



Essex County Council

Corporate Policy and Scrutiny Committee

10:25	Thursday, 24 February 2022	Council Chamber County Hall, Chelmsford, CM1 1QH
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For information about the meeting please ask for:

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Pages

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Private Pre-Meeting for CPSC Members Only

Please note that there will be a private pre-meeting for committee members on Wednesday 23 February 2022 at 4.00pm via Zoom.

1

Membership, Apologies, Substitutions and Declarations of Interest

5 - 5

2

Minutes: 27 January 2022

To approve as a correct record the minutes of the meeting held on 27 January 2022 and consider matters arising.

6 - 14

- 3 Questions from the Public**
A period of up to 15 minutes will be allowed for members of the public to ask questions or make representations on any item on the agenda for this meeting.
Please note that members of the public wishing to ask a question must email democratic.services@essex.gov.uk by noon on the day before the meeting (Wednesday 23 February 2022) and that questions must relate to an item on the agenda for the meeting.
- 4 Levelling Up White Paper 15 - 19**
- 5 Commercial Property Investment Update 20 - 30**
- 6 Work Programme 31 - 35**
- 7 Date of Next Meeting**
To note that the next meeting will be held on Thursday 31 March 2022, in County Hall.
- 8 Urgent Business**
To consider any matter which in the opinion of the Chairman should be considered in public by reason of special circumstances (to be specified) as a matter of urgency.

Exempt Items

(During consideration of these items the meeting is not likely to be open to the press and public)

The following items of business have not been published on the grounds that they involve the likely disclosure of exempt information falling within Part I of Schedule 12A of the Local Government Act 1972. Members are asked to consider whether or not the press and public should be excluded during the consideration of these items. If so it will be necessary for the meeting to pass a formal resolution:

That the press and public are excluded from the meeting during the consideration of the remaining items of business on the grounds that they involve the likely disclosure of exempt information falling within Schedule 12A to the Local Government Act 1972, the specific paragraph(s) of Schedule 12A engaged being set out in the report or appendix relating to that item of business.

- 9 Confidential Appendix to Agenda Item 5**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

- 10 Confidential Appendix 2 to Agenda Item 5**
- Information relating to the financial or business affairs of any particular person (including the authority holding that information);
- 11 Urgent Exempt Business**
- To consider in private any other matter which in the opinion of the Chairman should be considered by reason of special circumstances (to be specified) as a matter of urgency.

Agenda item 1

Committee: Corporate Policy and Scrutiny Committee

Enquiries to: Graham Hughes, Senior Democratic Services Officer

Membership, Apologies, Substitutions and Declarations of Interest

Recommendations:

To note

1. Membership as shown below
2. Apologies and substitutions
3. Declarations of interest to be made by Members in accordance with the Members' Code of Conduct

Membership (Quorum: 4)

Councillor C Pond	Chairman
Councillor T Cunningham	
Councillor J Fleming	
Councillor P Gadd	
Councillor M Garnett	
Councillor I Henderson	
Councillor S Kane	
Councillor D Land	
Councillor M Mackrory	Vice-Chairman
Councillor A McQuiggan	
Councillor C Siddall	
Councillor M Steptoe	Vice-Chairman
Councillor M Vance	
Councillor A Wiles	

Minutes of the meeting of the Corporate Policy and Scrutiny Committee, held at 10.15am on Thursday, 27 January 2022 in the Council Chamber, County Hall, Chelmsford.

Present:

County Councillors:
C Pond (Chairman)
T Cunningham
P Gadd
I Henderson
D Land
M Mackrory (Vice Chairman)
B Massey (substitute)
A McQuiggan
C Siddall
M Vance
A Wiles

Richard Buttress, Democratic Services Manager, and Graham Hughes, Senior Democratic Services Officer, were also present.

1 Membership, Apologies, Substitutions and Declarations of Interest

The report on Membership, Apologies, Substitutions and Declarations was received and noted.

Apologies for absence had been received from Councillors Fleming, Kane, Steptoe (for whom Councillor Massey substituted) and Wiles.

2. Minutes

The notes of the meeting held on 7 December 2021 were approved as a true record and signed by the Chairman of the meeting.

4. Questions from the public

There were no questions from the public.

5. 2022/23 Annual Plan and Budget and 2021/22 Third Quarter update

The Committee considered report CPSC/01/2022 comprising the Essex County Council (ECC) 2022/23 Annual Plan and Budget presented to Cabinet on 18 January 2022, which would be presented to Full Council on 10 February 2022, and the 2021/22 Third Quarter financials.

The following people from ECC joined the meeting to introduce the item and respond to questions:

Councillor Christopher Whitbread, Cabinet Member for Finance, Resources and Corporate Affairs;
Stephanie Mitchener – Director of Finance
Nicole Wood, Executive Director, Finance and Technology
Adrian Osborne - Head of Strategic Finance and Insight

At the invitation of the Chairman, Councillor Whitbread opened the item highlighting that ECC faced many challenges to its financial sustainability with the national review of funding for local government still outstanding, the permanent impact of the pandemic still not yet fully known nor the full impact of the pandemic and EU exit on supply chains. The draft budget proposed a total tax increase of 4.49% of which:

- 1.5% was Adult Social Care precept deferred from 2021/22
- 1% was the Adult Social Care precept for 2022/23.
- 1.99% was the core Council Tax increase

Officers then detailed the draft Revenue Budget and particular drivers for the significant parts of it. In particular, the Adult Social Care and Health budget comprised approximately 43% of the overall revenue budget. The next nearest cost components were Children's Services and Early Years which comprised 13% of the revenue budget and Highways Maintenance and Sustainable Transport at 11%. Thereafter, the committee were briefed on the capital programme, savings targets and cost pressures, risks and uncertainty, reserves, and the medium-term outlook.

