n/a**

Local Authority Budget

The Local authority budget is forecast to overspend by £7.9m (7.6%). The main variances are:

	£000	% of Budget
Children's Social Care Placements	**5,460**	**11%**
The overall LAC numbers for Leicestershire for financial year 2023/24 look relatively stable in line with recent years. However, in terms of the placement mix - whilst the most costly provision types such external residential increased slightly in numbers but in line with budgeted position, the average unit costs have increased significantly vs budgeted unit cost. For example – currently average social care external residential cost is circa £5,750 per week (20% increase on budgeted unit cost). The combination of complexity of need makes these children and young people 'unattractive' to the market (need includes violence, aggression as result of experiencing trauma) and results in the use of high cost (£10k+/week/child) interim provisions until behaviour stabilises or another placement can be found. Other sufficiency issues impacting on budget position include: •Lack of step-down from residential placements (10 children who have been waiting long periods for family-based placements), with continued searches and work with providers to try to identify homes •Slow recruitment pipeline for mainstream carers, nationally. Particularly impacting on availability of placements for older children and those with more complex needs.		
Unaccompanied Asylum Seeking Children (UASC)	**1,920**	**117%**
The rapid increase in UASC in care and care leavers has required a greater resource requirement to meet their needs. The different entry routes include both the National Transfer scheme, as well as spontaneous arrivals, but more recently through the hotel dispersal scheme where requests to accommodate people placed in Asylum Dispersal Hotels in Leicestershire are made. And whilst they have been deemed adults by the Home Office, subsequently claim to be children, which creates an additional pressure for the service to manage which is not fully funded. In addition, delays in asylum claim processes mean that we are often accommodating young people well past 18 and the Home Office funding drops significantly at 18 but the costs do not.		
SEN Service Budget	**1,140**	**64%**
Increased service demand and complexity has resulted in need for additional service resource to ensure demand can be managed in the most efficient and effective manner. A heavy reliance on agency workers to undertake plan writing and tribunal work has resulted in a significant forecast overspend in this area. A second Service Manager post has been created to help deliver whole-system change within SEN. Meanwhile mediation costs remain high, adding to the forecast overspend.		
Departmental Financial Controls / Vacancy Control Management	**-640**	**n/a**
As a direct response to the projected overspends as described above, CFS's departmental management team have led a review of non statutory services, together with a robust management and review of vacancies within the department, with the output of this work projecting to deliver some one-off in year efficiencies, and budget opportunities, (£0.6m) which included delaying recruitment to non-essential posts where appropriate. Further work is being undertaken to explore the feasibility of this work and its scope to deliver on-going future budget efficiencies.		
TOTAL	**7,880**	**n/a**

Adults & Communities

The Department has a net forecast overspend of £7.8m (3.9%). The main variances are:

	£000	% of Budget
Homecare	**7,320**	**19%**
The current weekly homecare payments are estimated to be £880k per week. The forecast provides for an average of 2,700 service users (SU) for the year, this is 6% higher than the budgeted number of 2,540. Current average package costs (or hours) are also 6% higher than budgeted (excluding the fee uplift of 8.4%) at £332 per SU per week compared to the budgeted value of £313. The increase is from: a) delaying admission into residential care and increased provision within the service user's own home. b) lower numbers of service users are opting to take a Direct Cash Payment. The department has established a wide ranging demand management project and this is currently prioritising an analysis of home care data to establish whether any internal changes in practice have led to the higher spend and to what extent this has been as a result of external influences. The project is also reviewing existing savings activity to ensure these are on track to meet the MTFS targets.		

Residential Care and Nursing	3,380	4%
The projected overspend is mainly due to increases in the average weekly cost per residential placement over and above the planned inflationary increases to the banded rates. This is a continuation of the pressure experienced in 2022/23 which led to an overspend. There are an average 2,390 service users with an average weekly rate of £1,017. The main driver of the increases are where the authority has agreed funding above the banded rates to ensure that the service is provided with a suitable care placement (known as Local Authority Agreed Funding-LAAF).The forecast cost of LAAFs in 2023/24 (based on current volumes and values of LAAFs) is £14.6m. This compares to the 2022/23 cost of LAAFs of £12.6m, and the 2021/22 cost of LAAFs of £10.0m. The forecast 2023/24 cost is a 46% increase on the 2021/22 costs. This increase in the costs of LAAFs is a combination of both an increase in the volume and value of LAAFs. The volume of LAAFs has increased from 742 service users per week having a LAAF in 2021/22 to 951 in 2023/24. The value of LAAFs has increased from an average of £258 per service user per week in 2021/22 to £294 in 2023/24. The increase in LAAFs (both volume and value) is predominantly in the older adults area. This overspend is offset by additional service user income of £1.48m which is mainly due backdated arrears from working through a backlog of financial assessments. The department is also investigating the allocation of the latest tranche of Market Sustainability and Improvement Fund to reduce this overspend by £3.6m.		
Supported Living Commissioned Services	**2,885**	**8%**
The forecast assumes a projected increase of 40 service users over the course of the financial year from 470 to 510. Last year the increase was larger at around 51 service users. The majority of the increase in service users is from those service users either transitioning from Children's Social Care, living at home with their parents or moving from a Hospital/Residential setting into Supported Living. They represent new growth in numbers rather than a movement of existing service users from Residential Care, which was the primary driver under the TOM Programme. The Dynamic Purchasing System used by Supported Living commissioners is increasing the supply of additional Supported Living schemes facilitating the increase in the number of placements that can be made. Average placement costs currently stand at £1,400 per week per service user.		
Better Care Fund (Balance) / Other NHS Income	**1,130**	**4%**
A shortfall in Discharge to Assess (D2A) recharge income of £2.8m. Offset by additional BCF and Discharge Grant income of £1.7m.		
Community Life Choices (CLC) Commissioned Services	**635**	**9%**
Overspend with the transition of service users from inhouse CLC services to the independent sector. This overspend should be viewed alongside the underspend within CLC/Day Services within Direct Services as internal bases are closed and staff action plans are conducted. A virement will take place for 2024/25 to increase this budget. The forecast includes the assumption of the remaining bases closing and the transfer of the remaining service users to the independent sector.		
Other Support	**500**	**n/a**
Other social care support includes £150k for kennel costs and £330k for floating support contract for mental health.		
Care Pathway - Mental health and Safeguarding	**260**	**4%**
Overspend predominantly caused by the Liberty Protection Safeguards and the contracted out Best Interest Assessor and Paid Person Representative spend, even after a £350k contribution from reserves. A more sustainable funding position is required for this service, as reserve funding has been used for multiple years.		
Market Sustainability and Improvement Fund (MSIF) - Tranche 2	**-3,670**	**n/a**
This is the MSIF second tranche for 23/24. It can be used to offset eligible spend that was already planned.		
Community Life Choices (CLC) / Day Services Team	**-1,445**	**-84%**
Following the Cabinet decision to close CLC bases, there are vacancies within the services, pending staffing action plans. Service users are being transitioned to the independent sector demand led CLC budget. This is linked to an MTFS saving. Next year this underspend will cease.		
Community Income	**-1,335**	**-4%**
The majority of the variance is due to additional income for home care packages for people with a temporary health condition £0.8m. The numbers of people receiving this type of funding increased during 2022-23 due to the removal of hospital discharge funding for home care mid year. The numbers funded seen at the end of 2022-23 have continued into 2023-24. There is also continuing increase in the number of chargeable service users who are receiving other non residential services and the average amount per service user is also increasing.		

