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Uttlesford
District Council

Chief Executive: Peter Holt

Investment Board

Date: Monday, 17th July, 2023

Time: 6.00 pm

Venue: Council Chamber - Council Offices, London Road, Saffron Walden, CB11 4ER

Chairman: Councillor N Reeve
Members: Councillors G Bagnall, C Criscione, J Evans, R Gooding, N Gregory, N Hargreaves (Vice-Chair), D McBirnie and G Sell

AGENDA
PART 1

Open to Public and Press

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INVESTMENT BOARD held at MICROSOFT TEAMS, on MONDAY, 20 FEBRUARY 2023 at 6.00 pm

Present:	Councillor N Reeve (Chair) Councillors G Bagnall, N Hargreaves, A Khan, G LeCount, J Lodge, R Pavitt and G Sell
Independent Person:	R White
Officers in attendance:	C Shanley-Grozavu (Democratic Services Officer) and A Webb (Director - Finance and Corporate Services)

IB13 **APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

Apologies for absence were received from Councillors De Vries and Lavelle.

There were no declarations of interest.

IB14 **MINUTES OF THE PREVIOUS MEETING**

The minutes of the meeting held on 19th January 2023 were approved.

IB15 **UTTLESFORD PROPERTY PORTFOLIO QUARTER 3 REPORT**

The Director of Finance and Corporate Services introduced the Property Portfolio report for Quarter 3 of 2022/23.

Members discussed the quarterly valuation of the Council's property portfolio, which valued the assets at approximately £269m, or £168m without Aspire (CRP) Ltd. It was highlighted that this valuation was less than the total amount that had been paid to acquire them. The Director of Finance and Corporate Services explained that the latest valuation was deflated as it had only taken into account the value of the MOOG HQ buildings, and not the lease which was due to be signed after the completion of the development in April 2023. There was an agreement in place for the lease, to ensure that it would be signed.

In response to further questions on the portfolio valuation, the following matters were clarified:

- The main message coming from CBRE, the Council's external valuers, was that the market was still adjusting to the higher interest rates, however the number of bidders in the market was increasing.
- The valuation was not currently of major significance as the council bought the investments for their annual rental income not capital gain. There were no plans to sell portfolio items at the current time.

- The revenue generated from the assets had no relationship to the value of the buildings as rents were set and tied in most cases to inflation.
- Under the changes in Government and CIPFA policies, there was no obligation for the Council to sell any of their assets, but they were now prohibited from acquiring new assets. The Council were permitted, however, to continue to borrow and invest in order to maximise the value of their existing assets. This approach was ultimately agreed with the government, as evidenced by the ability of the Council to obtain the PWLB loans.

Members discussed the financing which was coming up for maturity in 2023. Officers felt that whilst interest rates had peaked in the market, they would be unable to secure borrowing at previous rates of between 1% and 2%. This had subsequently been factored into the upcoming Council budget which forecasted interest rates of 4%.

The report was noted.

Councillor Hargreaves left the meeting at 18:27 and Councillor Pavitt left the meeting at 18:30

Meeting ended at 18:34

The Valuation Process

The process for establishing the value of an asset portfolio is both subjective and complex. The valuation for the preceding quarter starts on the first day of the new quarter and takes several weeks to finalise. An indicative timescale is shown below.

Week One of new quarter	Valuation team meet to discuss market conditions at the end of the preceding quarter, taking account of numerous contributing factors including, but not limited to • Sales and purchases in the quarter • Economic conditions • Interest rates • Potential buyers and sellers active in the market This work will be undertaken for each asset class (e.g. offices, life sciences, warehouses etc.) and any associated sub-asset classes (for warehouses, logistics, manufacturing and data centres are examples
Week Two	Valuation team agree core principles to apply to individual portfolios. Initial valuations applied.
Week Three	Valuer discusses with UDC Asset Team any individual circumstances in the quarter being valued, that affect the core values, such as • Additional payments made to developers in the quarter (Moog) • Stage of final lease signing (Moog) • Rent increases • Rent defaults These are then entered into the valuation model and initial values for the quarter established. Prior to submission to UDC Asset Team there is a process of internal validation checks to make sure consistency across the valuation spectrum
Week Four	Draft valuations sent to UDC Asset Team, along with supporting evidence for sense checking. Discussion held with valuer to confirm acceptance of the draft figures or to challenge assumptions
Week Five	Final valuations issued

The above is the process for the UDC owned assets, for CRP the valuations go to the Park Board for final approval before they are issued.

Uttlesford Property Portfolio
Q4 Report
1 January 2023 – 31 March 2023

Prepared by: The Asset Management Team – June 2023

Contents

Glossary of Terms

Acquisition Price	The purchase price of the asset excluding one-off costs such Stamp Duty, agents and legal fees
Rent	Total of actual rent paid by tenants and loan repayments made by Aspire (CRP) Ltd
Yield	Rent as a percentage of Acquisition Price
Net Rent	Rent less the costs of borrowing and estate management
Net Income to the Council (NIC)	Net Rent as a percentage of Acquisition Price

Summary

In February 2022, the Council adopted the Commercial Strategy and in so doing confirmed that due to changes in Government and CIPFA policies the portfolio was complete, although further acquisition at Stane Retail Park and more development at Chesterford Research Park was likely.

To date £247,469,231 has been committed with an option for a further estimated £49,474,500 giving a total allocation just under the £300,000,000 target. Stane Retail Park Phase 2 is an estimate of likely cost, the Council can acquire all/part/none of Phase 2 as viability and funds permit.

The yield of the committed portfolio is 5.21% and this rises to 5.22% when the option items are included. This yield reflects the risk appetite of the Council and the desire for well-known/established brands as tenants.

Portfolio Summary – Committed

Asset No.	Asset	Acquisition Price £	Rent p.a. £	Yield %
1	Loan to Aspire (CRP) Ltd	60,656,500	2,796,057	4.61
2	Skyway House, Takeley	20,000,000	1,128,000	5.64
3	1 Deerpark Road, Livingston	4,758,374	372,546	7.83
4	Regional Distribution Centre, Chorley	54,608,773	2,840,000	5.20
5	Stane Retail Park – Phase 1	27,004,322	1,784,024	6.61
6	Distribution Warehouse, Gloucester	42,692,000	2,293,433	5.37
7	Headquarters, Tewkesbury	37,749,262	1,667,000	4.42
	Total	**247,469,231**	**12,881,060**	**5.21**

Portfolio Summary – Option

Asset No.	Asset	Acquisition Price £	Rent p.a. £	Net Yield %
1	Stane Retail Park - Phase 2	33,150,000	2,035,198	6.14
2	Future loans to Aspire (CRP) Ltd	14,474,500	1,266,519	8.75
	Total	**47,624,500**	**3,301,717**	**6.93**

Portfolio Combined – Committed and Option

	Portfolio	Acquisition Price £	Rent p.a. £	Yield %
1	Committed	247,469,231	12,881,060	5.21
2	Option	47,624,500	3,301,717	6.93
	Total	**295,093,731**	**16,182,777**	**5.48**

Net Income to the Council (NIC)

The NIC for the 2022/23 financial year (as forecast for 31 March 2023) is as follows.

	Full Acquisition Price £	Net Rent p.a. £	NIC %
Rent		12,881,060	
Less			
Cost of borrowing		-4,457,303	
Brokerage fees		-142,737	
Managing Agent		-194,282	
	247,469,231	8,086,738	3.27

Asset Valuation

The valuation for the overall portfolio has increased by £1,175,000 in this quarter following a £20,676,802 drop in the previous quarter. The valuation for the whole portfolio is now £270,575,000 compared to an acquisition price paid to date of £237,862,889

The advice of the market experts is the initial drop in market values for all assets and classes of assets (not just those owned by Uttlesford District Council) was as a direct response from the markets to the September 2022 mini budget. The market has stabilised in the quarter and a slow recovery is now forecast.

Portfolio Assets – Quarterly Update

The main message coming from CBRE, the external valuers is that during the March quarter the number of bids on assets, and therefore the number of bidders in the market continued to increase, but pricing is still adjusting to the higher interest rates.

With interest rates continuing to rise this uncertainty will continue for the rest of 2023.

Chesterford Research Park

The Council has loaned Aspire (CRP) Ltd a total of £60,656,500 for the acquisition and further development of the Park. As far as the Council Portfolio is concerned the 'asset' is the loan which the company makes repayments on each year. However, in this section additional information is provided with regards to the value of the investment.

Vacant units

Void	Comment
Garden Cottage- Suite 1 and 2	Comprises 315 sq.ft. Current ERV of £10,670pa.
Garden Cottage- Suite 4 Grd	Comprises 129 sq ft. Current ERV of £4,520pa.
Garden Cottage Suite 5	Comprises 562 sq ft. Current ERV of £4,500pa.
The Mansion- Suite 5	Comprises 671 sq ft. Current ERV of £34,900pa.
The Mansion- Suite 7B	Comprises 955 sq ft. Current ERV of £49,300pa.

Park void rate of 0.84%

Valuation

The Nucleus negative sum is based on an assumption that the building will operate at a loss for the next eight years and uses the current actual position as the basis for the calculation.