During questioning and discussion, the following was acknowledged, highlighted and/or noted:

- (i) There had been approximately a 5% reduction in the numbers eligible for Council Tax support. There had been a marginal decrease in business rate income;
- (ii) Not all families would pay the full increase in Council Tax with approximately 1 in 9 getting some form of help. There was also a Council Tax Hardship Fund.
- (iii) In terms of business rate funding, there was a guaranteed proportion expected each year and another element, possibly up to £40 million, that might fluctuate from year to year. Essex was also seeing a benefit in participating in a business rates local pooling arrangement with Southend and Thurrock Councils.
- (iv) Government funding reliefs provided during the pandemic had meant that it was more difficult to assess at the moment the ongoing ability of local businesses to continue to pay business rates.

- (v) ECC had been hoping for a three-year settlement from Central Government but this had not happened. Lobbying continued for changes that would give greater long-term certainty on funding, future taxation policy and distribution of the health and social care levy.
- (vi) Some assumptions had been made on future interest rates and some increase to them had been factored into the proposed budget.
- (vii) No detailed analysis had been undertaken on the impact of current speculation that the proposed increase in national insurance contributions may be deferred. The budget was based on what was currently known.
- (viii) Finance officers confirmed that the County Council worked jointly with other councils from time to time but also learnt from best practice elsewhere.

Revenue Budget

- (ix) The main drivers of growth in the adult social care budget were inflation, demographic and complexity growth and increased cost of carer and demand risks in the market. These had been partially offset by £22 million of savings to be delivered in 2022/23 in the Adult Social Care portfolio;
- (x) Members queried whether there would be sufficient budget for the implementation of the Bus Back Better improvement plan if the anticipated government contribution to it was reduced;
- (xi) A significant item in operating costs was servicing debt. An ambitious capital programme was not all funded by government grants and so that drove up some borrowing costs.

Capital Budget

- (xii) The proposed Capital programme for 2022/23 was £283 million, as part of a £1,315 million 4-Year Capital programme between 2022/23 and 2025/26.
- (xiii) Over half of the four-year programme would contribute to Economic Renewal, Infrastructure and Planning and a quarter of it to Highways Maintenance and Sustainable Transport. £164 million was specifically allocated to road maintenance. 19% of the four-year capital programme was allocated to the Education Excellence, Life-Long Learning and Employability portfolio predominantly for school new builds, or repairs and maintenance.

Savings

- (xiv) £36 million of savings were planned for 2022/23. 35% of planned savings for 2022/23 were currently judged to have a low level of delivery risk. In 2021/22, £4m of the planned savings had proved to be undeliverable but they had been mitigated with alternative proposals. Only around £300,000 currently had a high level of delivery risk.
- (xv) Two thirds of the £36m savings targeted for 2022/23 would be delivered through five major schemes (the Connect Programme optimising services supporting adults, using care technology to minimise escalation of needs, developing independence through the Meaningful Lives Matter Programme, further benefits being derived from the Ringway Jacobs contract extension, and the more efficient use of buildings).
- (xvi) The Cabinet Member was proud of savings delivered so far but acknowledged that it remained an ongoing challenge to continue to make savings but was confident that those challenges could be met.
- (xvii) Some members challenged whether savings or underspends from the current year were re-invested into their respective budgets or placed into reserves.
- (xviii) Further rationalisation of the estate would contribute to the savings and efficiencies being sought but it was not on its own a solution.

Risks and uncertainty

- (xix) Key risks identified in preparing the budget included the sustainability of collection of taxes, provider failure in Adult Social Care, the ongoing impact of Covid and demand volatility, uncertainty of Government Funding, the delivery risk of savings and capital investment plans, inflation, and interest rates.

Reserves

- (xx) ECC expected to start the new financial year with £200 million of restricted funds and £226 million of unrestricted. By 2024/25 it was anticipated that the balance of unrestricted reserves would have reduced to £138m. For 2022/23 the County Council was expecting £107m of planned withdrawals which included £44m expected to be utilised from the Everyone's Essex Reserve to fund strategic priorities and £24million from the Covid Equalisation Reserve where it was assumed that all remaining government funding would have been utilised.

- (xxi) Whilst there was no national guidance on setting a minimum level of reserves for a local authority, there were tools to use to help benchmark against other local authorities although ECC had a number of technical reserves which sometimes made that more challenging.

Medium Term outlook

- (xxii) Whilst a balanced budget for 2022/23 was proposed, there remained a significant challenge over the medium term with a forecast gap of £24 million in 2023/24 after delivering £43 million savings.
- (xxiii) Some members suggested more clarity was needed in the budget on financing climate commission aspirations and targets. The Cabinet Member responded by indicating that across the whole budget that there was such provision and cited the Everyone's Essex Reserve as an example where within it there was provision for funding some climate commission actions. Some procurement processes were also being amended to reflect climate considerations.

2021/22 Third Quarter update

- (xxiv) There had been a revenue underspend of £5.8 million (0.6%) driven by underspends across portfolios and an improved funding position.
- (xxv) The overall outlook remained very challenging and volatile, notably with demand pressures across social care, market volatility and rising inflation.
- (xxvi) There had been a capital underspend of £58.9 million (20%) against the latest budget of £295m. This had been driven by a relatively small number of schemes, predominantly for reasons outside of the Council's control

Conclusion:

It was **agreed** that further information be provided on:

- (i) The reprofiling of funding of Local Highways Panels and clarification about the component parts of the next year's budget and particularly whether it included prior year underspend.
- (ii) The funding of financial commitments in relation to climate change and the Climate Commission.