Supported Living, Residential and Short Breaks Team	**-950**	**-19%**
Underspend due to vacancies and also reduction in day services in co-located short break locations causing a reduction in staffing forecasts. Savings offset overspend in commissioned services and linked to an MTFS saving.		
Care Pathway - Access and Digital Services	**-220**	**-11%**
Underspend mainly due to vacancies in the Customer Service Centre (CRC). Note that this does not include the new CSC element due to transfer across from Corporate Resources - this continues to be included in the Corporate Resources monitoring until the budget transfer is agreed.		
Commissioning & Quality	**-170**	**-9%**
Underspend from vacancies that are in the process of being recruited to.		
Direct Payments	**-150**	**0%**
Forecasting clawbacks at (£4m), which has increased by (£0.9m). Forecasting a net overspend of £763k due to 6% reduction in service users (SU) and 13% increase in SU package price. The reduction in SU is reflecting that more new SU are choosing to take a managed homecare service over a cash payment. The increase in SU package price most likely reflects the higher cost of homecare and supported living being commissioned that are also being reflected in the cash payments budget for those recipients. In addition, higher support may have been commissioned to compensate those service users that could no longer visit a buildings-based service for a community life choices service. Currently averaging at 1,912 SU with an average cost of £439 and Carers averaging at 1,136 SU with an average cost of £53.		
Care Pathway - Learning Disability and Autism	**-125**	**3%**
Underspend from vacancies that are in the process of being recruited to.		
Care Pathway - Cognitive and Physical Disability	**-115**	**-2%**
Underspend from vacancies that are in the process of being recruited to.		
Other variances (under £100k)	**-120**	**n/a**
TOTAL	**7,810**	**n/a**

Public Health

The Department has a projected underspend of £0.2m which will be transferred to earmarked reserves.

	£000	% of Budget
Public Health earmarked reserve	**160**	**n/a**
Net underspend on Public Health budgets to be offset by a contribution to the Public Health earmarked reserve. Uncertainties on future grants.		
Quit Ready, First Contact Plus, Programme Delivery and Teen Health teams	**-130**	**n/a**
Staffing vacancies across these areas.		
Other variances (under £50k)	**-30**	**n/a**
TOTAL	**0**	**n/a**

Environment and Transport

The Department is forecasting a net underspend of £0.7m (0.8%). The main variances are:

	£000	% of Budget
Social Care Transport	**1,345**	**30%**
A rise in the number of commissioned journeys for Social Care Transport. Work is being undertaken to understand the cause of this increase, although it is likely to be a legacy of the Covid-19 pandemic that has led to an increase in solo journeys. Other factors could include changes in Adult Social Care policy, commissioning approach needing to be reviewed and driver shortages within Fleet services. The Transformation Unit are currently leading on work to gain a greater insight into the reasons behind this growth and to quantify the impact of this on the budget in 2023/24 and future years. Other mitigating action taken includes a request to A&C to review commissioning policy and approach being applied with a view to becoming less risk adverse in assessments thereby reducing the number of solo journeys being commissioned. All external funding opportunities are also being maximised through a planned review of demand and associated costs for Health Social Care.		
Landfill	**765**	**23%**
Overspend as waste is diverted into landfill rather than treatment. As capacity must be conserved for treatment of Persistent Organic Pollutants (POP) bulky waste.		

SEN Transport	**600**	**3%**
Delays in receipt of applications for SEN Transport from CFS combined with the effects of a shrinking transport sector - a consequence of driver shortages and inflation - that has led to a general upward shift in transport costs. At the same time demand is rising along with heightened complexity of need. Issues relating to changes in demand and market capacity are being seen nationally, with Leicestershire fairing better than the national average in terms of cost increase despite a larger increase in the number of students travelling.		
Mainstream School Transport	**500**	**14%**
Delays in processing Mainstream School Transport applications due to vacancies and limited resource capacity within the Transport team; allocation of placements outside residential area by CFS and limited bus capacity.		
Reactive Maintenance	**360**	**17%**
Forecast overspend in general maintenance and out of hours emergencies. Calculation based on current year actuals to meet the policy requirements on a deteriorating network.		
Recycling and Household Waste	**210**	**5%**
Overspend due to increased haulage through Persistent Organic Pollutants (POPs) legislation implications.		
Environmental Maintenance	**120**	**2%**
Forecast overspend due to cost of delivering full width rural grass cut (completed every 3 years in line with current policy) and the cost of employing external resources at higher prices (due to an inability to recruit required number of strimmer operatives) to support the urban cut on footpaths and route to schools .		
Staffing, Admin & Depot Overheads	**-1,250**	**67%**
Forecast underspend due to vacancies (£550k), additional income from Temporary Transport Regulation Orders (TTRO) and network licencing (£400k) and (£500k) target in relation to overspends on the highways maintenance programme whilst mitigating actions are identified. All slightly offset by reduced fee income for structures and street lighting (£200k).		
Highways & Transport Network - Staffing & Admin	**-1,000**	**n/a**
Underspends forecast due to additional s38 & 278 fees (£900k) and vacancies across various teams.		
Treatment & Contracts	**-890**	**-6%**
Underspend due to a reduction in treatment as waste is diverted into landfill.		
Passenger Fleet	**-340**	**n/a**
Underspend due to vacant driver and escort posts, which is partly offset by additional agency and overtime costs, plus additional vehicle hire and maintenance costs. Recruitment of drivers is currently very difficult.		
Dry Recycling	**-300**	**-12%**
Underspend due to external income received based on current market performance.		
Staffing & Admin Delivery	**-230**	**-5%**
Forecast underspend due to staff vacancies.		
Concessionary Travel	**-170**	**-4%**
Underspend based on current forecast concessionary travel reimbursement levels during 2023/24, offset by anticipated additional costs to support local bus services.		
Road Safety	**-135**	**-16%**
Underspends forecast as a result of high level of vacancies across various teams.		
Other variances	**-295**	**n/a**
TOTAL	**-710**	**n/a**

Chief Executive's

The Department is forecasting a net underspend of £0.1m (0.5%). The main variances are:

	£000	**% of Budget**
Coroner's Service	**410**	**34%**
Forecast based on activity to date. Lack of visibility of UHL invoices is making forecasting difficult and Leicester City Council, who are providing the Coronial Service, have been asked to provide greater detail.		
Departmental Items	**115**	**n/a**
Departmental-wide saving for staffing vacancy held in this budget. Overspend offset by underspends elsewhere in the department.		
Registrars	**-375**	**n/a**
Wedding fee income continues to be higher than budgeted and this trend is expected to continue for the remainder of the financial year.		
Growth Service	**-80**	**-6%**
Underspend due to staffing vacancies.		