As can be seen from the valuation figures, the Park is currently valued at £204,000,000 which gives a value per investor of £102,000,000 a potential pre-tax profit of £41,343,500

	March 2022	June 2022	September 2022	December 2022	March 2023
Mansion House	4,220,000	2,890,000	4,150,000	2,310,000	2,460,000
Science Village	25,300,000	27,100,000	27,100,000	27,250,000	28,200,000
Nucleus	-3,384,502	-5,427,101	-5,335,543	-8,406,769	-8,377,472
Garden Cottage	150,500	150,400	-47,345	-119,241	-126,649
Older perm buildings	3,050,000	3,950,000	4,430,000	3,900,000	4,450,000
Older temp buildings	2,430	895,200	892,900	822,300	820,000
Building 60	34,800,000	36,100,000	36,150,000	37,450,000	39,700,000
Building 200	23,300,000	26,100,000	26,200,000	23,350,000	23,450,000
Building 300	35,450,000	36,550,000	36,550,000	37,450,000	39,350,000
Building 400	6,640,000	7,760,000	7,760,000	7,180,000	7,190,000
Building 600/700	50,150,000	53,300,000	53,400,000	47,700,000	45,300,000
Building 900	13,950,000	13,300,000	13,300,000	12,700,000	12,700,000
Building 50	8,980,000	9,690,000	9,660,000	8,920,000	8,890,000
Miscellaneous	1,640,000	1,640,000	1,630,000	1,650,000	1,650,000
Estate s/c shortfall	-3,674,823	-6,162,761	-6,068,248	-11,743,206	-11,761,056
Development Land	13,150,000	13,150,000	13,500,000	16,400,000	16,200,000
Estate Capex	-5,400,071	-6,660,278	-6,118,161	-6,088,161	-6,088,161
Value	**£208,300,000**	**£214,500,000**	**£217,250,000**	**£201,250,000**	**£204,000,000**

Top 10 Tenants by Rent

Tenant	Rental Exposure pa	% of Total Contracted Rent
1. Charles River Discovery Research Services UK Limited	£2,000,000.00	20.04
2. Lonza Biologics plc	£909,150.00	9.11
3. Astrazeneca Limited	£818,838.00	8.20
4. Domainex Limited	£720,000.00	7.21
5. Microbiotica Limited	£668,430.00	6.70
6. Flagship 86 Limited	£610,454.00	6.12
7. Superdielectrics Limited	£465,850.00	4.67
8. Cambridge Epigenetixs Ltd	£418,000.00	4.19
9. Biocrucible Limited	£414,672.00	4.15
10. AbCellera Biologics UK Limited	£414,672.00	4.15
	£7,440,066.00	**74.53**

Rent Paid

100% of rent due was received on time for the March quarter date. 100% of the service charge has also been received on time.

QUARTERLY PROPERTY MANAGEMENT REPORT

SKYWAY HOUSE

PARSONAGE ROAD, TAKELEY, BISHOP'S STORTFORD CM22 6PU

TENANT:	WESTON HOMES PLC
LEASE TERM:	FRI 25 YEARS FROM 30.06.2020 EXPIRING 29.06.2045
FLOOR AREA:	**47,951 SQ FT NIA** PLUS CIRCA 142 CAR PARKING SPACES (79 SURFACE AND 63 BASEMENT)
PASSING RENT:	**£1,128,000 P.A. EXC** (£23.52 P.S.FT)
NEXT RENT REVIEW DATE:	30.06.2025
BASIS OF RENT REVIEW:	FIXED REVIEW TO £1,276,228 P.A. EXC ON 30.06.2025 (13.14% UPLIFT EVERY 5 YEARS)

MARK LIEL
PROPERTY CONSULTANT
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DATE OF LAST PROPERTY INSPECTION

8th December 2022. Next inspection due June 2023.

RENT COLLECTION

The tenant pays quarterly in advance on the usual quarter days.

The March 2023 quarter's rent was paid on time. They are regular and prompt payers.

INSURANCE

UDC responsible, subject to recovery from WH.

Insurance Renewal w.e.f. 01.10.2022 AJ Gallagher obtained competitive quotes from RSA & AXA. Policy renewed with RSA. Weston Homes have paid the premium for the year to 30.09.2023.

SERVICE CHARGE

N/A

MANAGEMENT ISSUES

CW confirmed that PC was achieved on 14th September 2020.

The building is fully occupied, the rear of the 2nd floor has been fitted out as high specification director's offices.

Weston Homes completed the snagging works in respect of the Section 278 agreement, however the final certificate has not been issued as the tenant was waiting for the Council to sign off the highway works. The certificate will not now be issued as Weston Homes are intending to widen the bell mouth as part of their proposed redevelopment of the 7 acre field at the rear of Skyway House for employment use.

The tenant has provided ML with copies of their Risk Assessments and up-to-date compliance certification.

ASSET MANAGEMENT OPPORTUNITIES AND & GREEN INITIATIVES

Weston Homes have acquired approx. 220 acres of farmland to the rear of the property, including a 7 acre field at the rear of the building.

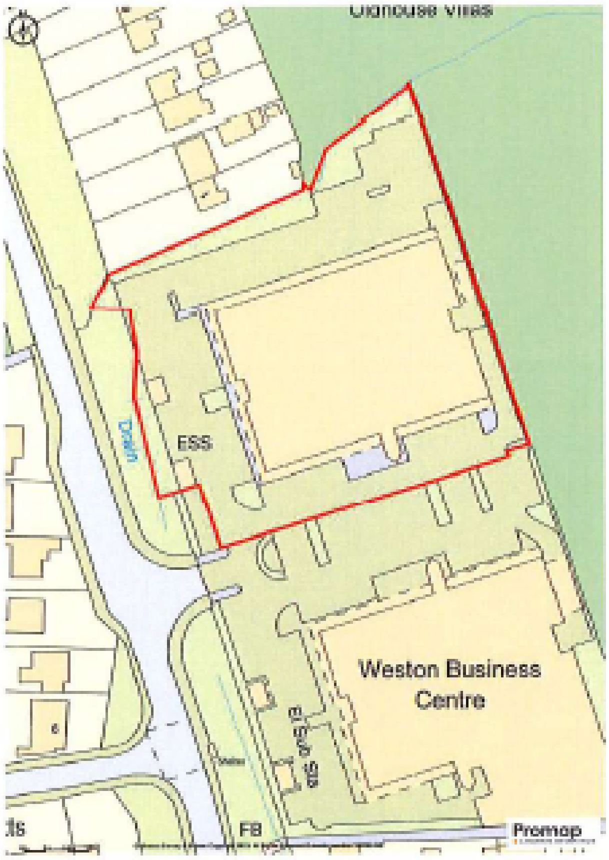
The majority of the land is leased back to a local farmer. The planning appeal for the development of the land for residential and employment use was turned down in August 2022.

Weston Homes have however btained planning permission for an extension to their car park on part of the 7 acre field they own at the rear of Skyway House and Weston Business Centre to provide 124 new car parking spaces. This will improve the parking ratio of the building. UDC have agreed to vary the rights granted in Weston Homes' lease to allow them to access the new car parking spaces from the car parking area behind Skyway House. Deed of Variation is in solicitor's hands to be completely shortly. ML have recommended that if possible UDC acquire the completed car park and lease back to the tenant as this would improve the investment value. Preliminary discussions have taken place but we understand that the timing is not right.

Weston Homes have submitted a planning application for approximately 3,500 square metres of employment space on the remainder of the 7 acre field. A decision is awaited.

The Property has an EPC rating of A16 and BREEAM rating of very good.

There is a grey water recycling system and all the lights are LED with most on sensors. There are 16 electrical vehicle charging points in the car park at the front of the building. The tenant has installed electric vehicle charging points in all the spaces in the basement car park.



TENANT:	VETERINARY SPECIALISTS (SCOTLAND) LTD
LEASE TERM:	FRI LEASE 20 YEARS FROM 10.09.2019 LEASE EXPIRY 09.09.2039
FLOOR AREA:	**30,855 SQ FT** PLUS CIRCA 160 CAR PARKING SPACES
AGREED RENT:	**£372,546 P.A. EXC** (£12.07 P.S.FT)
RENT COMMENCEMENT DATE:	10.09.2023
NEXT RENT REVIEW DATE:	10.09.2024
BASIS OF RENT REVIEW:	FIXED FIRST REVIEW TO £411,320 P.A. EXC

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DATE OF LAST PROPERTY INSPECTION

3rd April 2023.

Next inspection September 2023.

RENT COLLECTION

The tenant has a four-year rent-free period, the rent commencement date is 10.9.2023.

The Lease provides for quarterly payments, however, a side letter allows the tenant to pay monthly on 1st of each month.

INSURANCE

UDC responsible, subject to recovery from tenant.

A J Gallagher obtained competitive quotes from RSA & AXA for the renewal of insurance w.e.f. 01.10.2022. Insurance placed with RSA. The tenant has paid the premium for the year to 30.09.2023.

SERVICE CHARGE

N/A.

MANAGEMENT ISSUES

The building was constructed as an office building in 2002 and was converted in 2019 to a Veterinary Hospital fully fitted and refurbished with up-to-date facilities.

The Tenant only occupies the ground and a small part of the 1st floor. The majority of the second and whole of the third floors are vacant.

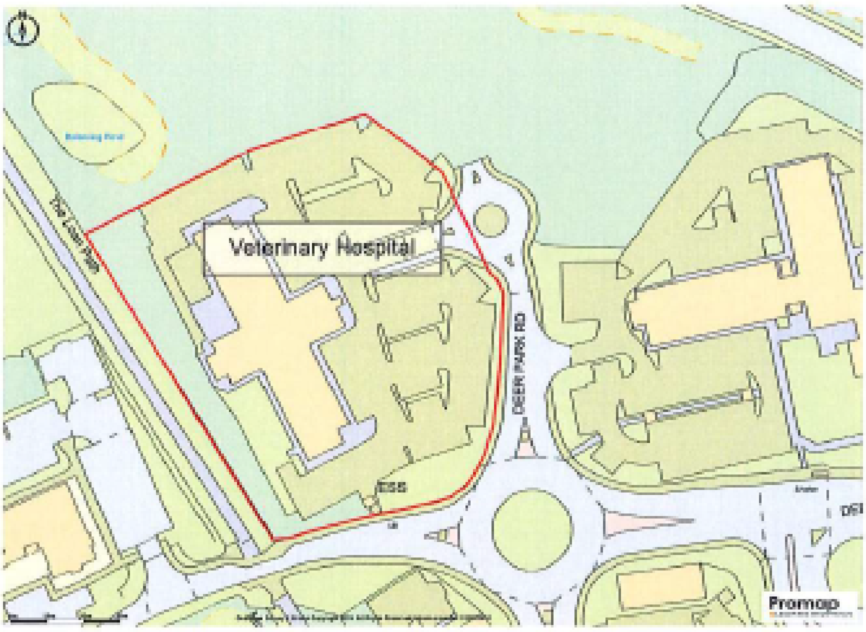
The tenant provides ML with copies of their Risk Assessments and compliance certification. The tenant recently appointed a new H&S and Facilities Lead and he has oobtained an updated 5 yearly Electrical Certificate for the whole building, an updated Fire Risk Assessment and Legionella Risk Assessment and will forward copies to ML .

Linnaeus Group (part of the Mars group of companies) acquired Veterinary Specialist (Scotland) Ltd from Pets at Home earlier this year. UDC refused consent for an assignment of the lease to Linnaeus Veterinary Ltd as the Pets At Home Guarantee would fall away on assignment.