- (iii) Further information be provided on the budget slippage for Active Travel and what it would have been spent on.
- (iv) Clarifying levels and component parts of reserves. It was noted that reserves and provisioning was already an item on the Committee's work programme so this could be picked up when that formal agenda item was scheduled.

The witnesses were thanked for their attendance and left the meeting.

**6. Everyone's Essex Strategy – strategic performance measures
Proposal for future reporting and scrutiny**

The following joined the meeting:

Councillor Louise McKinlay, Deputy Leader & Community, Equality, Partnerships and Performance.

Richard Puleston, Director, Policy.

Suzanne Barcz - Head of Performance and Business Intelligence.

The Committee received report CPSC/02/22 which outlined the proposed approach to ensuring that the Committee had suitable oversight of the Everyone's Essex performance framework. It was anticipated that reporting would be focussed on the existing framework with summary data provided based on the Strategic and Contextual measures.

The proposed approach and reporting format as presented in the agenda paper was **agreed** and it was further agreed that the reporting timetable be aligned to the quarterly financial reporting to be received by the committee commencing from the Quarter 3 outturn.

7. Work Programme

The Committee received report CPSC/16/21 comprising the current work programme of the Committee which was noted.

8. Date of Next Meeting

It was noted that the next meeting was scheduled to be held on Thursday 24 February 2022.

There being no further business the meeting closed at 12.25am

Chairman

Corporate Policy and Scrutiny – Matters Arising as at 24 February 2022

<u>Date</u>	<u>Agenda item</u>	<u>Action</u>	<u>Status</u>
27 January 2022		Further information was requested on financing climate commission aspirations and targets and other identified climate change actions.	Email from Stephanie Mitchener (attaching November 2021 Cabinet paper and appendix) circulated 16 February 2022
		Further information was requested on the reprofiling of funding of Local Highways Panels.	Email from Adrian Osborne with extra information circulated 9 February 2022
		Further information was requested on the budget slippage for Active Travel and what it would have been spent on	TBC
		Further clarification was sought on levels and component parts of reserves. It was noted that reserves and provisioning was already an item on the Committee's work programme so this could be picked up when that formal agenda item is scheduled.	On Work Programme – to be scheduled
8 December 2021	2021/22 Financial Overview as at the Half year Stage and Budget Setting Process	To bring more finalised 2022/23 budget proposals to the scheduled Thursday 27 th January 2022 meeting of the Committee (ahead of February Full Council)	Included in January 2022 agenda papers
		Provide a further progress update on savings being delivered against the targets set in the MTRS. This would be included as part of the third quarter outturn update at the next meeting	Included in January 2022 agenda papers
		Whilst acknowledging that some detail on concurrent savings and one-off savings had been included in the Budget setting agenda papers, this would be further broken-down for the Committee	Included in January 2022 agenda papers

		Further detail to be provided on the reprofiling of expenditure and over-spend in the Highways Maintenance and Sustainable Transport account relating to 3-year delivery programme for Local Highways Panels.	Included in January 2022 agenda papers
		That a future more detailed agenda item on reserves and provisioning be scheduled	Add to Work Programme
		Further detail to be provided about the impact of the proposed CIPFA / Government restrictions on property investments, the level of provisioning required and its impact on the 2022/23 budget.	Included in agenda papers
8 December 2021	Work Programme	Financing the delivery of the Climate Commission report recommendations to be added to Work Programme.	Complete
		Information on the section 106 process and why some monies were not used or reallocated - particularly in relation to Health schemes to be added to Work Programme.	Complete
30 September 2021 (informal)	Ways of Working Programme update (agenda item 4)	The cost of converting meeting rooms	Update requested - this may be scheduled into formal agenda item.
		The advice provided to staff around home working (and in particular security)	Update requested - this may be scheduled into formal agenda item.
		A breakdown of numbers of staff in each of the four workstyles identified by ECC. It was highlighted and acknowledged that this would only be available around January 2022 and this timing may be the opportunity for a follow-up discussion to include how Tranche 2 had worked and latest staff feedback	Update requested – this may be scheduled into formal agenda item.
		Copy of procedure notes on welfare issued to Heads of Department, and line managers and others	Update requested - this may be scheduled into formal agenda item.

		Copy of notes/minutes of discussions with Trade Unions	Update requested - this may be scheduled into formal agenda item.
		<p>Further information on the hybrid meeting rooms including confirming:</p> <ul style="list-style-type: none"> (i) The suitability of the microphones for the size of room; (i) That the quality of a meeting would be no worse than would be experienced in person, particularly for the hard of hearing; (ii) Availability of training for staff to use the new equipment; (iii) The acceptance criteria for the commissioning of a room and the minimum remote equipment required; <p>Arrangements for ensuring the security of the tools permitted in hybrid meetings and the use of end-to-end encryption.</p>	Subsequent email correspondence between Councillor McQuiggan and Executive Director, People and Transformation to be circulated to members
		Joint work being done with other local authorities on the experience of hybrid working in the public sector.	Update requested – this may be scheduled into formal agenda item.
30 September 2021 (informal)	Corporate Systems update	The Committee be kept updated on the roll-out	TBC - this may be scheduled into formal agenda item.
		A summary report be provided to outline the pre-work undertaken before Oracle was selected and to indicate the level of security in place for such a cloud-based system.	<p>Provided and to be circulated to Members via link here</p> <p>Matter Arising - Oracle Security</p>

Levelling Up White Paper

Reference Number: CPSC/05/22

Report title: Levelling Up White Paper	
Report to: Corporate Policy and Scrutiny Committee	
Report author: Graham Hughes, Senior Democratic Services Officer	
Date: 24 February 2022	For: Discussion and identifying any follow-up scrutiny actions
Enquiries to: Graham Hughes, Senior Democratic Services Officer at graham.hughes@essex.gov.uk.	
County Divisions affected: Not applicable	

1. Introduction

- 1.1 The Chairman and Vice Chairmen have requested an update on aspirations and ambitions for levelling up and devolution.