Management and Administration	**-50**	**-8%**
Underspend due to staffing vacancies.		
Business Intelligence	**-50**	**-3%**
Underspend due to vacancies (-£70k) and lower running costs (-£8k), offset by reduced income (+£26k)		
Other variances	**-50**	**n/a**
TOTAL	**-80**	**n/a**

Corporate Resources

The Department has a net forecast overspend of £0.6m (1.6%). The main variances are:

	£000	**% of Budget**
Commercial Services (Commercialism - catering and professional services, Country Parks and LTS Property)	**720**	**60%**
Pressure in Commercial Services is on-going; this includes recovery from the pandemic but also additional pressures through the increase in national living wage and general inflationary pressures. The local government workers pay offer places significant pressure on commercialism, especially services employing staff on lower grades e.g. catering. It is likely that those pressures will persist into 2024/25.		
Customer Service Centre	**105**	**5%**
Savings of £0.1m were included in this year's MTFS related to additional attrition experienced last year and these are unlikely to be achieved now as attrition is running lower than budgeted levels, which although an adverse impact on the budget has a positive impact on service and staff. The CSC is also undergoing a transitionary phase as the Adult Social Care CSC transfer back to A&C and the remaining service is remodelled.		
ICT	**-160**	**-1%**
The projected underspend is mainly due to staff vacancies.		
Operational Property	**-65**	**-3%**
Staffing underspends.		
Other variances	**30**	**n/a**
TOTAL	**630**	**n/a**

CHILDREN & FAMILY SERVICES - CAPITAL PROGRAMME 2023-27

APPENDIX C

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					
Mar-27	90,475	**Provision of Additional School Places**	**26,610**	**33,895**	**23,425**	**6,543**	**90,474**
		SEND Programme					
Mar-26	22,154	Expansion of Special Schools	8,254	12,650	1,250	0	22,154
			0	0	0	0	0
		Sub-total - SEND Programme	**8,254**	**12,650**	**1,250**	**0**	**22,154**
Mar-27	10,509	Strategic Capital Maintenance	4,509	2,000	2,000	2,000	10,509
Mar-27	2,022	Schools Devolved Formula Capital	522	500	500	500	2,022
Mar-25	721	Schools Access / Security	521	200	0	0	721
Mar-25	5,250	Childrens Residential Homes	1,402	881	0	0	2,283
		Other Capital	**6,954**	**3,581**	**2,500**	**2,500**	**15,535**
		Overall Total	**41,818**	**50,126**	**27,175**	**9,043**	**128,163**

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

ADULTS & COMMUNITIES - CAPITAL PROGRAMME 2023-27

APPENDIX C

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
			4,447	**4,447**	**4,447**	**4,447**	**17,788**
		Social Care Investment Plan (SCIP):					
Mar-27	10,000	SCIP - Additional Schemes to be confirmed - balance	1,000	1,500	0	1,258	3,758
Mar-24	120	Specialist Dementia Facility - Coalville	11	0	0	0	11
		Sub-Total SCIP	**1,011**	**1,500**	**0**	**1,258**	**3,769**
		Total A&C	**5,458**	**5,947**	**4,447**	**5,705**	**21,557**

		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

APPENDIX C

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	42,673	40,230	17,378	0	100,281
Mar-27	37,500	Melton Distributor Road - Southern Section (Subject to Cabinet Approval)	2,443	2,053	30,125	801	35,422
Mar-26	19,925	Zouch Bridge Replacement - Construction and Enabling Works (Subject to funding bid)	953	8,430	8,430	0	17,813
Mar-27	13,610	County Council Vehicle Replacement Programme	3,446	3,697	3,357	3,110	13,610
Mar-27	14,874	Advance Design / Match Funding	3,198	3,717	4,477	3,482	14,874
Mar-25	8,045	A511/A50 Major Road Network - Advanced design	2,497	2,547	0	0	5,044
Mar-27	9,960	Melton Depot - Replacement	100	548	2,127	6,968	9,743
Mar-25	2,000	Leicester and Leicestershire Integrated Transport Model - Refresh	1,178	297	0	0	1,475
Mar-24	26,250	M1 Junction 23 / A512 Improvements	250	0	0	0	250
Mar-24	10,150	Anstey Lane A46	36	0	0	0	36
Mar-24	4,580	A42 Junction 13 / M1 J22	10	0	0	0	10
Mar-24	325	Coalville Ashby Rd Hway works	84	0	0	0	84
			56,868	**61,519**	**65,894**	**14,361**	**198,642**
Mar-27	51,747	Transport Asset Management	0	18,525	16,611	16,611	51,747
Mar-24	4,008	Capital Schemes and Design	4,008	0	0	0	4,008
Mar-24	1,471	Bridges	1,471	0	0	0	1,471
Mar-24	535	Flood Alleviation- Environmental works	535	0	0	0	535
Mar-24	1,923	Street Lighting	1,923	0	0	0	1,923
Mar-24	521	Traffic Signal Renewal	521	0	0	0	521
Mar-24	3,934	Preventative Maintenance - (Surface Dressing)	3,934	0	0	0	3,934
Mar-24	9,249	Restorative (Patching)	9,249	0	0	0	9,249
Mar-24	33	Public rights of way maintenance	33	0	0	0	33
Mar-27	418	Network Performance & Reliability	334	28	28	28	418
Mar-27	452	Plant renewals	152	100	100	100	452
Mar-27	1,823	Property Flood Risk Alleviation	793	561	318	151	1,823
Mar-25	5,000	Hinckley Hub (Hawley Road) - National Productivity Investment Fund	316	300	0	0	616
Mar-27	2,264	Safety Schemes	644	932	344	344	2,264
Mar-25	770	Highways Depot Improvements - subject to business case	370	400	0	0	770
Mar-24	464	Externally Funded Schemes	464	0	0	0	464
			24,747	**20,846**	**17,401**	**17,234**	**80,228**
		Environment & Waste					
Mar-24	8,600	Waste Transfer Station Development (Commitments b/f)	672	0	0	0	672
Mar-24	5,500	Kibworth Site Redevelopment	40	0	0	0	40
Mar-27	1,949	Recycling Household Waste Sites - General Improvements	365	446	974	164	1,949
Mar-25	360	Recycling Household Waste Sites - Lighting	148	195	0	0	343
Mar-24	540	Mobile Plant	150	0	0	0	150
Mar-24	650	Ashby Canal Reed Bed	650	0	0	0	650
Mar-27	580	Ashby Canal	27	27	27	27	108
Mar-24	200	Snarestone Wharf - Ashby Canal	200	0	0	0	200
Mar-27	588	Recycling Household Waste Sites - S.106 funded schemes	351	99	60	78	588
			2,603	**767**	**1,061**	**269**	**4,700**
		Total E&T	**84,218**	**83,132**	**84,356**	**31,864**	**283,570**

	E&T	**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

APPENDIX C

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Mar-24	30	Shire Community Solutions Grant	30	0			30
Mar-25	200	Legal - Case Management System - subject to business case	0	100	100		200
		Total Chief Executives	**30**	**100**	**100**	**0**	**230**

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

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CORPORATE RESOURCES - CAPITAL PROGRAMME 2023-27