ASSET MANAGEMENT OPPORTUNITIES AND & GREEN INITIATIVES

Linnaeus have advised that they have plans to grow the business and will be looking to convert the rest of the 1st floor and 2nd floors to provide additional theatres, clinical areas and offices to enable them to expand the business. The tenant has tidied up the car park, installed new entrance and exit barriers, undertaken some repairs to the tarmac and kerbs, and the landscaping is now well maintained.

The tenant has advised that they would like to install some electric charging points in the car park. ML awaiting further details.



QUARTERLY PROPERTY MANAGEMENT REPORT

WAITROSE DISTRIBUTION CENTRE

MATRIX PARK, WESTERN AVENUE, CHORLEY, LANCASHIRE PR7 7NB

TENANT:	WAITROSE LTD
LEASE TERM:	FRI LEASE 30 YEARS FROM 30.04.2012 LEASE EXPIRY 29.04.2042
FLOOR AREA:	**421,809 SQ FT** PLUS CIRCA 400 CAR PARKING SPACES AT THE FRONT OF THE BUILDING
SITE AREA:	31.14 ACRES, APPROX 29% SITE COVERAGE
PASSING RENT:	**£2,840,000 P.A. EXC** (£6.73 P.S.FT)
NEXT RENT REVIEW DATE:	30.04.2027
BASIS OF RENT REVIEW:	HIGHER OF OPEN MARKET RENT OR RPI (CAP & COLLAR OF 5% & 2% P.A COMPOUNDED)

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DATE OF LAST PROPERTY INSPECTION

16th November 2022. Next inspection due May 2023.

RENT COLLECTION

The tenant reverted to quarterly rent payments from the June 2021 quarter as agreed with ML. March 2023 quarter's rent received on time.

INSURANCE

UDC responsible, subject to recovery from Waitrose.

A J Gallagher obtained quotes from RSA and AXA for the insurance renewal, policy renewed with RSA w.e.f. 01.10.2022. The tenant has paid the premium for the year to 30.09.2023.

SERVICE CHARGE

Matrix Park Management Company administer the service charge for the estate, the service charge year is 1st June to 31st May. UDC pay 44.27% of the total budget, Matrix invoice UDC quarterly and ML recharge to Waitrose. Matrix issue a budget for the year. Total budget for the current year 2022/2023 is £71,515 + VAT. Waitrose are up to date with payments.

RENT REVIEW

Rent reviewed as at 30th April 2022. Agreed at £2,840,000 p.a. which is a 25% increae from the passing rent. Rent Review memorandum signed and uplift in rent paid by Waitrose.

MANAGEMENT ISSUES

Waitrose have sublet part of the 2nd floor offices to Amey. The Sub-lease was renewed for a term of 18 months from 6.12.2021, and expires 05.06.2023.

Waitrose have signed a 5 year Distribution Service Agreement with XPO Logistics in March 2021, GXO (part of XPO Logistics) are now occupying the property, GXO advised that the building will be operating at full capacity. Waitrose are permitted in accordance with the lease to grant a Distribution Underlease to a Distribution Services Provider without the Landlord's consent.

Risk Assessments and Compliance certification - GXO have provided ML with copies of all their up-to-date certification.

ASSET MANAGEMENT OPPORTUNITIES AND & GREEN INITIATIVES

There is approx. 2 acres of surplus development land on eastern side of site included in the lease to Waitrose. We understand that the land was originally intended to be used for an incineration/ recycling plant to provide heating to some areas of the building, this was abandoned some time ago. The land is included within Waitrose's demise.

QUARTERLY PROPERTY MANAGEMENT REPORT

STANE RETAIL PARK

STANWAY, COLCHESTER CO3 8AU

TENANT:	B&Q LIMITED	ALDI STORES LTD
LEASE TERM:	15 YEARS FROM 01.11.2021 (TENANT RIGHT TO RENEW) END DATE - 30TH OCTOBER 2036	25 YEARS FROM 01.11.2021 (TENANT BREAK ON 01.11.2041) END DATE - 30TH OCTOBER 2046
RENT COMMENCEMENT DATE:	20TH APRIL 2023	23RD MAY 2022
COMMENCING RENT:	**£1,342,275 P.A. EXC** (£16.50 P.S.FT ON TARGET) **(81,350 SQ FT)**	**£360,395 P.A. EXC** (19.50 P.S.FT ON TARGET) **(18,482 SQ FT - ACTUAL)**
ACTUAL FLOOR AREAS:	STORE: 81,350 SQ FT BUILDERS YARD: 15,973 SQ FT GARDEN CENTRE: 19,170 SQ FT	
NEXT RENT REVIEW DATES:	01.11.2026 & 01.11.2031	01.11.2026, 01.11.2031, 91.11.2036 & 01.11.2041
BASIS OF RENT REVIEW:	5 YEARLY RPI (0-2% P.A. COMPOUNDED)	5 YEARLY, RPI (1% & 3% P.A. COMPOUNDED)
TOTAL RENT RECEIVED (FROM PHASE 1):	**£1,702,670 P.A. EXC**	

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UTTLESFORD DISTRICT COUNCIL

Uttlesford District Council own part only (Phase 1 – B&Q and Aldi) of the Stane Retail Park, together with shared use of the Common Areas (including 628 car park spaces). Mark Liell manage the whole retail park, including the second phase for UDC and Churchmanor Estates, who retain Phase 2 at present.

DATE OF LAST PROPERTY INSPECTION

7th September 2022. Next formal half yearly inspection to take place in January 2023. Intervening regular visits undertaken.

RENT COLLECTION

B&Q have a rent free period until 20th April 2023. Aldi commenced payments in May 2022 and are up to date. Rent continues to be received on time.

INSURANCE

UDC insure the units within their ownership. Insurance Policy renewed with RSA w.e.f. 01.10.2022. Fully recoverable.

SERVICE CHARGE

ML manage the service charge, which commenced as at 1st November 2021 when Phase 1 was PC'd. 100% recovereable from the tenants and Churchmanor (the developer). No arrears. Current service charge budget for year ending 31st December 2023 of £194,700 + VAT.

TENANT LINE-UP (THE WHOLE)

Phase 1: B&Q, Aldi

Phase 2: M&S, Greggs, Cook, Superdrug, Mountain Warehouse and Furniture Village are now all open. Only Unit A6 remains unoccupied. Unit may split. Occupier discussions in hand.

MANAGEMENT ISSUES

Part (Phase 2) of the site remains in Churchmanor's ownership. Practical completion of Phase 2 took place in April 2022. Certain contractor works/landscaping maintenance is ongoing. UDC are due to take ownership of the Common Areas including the car park, shortly.

Wider management updates:

- All upkeep and maintenance contracts (drains, winter maintenance, litter picking and landscaping) are now in place, following informal tenders. New tenders taking place in respect of landscaping and cleaning etc.
- All retailers reporting above pre-opening target performance and high car park occupancy levels noted.
- A12 junction congestion experienced during pre-Christmas peak trading periods, and on occasions at weekends. Traffic light sequencing revisited.
- Security improvements. 6 CCTV cameras have now been installed at the park. The provision of radios for tenants to communicate on the park is being reviewed.
- Car parking usage overseen by Green Parking (4 hour limit). Soft monitoring/action taken to breaches/abuse, to minimise customer and staff upset.

ASSET MANAGEMENT OPPORTUNITIES AND & GREEN INITIATIVES

- Electric charging points have provedpopular. MER have installed a further 10 (5 portals) charging outlets in advance of original schedule.
- UDC's ownership of the whole would be preferable by adding Phase 2 (which includes an all formats M&S store which contributes c50% of the Phase 2 rent) to the existing B&Q and Aldi. It is hoped to revisit the earlier (September 2022) abortive discussions, when the remaining letting(s) has been completed. Alternatively UDC may be approached by the prospective purchase of Phase 2 to buy B&Q and Aldi.

QUARTERLY PROPERTY MANAGEMENT REPORT

AMAZON DISTRIBUTION CENTRE

CENTRE SEVERN, BARNWOOD, GLOUCESTER GL4 3UR

TENANT:	AMAZON UK SERVICES LTD (NOT CURRENTLY IN OCCUPATION)
LEASE TERMS:	FRI LEASE 15 YEARS FROM 18.03.2022 LEASE EXPIRY 17.03.2037
FLOOR AREA:	WAREHOUSE AND OFFICES: 122,756.79 SQ FT ADJACENT 4 LEVEL MULTI-STOREY VAN PARK (408 SPACES), SURFACE CAR PARK (150 CAR SPACES AND 118 VAN SPACES), 11.23 ACRES.
PASSING RENT:	**£2,293,433.49 P.A. EXC**
RENT COMMENCEMENT DATE:	18.03.2022
NEXT RENT REVIEW DATE:	18.03.2027
BASIS OF REVIEW:	5 YEARLY, CPI (COLLAR AND CAP OF 1% AND 3% COMPOUNDED ANNUALLY)

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DATE OF LAST PROPERTY INSPECTION

26th October 2022.

Next inspection due in April 2023.

RENT COLLECTION

Amazon pay rent quarterly in advance on 1st January, 1st April, 1st July and 1st October.

Quarterly rent due on 1st April 2023 received on 3rd April 2023.

INSURANCE

UDC insure the building and recover from Amazon.

A J Gallagher instructed to obtain competitive quotes. Insurance placed with AXA, however as Amazon are not intending to occupy the building until August 2023, this impacted AXA's capacity and the premium has been significantly increased. RSA now co-insure the building, A new policy issued at a cost of £118,359,82. for the year to 03.08.2023. Amazon have paid the premium.

SERVICE CHARGE

A management company has been set up to look after the estate's common areas and administer the service charge. The ownership of the management company is split between the freeholders based on area. (UDC hold a 54% share of the Management Company). Bulleys Chartered Surveyors administer the service charge and have prepared a service charge budget, £22,325 for the current year. Bulleys to invoice UDC, ML to recharge Amazon. However, ML are still awaiting an invoice as Bulleys have advised that they cannot issue a demand until they have a VAT number.

MANAGEMENT ISSUES

Practical completion took place on 4th March 2022. Lease to Amazon completed on 18th March 2022. Amazon have advised that they are not intending to occupy the property until August 2023, at the earliest. The property is therefore currently vacant. Amazon have 2 guards providing 24 hour security at the building, which is a condition of the insurance. Bowmer Kirkland (BK), the orginal contractor, are currently undertaking the snagging works.

ML identified that there is extensive cracking to the van deck stair towers. Adam Smith at CW reviewing BK's proposals for rectification.