2. Action required

- 2.1 The Committee is asked to consider the update in the Appendix and identify further follow-up scrutiny actions.

3. Background

- 3.1 With the White Paper on Levelling Up now published, the Chairman and Vice Chairman have had a preparatory discussion with the Leader and the Director, Policy and agreed to bring this update to this meeting to help identify future scrutiny activity and oversight.
- 3.2 The discussion on this agenda item may also refer to the adoption of the *Everyone's Essex – Our Plan for Levelling Up the County: 2021-2025* strategy at Council on 12 October 2021. [Everyone's Essex: our plan for levelling up the county 2021 to 2025: Summary - Essex County Council](#)

4. Update and Next Steps

The Leader and the Director, Policy will be attending to support this item. See Appendix for written update.

5. Appendix

Paper dated 24 February 2022 from the Essex County Council Policy Unit titled Levelling Up White Paper.

To: Corporate Scrutiny Committee

From: Essex County Council Policy Unit

Date: 24th February 2022

LEVELLING UP WHITE PAPER

1. This paper sets out high level initial analysis of the LU White paper published by the government 2/2/22.
2. The White Paper is structured in three parts.
 - a. Chapter 1 – sets out the evidence base in relation to geographical inequalities. It provides an analysis around ‘six capitals’ whose interaction and mutual reinforcement are the drivers of growth.
 - b. Chapter 2 – sets out the systems reform proposed. This section contains the section on ‘empowering local decision making’ (2.3.3) which sets out the detail of the proposed approach to devolution deals.
 - c. Chapter 3 – sets out the policy programme – based on 12 Missions to be achieved by 2030 that are widely drawn to encompass a focus on the economy, transport, digital connectivity, education, skills, health, housing, pride in place, and crime. The focus on 2030 is important as it commits the government beyond a single Spending Review period.
3. The logic of the structure and the broader presentation of the paper is that levelling up requires both changes to the mechanics of government (systems) to reduce the over-centralisation of the state; and multi-dimensional interventions (policy programme) in specific places to address ‘the most important economic and societal challenges facing the UK today where concerted, collective action is required if LU is to be achieved’.

Levelling Up Missions

4. The policy programme is conceived as a set of 12 Missions – based on the framework for medium-term, cross-sectoral policy challenges, promoted by the economist Mariana Mazzucato. The 12 missions to level up the UK by 2030 are:
 - Increased pay, employment and productivity. Every area will have a globally competitive city, and the gap between the top-performing and others will close
 - Investment into Research & Development outside of the Greater South East will increase by at least 40%, with government seeking to increase private-sector growth by at least twice as much
 - Local transport connectivity will be closer to London standards, with improved services and integrated ticketing
 - The UK will have nationwide gigabit-capable broadband and 4G coverage. Many areas will have 5G coverage
 - The number of people completing high-quality skills training will have increased significantly in every region. This should lead to 200,000 more people completing this type of training in England
 - The gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest will have narrowed. HLE will rise by five years by 2035

- Wellbeing will improve in every area of the UK
 - People's pride in where they live and engagement in local culture will have risen in every area of the UK
 - Renters will have a safe pathway to ownership, and there'll be more first-time buyers in every area. The number of non-decent rented homes will halve
 - Homicide, serious violence and neighbourhood crime rates will drop
 - Every area of England that wants a devolution deal will have one
5. Whilst the systems dimension of the White Paper is effectively a universal offer with 'every part of England' offered a devolution deal by 2030 if it wants one, pretty much every other Mission description suggests some form of targeting with language such as 'closing the gap between the top performing and other areas'; 'focused on the worst-affected areas'; 'biggest improvements in the lowest performing areas'.
 6. Overall, the Government's approach to levelling up as set out in the missions is consistent with the approach we are taking in Essex, as reflected in our recent Essex White Paper on Levelling Up. Both the UK and Essex approaches reflect the need to take a holistic approach, bringing together people and place issues in an integrated way; the need to be focused and prioritised; and the need to bring together public services, businesses, the voluntary sector and communities in a shared endeavour.
 7. The challenge for Essex will be that while we have areas within the county that are in need of levelling up against the mission criteria, Essex as a whole is relatively prosperous compared to other parts of the country and therefore risks being overlooked if the Government focuses purely on data at an aggregate county or regional level. There is an additional challenge in that Essex has been included as part of the "Greater South-East" (for example for the mission concerning R&D) and is therefore counted as a region that is already levelled up rather than one that needs levelling up.
 8. We will therefore need to continue engaging Government to persuade them that levelling up needs to focus not only on county/regional data but on data at a district level. We will be strengthened in doing so by having our own strong programme of levelling up in Essex that is well aligned to the national programme.

Devolution

9. The White Paper sets out for the first time a uniform national framework for devolving powers to local areas. Importantly, this framework is explicitly designed for county and two-tier areas like Essex, not just the metropolitan areas where devolution has previously been focused. The White Paper has set a timescale that every part of England that wants a Devolution Deal and meets the conditions will have one by 2030 and the following places were announced alongside the White Paper as being first in line for Devolution Deals: Suffolk; Norfolk; Cornwall; Derbyshire and Derby; Devon, Plymouth and Torbay; Durham; Hull and East Yorkshire; Leicestershire; and Nottinghamshire and Nottingham.
10. The White Paper sets out the following key elements of the framework for devolution:
 - Devolution will apply to a functional economic geography (FEA) and/or a county area with a population of 500,000+.