APPENDIX C

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	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	31	0	1,500	0	1,531
Mar-24	150	Wireless Access Points	150	0	0	0	150
Mar-27	80	Solaris Hardware Refresh	0	0	0	60	60
Mar-24	145	Corporate ICT Programme	10	0	0	0	10
Mar-24	170	CSC Telephony Replacement	91	0	0	0	91
Mar-24	90	Session Border Controllers	11	0	0	0	11
Mar-24	100	Remote Access Refresh	26	0	0	0	26
Mar-24	950	Backup System Replacement	49	0	0	0	49
		Sub total ICT	**368**	**100**	**2,390**	**60**	**2,918**
		Transformation Unit - Ways of Working					0
Mar-25	1,630	Workplace Strategy - Office Infrastructure	735	582	0	0	1,317
Mar-27	10,130	Workplace Strategy - End User Device (PC, laptop)	1,437	862	1,293	1,530	5,122
Mar-25	2,000	Workplace Strategy - property costs, dilapidations and refurbishments	377	400	0	0	777
		Sub total Transformation Unit	**2,549**	**1,844**	**1,293**	**1,530**	**7,216**
		Property Services					
Mar-24	440	County Hall Lift Replacement Scheme	139	0	0	0	139
Mar-24	50	Bosworth Battlefield Car Park Resurface	45	0	0	0	45
Mar-24	160	Library Replacement windows	155	0	0	0	155
Mar-24	110	Tree Planting Programme	83	0	0	0	83
Mar-24	85	Romulus Court - IT environmental monitoring (subject to approach review)	85	0	0	0	85
Mar-24	110	County Hall - Fire Compartmentation	4	0	0	0	4
Mar-24	650	Watermead Park improvements	251	0	0	0	251
Mar-24	63	Bosworth Battlefield ANPR	63	0	0	0	63
Mar-24	75	County Hall - MUGA Resurfacing	75	0	0	0	75
		Sub total Property Services	**900**	**0**	**0**	**0**	**900**
		Climate Change - Environmental Improvements					
Mar-25	380	Electric Vehicle Car Charge Points	100	131	0	0	231
Mar-27	603	Energy initatives	303	100	100	100	603
Mar-24	140	Minimum Energy Efficiency Standards	138	0	0	0	138
Mar-24	1,260	Energy & Water Strategy - Invest to save	142	0	0	0	142
Mar-24	145	Snibston E V Chargers & Solar Car Port	75	0	0	0	75
		Sub total Energy	**758**	**231**	**100**	**100**	**1,189**
		Total Corporate Resources	**4,575**	**2,175**	**3,783**	**1,690**	**12,223**

	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)					
	Country Parks Future Developments, including cafes, play areas and car parking					
	Green energy and insulation initiatives					

CORPORATE - CAPITAL PROGRAMME 2023-27

APPENDIX C

Estimated Completion Date	Gross Cost of Project £000		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
		Investing In Leicestershire Programme (IILP)					
Mar-25	8,400	Airfield Business Park - Phase 3-4	250	8,145	0	0	8,395
Mar-25	10,000	Quorn Solar Farm	345	9,454	0	0	9,799
Mar-26	2,750	M69 Junction 2 - SDA	150	633	50	0	833
Mar-25	2,900	Lutterworth Leaders Farm - Drive Thru Restaurants	250	2,655	0	0	2,905
Mar-25	5,000	Lutterworth East - Planning and Pre-Highway construction Works	50	4,658	0	0	4,708
Mar-24	34,680	Lutterworth East - SDA	35	0	0	0	35
Mar-24	85	Embankment House - Land Development	67	0	0	0	67
Mar-27	1,156	County Farms Estate - General Improvements	289	289	289	289	1,156
Mar-27	1,456	Industrial Properties Estate - General Improvements	364	364	364	364	1,456
Mar-27	34,100	New Investments - subject to Business Case	500	5,000	10,000	18,600	34,100
		Sub total IILP	**2,300**	**31,198**	**10,703**	**19,253**	**63,454**
		Future Developments					0
Mar-27	40,000	Future service projects - subject to business cases	0	10,000	15,000	15,000	40,000
Mar-27	20,600	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	**2,300**	**41,798**	**35,703**	**44,253**	**124,054**

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

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APPENDIX D

Savings Under Development

This appendix lists areas where departments are looking at the potential for additional savings which are not yet currently developed enough to be able to quantify and build into the detailed savings schedules.

Children and Family Services

School Admissions Service Review
Undertake a review of the School Admissions service processes with a view to improve performance, understand demand and capacity requirements and minimise/remove any need for growth to cope with increased numbers of children in each year group.

Expand Establishment Modelling & Dynamic Modelling
Following Delivery of Establishment Modelling within the Defining Programmes in localities, there may be an opportunity to expand the approach across the department. Dynamic resourcing models identify any surplus/under-utilised resources that can be reprioritised in other localities or applicable services.

Reducing Contacts
A significant percentage of contacts that come into the front door do not end up with a referral to Social Care teams. A lot of time and effort goes into screening/assessing these. If numbers can be reduced this frees up capacity at the front door (possibly by setting expectations with major referrers and improving quality of contacts).

CWFS Remodel
The integration of services to form Family Help and Family Together aims to deliver more intensive services to families as and when they need them, reducing escalation to more costly, higher tier safeguarding services. Reviewing the CFWS component services and the level at which services are delivered may deliver more efficiencies but this is likely to deliver mitigation against future growth as the service has already had to absorb significant reductions in funding and has key dependencies that need to be considered :

- Dependency to deliver Child in Need Services, as set out in the social care review.
- Adoption of the new Child in Need model is likely to contribute to reduced reliance on agency staff.
- CFWS referral rates continue to increase and since the start of CFWS in April 2019 have almost doubled, indicating a growing need for families.
- Changes to the services, if not thought through, could impact on escalation of families to higher tier, more costly services.

Section 106 Process Review
Potential to automate part of the process to reduce staffing requirements plus exploring the ability to recharge revenue costs against capital grant funding.

Centralisation of Budgets

Centralise all discretionary budgets, training, stationary, section 17/24. Bringing in tighter process controls to reduce overspends. The first call on these savings though will be to reduce existing budget pressures (to avoid growth) and address prior year gaps in department efficiencies.

Defining CFSF – Next Phases

At a very early stage, but ideas for potential savings are being considered in the following areas :

- Partnership approach to reducing safeguarding referrals arising from parental multiple needs
- Family Time/contact – presented to extended SMT as a peer review, identifying layers of potentially overlapping resource
- Commissioning and Planning – support across key areas to implement new processes, which will deliver value for money and volume discounts on an ongoing basis.

Adults and Communities

3 Conversations Model

The 3 Conversations approach recognises that people and their families are the experts in their own lives and by listening to them it could be possible to develop a different approach to meeting their needs; utilising resources and skills, building upon their strengths, connecting them to the right people, communities, organisations to make their lives better, rather than seeing the commissioning of services as the best option for people. This approach has now been used in more than 40 local authorities in England and a number of Health and Social Care partnerships in Scotland. Further analysis on reducing costs related to commissioned services will continue to be explored as part next phase of the workstream.

The partnership with Partners4Change ceased earlier this year. However, officers are working with a range of localities, Blaby, Oadby, Wigston and Harborough and countywide teams to continue to embed the ways of working regarding the ethos of the 3 Conversations model. The model is seen as the next steps of the department's operating model and seeks to work with people in the ways outlined above.