We understand that the landscaping rectification works to replace the dead trees and reseed have been completed.

Amazon have advised that they have appointed Cushman Wakefield to manage the property. ML to meet them on site when they next inspect.

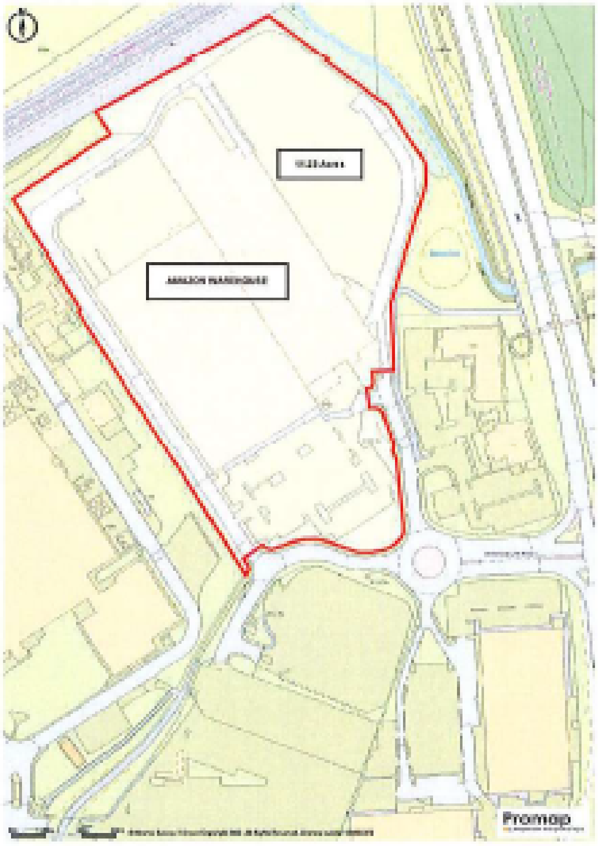
Amazon have instructed CW to market a sub-lease of the building. We understand that there is currently no detailed prospective tenant discussions taking place.

ASSET MANAGEMENT OPPORTUNITIES AND & GREEN INITIATIVES

Amazon have an option to extend the lease for a further 5 years on expiry of current lease in March 2037.

The front car park area is not fenced (ie insecure), due to a planning stipulation. This may present scope for "unwanted" visitors to gain access. Amazon however currently have 24 hour security.

The property is situated on a site area of 11.5 acres and therefore has a low site cover of 25%. The building has an EPC rating of A24.



Agreed Acquisitions

HEADQUARTERS AND WAREHOUSE, TEWKESBURY

In March 2021 the Council acquired a site in Tewkesbury, Gloucestershire for a new build head office and warehouse with a pre-let 35 year lease.

Completion is expected in August 2023.

Portfolio Valuation

The Council employ CBRE to provide a quarterly valuation of the Council owned assets, their full report is attached at Appendix One. In summary, as at the end of quarter 4 the position is as shown below

	Price paid (including future commitments) £	Amount paid as at 31 March 2023 £	MAR 2022 £	JUN 2022 £	SEP 2022 £	DEC 2022 £	MAR 2023 £
Colchester, Stane RP	27,004,322	27,004,322	30,975,000	30,975,000	29,100,000	27,250,000	28,275,000
Chorley, Waitrose RDC	54,608,773	54,608,773	67,500,000	67,500,000	61,150,000	54,400,000	54,400,000
Livingston, 1 Deer Park Road	4,758,374	4,758,374	5,300,000	5,300,000	5,000,000	4,750,000	4,750,000
Takeley, Skyway House	20,000,000	20,000,000	19,950,000	19,950,000	18,350,000	17,625,000	16,250,000
Gloucester, Amazon	42,692,000	42,278,237	42,100,000	50,750,000	43,900,000	41,000,000	41,000,000
Tewkesbury, MOOG HQ	37,749,262	28,556,683	24,650,000	27,150,000	24,000,000	23,750,000	23,900,000
	186,812,731	**177,206,389**	**190,475,000**	**201,625,000**	**181,500,000**	**168,775,000**	**168,575,000**

When the loan to Aspire (CRP) Ltd is included the total asset valuation is as shown below

	Price paid (including future commitments) £	Amount paid as at 31 March 2023 £	MAR 2022 £	JUN 2022 £	SEP 2022 £	DEC 2022 £	MAR 2023 £
Colchester, Stane RP	27,004,322	27,004,322	30,975,000	30,975,000	29,100,000	27,250,000	28,275,000
Chorley, Waitrose RDC	54,608,773	54,608,773	67,500,000	67,500,000	61,150,000	54,400,000	54,400,000
Livingston, 1 Deer Park Road	4,758,374	4,758,374	5,300,000	5,300,000	5,000,000	4,750,000	4,750,000
Takeley, Skyway House	20,000,000	20,000,000	19,950,000	19,950,000	18,350,000	17,625,000	16,250,000
Gloucester, Amazon	42,692,000	42,278,237	42,100,000	50,750,000	43,900,000	41,000,000	41,000,000
Tewkesbury, MOOG HQ	37,749,262	28,556,683	24,650,000	27,150,000	24,000,000	23,750,000	23,900,000
	186,812,731	**177,206,389**	**190,475,000**	**201,625,000**	**181,500,000**	**168,775,000**	**168,575,000**
Aspire (CRP) Ltd	60,656,500	60,656,500	104,161,767	107,162,730	108,576,802	100,625,000	102,000,000
Total Portfolio	**247,469,231**	**237,862,889**	**294,636,767**	**308,787,730**	**290,076,802**	**269,400,000**	**270,575,000**

Future Asset Acquisitions

Stane Retail Park
Phase 2

At the request of the Council the owner developer has agreed to let the whole of Phase 2 before presenting the option to purchase to the Council and wider market. Currently there are two units remaining to be let but it is understood that discussions are on-going with potential tenants.

Councils can continue to invest in commercial assets where it is done so as to maximise the value of an existing asset. It is the opinion of our agent and valuers that acquiring phase 2 will significantly increase the value and appeal of phase 1.

With the downturn in the market following the mini-budget by the Government in September 2022 it was no longer viable for the Council to consider acquiring phase 2 and the developer was notified of this. At the same time the developer decided to retain phase 2 as the likely sale price would not be viable for them. When the market situation resolves itself a final decision on the possible acquisition of phase 2 will be made.

Financing

The Portfolio is financed from three sources

1. Internal borrowing – when the Council has excess funds to invest
2. Loans from PWLB and Phoenix Life Ltd
3. Borrowing from other local authorities

The split between 1 and 3 above varies on a week to week basis. Below is a snapshot of the external funding as at 15 June 2023 which totals £212,503,071

Borrowing as at 15/06/23

Date	Lender	Amount (£)	Maturity	Rate (%)
18-Jun-20	Oxfordshire County Council	5,000,000	19-Jun-23	1.20
06-Dec-22	West Midlands Combined Authority	11,500,000	05-Dec-23	1.80
07-Jun-23	Crawley Borough Council	5,000,000	06-Jun-24	2.25
30-Jun-22	Salford City Council	2,000,000	29-Jun-23	1.30
30-Jun-22	Local Government Association	1,500,000	29-Jun-23	1.30
30-Jun-22	Local Government Association	1,500,000	29-Jun-23	1.30
13-Sep-22	East Sussex County Council	5,000,000	12-Sep-23	3.00
08-Sep-22	Buckinghamshire Council	10,000,000	04-Aug-23	3.00
08-Sep-22	Blaenau Gwent Borough Council	5,000,000	07-Sep-23	3.00
08-Sep-22	Northern Ireland Housing Executive	10,000,000	07-Sep-23	3.00
13-Sep-22	South Oxfordshire District Council	7,000,000	12-Sep-23	3.00
13-Sep-22	South Lakeland District Council	3,000,000	12-Sep-23	3.00
13-Sep-22	South Ribble Borough Council	3,000,000	07-Sep-23	3.00
30-Nov-22	West Midlands Combined Authority	7,000,000	29-Nov-23	3.05
20-Apr-23	West Yorkshire Combined Authority	4,500,000	03-Jul-23	4.25
23-May-23	South Oxfordshire District Council	3,000,000	21-May-24	4.60
23-May-23	South Oxfordshire District Council	1,000,000	21-May-24	4.60
23-May-23	Bridgend County Borough Council	4,000,000	21-May-24	4.60
22-May-23	Rushcliffe Borough Council	5,000,000	01-Aug-23	4.45
15-Jun-23	London Borough of Havering	2,500,000	08-Aug-23	4.65
05-Jul-17	Phoenix Life Ltd	36,095,244	05-Jul-57	2.86
22-Sep-22	Public Works Loans Board	29,907,827	22-Sep-71	4.28
29-Sep-22	Public Works Loans Board	50,000,000	27-Sep-30	4.16
		212,503,071		

Risks

<u>Likelihood Scores</u>

Score	Probability
1 (Little Likelihood)	Less than 10%
2 (Some Likelihood)	10% to 50%
3 (Significant Likelihood)	51% to 90%
4 (Near Certainty)	More than 90%

<u>Impact Scores</u>

Score	Impact Level on Strategic Objectives
1	Minor impact/delay/difficulty
2	Small impact/delay/difficulty
3	Considerable impact/delay/difficulty
4	Extreme impact/delay/Difficulty

Each risk score for likelihood and impact is plotted onto a risk matrix to produce its score. A green score indicates risks which the organisation is most prepared to accept and red those which are less likely to be accepted.