- Deals will be agreed only with County Councils or Unitaries. Districts are not formally part of the discussions though they are encouraged to get involved in new arrangements.
- There is a flexible governance framework that allows for three different governance models: (a) a single institution with a directly elected mayor or leader; (b) a single institution without a directly elected mayor or Leader; or (c) local authorities working together, e.g. through a joint committee. The greatest powers are reserved for places that opt for a directly elected mayor or leader. A directly elected mayor or leader will have access to powers that include the following:
 - Priority for new rail partnerships with Great British Railways – influencing local rail offer, e.g. services and stations
 - Consolidation of existing core local transport funding for local road maintenance and smaller upgrades into a multi-year integrated settlement
 - Long-term investment fund, with an agreed annual allocation
 - Role in design and delivery of contracted employment programmes
 - Ability to establish Mayoral Development Corporations (with consent of host local planning authority)
 - Strategic partnerships with Homes England across the Affordable Housing Programme and brownfield funding
 - Ability to introduce supplement on business rates (increases subject to ballot)
- Local Government Reform (i.e. unitarisation) is not a requirement for securing a Devolution Deal and will only be progressed under existing legislation where there is broad local support. Indeed the mood of the paper seems to caution against this: ...'[LGR] could distract from the implementation of improved local government services and outcomes, and delay the agreement and implementation of devolution deals'.
- A new independent body will be set up focusing on data, transparency and robust evidence. This will boost transparency and help local places learn from each other. It will also “increase central government’s understanding of the local government sector, measure efficiency and area variation”.
- LEPs will continue in place unless and until Devolution Deals are agreed, when their functions will transfer over to the new lead authority (Mayoral Combined Authority or County Council), although it recognises that there will need to be further consideration in cases where the LEP and Devolution boundaries do not align.

Region-specific announcements

The final part of the main body of the White Paper sets out key investments and announcements related to levelling up on a regional basis both forthcoming and already delivered. For the East of England this includes previously known announcements including; £87m of investment through the levelling up fund and £287m for 12 towns across the region including Colchester, major infrastructure projects such as the Lower Thames Crossing, and the new Institute of Technology in South Essex.

Essex was not included as one of the newly announced Education Improvement Areas which includes “Peterborough, Bedford, Central Bedfordshire, Norfolk, Luton, Suffolk and Cambridgeshire”, however the paper highlights an extra £292m additional funding (+5.9% per pupil) across the region for mainstream school places.

Commercial Property Investment - Update

Reference Number: CPSC/06/22

Report title: Commercial Property Investment - Update	
Report to: Corporate Policy and Scrutiny Committee	
Report author: Stephanie Mitchener, Director of Finance	
Date: 24 th February 2022	For: Discussion
Enquiries to: Tina French, Head of Finance Commercial Telephone: 03330 138461 email: tina.french@essex.gov.uk	
County Divisions affected: All Essex	

1. Purpose of Report

- 1.1. This report summarises the Commercial Property Investment portfolio and provides an update on performance and issues since the last report to Scrutiny Committee in September 2020, along with the confidential appendix to this report.

2. Recommendations

- 2.1. None – the report is for information and discussion.

3. Summary and Background

- 3.1. In July 2017, Cabinet agreed to add £50m to the capital programme for 2017/18 to create a commercial property investment fund to generate income to help deliver the outcomes key to residents and business in Essex (FP/855/06/17).
- 3.2. From the initial **£50m** that was allocated to the Property Investment Fund, **£33.9m** has been spent to date.
- 3.3. The decision was taken to halt the programme due to Brexit uncertainties and changes in Government guidance regarding the use of borrowed funds ahead of need. The final acquisition was in July 2018.
- 3.4. The governance process and investment criteria for the portfolio, in terms of sector, geography and value, were established in the original decision.

4. Current Investment Portfolio

- 4.1. The Council continues to own three assets in Keighley, Watford and Guildford. These assets were acquired through, and are also managed by, Lambert Smith Hampton Investment Management (LSHIM). These assets and their date of acquisition are:

- Keighley Retail Park, Keighley (*March 2018*) – retail sector

Commercial Property Investment - Update

- Moorfield Centre, Guildford (*July 2018*) – light industrial sector
- 45 Clarendon Road, Watford (*December 2017*) – office sector

- 4.2. **Keighley Retail Park** provides 65,556 sq. ft of purpose-built retail warehouse accommodation, which was constructed in 1998 and arranged as 8 retail warehouse units in 2 terraces along with a drive through restaurant, a pod outlet and a portacabin outlet. The property occupies a prominent position alongside the A650 Hard Inns Road and covers a site area of 6.5 acres.
- 4.3. It should be noted that this is an out of town shopping centre rather than high street retail space. During the pandemic lockdowns, some of the tenants were obliged to close while others managed to trade, with some publicly reporting very strong sales performances, such as Halfords and Pets at Home.
- 4.4. The site is, and always has been under our ownership, fully occupied. There are two units where in recent history the tenants entered either a creditor voluntary arrangement (CVA) or a pre-pack administration, which resulted in short term agreements to pay much reduced rent. Both tenants have now agreed heads of terms for new leases to commence in early 2022 to re-establish more sustainable rental levels as trade has stabilised for the tenants.
- 4.5. While the impact of the pandemic has hit retail particularly hard, there have been examples of new arrangements being put in place with tenants to secure longer term income.
- 4.6. **Moorfield Centre** – this property comprises a single terrace of steel portal frame construction which is divided into four modern trade counter units with two adjoining units. Constructed in 1996, the estate provides 23,025 sq. ft (GIA) of trade-counter/warehouse accommodation. The units provide ancillary office accommodation on ground and first floors. The property is prominently located at the entrance to the Slyfield Industrial Estate two miles north of Guildford town centre.
- 4.7. The industrial sector has performed strongly throughout the pandemic. One tenant vacated a unit at the end of 2021 to move to larger site, but another existing tenant immediately requested to take a lease for that unit. The tenants are on long term leases and have either been through recent rent reviews to market value or are due to imminently. These reviews are generating good increases reflecting the strength both of this asset and the sector.
- 4.8. **45 Clarendon Road** is a modern office building providing 23,219 sq. ft (2,157.2 sq. m) of open plan accommodation arranged over ground and four upper floors. Clarendon Road is the principal office location in Watford and a key arterial route between Watford town centre and Watford Junction Railway station.
- 4.9. The site has been impacted by the working from home directive due to the pandemic, which has reduced daily occupancy.