Transitions review

The journey from child to adult social care is commonly described as 'transition.' It begins in Year 9 (age 13/14) and continues up to the age of 25. At present the Department's Young Adult Disability Team work directly with young people from around the age of 17/18. Transition is a process that happens over a period of time, during which services need to work flexibly to ensure each young person's individual circumstances are taken into account when planning the move into adulthood. Working with young people and their representatives, a successful transitions process should provide a near-seamless move between child and adult social care teams, enabling expectations around the process and potential progression to more independent living to be agreed at an earlier point.

It is hypothesised that if more active work is undertaken with young people receiving children's social care, their representatives and social care workers at an earlier age, savings could be achieved by having additional time to work with them to look at ways of reducing need or considering alternative approaches to meet outcomes.

A recent Health needs assessment suggested the Council should consider a 0-25 years' service which is delivered in some council areas. This will also be considered as part of the review.

Transforming Commissioning

The Transforming Commissioning Programme has been developed as a delivery mechanism for the Market Sustainability Plan and will help the authority to achieve a more sustainable adult social care market, with the right commissioning capacity, in the most efficient way possible. This programme will work to implement an innovative commissioning agenda, developing and shaping the external provider market to increase the choice and availability of high quality, cost effective new service options.

Separate analysis of existing commissioning methodology has also identified the potential for significant savings towards the MTFS through more innovative approaches to commissioning adult social care services. The programme is expected to consist of a number of projects; each will help us to deliver cashable savings and cost avoidance as well as the outcomes required through the Market Sustainability Plan.

Savings are anticipated from commissioning of:

- Outcomes focused commissioning;
- Direct Payments (Personal Assistants);
- Extra Care;
- Home Care improvement;
- Nursing Care;
- Residential Care.

Mental Health Rehabilitation and Recovery Service

The Mental Health Rehabilitation and Recovery Service (running from Bridge Street in Shepshed) delivers effective rehabilitation and recovery to people whose needs cannot be met by less intensive mainstream adult mental health services. The service supports the wider health system but is currently funded by the County Council.

It has been agreed that the ICB will fund 50% of the service from 2023/24. The service will be reviewed over the next 12 months to determine future delivery.

CSC review/redesign

CSC Tier 1 staff transferred from Corporate Resources to Adults and Communities in June 2023 and now report into the management structure alongside Tier 2 staff.

This is part of a 3-stage plan to improve the efficiency and effectiveness of the 'front door' model for the department, which incorporates:

- Stage 1: Preparing staff for transition – Completed;
- Stage 2: Post-transition interim period – stabilisation and continuous improvement, incorporating designing a new front door model for adult social care – In progress;

- Stage 3: Implementation of new front-door operating model.

Following a four-week stabilisation period post-transfer, work will commence to design a new front door model with a view to developing an options paper to provide evidence for a decision on next steps. Opportunities to make savings on the existing cost of providing the Tier 1 and 2 service will be explored as part of this options paper.

Public Health

Service Efficiencies
A review of internal delivery costs is being undertaken and part of the saving has been identified in the Stop Smoking Service by changing the way Pharmacotherapy is dispensed. Further opportunities to achieve the saving are being explored.

Selling some of our current services to schools and workplaces
The programme has launched recently, and modelling is still being undertaken on some of the offer to workplaces. Several pilots have taken place and we have received positive feedback from customers.

Environment & Transport

Developer Shop
Create a One Stop Shop for developers. Work proposed to investigate a commercial model for engaging with developers across the Department, creating a one stop shop to maximise the income potential. Currently there are a number of approaches and/or touch points with developers in different teams. There are examples of other authorities that have a single approach to developer engagement that delivers and maximises income from the various activities included.

Fees & Charges
A review is being conducted of all fees and charges across 50 services (such as disabled bays, H-bars, road works permitting and penalties and other licences the Council charge for) to ensure that fees and charges are reflective of the full costs incurred by the Authority.

Network Management (Phase 1) and Lane Rental (Phase 2)
This saving is being assessed and/or addressed in two phases:
Phase 1 - Review of structure and processes within Network Management Team to ensure consistent application of current Network Management legislation.

Phase 2 - Lane rental scheme is a concept where a local authority can charge commercial firms for works on ‘major’ parts of the highways network. The aim of this scheme is to minimise the amount of time part of the major network is unavailable and ensure that the network is available as soon as possible. The experience of other local authorities suggests that this scheme could generate income although it needs to be considered in the context of the permitting charging currently in place.

New Vehicle Hire Contract (HGV’s)
Secure increased cost-effectiveness by implementing one single hire contract across the fleet to deliver economies of scale and better value for money.

Highways Efficiencies
To generate efficiencies from the overall management and maintenance strategy for fleet vehicles through use of improved workshop data. This requires six months of good quality data from a new system before options can be developed.

Conversion to Electric Vehicles
A move away from internal combustion engine vehicles to Electric Vehicles as part of the carbon reduction measures required to deliver carbon neutrality.

Future Waste Transfer Station (WTS) and Trade Waste Commercial Work
The Council operates a WTS at Loughborough. With the insourcing of Whetstone RHWS and WTS, and the construction of Bardon WTS, there is an opportunity to optimise these assets with a view to maximising income generation.

Chief Executive's

Increasing income generation
Increase income generation from partners and other bodies by leveraging increases in existing charges and exploring further support provision. Areas in scope include: Registration Services income/fees, Business Intelligence, Freeport accountable body levy, Ecology and Heritage advice, and Additional Planning, Historic and Natural Environment fee income.

Service Efficiency Programme
Rolling service by service review to identify opportunities for services to be as efficient as possible starting with Democratic, Civic and Member Services. Scoping to commence in autumn 2023. No savings yet identified.

LLR Partnership Groups Review
A list of LLR partnership groups officers are attending, coordinating, supporting or managing has been compiled. The list is being quality assured by departments to identify where quantifiable savings and efficiencies can be achieved through the standing down of these groups and meetings.

Corporate Resources

Technology and Hardware Costs
The number of smartphones and data connections across the authority was increased as a result of changing ways of working throughout the COVID-19 pandemic and beyond as smarter working was made an emphasis through the ways of working programme. There are now around 3,000 active data connections across the authority.

With a large number of smartphones coming to the point of being refreshed, a full review is being undertaken to understand if these are all truly needed and to exploit advances in technology (including "bring your own phone") to proactively reduce the number of connections and associated capital and revenue costs.

Criteria have been drafted around which functions and roles require a smartphone and is currently being tested to confirm the rationale before applying these changes across the authority.

Country Parks and Cafes

Two specific proposals are anticipated to offer potential savings, further to existing plans, for Country Parks to improve its net financial position:

1. A capital investment to develop an additional traded play offering at Bosworth Battlefield.
2. Ongoing focus on café cost of goods and services, this with a view to reducing from the current 43% of turnover to 35% by the end of the current MTFS period.

Beaumanor

The service is currently focussing on opportunities to increase revenues, principally from weddings, alongside establishing external marketing and promotions support intended to increase annual wedding bookings from 20-25/year to around 100/year.

Business Rates Review

Commissioning Estates as part of the business as usual process are responsible for validating and mitigating non domestic rates liability for the County Council. In order to do so the County Council has entered into a 4-year contract with an external consultant, Jones Lang LaSalle, with specialist knowledge and experience of dealing with rating reviews to work alongside the County Council.