LIKELIHOOD				
4	4	8	12	16
3	3	6	9	12
2	2	4	6	8
1	1	2	3	4
	1	**2**	**3**	**4**
		IMPACT		

21-IB-01 LONG TERM BORROWING						
	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
The council is unable to secure long term borrowing	**AW**	**2**	**4**	**8**	• Phoenix loan is secured • 2 x PWLB loans are secured	
		Current Likelihood	Current Impact	Current Score	Further Action	
		2	**4**	**8**	• Evaluate sale of one or more assets	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
		1	**4**	**4**	AW	ongoing

<u>Progress Update (March 2023)</u>

- The current borrowing is sufficient to repay outstanding loans through to June 2023 thereby reducing exposure to short term borrowing cost fluctuations
- No further long term borrowing is planned at the present time

21-IB-02 INTEREST RATES						
Interest rates increase leading to a reduced net income	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
	AW	**2**	**4**	**8**	• Phoenix loan is secured so part mitigation • 2 x PWLB loans are secured	
		Current Likelihood	Current Impact	Current Score	Further Action	
		2	**4**	**8**	• Evaluate sale of one or more assets	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
		1	**4**	**4**	AW	ongoing

Progress Update (March 2023)

- The current borrowing is sufficient to repay outstanding loans through to June 2023 thereby reducing exposure to short term borrowing cost fluctuations.
- Over the next few of years the investment net contribution will be lower than in 2022/23 this is reflected in the Council's five year MTFS

21-IB-03 TENANT DEFAULT

	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
Tenants default on rental payments either short term or because of business failure	**AW**	**2**	**4**	**8**	• Additional financial due diligence undertaken ahead of all purchases	
		Current Likelihood	Current Impact	Current Score	Further Action	
		1	**3**	**3**	• Continuous monitoring of tenants both financial information and news channels	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
		1	**4**	**4**	AW	ongoing

Progress Update (March 2023)

- Tenants passed the viability test and no adverse financial reports this quarter
- Commercial asset reserve will enable short term rent losses to be covered without detriment to council services

21-IB-04 BUILDING LOSS

	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
Loss of building due to fire/flood leading to no rent being received for duration of the repair/reinstatement	**AW**	**1**	**4**	**4**	• UDC fully insures the building and recharges the tenant • Copies of fire safety procedures/test etc. held by agent	
		Current Likelihood	Current Impact	Current Score	Further Action	
		1	**4**	**4**	• Monitor procedures as part of the inspection process	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
		1	**4**	**4**	AW	ongoing

Progress Update (March 2023)

- Discussions with all tenants on fire etc. safety. Inspections check for issues and ensure maintenance repairs etc. are undertaken
- Commercial asset reserve will enable short term loss in rent to be covered without detriment to council services

21-IB-05 REPUTATION

	Owner	Original Likelihood	Original Impact	Original Score	Current Controls	
Actions of tenants affect the reputation of the Council	**AW**	**1**	**4**	**4**	• Tenants checked as part of initial due diligence	
		Current Likelihood	Current Impact	Current Score	Further Action	
		1	**3**	**3**	• Continuous monitoring of tenants both financial information and news channels	
		Target Likelihood	Target Impact	Target Score	Action owner	Planned Completion date
		1	**3**	**3**	AW	ongoing

Progress Update (March 2023)

- No adverse or positive news stories this quarter

CBRE

Valuation Report

In respect of:

Uttlesford District Council Property Fund

On behalf of:

Uttlesford District Council

Date of valuation:

31 March 2023

Legal Notice and Disclaimer

This valuation report (the "Report") has been prepared by CBRE Limited ("CBRE") exclusively for Uttlesford District Council (the "Client") in accordance with the terms of engagement entered into between CBRE and the client dated 10 November 2020 ("the Instruction"). The Report is confidential to the Client and any other Addressees named herein and the Client and the Addressees may not disclose the Report unless expressly permitted to do so under the Instruction.

Where CBRE has expressly agreed (by way of a reliance letter) that persons other than the Client or the Addressees can rely upon the Report (a "Relying Party" or "Relying Parties") then CBRE shall have no greater liability to any Relying Party than it would have if such party had been named as a joint client under the Instruction.

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a) 25% of the value of a single property, or, in the case of a claim relating to multiple properties 25% of the aggregated value of the properties to which the claim relates (such value being as at the Valuation Date and on the basis identified in the Instruction or, if no basis is expressed, Market Value as defined by the RICS); or
b) £20,000,000 (Twenty Million British Pounds).

Subject to the terms of the Instruction, CBRE shall not be liable for any indirect, special or consequential loss or damage howsoever caused, whether in contract, tort, negligence or otherwise, arising from or in connection with this Report. Nothing in this Report shall exclude liability which cannot be excluded by law.

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Contents

Valuation Report

Introduction

Report Date	15 May 2023
Valuation Date	31 March 2023
Addressee	Uttlesford District Council London Road Saffron Walden CB11 4ER
The Properties	Properties held in Uttlesford District Council Property Fund, as set out in the Schedule of Values.
Instruction	To value the Properties as at the Valuation Date in accordance with Terms of Engagement dated 10 November 2020.
Status of Valuer	You have instructed us to act as an External valuer as defined in the current version of the RICS Valuation – Global Standards. Please note that the Valuation may be investigated by the RICS for the purposes of the administration of the Institution's conduct and disciplinary regulations in order to ensure compliance with the Valuation Standards.
Purpose and Basis of Valuation	You have requested us to carry out a Valuation for Financial Reporting purposes only for incorporation within the Company's accounts. The Valuation will be on the basis of: – **Fair Value** in accordance with IFRS 13. We confirm that Fair Value as defined in IFRS13 is effectively the same as Market Value. The definitions are set out in full in the VSTOB.
Fair Value (IFRS 13)	**£168,575,000 (ONE HUNDRED AND SIXTY-EIGHT MILLION FIVE HUNDRED AND SEVENTY-FIVE THOUSAND POUNDS)** exclusive of VAT, as shown in the Schedule of Capital Values set out below.
Market Conditions	We would draw your attention to the fact that a combination of global inflationary pressures, higher interest rates, currency movements and the recent geopolitical events in Ukraine, has heightened the potential for greater volatility in property markets over the short-to-medium term. Past experience has shown that consumer and investor behaviour can quickly change during periods of such heightened volatility. You should note that the conclusions set out in this report are only valid as at the valuation date. Where appropriate, we would

	recommend that the valuation is closely monitored, as we continue to track how market participants respond to current market volatility.
Portfolios and Aggregation	We have valued the Properties individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in lots or as a whole.
Joint Tenancies and Indirect Investment Structures	Where a property is owned through an indirect investment structure or a joint tenancy in a trust for sale, our Valuation represents the relevant apportioned percentage of ownership of the value of the whole property, assuming full management control. Our Valuation therefore is unlikely to represent the value of the interests in the indirect investment structure through which the property is held. Our Valuation does not necessarily represent the 'Fair Value' in accordance with IFRS 13 or FRS102 of the interests in the indirect investment structure through which the property is held.
Compliance with Valuation Standards	The Valuation has been prepared in accordance with the latest version of the RICS Valuation – Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the "Red Book") current as the Valuation Date.
	The Properties have been valued by a valuer who is qualified for the purpose of the Valuation in accordance with the Red Book. We confirm that we have sufficient local and national knowledge of the particular property market involved and have the skills and understanding to undertake the Valuation competently.
	Where the knowledge and skill requirements of the Red Book have been met in aggregate by more than one valuer within CBRE, we confirm that a list of those valuers has been retained within the working papers, together with confirmation that each named valuer complies with the requirements of the Red Book.
	This Valuation is a professional opinion and is expressly not intended to serve as a warranty, assurance or guarantee of any particular value of the subject Properties. Other valuers may reach different conclusions as to the value of the subject Properties. This Valuation is for the sole purpose of providing the intended user with the valuer's independent professional opinion of the value of the subject Properties as at the Valuation Date.
Sustainability Considerations	Wherever appropriate, sustainability and environmental matters are an integral part of the valuation approach. 'Sustainability' is taken to mean the consideration of such matters as environment and climate change, health and well-being and corporate responsibility that can or do impact on the valuation of an asset. In a valuation context, sustainability encompasses a wide range of physical, social, environmental, and economic factors that can affect value. The range of issues includes key environmental risks, such as flooding, energy efficiency and climate, as well as matters of design, configuration, accessibility, legislation, management, and fiscal considerations – and current and historic land use. Sustainability has an impact on the value of an asset, even if not explicitly recognised. Valuers reflect markets, they do not lead them. Where we recognise the value impacts of sustainability, we are reflecting our understanding of how market participants include sustainability requirements in their bids and the impact on market valuations.

Climate Risk Legislation

The UK Government is currently producing legislation which enforces the transition to net zero by 2050, and the stated 78% reduction of greenhouse gases by 2035 (based on a 1990 baseline).

We understand this to include an update to the Minimum Energy Efficiency Standards, stated to:

– Increase the minimum requirements for non-domestic properties from an E (since 2018) to a B in 2030; and,

– Require a minimum EPC of C for privately rented residential properties from 2028.

The government also intends to introduce an operational rating. It is not yet clear how this will be legislated, but fossil fuels used in building, such as natural gas for heating, are incompatible with the UK's commitment to be Net Zero Carbon by 2050.

This upcoming legislation could have a potential impact to future asset value.

We also note that the UK's introduction of mandatory climate related disclosures (reporting climate risks and opportunities consistent with recommendations by the "Task Force for Climate Related Financial Disclosure" (TCFD)), including the assessment of so-called physical and transition climate risks, will potentially have an impact on how the market views such risks and incorporates them into the sale of letting of assets.

The European Union's "Sustainable Finance Disclosure Regulations" (SFDR) may impact on UK asset values due to the requirements in reporting to European investors.

Assumptions

The Properties details on which each Valuation are based are as set out in this report. We have made various assumptions as to tenure, letting, taxation, town planning, and the condition and repair of buildings and sites – including ground and groundwater contamination – as set out below.

If any of the information or assumptions on which the Valuation is based are subsequently found to be incorrect, the Valuation figures may also be incorrect and should be reconsidered.

Variations and/or Departures from Standard Assumptions

None.

Independence

The total fees, including the fee for this assignment, earned by CBRE Ltd (or other companies forming part of the same group of companies within the UK) from the Addressee (or other companies forming part of the same group of companies) is less than 5.0% of the total UK revenues.

Previous Involvement and Conflicts of Interest

We confirm that we have previously valued all the properties on your behalf on a quarterly basis. We have had no other previous material involvement with any of the properties.

Copies of our conflict of interest checks have been retained within the working papers.

Disclosure

The principal signatory of this report has continuously been the signatory of Valuations for the same Addressee and Valuation purpose as this report since September 2020.

CBRE Ltd has continuously been carrying out Valuation instructions for the Addressee of this report since September 2020.

CBRE Ltd has carried out Valuation, Agency and Professional services on behalf of the Addressee since September 2020.

Reliance

The contents of this Report may only be relied upon by:

i) Addressees of the Report; and

ii) Parties who have received prior written consent from CBRE in the form of a reliance letter;

for the specific purpose set out herein and no responsibility is accepted to any third party for the whole or any part of its contents.

Publication

Neither the whole nor any part of our report nor any references thereto may be included in any published document, circular or statement nor published in any way without our prior written approval of the form and context in which it will appear.