Commercial Property Investment - Update

- 4.10. There were two tenants over four floors, however one tenant exercised an existing break clause in April 2021 on one floor, as they decided that they would require less office space post-covid.
- 4.11. This floor is now under offer and the new lease should be in place from April 2022.
- 4.12. The remaining tenant had break options clauses in May 2022 for both floors but has decided not to exercise either option, thereby securing the longer-term rental for those floors.

5. Impact of COVID-19

- 5.1. Following Government guidance on best practice, the Council sought to work with tenants who requested assistance with their cashflows. Legislation also prevented, and still prevents, Commercial Rent Arrears Recovery (CRAR) being taken against tenants who fell into rent arrears, although ECC are not impacted by this.
- 5.2. All of the temporary rental concessions entered into with tenants to assist their cashflows have now finished. There was no rental income lost in that time, only rescheduled. One tenant requested a permanent move to monthly payments from quarterly, which was accepted.
- 5.3. The overall rental collection rate for the 12 months to March 2021 was **91%** compared to the headline lease value, which compared very favourably with the collection rates published by major landlords. The missing rent was due to the retail tenants in administration paying a lower rent and a rent-free period agreed to secure a long term lease. The strong performance is testament to both the underlying covenant strength of the tenants, which was a key variable in the original investment appraisals, and the collaborative approach the Council took. Rental collection in the current year remains high, with no material issues with rental debt.
- 5.4. While the revenue performance remained strong during the year to March 2021, with the revenue budget delivered, the major pandemic impact for ECC has been in the drop in the market valuations of the assets.
- 5.5. The portfolio is valued annually by independent property market surveyors as part of the year-end financial closure. In the year to 31st March 2021, the portfolio dropped £3.8m (13%) in value.
- 5.6. The major decline (£3.3m) was at Keighley where the tenants paying reduced rents caused £1m of the decline. The remainder was in line with the general market reduction in values (-19%) for the area/sector, mainly caused by covid related uncertainty as well as longer standing concerns over the future of retail generally. The new leases at higher rental levels, plus a more positive outlook regarding covid and future restrictions, should improve the valuation in March 2022. The ongoing debate on the future of retail will continue to have an impact.

Commercial Property Investment - Update

- 5.7. The decline at Watford (£0.9m), reflected the tenant leaving one floor, break clauses nearing for the other tenant and general market uncertainty over the future of offices. Again, the new lease and the non-exercising of the break options should improve the valuation in March 2022. There could continue to be some impact from the uncertainty around the future use of offices post pandemic.
- 5.8. The valuation at Guildford increased by £0.4m based on the two new long-term leases with one tenant, the strong rent review at another and general industrial sector positivity due to the high demand for such property post pandemic.
- 5.9. It was recognised at the outset that the portfolio would likely be held for approximately 10 years, to allow for the shorter-term market fluctuations seen recently to occur. The UK property market is still considered to be strong and attractive to investors in the longer term.
- 5.10. It should also be noted that the commercial property portfolio investment is one part of ECC's property estate and while there have been the investments in the portfolio, since 2017/18 there have also been circa £22m of receipts from sales of other estate properties that were surplus to requirements and £12m of housing sales in the same period. Overall, the net view of the activity across the estate is balanced and proportionate.

6. Financial Analysis

- 6.1. Despite the issues covered in the previous paragraphs, the portfolio delivered its net revenue budget for 2020/21 and is forecast to deliver the same for 2021/22.
- 6.2. The Council is also holding a provision for unexpected tenancy voids or costs relating to the portfolio on the balance sheet. As at March 2021, this provision stood at £975,000 and will increase to £1.3m by the end of the current financial year, which is circa 75% to 80% of the annual rent forecast. This provision can be used to support any revenue pressures. Please see paragraph 7.6 below for further information on this provision.
- 6.3. For 2022/23 the draft budget shows a realignment of budgets, moving £0.3m between the budgets for rental income and the budget for the appropriation to the balance sheet provision, leaving no overall budget impact. It is now considered likely that the portfolio will deliver an upside to this draft budget of £0.3m due to the progress on new leases at Keighley and the non-exercising of the break options at Watford.
- 6.4. In the last financial year, the capital value of the portfolio has declined from £29.1m to £25.3m – a decrease of £3.8m. All assets were evaluated against the backdrop of the market volatility caused by the pandemic as well as some local issues.

Commercial Property Investment - Update

- 6.5. It remains important to remember that all assets are long term holds and are purchased for their long-term income streams. Importantly, the portfolio income has held up, and the value reduction is driven mainly by market sentiment and the impacts of the pandemic, rather than due to deterioration in the core assets.
- 6.6. Details of yields are shown in the confidential appendix.

7. Risk Management and Investment Criteria

- 7.1. The Council is following the previously agreed investment strategy, that the fund would only be spent on the acquisition of commercial property located in the UK (not housing sites or development land), outside Essex, and that the Council should seek to achieve a gross return of at least 5%.