Century Theatre

The Century Theatre is a 220-seat small sized theatre situated close to Coalville on the site of the Snibston Country Park. The theatre is operated by Leicestershire Traded Services, hosting community and touring theatre, music, and other performance events. Incomes are derived both from theatre hire fees (typical in the case of smaller performers) or from ticket sales (often split with more known/national touring performers), with additional event sales from drinks and refreshments a secondary source of potential profits.

The Council’s proposed approach to the Century Theatre is to increase shows and revenues. To this end management have engaged specialist consultants (Creative Concepts Limited) to review operations and the events programme, devising a new offer and approach – it is anticipated that the theatre will increasingly focus on music events, tribute acts, comedy, and events with broader appeal for the local demographics; that marketing will be better prioritised for events offering the greatest LTS profit potential; and that, consistent with the approach for Country Parks and Cafes, greater attention will be paid to cost of goods and services as a means to improving margin on secondary sales.

Service Efficiency Programme
Rolling service by service review to identify opportunities for services to be as efficient as possible starting with Operational and Strategic Property Services. Scoping to commence July 2023.

Tax Opportunities
Third-party consultant providing expertise and resource to review any opportunities for further tax savings across the Council. Change recommendations would mostly be expected to relate to VAT, with payroll taxes thought less likely to be an area where changes can realistically be made.

Asset Challenge
As part of the development of the Corporate Asset Management Plan (CAMP) and also in line with recommendations of CIPFA the council is to undertake an Asset Challenge of every property asset that it owns or occupies to ensure that the estate is managed effectively and efficiently and that only those assets that are required for the ongoing delivery of strategic plan outcomes are retained.

A systematic geographic review of every asset, scoring it against a number of criteria but not exclusively: cost, condition, maintenance spend and energy to divide the estate into 4 categories:

- Those performing in line with benchmarking criteria.
- Those that meet most criteria e.g. Location but require investment in repair and upgrade to meet environmental, energy or regulatory requirements.
- Those where other future service needs, and development is required.
- Building surplus to requirement.

All service areas of the authority will be consulted as part of the review. Members will be consulted as stakeholders

Cross Cutting Organisation Wide Programmes

Sustainable Support Services Programme
The sustainable support service programme aims to deliver the vision that Leicestershire County Council has the right tools and most cost effective and efficient level of support to deliver its services. This programme will review the end-to-end support in place within all departments to ensure the right people, right tools, and right support is in place across the council - making the most efficient use of resource, technology and process design to maximise productivity and compliance. The programme will focus on efficiency of back-office functions designed to support the delivery of the wider councils operations.

Prevention Review (and Communities)
CMT have commissioned a review of Prevention activity across the authority as part of a series of corporate reviews targeted with securing medium-term financial savings for the council to be included in future revisions of the Medium-Term Financial Strategy. The prevention review will take a systemic approach to retaining and investing in prevention activity that offers the best value in reducing demand on the County Council’s high-cost

services at the lowest cost.

Potential savings are anticipated through:

- A reduction in prevention-based activity that is unable to evidence future cost and/or demand reduction, particularly impacting on demand for the highest cost services
- The substitution of existing funding for prevention activity through other income
- streams such as grant funding
- The transfer of council activity to other parties
- Increasing efficiency and/or productivity to enable activity to continue at a lower cost
- Possible further investment using savings secured from elsewhere in prevention-based activity that can evidence a reduction in medium-term future spend on top of the investment and are dependent upon sound financial business cases.

A diagnostic exercise is underway that will review the baseline cost of prevention to the organisation, look to benchmark and consider best practice from other organisations around Prevention, and develop recommendations for change based on the principles above.

Customer Programme

The vision for the customer programme is that “People will be able to get what they need from services quicker and easier, the Department will create sustainable and accessible customer interactions across the council”. The programme will develop a future target operating model for how the council interact with its external customers, within this creating clarity around the role of the Customer Service Centre and efficiencies available to departments, changes will be underpinned by:

- The need to deliver services with less money.
- Leveraging digital channels for those that can.
- Ensuring services are accessible; people will be directed to the most appropriate channel to meet their needs.
- Being data driven; any changes the Department makes are measurable and adds value.
- Reducing the steps involved in processes so that its easier for customers to do the things they need to do.

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 to understand the art of the possible.
It is expected that automation will play a major role in delivery of many change initiatives across the authority.

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 of 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.

Partnering with Gartner, work is now underway with officers across all departments to understand strategic drivers and shape the development of the strategy, approach and potential benefits of this important work.

Growth Programme

The growth programme will look holistically across the Council at the role of the Council and its services in supporting and managing economic growth to understand the whole picture, to see how the individual pieces of the puzzle should fit together. Key to this programme is to establish the future need, items of strategic importance, and translate it into operational decisions. To date key themes emerging throughout the discovery phase are Strategic definition and execution gap, Developer Contributions and Transport and Infrastructure / planning of sustainable development. No savings have yet been identified however a full design and implementation of key changes will be developed over the summer to understand any corporate efficiencies that could be made.

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Leicestershire County Council

SCRUTINY COMMISSION – 6 SEPTEMBER 2023

EAST MIDLANDS SHARED SERVICES ANNUAL PERFORMANCE UPDATE

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to provide the Commission with a summary of the performance reported to the Joint Committee of East Midlands Shared Services for 2022/23 and an update on progress against strategic priorities in 2023.

Policy Framework and Previous Decisions

2. In 2010, Nottingham City Council (NCC) and Leicestershire County Council (LCC) formed a partnership to share their HR, Payroll and Finance IT system and jointly deliver HR administration, payroll and finance transactional services.

3. In September 2010, the County Council's Cabinet agreed to establish a Joint Committee to oversee the operation of the Shared Service comprising elected members from both Councils. At officer level, each Council has a Sponsor, which at Leicestershire County Council is the Assistant Director of Finance, Strategic Property and Commissioning. These arrangements remain in place.

Background

4. East Midlands Shared Services (EMSS) was created on 1 September 2012. The Employee Service Centre is based at County Hall in Leicestershire and the Finance Service Centre at Loxley House in Nottingham.

5. The Service operates on a shared IT platform. In 2018, the partner Councils procured a replacement system, Oracle Fusion, and commenced an implementation programme, 'Fit for the Future', across HR, Payroll, Finance and Procurement. The programme completed in March 2022 with the implementation of the new system across the two Councils and EMSS.

6. The Strategic Plan for EMSS is underpinned by three key themes: stabilisation, optimisation and development with the following priorities having been identified for EMSS until 2025:

- Deliver a great experience for all users, with systems and processes that are intuitive, easy to use, and digitally enabled. **(Customer)**
- Deliver quality, affordable services **(Operations)**
- A supportive and flexible work environment, encouraging creative problem solving, continuous professional development and career opportunities **(People)**
- Deliver value for money through improved systems, services and processes which support enhanced productivity and reduce overall costs. **(Finance)**
- Leveraging technology to deliver existing services securely and reliably and supporting improvement and growth within service areas. **(Technology)**
- Expand our customer and/or service portfolio. **(Growth)**

Performance Summary

Finance

7. The overall outturn position for EMSS on 31st March 2023 (period 12) was £4.63 million, which represents an underspend of £101,000 (or 2.1%) against the approved budget for the year (pre-pay award confirmation).