Such publication of, or reference to this report will not be permitted unless it contains a sufficient contemporaneous reference to any departure from the Red Book or the incorporation of the special assumptions referred to herein.

Yours faithfully

Mark Dennis

MRICS

Director

RICS Registered Valuer

For and on behalf of CBRE Limited

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Yours faithfully

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Schedule of Values

Address	Property Type	Tenure	Total	Ownership Purpose
Skyway House, Bishop's Stortford	Offices	Freehold	£16,250,000	Investment
Waitrose RDC, Chorley	Industrial	Freehold	£54,400,000	Investment
Stane Retail Park, Colchester	Retail Warehouse	Freehold	£28,275,000	Investment
Amazon, Gloucester	Industrial	Freehold	£41,000,000	Investment
1 Deerpark Road, Livingston	Offices	Freehold	£4,750,000	Investment
MOOG, Tewkesbury	Industrial	Freehold	£23,900,000	Investment

Portfolio Total (GBP)	£168,575,000
- Freehold - 100.00 % (GBP)	£168,575,000

* Short Leasehold: Leasehold of 50 years and under

** Long Leasehold: Leasehold over 50 years unexpired term

Property	Price paid (including future commitments)	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Colchester, Stane RP	£ 27,004,322	£ 7,500,000	£ 7,500,000	£ 7,975,000	£ 9,600,000	£ 11,000,000	£ 30,600,000	£ 30,975,000	£ 30,975,000	£ 29,100,000	£ 27,250,000	£ 28,275,000
Chorley, Waitrose RDC	£ 54,608,773	£ 54,600,000	£ 55,000,000	£ 56,700,000	£ 58,500,000	£ 60,150,000	£ 65,700,000	£ 67,500,000	£ 67,500,000	£ 61,150,000	£ 54,400,000	£ 54,400,000
Livingston, 1 Deerpark Road	£ 4,758,374	£ 4,800,000	£ 4,900,000	£ 4,975,000	£ 5,050,000	£ 5,125,000	£ 5,200,000	£ 5,300,000	£ 5,300,000	£ 5,000,000	£ 4,750,000	£ 4,750,000
Takeley, Skyway House	£ 20,000,000	£ 18,000,000	£ 19,500,000	£ 19,500,000	£ 19,600,000	£ 19,600,000	£ 19,900,000	£ 19,950,000	£ 19,950,000	£ 18,350,000	£ 17,625,000	£ 16,250,000
Gloucester, Amazon W/H	£ 42,692,000			£ 5,625,000	£ 8,050,000	£ 23,600,000	£ 37,650,000	£ 42,100,000	£ 50,750,000	£ 43,900,000	£ 41,000,000	£ 41,000,000
Tewkesbury, MOOG HQ	£ 37,749,262			£ 7,000,000	£ 11,000,000	£ 16,950,000	£ 21,050,000	£ 24,650,000	£ 27,150,000	£ 24,000,000	£ 23,750,000	£ 23,900,000
	£ 186,812,731	**£ 84,900,000**	**£ 86,900,000**	**£ 101,775,000**	**£ 111,800,000**	**£ 136,425,000**	**£ 180,100,000**	**£ 190,475,000**	**£ 201,625,000**	**£ 181,500,000**	**£ 168,775,000**	**£ 168,575,000**

Source of Information and Scope of Works

Sources of Information

We have carried out our work based upon information supplied to us by professional advisors, as set out within this report, which we have assumed to be correct and comprehensive.

Inspection

In accordance with your instructions, we inspect the Properties internally every three years. A schedule of the most recent inspection dates and the names of the inspecting valuers is maintained within our working papers and can be made available if required.

Areas

We have not measured the Properties but have relied upon the floor areas provided to us by you or your professional advisors, which we have assumed to be correct and comprehensive, and which you have advised us have been calculated using the: Gross Internal Area (GIA), Net Internal Area (NIA) or International Property Measurement Standard (IPMS) 3 – Office, measurement methodology as set out in the latest edition of the RICS Property Measurement Standards.

Environmental Considerations

We have not been instructed to make any investigations in relation to the presence or potential presence of contamination in land or buildings or the potential presence of other environmental risk factors and to assume that if investigations were made to an appropriate extent then nothing would be discovered sufficient to affect value.

We have not carried out investigation into past uses, either of the property or of any adjacent lands, to establish whether there is any potential for contamination from such uses or sites, or other environmental risk factors and have therefore assumed that none exists.

Sustainability Considerations

In carrying out this valuation, we have considered the impact of sustainability factors on the value of the property. Based on our inspection and our review of the information that was available to us, we have not identified any risk factors which, in our opinion, would affect value. However, CBRE gives no warranty as to the absence of such risk factors in relation to sustainability.

Services and Amenities

We understand that the Properties are located in an area served by mains gas, electricity, water and drainage.

None of the services have been tested by us.

Repair and Condition

We have not carried out building surveys, tested services, made independent site investigations, inspected woodwork, exposed parts of the structure which were covered, unexposed or inaccessible, nor arranged for any investigations to be carried out to determine whether or not any deleterious or hazardous materials or techniques have been used, or are present, in any part of the Properties. We are unable, therefore, to give any assurance that the Properties are free from defect.

Town Planning

We have not undertaken planning enquiries.

Titles, Tenures and Lettings

Details of title/tenure under which the Properties are held and of lettings to which it is subject are as supplied to us. We have not generally examined nor had access to all the deeds, leases or other documents relating thereto. Where information from deeds, leases or other documents is recorded in this report, it represents our understanding of the relevant documents. We should emphasise, however, that the interpretation of the documents of title (including relevant deeds, leases and planning consents) is the responsibility of your legal adviser.

	We have not conducted credit enquiries on the financial status of any tenants. We have, however, reflected our general understanding of purchasers' likely perceptions of the financial status of tenants.

Valuation Assumptions

Capital Values

The Valuation has been prepared on the basis of "Fair Value" in accordance with International Financial Reporting Standard 13 ("IFRS 13"), which is defined as:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

"Fair Value", for the purpose of financial reporting under IFRS 13, is effectively the same as "Market Value", which is defined in the Red Book as:

"The estimated amount for which an asset or liability should exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

The Valuation represents the figure that would appear in a hypothetical contract of sale at the Valuation Date. No adjustment has been made to this figure for any expenses of acquisition or realisation - nor for taxation which might arise in the event of a disposal.

No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charge.

No account has been taken of the availability or otherwise of capital based Government or European Community grants.

Rental Values

Unless stated otherwise rental values indicated in our report are those which have been adopted by us as appropriate in assessing the capital value and are not necessarily appropriate for other purposes, nor do they necessarily accord with the definition of Market Rent in the Red Book, which is as follows:

"The estimated amount for which an interest in real property should be leased on the Valuation Date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Fixtures, Fittings and Equipment

Where appropriate we have regarded the shop fronts of retail and showroom accommodation as forming an integral part of the building.

Landlord's fixtures such as lifts, escalators, central heating and other normal service installations have been treated as an integral part of the building and are included within our Valuations.

Process plant and machinery, tenants' fixtures and specialist trade fittings have been excluded from our Valuations.

All measurements, areas and ages quoted in our report are approximate.

Environmental Matters

In the absence of any information to the contrary, we have assumed that:

a) the Properties are not contaminated and is not adversely affected by any existing or proposed environmental law;

b) any processes which are carried out on the Properties which are regulated by environmental legislation are properly licensed by the appropriate authorities;

c) in England and Wales, the Properties possesses current Energy Performance Certificates (EPCs) as required under the Government's Energy Performance of Buildings Directive – and that they have an energy efficient standard of 'E', or better. We would draw your attention to the fact that under the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 it became unlawful for landlords to rent out a business premise from 1st April 2018 – unless the site has reached a minimum EPC rating of an ‘E’, or secured a relevant exemption. In Scotland, we have assumed that the Properties possesses current EPCs as required under the Scottish Government’s Energy Performance of Buildings (Scotland) Regulations – and that they meet energy standards equivalent to those introduced by the 2002 building regulations. We would draw your attention to the fact the Assessment of Energy Performance of Non-Domestic Buildings (Scotland) Regulations 2016 came into force on 1st September 2016. From this date, building owners are required to commission an EPC and Action Plan for sale or new rental of non-domestic buildings bigger than 1,000 sq m that do not meet 2002 building regulations energy standards. Action Plans contain building improvement measures that must be implemented within 3.5 years, subject to certain exemptions;

d) In January 2021 the Government closed the consultation period that focused on its latest proposals in England and Wales for ‘improving the energy performance of privately rented homes’. The key tenets of the proposals are to; reduce emissions; tackle fuel poverty; improve asset quality; reduce energy bills; enhance energy security; and support associated employment. The proposals are wide ranging and they introduce new demands on residential landlords through Energy Performance Certificates (‘EPCs’). Existing PRS Regulations set a minimum standard of EPC Band E for residential units to be lettable. The Government proposals see this threshold being raised to EPC Band C for all new tenancies created from 01 April 2025 and for all existing tenancies by 01 April 2028. The principle for relevant building works is to be ‘fabric first’ meaning maximisation of components and materials that make up the building fabric to enhance, for example, insulation, ventilation and air-tightness. The proposals also cite; compliance measures and penalties for landlords, letting agents and local authorities; and affordability support for carrying out necessary works. The implication is (as with the existing EPC Band E requirement) that private rented units may effectively be rendered unlettable if they fail to meet or exceed the minimum EPC requirement. It is expected that the Government will respond to the consultation process imminently, with any new regulations taking effect shortly thereafter. It is clear that the market is now paying greater attention to EPC ratings, with many landlords considering asset management programmes to reflect changing policy requirements. Our Valuation reflects market conditions and regulations effective at the Valuation Date; we make no additional allowances for any future works that may be required in order to ensure that the subject assets would remain lettable under revised regulations;

e) the Properties are either not subject to flooding risk or, if it is, that sufficient flood defences are in place and that appropriate building insurance could be obtained at a cost that would not materially affect the capital value; and

f) invasive species such as Japanese Knotweed are not present on the Properties.

High voltage electrical supply equipment may exist within, or in close proximity of, the Properties. The National Radiological Protection Board (NRPB) has advised that there may be a risk, in specified circumstances, to the health of certain categories of people. Public perception may, therefore, affect marketability and future value of the Properties. Our Valuation reflects our current understanding of the market and we have not made a discount to reflect the presence of this equipment.