There are various criteria within the strategy that are designed to mitigate risk. These are:

- Geographical Area
 - Sector Weighting
 - Value
 - Use of Expertise
 - Void Provision
- 7.2. In line with the strategy, properties have been acquired in a diverse range of locations throughout the UK in order to mitigate risk of declines in the property market in any one geographical area.
- 7.3. It was proposed to acquire only UK commercial property based on the following indicative split, to ensure that the Council was not over exposed to one sector of the property market
- Offices – 35%
 - Retail – 35 %
 - Industrial – 30%
 - Alternatives – 10%

These percentages add up to 110% because these were indicative maximum percentages although it was acknowledged that in practice the percentages will vary. The actual sector split is currently as follows

- Offices – 35 %
- Retail – 42 %
- Industrial – 23%
- Alternatives – 0%

LSHIM advise that our portfolio is well balanced, although the portfolio is slightly light in Industrial and lacking in Alternatives.

Commercial Property Investment - Update

- 7.4. No single asset should be acquired at a value of greater than £15m. This avoids the risk of a catastrophic event leading to significant loss of income.
- 7.5. The use of market experts (LSHIM) is in line with Government best practice. It ensures that the Council has access to market expertise to help make the informed decisions with regards to investment and to review ongoing performance. LSHIM produce quarterly performance updates which are followed up in client meetings. Currently contact is very regular; it is an active relationship.
- 7.6. The Council holds a provision on its balance sheet for any unexpected costs or voids in tenancy. By 31st March 2022, the provision will stand at £1.3m. This would equate to approximately 10 months without any rental income across the whole portfolio. A number of positive and negative scenarios have been run to assess the adequacy of the provision. The results of this evaluation are that it is felt to have reached a sustainable level that will offer ECC protection from any likely downside scenarios in the short to medium term. Consequently, the provision will be held at the current level for the year to March 2023 but will be reviewed regularly as any events occur that might impact the portfolio.
- 7.7. The revenue saving of £0.3m from not topping up the provision in 2022/23 fully mitigated the similar reduction in the net rental revenue budget outlined in paragraph 6.3 above, to leave a neutral budget position. However it is now anticipated that the net rental income will be higher than the draft budget.

8. Other Considerations

- 8.1. During 2020, updated guidance on the use of Public Works Loan Board (PWLB) funds was published. The use of such funds for commercial return, especially for commercial property investment, has long been a target for Government and national press criticism. It is now clear that an Authority with projects in their capital programmes that are investment assets held primarily for yield will not be able to access PWLB funds for any project in the programme.
- 8.2. This change had been expected and anticipated by ECC. The last investment in the portfolio was made in 2018.
- 8.3. Borrowing to fund investment in housing or regeneration primarily for policy reasons remains available, even if a return is made in the process as a secondary effect. It is expected that such returns would be reinvested in further housing/regeneration projects. Opportunities for such investment is currently under consideration by the Council.
- 8.4. The revised CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) was issued in December 2021. Whilst the Prudential Code prohibits borrowing for schemes whose primary purpose is to achieve a financial return, it does not require authorities to immediately sell existing commercial investments. The Prudential Code does however require

Commercial Property Investment - Update

authorities that have an expected need to borrow, like ECC, to review options for exiting commercial investments, and to use the proceeds from sale to repay debt or reduce future borrowing.

- 8.5. In practice, sale would only be considered if the Council's investment could be reasonably realised, taking account of financial implications and risk reduction benefits.
- 8.6. Where authorities continue to hold commercial properties, the Prudential Code requires that the risks of such investments are proportionate to a Council's financial capacity to absorb plausible losses without unmanageable detriment to local services. The Council is compliant with this principle.
- 8.7. Finally, there is no prohibition on Council's continuing to invest in the repair and renewal of their commercial properties to safeguard their value.

9. List of Appendices

- 1. Commercial Property Investments Power Point dated 24 February 2022.
- 2. Commercial Property Investments update report dated 24 February 2022 – confidential appendix.
- 3. Commercial Property Investments Update Power Point dated 24 February 2022 - confidential appendix.

10. List of Background Papers

None

Commercial Property Investment Update

Corporate Policy and Scrutiny Committee
24th February 2022

History



Original ambition £150m over a number of phases. Cabinet approved initial phase of £50m in July 2017

Policy decision to invest outside Essex, driven by financial return

£34m invested in property portfolio 3 locations (balanced portfolio – retail, light industrial, office)

Paused 2018 (Brexit, PWLB borrowing ahead of need/primarily for yield)

Current Investment Portfolio



Keighley Retail Park

65,556 sq. ft of purpose-built retail warehouse accommodation, constructed in 1998 and arranged as 8 retail warehouse units in 2 terraces along with a drive through restaurant, a pod outlet and a portacabin outlet



Moorfield Centre, Guildford

A single terrace of steel portal frame construction which is divided into four modern trade counter units with two adjoining units. Constructed in 1996, the estate provides 23,025 sq. ft (GIA) of trade-counter/warehouse accommodation. The units provide ancillary office accommodation on ground and first floors.



45 Clarendon Road, Watford

A modern office building providing 23,219 sq. ft (2,157.2 sq. m) of open plan accommodation arranged over ground and three upper floors.

Current position



2021/22 budget expected to be delivered – small £50k pressure currently

Market uncertainty due to the impacts of the pandemic especially in retail and office sectors

Improving retail lease positions and office break clauses not exercised point to a better overall portfolio outlook

Value of the portfolio has decreased by £3.8m to £25.3m, mainly due to Covid uncertainty impact on the market

Access to PWLB borrowing now dependent on not investing in assets primarily for yield & Prudential Code requires exit review of assets before new borrowing but no “fire sale” requirement

Work underway on next phase Economic Renewal Investment Fund within Essex to deliver economic growth benefits

Work Programme

Reference Number: CPSC/07/22

Report title: Work Programme	
Report to: Corporate Policy and Scrutiny Committee	
Report author: Graham Hughes, Senior Democratic Services Officer	
Date: 24 February 2022	For: Discussion and identifying any follow-up scrutiny actions
Enquiries to: Graham Hughes, Senior Democratic Services Officer at graham.hughes@essex.gov.uk.	
County Divisions affected: Not applicable	

1. Introduction

- 1.1 The work programme is a standard agenda item. The work programme for the Committee continues to be developed and the current position is outlined below.