8. A refreshed Medium Term Financial plan (MTFP) was presented to EMSS Joint Committee in December 2022. It detailed the projected budget requirements for the next 3 years and commitments on how the partnership would manage the funding of EMSS.

9. The MTFP confirmed that EMSS would carry out ‘Best Value’ reviews on its services in 2023-24 to determine whether the shared service still offered value for money to the partner Councils, or whether alternative delivery models should be considered, e.g., outsourcing. Work has commenced on the review of the Finance Service Centre, with the findings due to be reported to the EMSS Joint Committee in December. The review of the Employee Service Centre will follow in the new year. The relevant committees in both Councils, will also receive reports on the outcome of the reviews.

Growth

10. Historically, the Employee Service Centre (ESC) has provided HR administration and payroll services to approximately 200 schools and academies. However, following a detailed analysis of the service, involving EMSS, HR, Procurement, Finance and Legal colleagues, the Joint Committee determined in January 2023 that it was no longer viable and in the interests of the partner Councils to continue to provide the service.

11. The service had traded successfully since the formation of EMSS 13 years ago. Whilst alternatives have always been available to schools and academies the EMSS offer was competitive, and it was not uncommon for leavers to return. However, EMSS is not a dedicated education payroll provider and inevitably the

external market has developed its offer to the extent that EMSS could no longer compete.

12. The Joint Committee therefore reluctantly requested that EMSS withdraw from the education sector market, allowing the ESC to concentrate on the service delivered to the partners. Notice was served to education customers in February 2023 and schools and academies will have all transitioned to alternative providers by September 2023.

13. It has been agreed that the Employee Service Centre should continue delivering the level 3 apprenticeship programme, which EMSS offers not only to EMSS staff but on a commercial basis to public and private sector employers nationwide. In the public sector the team are working with large utility providers, emergency services and local authorities spread geographically from Dorset to Northumberland. Indeed, the flagship partnership with Northumberland Council is based on an intention from them to put their entire team through the programme.

14. The apprenticeship programme is an excellent example of departmental co-operation, as it's delivered in conjunction with the Leicestershire Adult Learning Service (LALS), with a financial benefit to both services.

15. The Finance Service Centre (FSC) have also expanded their current offering through the transition of sundry debt collection back into the service. Until January 2023 the sundry debt for both LCC and NCC was outsourced to Thornton Hope. However, the decision was taken in 2022 alongside the implementation of Oracle Fusion and the Advanced Collections module, to bring sundry debt collection back in house. The timetable for this transition is:

    - Phase 1 complete January 23 (transition of public sector and education debt).
    - Phase 2 to be completed by July 23 (business and individual debt)
    - Phase 3 (consumer/ Individual debt) to be completed in January 2024.

16. LCC have already benefitted significantly from insourcing sundry debt this year. For example, for the same cost, in-house collectors work across all accounts rather than the top 80% that were previously covered. They are also proactively chasing payment on upcoming due invoices rather than waiting for debt to age before customer contact is made. The increased performance is demonstrated in the value of past due (over 30 days) debt, which has decreased by 55% from December 2022 to June 23.

17. A business case has also been developed in conjunction with LCC finance colleagues, recommending that the FSC provide LCC Adult Social Care debt recovery services from 2024/25. If approved, this will be a new service and sector for EMSS and enable LCC to gain greater benefits from the shared service operation.

Customers

18. As predicted and previously reported to this Committee, customer service ratings were adversely affected by the implementation of Oracle Fusion. During 2021/22 satisfaction rates averaged at 60% due to the high number of queries being received and the resultant length of time taken to respond to customer questions. In Quarter 1 of 2022/23 the number of customers rating EMSS's services good or very good was 58%. However, during the year rates improved and in Quarter 4 the satisfaction rate was 74%. The target is 80%.

19. During 2022/23, overall, there was also a reduction in the time taken to resolve queries from 8 days at the start of the year to 3 days in March 2023. The measure is linked to the volume of tickets that breach the 'Service Level Agreement' (SLA) for that service. In April 2022, 20% of tickets breached the SLA, but by March 2023, it was only 5%, which is in line with the target.

20. The higher satisfaction rates across the different service centres in 2022/23, were because of the following interventions:

    - Reducing demand – ensuring guidance is in place for standard queries.
    - Improvements in query handling through the use of the Freshdesk system. This has included redeveloping the chat bot to offer more support for users.
    - Development of a new Customer Strategy to ensure that customer experience is reflected in all activities.
    - Establishment of Customer Boards for each service which examine in detail the performance of query management and target incremental month on month improvements.

21. Customer satisfaction remains one of EMSS's highest priorities and through the monthly Customer Boards, services challenge their performance against SLA's, as well as examine their interactions and processes through the 'eyes of the customer' to identify areas that require improvement.

Technology

22. EMSS is a service heavily reliant on technology and therefore it forms a significant part of its work.

23. The focus for the ESC has been the stabilisation of the Oracle Payroll functionality. As reported to the Commission at its meeting in November 2022, some key issues were identified during implementation regarding pensions and managing multiple assignments. These issues have since been resolved by Oracle and there is now standard functionality that can be implemented.

24. During 2022/23 the EMSS partnership commissioned an independent review of the set-up and build of payroll and HR functionality by Namos, a well-respected Oracle partner. The purpose was to ensure that the decisions made during implementation and the build by Evosys (now Mastek) were consistent with

best practice and the latest functionality available. The process included a number of workshops with both EMSS and partners, as well as analysis of the set-up of the shared platform. The result was a 170 page report provided in September 2022 which included 93 recommendations 27 of which were identified as having a high impact.

25. The report has formed the basis of a Technology Plan, which sits alongside a wider ESC Transformation Plan, both of which have been signed off by the partner councils as owners of the system and shared service. The plans detail the improvements required to stabilise and optimise the system and service.

26. The main technology project for the FSC during 2022/23 was the implementation of a new invoice processing system. Following a procurement exercise, the Kefron system was identified as the preferred system as it would provide improved functionality and reduce manual work and errors. Work began in March 2022 and the new system went live in October 2022. The benefits have been realised, e.g., the processing of invoice documentation has reduced from 72 hours to under 24 hours, with most documents being available within 2 hours of receipt.

27. In January 2023, the partnership confirmed who would provide IT support for the Oracle system. Mastek were the successful bidder and are now responsible for the upkeep and maintenance of the system, which includes the quarterly update and patching exercises. The service commenced in Quarter 4 of 2022/23 and has seen some teething issues, e.g., length of time to respond to queries, which were unexpected as Mastek had also been the implementation partner. These are being managed and closely monitored to ensure that the required improvements are delivered.

28. As part of the transition work from implementation to managed service provider the Oracle Support Manager commissioned a health check of the system's underlying Oracle Cloud infrastructure (OCI) from Oracle. The outcome was delivered in March and identified 61 issues from the implementation work carried out by Evosys (now Mastek). The results were shared with Audit and IT colleagues and an action plan agreed with Mastek. 38 of the issues have since been fixed and the majority of the outstanding issues will be resolved once the system is moved onto new infrastructure (Gen 1 to Gen 2) in October 2023. The OCI findings have been referred to in the IT internal audit for EMSS.