Repair and Condition

In the absence of any information to the contrary, we have assumed that:

a) there are no abnormal ground conditions, nor archaeological remains, present which might adversely affect the current or future occupation, development or value of the Properties;

b) the Properties are free from rot, infestation, structural or latent defect;

c) no currently known deleterious or hazardous materials or suspect techniques, including but not limited to Composite Panelling, ACM Cladding, High Alumina Cement (HAC), Asbestos, have been used in the construction of, or subsequent alterations or additions to, the Properties; and

d) the services, and any associated controls or software, are in working order and free from defect.

We have otherwise had regard to the age and apparent general condition of the Properties. Comments made in the property details do not purport to express an opinion about, or advise upon, the condition of uninspected parts and should not be taken as making an implied representation or statement about such parts.

Title, Tenure, Lettings, Planning, Taxation and Statutory & Local Authority Requirements

Unless stated otherwise within this report, and in the absence of any information to the contrary, we have assumed that:

a) the Properties possesses a good and marketable title free from any onerous or hampering restrictions or conditions;

b) the building has been erected either prior to planning control, or in accordance with planning permissions, and has the benefit of permanent planning consents or existing use rights for their current use;

c) the Properties is not adversely affected by town planning or road proposals;

d) the building complies with all statutory and local authority requirements including building, fire and health and safety regulations, and that a fire risk assessment and emergency plan are in place;

e) only minor or inconsequential costs will be incurred if any modifications or alterations are necessary in order for occupiers of the Properties to comply with the provisions of the Disability Discrimination Act 1995 (in Northern Ireland) or the Equality Act 2010 (in the rest of the UK);

f) all rent reviews are upward only and are to be assessed by reference to full current market rents;

g) there are no tenant's improvements that will materially affect our opinion of the rent that would be obtained on review or renewal;

h) tenants will meet their obligations under their leases, and are responsible for insurance, payment of business rates, and all repairs, whether directly or by means of a service charge;

i) there are no user restrictions or other restrictive covenants in leases which would adversely affect value;

j) where more than 50% of the floorspace of the Properties is in residential use, the Landlord and Tenant Act 1987 (the "Act") gives certain rights to defined residential tenants to acquire the freehold/head leasehold interest in the Properties. Where this is applicable, we have assumed that necessary notices have been given to the residential tenants under the provisions of the Act, and that such tenants have elected not to acquire the freehold/head leasehold interest. Disposal on the open market is therefore unrestricted;

k) where appropriate, permission to assign the interest being valued herein would not be withheld by the landlord where required;

l) vacant possession can be given of all accommodation which is unlet or is let on a service occupancy; and

m) Land Transfer Tax (or the local equivalent) will apply at the rate currently applicable.

	In the UK, Stamp Duty Land Tax (SDLT) in England and Northern Ireland, Land and Buildings Transaction Tax (LABTT) in Scotland or Land Transaction Tax (LTT) in Wales, will apply at the rate currently applicable

Appendices

Appendix A: Portfolio Valuation Comparison Reports

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: 15/05/2023
Valuation Date: 31/03/2023
Status: Final
Total Assets: 6

Prop Ref	Town	Address	Tenure*	Area	Net Rent pa	ERV pa	ERV	IY %	EY %	RY %	Capital Value	Capital Value 31/03/2023	Change Since 31/12/2022	% Change
Industrial														
Chorley	Chorley	Waitrose RDC	FH	417,623 sqFt	£2,840,000	£2,923,361	7.00 £/sqFt	4.89	5.51	5.03	130.26 £/sqFt	£54,400,000	£0	0.00
Gloucester	Gloucester	Amazon	FH	122,669 sqFt	£2,293,433	£1,427,180	11.63 £/sqFt	5.25	4.08	3.27	334.23 £/sqFt	£41,000,000	£0	0.00
Tewkesbury	Tewkesbury	MOOG	FH	208,998 sqFt	£0	£1,671,242	8.00 £/sqFt	0.00	4.75	6.42	114.36 £/sqFt	£23,900,000	£150,000	0.63
Industrial				**749,290 sqFt**	**£5,133,433**	**£6,021,783**		**3.75**	**4.86**	**4.82**		**£119,300,000**	**£150,000**	**0.13**
Offices														
Livingston	Livingston	1 Deerpark Road	FH	30,940 sqFt	£0	£372,546	12.04 £/sqFt	0.00	7.98	7.36	153.52 £/sqFt	£4,750,000	£0	0.00
Takeley	Bishop's Stortford	Skyway House	FH	47,951 sqFt	£1,128,000	£1,127,808	23.52 £/sqFt	6.50	7.78	6.50	338.89 £/sqFt	£16,250,000	-£1,375,000	-7.80
Offices				**78,891 sqFt**	**£1,128,000**	**£1,500,354**		**5.03**	**7.82**	**6.69**		**£21,000,000**	**-£1,375,000**	**-6.15**
Retail Warehouse														
Colchester	Colchester	Stane Retail Park	FH	99,832 sqFt	£360,395	£1,702,674	17.06 £/sqFt	1.20	5.93	5.65	283.23 £/sqFt	£28,275,000	£1,025,000	3.76
Retail Warehouse				**99,832 sqFt**	**£360,395**	**£1,702,674**		**1.20**	**5.93**	**5.65**		**£28,275,000**	**£1,025,000**	**3.76**
Grand Total:				**928,013 sqFt**	**£6,621,828**	**£9,224,810**		**3.48**	**5.47**	**4.84**		**£168,575,000**	**-£200,000**	**-0.12**

* for the purpose of this report Long Leasehold = more than 50 years unexpired.Leasehold = 50 years or less unexpired

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: 15/05/2023

Valuation Date: 31/03/2023

Status: Final

CBRE

Address / Tenant	Ref No	Unit	Area SqFt	Start Date	Review Date	Expiry Date	Break Date	Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Curr Void	C RF	RV	R RF	Capital Costs £	Capital Value £	Net CV £ psf	IY %	EY %	RY %
Industrial																							
Chorley																							
Waitrose RDC (100.00 %) - Chorley																							
Waitrose Ltd	1		417,623	30/04/2012	30/04/2027	29/04/2042		2,840,000	6.80	2,840,000	6.80	2,923,361	7.00					0	54,400,000	130.26	4.89	5.51	5.03
Gross:			0					2,840,000	6.80	2,840,000	6.80	0	0.00					0	0	0.00	0.00	0.00	0.00
Tenure: Freehold			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Total:			417,623					2,840,000	6.80	2,840,000	6.80	2,923,361	7.00					0	54,400,000	130.26	4.89	5.51	5.03

	Current Rent	ERV	Current Rent (Hist)	ERV (Hist)
AWULT to Expiry	19.08	19.08	19.33	19.33
AWULT to Break	19.08	19.08	19.33	19.33
Vacant % by ERV				

	Passing Rent £ pa	Deemed Rent £ pa	ERV £ pa	Capital Costs £	Capital Value £	CIY	DIY	EY	RY
31/03/2023	**2,840,000**	**2,840,000**	**2,923,361**	**0**	**54,400,000**	**4.89**	**4.89**	**5.51**	**5.03**
31/12/2022	**2,840,000**	**2,840,000**	**2,839,836**	**0**	**54,400,000**	**4.89**	**4.89**	**5.45**	**4.89**
Diff %:	**0.00%**	**0.00%**	**2.94%**	**0.00%**	**0.00%**				

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: 15/05/2023

Valuation Date: 31/03/2023

Status: Final

CBRE

Address / Tenant	Ref No	Unit	Area SqFt	Start Date	Review Date	Expiry Date	Break Date	Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Curr Void	C RF	RV	R RF	Capital Costs £	Capital Value £	Net CV £ psf	IY %	EY %	RY %
Industrial																							
Gloucester																							
Amazon (100.00 %) - Gloucester																							
Amazon UK Services Ltd	208		122,669	18/03/2022	18/03/2027	17/03/2037		2,293,433	18.70	2,293,433	18.70	1,427,180	11.63					0	41,000,000	334.23	5.20	4.08	3.24
Gross:			0					2,293,433	18.70	2,293,433	18.70	0	0.00					0	0	0.00	0.00	0.00	0.00
Tenure: Freehold			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Total:			122,669					2,293,433	18.70	2,293,433	18.70	1,427,180	11.63					-413,763	41,000,000	334.23	5.25	4.08	3.27

	Current Rent	ERV	Current Rent (Hist)	ERV (Hist)
AWULT to Expiry	13.97	13.97	14.21	14.21
AWULT to Break	13.97	13.97	14.21	14.21
Vacant % by ERV				

	Passing Rent £ pa	Deemed Rent £ pa	ERV £ pa	Capital Costs £	Capital Value £	CIY	DIY	EY	RY
31/03/2023	**2,293,433**	**2,293,433**	**1,427,180**	**-413,763**	**41,000,000**	**5.25**	**5.25**	**4.08**	**3.27**
31/12/2022	**2,293,433**	**2,293,433**	**1,427,180**	**-413,763**	**41,000,000**	**5.25**	**5.25**	**4.09**	**3.27**
Diff %:	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**				

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: 15/05/2023

Valuation Date: 31/03/2023

Status: Final

Address / Tenant	Ref No	Unit	Area SqFt	Start Date	Review Date	Expiry Date	Break Date	Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Curr Void	C RF	RV	R RF	Capital Costs £	Capital Value £	Net CV £ psf	IY %	EY %	RY %
Industrial																							
Tewkesbury																							
MOOG (100.00 %) - Tewkesbury																							
Moog Controls Ltd	208		208,998	30/04/2023	30/04/2028	29/04/2058		0	0.00	0	0.00	1,671,242	8.00	1				0	23,900,000	114.36	0.00	4.75	4.75
Gross:			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Tenure: Freehold			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Total:			208,998					0	0.00	0	0.00	1,671,242	8.00					-9,153,311	23,900,000	114.36	0.00	4.75	6.42

	Current Rent	ERV	Current Rent (Hist)	ERV (Hist)
AWULT to Expiry				
AWULT to Break				
Vacant % by ERV		100.00%		100.00%

	Passing Rent £ pa	Deemed Rent £ pa	ERV £ pa	Capital Costs £	Capital Value £	CIY	DIY	EY	RY
31/03/2023	**0**	**0**	**1,671,242**	**-9,153,311**	**23,900,000**	**0.00**	**0.00**	**4.75**	**6.42**
31/12/2022	**0**	**0**	**1,671,242**	**-9,192,579**	**23,750,000**	**0.00**	**0.00**	**4.75**	**6.46**
Diff %:	**0.00%**	**0.00%**	**0.00%**	**-0.43%**	**0.63%**				