2. Action required

- 2.1 The Committee is asked to consider this report and issues under consideration in the Appendix and any further development or amendments.

3. Background

3.1 Developing a work programme

Issues identified during induction sessions in summer 2021 and subsequent formal meetings continue to be incorporated into the work programme by the Chairman and Vice Chairmen.

- 3.2 This work has reflected the adoption of the *Everyone's Essex – Our Plan for Levelling Up the County: 2021-2025* strategy at Council on 12 October 2021.

4. Everyone's Essex

The Committee should take account of the *Everyone's Essex – Our Plan for Levelling Up the County: 2021-2025* strategy when considering the work programme and future items.

Particular attention should be paid to the strategic ambitions (and associated commitments and performance measures) most relevant to the work of the Committee. Reflecting the corporate focus of the committee, this could be more looking at the How We Will Deliver section and include scrutiny of effectiveness and efficiency, value for money, and the managing and prioritising of resources, so that investment can be made in the priorities set out in the strategy. It could

Work Programme

also include scrutinising the People Plan in the strategy which aims to ensure that the County Council has the capability to meet the demands ahead.

5. Update and Next Steps

See Appendix.

6. Appendix

- Current Work Programme.

APPENDIX**Corporate Policy and Scrutiny - Work Programme – 24 February 2022**

Provisional Date	Topic Title	Lead Contact	Purpose and Target Outcomes	Relevance to Scrutiny Theme *	Cross-Committee Work Identified (where applicable)
24 February 2022	Levelling Up White Paper and Devolution	The Leader and the Director, Policy	Aspirations and ambitions around levelling up and devolution/localism and inter relationship.	Link to ability to deliver Everyone's Essex Strategy	TBC
24 February 2022	Commercial Property Investment - update	Cabinet Member Finance, Resources and Corporate Affairs/ Head of Finance Commercial Insight	Review approach and performance.	Link to ability to deliver Everyone's Essex Strategy	Not applicable
24 March 2022 (hosted by another committee)	Corporate Economic Renewal Strategy	Cabinet Member Finance, Resources and Corporate Affairs/ Director Finance	To consider the development of the Strategy	Link to ability to deliver Everyone's Essex Strategy	Place Services & Economic Growth Policy and Scrutiny Comm to host on 24 March
Early 2022	Investment portfolio update	Cabinet Member Finance, Resources and Corporate Affairs/ Head of Finance Commercial Insight	Review approach and performance.	Link to Scrutiny of the Everyone's Essex Strategy	Not applicable

Early 2022	New developments – section 106	Strategic Development Manager/ Infrastructure Funding Co-Ordinator	Information on the section 106 process and why some monies were not used or reallocated - particularly in relation to Health schemes.	Link to ability to deliver Everyone's Essex Strategy	Scrutiny Board to determine
Early 2022	Data analytics and artificial intelligence	Head of Profession: Analytics & Data Science	Understanding the collection and use of data analytics and artificial intelligence.	To support future scrutiny of Everyone's Essex Strategy	Scrutiny Board to determine
Early 2022	Reserves and provisioning	Cabinet Member Finance, Resources and Corporate Affairs/ Director Finance	To review current policy and levels.	Link to ability to deliver Everyone's Essex Strategy	Not applicable
Early 2022	Climate change	Cabinet Member Finance, Resources and Corporate Affairs/ Director Finance	Financing the delivery of the Climate Commission report recommendations	Climate change	Not applicable
April or May 2022 - TBC	Ways of Working and Facilities update	Cabinet Member Finance, Resources and Corporate Affairs/ Executive Director, People and Transformation	How has Tranche 2 worked and what is the latest staff feedback.	Link to ability to deliver Everyone's Essex Strategy	Extend invite to Chairmen of other scrutiny committees
April 2022	Essex Archive Services	Cabinet Member Devolution, Art, Heritage and Culture	Influence future approach on the delivery of services including use of digitalisation.	Link to Scrutiny of the Everyone's Essex Strategy	Not applicable

TBC	Corporate systems update	Cabinet Member Finance, Resources and Corporate Affairs/ Programme Director	Review implementation and issues that have been identified and ambitions for technology transformation and facilitating change.	Link to Scrutiny of the Everyone's Essex Strategy	Not applicable
Quarterly starting May or June 2022 - TBC	Finance and budget update	Cabinet Member Finance, Resources and Corporate Affairs/ Director Finance	To consider the third quarter financial outturn and to understand the challenges on the proposed budget.	Link to ability to deliver Everyone's Essex Strategy	
Quarterly starting May or June 2022 - TBC	Everyone's Essex Strategy	Director, Policy and the Head of Performance and Business Intelligence	To consider proposed format for future updates to monitor progress.	Link to Scrutiny of the Everyone's Essex Strategy	To extend invite to other Scrutiny Chairmen

**Further issues not scoped or currently being scheduled
(themes and issues highlighted during induction discussions with Cabinet Members)**

Essex Housing - ECC's strategies and plans, including environmental considerations.

Essex Outdoors - Increasing usage and making it more commercial. Could be led by another scrutiny committee.

Faith covenant - Role of ECC and the wider Equalities agenda

Planning process review - How Essex system works. Place and Economic Growth Policy and Scrutiny Committee may lead but may be cross-committee aspects.

Procurement - Percentage of procurement with Essex businesses, social value contracts, autonomy of service areas