29. Work was also completed in January 2023 on the renewal of the contract for Oracle licences. Overall, excluding new modules, the partners saw a cost saving from the agreed budget for 2023/24 of £68,267

Audit outcomes

30. Nottingham City Council Internal Audit (NCCIA) is the designated Internal Audit provider for EMSS. Due to staffing shortages and other work commitments NCC Internal Audit, reported to the EMSS Joint Committee in June that they had not completed the 2022/23 audits. The committee is due to receive an update and report on the delays and findings of their audits on 18 September

2023. An annual report on the outcome of this work is also presented by NCC IAS to the County Council's Corporate Governance Committee.

EMSS Work Programme

31. To meet the objectives of the EMSS Strategic Plan 2023 – 2025 and improve service delivery, EMSS continually track and report on the projects in scope and underway within the organisation to ensure that focus and momentum is maintained on delivering continuous improvement and efficiencies.

32. It is an ambitious programme of projects, with the main restraints being the resource needed to manage them and the service's ability to respond. The table below shows the projects that have formed part of the Programme from April 2022 to date.

33. The key outlines the purpose / benefits of each project.

Project	Benefits	Description	Status	Sept 23 Update
HRA – NCH & NCC Reorganisation		The transition of NCH staff and some functions to NCC for April 23.		Complete
Oracle Support Model Development		A new support portal based on Freshdesk to allow self-serve and raise tickets		Complete
Managed Service Provider tender		To identify a supplier to support, maintain and develop the Oracle platform		Complete
FreshDesk – ChatBot development		To improve the support provided by the chatbot		Complete
Systems Admin Process Mapping		Ensure all processes are fully documented		Complete

Project	Benefits	Description	Status	Sept 23 Update
Activity Based Costing - FSC		To record FTE resource used on all FSC activities		Complete
Oracle Recruiting Cloud		Implement the recruitment module		Complete
Replacement bank account verification system		Review the current system that checks inputted supplier bank details are correct		Complete
Organisational - Developing EMSS Staff		Ensure all staff get an APR and the support they need personally and professionally		Managers are planning staff events and meetings to support staff.
Organisational - Performance Reporting		Improve reporting capability and measures. Automate and improve use.		Aim to automate KPIs for Q1 24. Investigating improved payroll measures
Organisational - New Customer Strategy		To implement the new strategy to improve the standards of customer service and release agent time to resolve urgent queries		Work is well advanced on most fronts. Training is being developed for roll-out later in the year
Technology - Gen 1 to Gen 2 infrastructure		This will move the non-SAAS elements of the Oracle system onto new hardware which should result in improved performance		Work has started on the move – to be complete by Oct 23
Technology - Oracle EBS archive		To transfer the data in EBS to an archive state		The Navisite system has been extended for a further 12 months as NCC require access for audit purposes. The move to a cheaper, permanent solution will be sought in the future autumn
Technology - Oracle Analytics implementation		New functionality negotiated during the contract renewal. Finance available 2023 and HR 2024		Demo arranged of new features and Fusion Owners will agree roll-out plan

Project	Benefits	Description	Status	Sept 23 Update
Technology – Oracle Guided Learning		A new system that will greatly improve the user experience of using Oracle		System has been procured and implementation plan is being developed
Technology - Oracle Cloud Infrastructure Health check		A health check highlighted a number of significant inadequacies with the set-up.		A remedial plan has been developed with Mastek and EMSS are working with partner Audit and IT teams to monitor progress.
FSC - Kefron - Phase 2		To further improve the functionality and performance of the Kefron invoice processing system		Moving to further automation using application programming interfaces. These are proving complex.
FSC – Duplicate payment identification system replacement		The current system requires upgrading		Currently investigating whether to purchase a system or in-house development
FSC – LCC Oxygen implementation		A new system to seek discounts for early payment of invoices		Final stages of testing, for roll out in September.
FSC – Oracle Post Implementation Value Investigation (PIVI)		A service from Oracle to review the system and processes post go-live to ensure best use is being made. Will also report on functionality not being fully exploited		The PIVI process is complete for the FSC. Report being prepared by Oracle for EMSS and partner colleagues.
FSC - Dialler system and SMS software		A new system to automate the contacting of customers about their debts either by text or by phoning		Investigations have begun around the current telephony systems and their capabilities before looking to a new system
FSC - In house Debt Collection Phase 2		To in-source the service and increase its scope and processes		Work is progressing on schedule

Project	Benefits	Description	Status	Sept 23 Update
FSC - Supplier Portal roll out		A self-service module for suppliers to manage invoices and payments		Work continues to move suppliers onto the portal. Have agreed a final round of invitations before use becomes mandatory
FSC - AR Customer Portal Bill Management		Self-serve portal to get copy invoices and view account		Work has restarted on this project
ESC - HCM and Payroll Transformation		Review, define, and re-establish the operating model for the Employee Service Centre (ESC).		Plan agreed with the partners. Monthly review meetings in place. Internal Transformation Board monitoring progress
ESC - Cessation of Schools/Academy business		Withdraw from the education sector payroll service market		Transition of schools and academies to new providers underway.
ESC – LCC Wagestream implementation		A system to allow staff to access an advance on their pay in LCC		Ongoing information security issues to resolve as well as appropriate access to Oracle
ESC – NCC Changes to Pay Tables		NCC are implementing a new pay structure from Sept 23.		UAT testing underway.

Benefits Key

Stat / Policy Requirement		Cost Savings		Process Improvement	
Customer Experience		Staff Welfare		Automation	

Summary

34. In summary, overall, 2022/23 was a positive year for EMSS. The Service has delivered some high-profile projects which will benefit LCC and the partnership in the future, e.g., new invoice processing and bank verification systems, debt recovery service, new recruitment module, revised contract for the Oracle licenses and IT support for the next 3 years.

35. The Finance Service Centre is in a strong position, having stabilised quickly following the implementation of the new system. The 'Best Value' review that is underway should provide ideas and opportunities for improvement, alongside the LCC projects and initiatives that EMSS are also part of, e.g., Sustainable Support Services Programme.

36. The Employee Service Centre, whilst facing some challenges with the HR/Payroll system, ultimately transitioned 40,000 staff onto the new system successfully with existing resource. The Service has a robust plan in place to rectify the issues and has demonstrated through the decision to cease trading with the education sector, that it has the interests of LCC and the partnership at the heart of its improvements.

37. Technology wise, EMSS have a robust contract management arrangement in place with Mastek, who provide the IT support for Oracle. Equally, EMSS's interface with Oracle and other local government Oracle customers is a key priority, as the Service is keen to help ensure LCC gains the best value from its investment in the system.

Background Papers

Shared Services with Nottingham City Council – Cabinet, 7 September 2010
http://politics.leics.gov.uk/documents/s47156/E%20-%20Shared%20Services.pdf

East Midlands Shared Services: Procurement of Managed Hosting Service – Cabinet, 26 July 2011
http://politics.leics.gov.uk/documents/s55039/N%20east%20midlands%20shared%20services%20procurement.pdf

East Midlands Shared Services: Consultancy Report – Cabinet, 13 September 2011
http://politics.leics.gov.uk/documents/s56198/M%20%20East%20Mids%20Shared%20Servs%20consultancy%20support.pdf

Circulation under the Local Issues Alert Procedure

None

Equality and Human Rights Implications

None

Other Relevant Impact Assessments

None

Appendices

None

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