	Area SqFt		Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Capital Value £	IY %	EY %	RY %
Industrial: Total	749,290	31/03/2023	5,133,433	6.85	5,133,433	6.85	6,021,783	8.04	119,300,000	3.75	4.86	4.82
		31/12/2022	5,133,433	6.85	5,133,433	6.85	5,938,258	7.93	119,150,000	3.76	4.83	4.77
		Movement	0.00%		0.00%		1.41%		0.13%			

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: **15/05/2023**

Valuation Date: **31/03/2023**

Status: **Final**

Address / Tenant	Ref No	Unit	Area SqFt	Start Date	Review Date	Expiry Date	Break Date	Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Curr Void	C RF	RV	R RF	Capital Costs £	Capital Value £	Net CV £ psf	IY %	EY %	RY %
Offices																							
Livingston																							
1 Deerpark Road (100.00 %) - Livingston																							
Vetinary Specialists (Scotland) Limited	51	Whole Building	30,940	10/09/2019		09/09/2039		0	0.00	0	0.00	372,546	12.04		5			0	4,750,000	153.52	0.00	8.00	7.38
Gross:			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Tenure: Freehold			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Total:			30,940					0	0.00	0	0.00	372,546	12.04					0	4,750,000	153.52	0.00	7.98	7.36

	Current Rent	ERV	Current Rent (Hist)	ERV (Hist)
AWULT to Expiry		16.45		16.69
AWULT to Break		16.45		16.69
Vacant % by ERV				

	Passing Rent £ pa	Deemed Rent £ pa	ERV £ pa	Capital Costs £	Capital Value £	CIY	DIY	EY	RY
31/03/2023	**0**	**0**	**372,546**	**0**	**4,750,000**	**0.00**	**0.00**	**7.98**	**7.36**
31/12/2022	**0**	**0**	**372,546**	**0**	**4,750,000**	**0.00**	**0.00**	**7.83**	**7.36**
Diff %:	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**				

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: 15/05/2023

Valuation Date: 31/03/2023

Status: Final

CBRE

Address / Tenant	Ref No	Unit	Area SqFt	Start Date	Review Date	Expiry Date	Break Date	Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Curr Void	C RF	RV	R RF	Capital Costs £	Capital Value £	Net CV £ psf	IY %	EY %	RY %
Offices																							
Bishop's Stortford																							
Skyway House (100.00 %) - Takeley																							
Weston Homes	79		47,951	30/06/2020	30/06/2025	29/06/2045		1,128,000	23.52	1,128,000	23.52	1,127,808	23.52					0	16,250,000	338.89	6.50	7.78	6.50
Gross:			0					1,128,000	23.52	1,128,000	23.52	0	0.00					0	0	0.00	0.00	0.00	0.00
Tenure: Freehold			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Total:			47,951					1,128,000	23.52	1,128,000	23.52	1,127,808	23.52					0	16,250,000	338.89	6.50	7.78	6.50
																				CIY	**DIY**	**EY**	**RY**
							31/03/2023	**1,128,000**		**1,128,000**		**1,127,808**						**0**	**16,250,000**	**6.50**	**6.50**	**7.78**	**6.50**
							31/12/2022	**1,128,000**		**1,128,000**		**1,127,808**						**0**	**17,625,000**	**6.00**	**6.00**	**7.15**	**6.00**
							Diff %:	**0.00%**		**0.00%**		**0.00%**						**0.00%**	**-7.80%**				
Offices: Total			78,891				31/03/2023	1,128,000	14.30	1,128,000	14.30	1,500,354	19.02						21,000,000		5.03	7.82	6.69
							31/12/2022	1,128,000	14.30	1,128,000	14.30	1,500,354	19.02						22,375,000		4.73	7.30	6.29
							Movement	0.00%		0.00%		0.00%							-6.15%				

	Current Rent	ERV	Current Rent (Hist)	ERV (Hist)
AWULT to Expiry	22.25	22.25	22.50	22.50
AWULT to Break	22.25	22.25	22.50	22.50
Vacant % by ERV				

PORTFOLIO VALUATION COMPARISON REPORT: Uttlesford District Council

Report Date: 15/05/2023

Valuation Date: 31/03/2023

Status: Final

CBRE

Address / Tenant	Ref No	Unit	Area SqFt	Start Date	Review Date	Expiry Date	Break Date	Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Curr Void	C RF	RV	R RF	Capital Costs £	Capital Value £	Net CV £ psf	IY %	EY %	RY %
Retail Warehouse																							
Colchester																							
Stane Retail Park (100.00 %) - Colchester																							
B&Q	208		81,350	30/11/2021		29/11/2036		0	0.00	0	0.00	1,342,275	16.50		1			0	21,628,821	265.87	0.00	6.00	5.72
Aldi	221		18,482	08/12/2021		07/12/2046	08/12/2041 *	360,395	19.50	360,395	19.50	360,399	19.50					0	6,646,179	359.60	5.00	5.69	5.00
Gross:			0					360,395	3.61	360,395	3.61	0	0.00					0	0	0.00	0.00	0.00	0.00
Tenure: Freehold			0					0	0.00	0	0.00	0	0.00					0	0	0.00	0.00	0.00	0.00
Total:			99,832					360,395	3.61	360,395	3.61	1,702,674	17.06					-525,000	28,275,000	283.23	1.20	5.93	5.65

	Current Rent	ERV	Current Rent (Hist)	ERV (Hist)
AWULT to Expiry	23.69	15.79	23.94	16.04
AWULT to Break	18.69	14.73	18.94	14.98
Vacant % by ERV				

	Passing Rent £ pa	Deemed Rent £ pa	ERV £ pa	Capital Costs £	Capital Value £	CIY	DIY	EY	RY
31/03/2023	**360,395**	**360,395**	**1,702,674**	**-525,000**	**28,275,000**	**1.20**	**1.20**	**5.93**	**5.65**
31/12/2022	**360,395**	**360,395**	**1,702,674**	**-525,000**	**27,250,000**	**1.24**	**1.24**	**6.08**	**5.87**
Diff %:	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**3.76%**				

	Area SqFt		Passing Rent £ pa	Passing Rent £ psf	Deemed Rent £ pa	Deemed Rent £ psf	ERV £ pa	ERV £ psf	Capital Value £	IY %	EY %	RY %
Retail Warehouse: Total	99,832	31/03/2023	360,395	3.61	360,395	3.61	1,702,674	17.06	28,275,000	1.20	5.93	5.65
		31/12/2022	360,395	3.61	360,395	3.61	1,702,674	17.06	27,250,000	1.24	6.08	5.87
		Movement	0.00%		0.00%		0.00%		3.76%			
Portfolio Total:	928,013	31/03/2023	6,621,828	7.14	6,621,828	7.14	9,224,810	9.94	168,575,000	3.48	5.47	4.84
		31/12/2022	6,621,828	7.14	6,621,828	7.14	9,141,285	9.85	168,775,000	3.47	5.53	4.80
		Movement	0.00%		0.00%		0.91%		-0.12%			

Appendix B: UK Long Income Market Update

March 2023

Long Income Pack

Valuation & Advisory Services

CBRE

Yield Sheet
March 2023

CBRE

Signs of yields stabilizing in some sectors

- Cash buyers active for small lot sizes.
  Retail
- Stronger demand feeding through into yield compression.
  Out of Town Retail
- Demand picking up as yields stabilise.
  Industrial
- Interest strongest for green buildings with excellent ESG credentials.
  Offices

(February yields in brackets, changes in red)

Retail	Mar 2022 (%)	June 2022 (%)	Sept 2022 (%)	Dec 2022 (%)	Mar 2023 (%)	Trend
OFFICES						
West End	3.25	3.25	3.25	3.75	3.75	Weaker
City of London	3.75	3.75	4.00	4.50	4.50	Weaker
M25/South East	5.50	5.50	5.75	6.25	6.25	Weaker
Regional Cities	4.75	4.75	5.00	6.00	6.00	Weaker
Good Secondary	7.00	7.00	7.50	9.00	9.25	Weaker
Secondary	10.00	10.00	10.50	12.50	13.00	Weaker
INDUSTRIAL						
Prime Distribution	3.50	3.25	4.00	5.00	5.25	**Stable**
Prime Estate (Greater London)	3.00	2.85	3.50	4.50	4.75	**Stable**
Prime Estate (Ex Greater London)	3.50	3.35	4.00	5.00	5.25	**Stable**
Good Secondary	4.50	4.25	4.75	6.00	6.25	**Stable**
Secondary Estate	5.50	5.25	5.75	7.00	7.25	**Stable**

	Mar 2022 (%)	June 2022 (%)	Sept 2022 (%)	Dec 2022 (%)	Mar 2023 (%)	Trend
HIGH STREET SHOPS						
Prime	6.50	6.25	6.50	6.75	6.75	Weaker
Good Secondary	8.50	8.50	8.75	9.00	9.00	Weaker
Secondary	12.00	12.00	12.00	12.00	12.00	Weaker
SUPERMARKETS						
Prime	3.50	3.50	4.25	5.25	5.25	**Stable**
SHOPPING CENTRES						
Prime	7.75	7.75	7.75	8.25	8.25	Weaker
Best Secondary	12.00	12.00	12.00	12.00	12.00	Weaker
Secondary	16.00	16.00	16.00	16.00	16.00	Weaker
RETAIL WAREHOUSE						
Park – Prime – Open User	5.25	4.75	5.25	6.00	**5.75 (6.00)**	**Stronger**
Park - Prime - Bulky User	5.25	4.75	5.25	6.00	**5.75 (6.00)**	**Stronger**
Solus - Prime - Bulky User	5.00	4.75	5.00	6.00	**5.75 (6.00)**	**Stronger**
Park - Secondary	7.25	6.50	6.75	8.00	**7.75 (8.00)**	**Stronger**

CBRE

UNITED KINGDOM | INVESTMENT YIELDS | MARCH 2023

Mixed picture with low transaction volumes in Q1

(February yields in brackets, changes in red)

	Mar 2022 (%)	June 2022 (%)	Sept 2022 (%)	Dec 2022 (%)	Mar 2023 (%)	Trend
HEALTHCARE						
Primary Care	3.75	3.75	3.75	4.15	4.15	Weaker
Care Homes Super Prime 1	3.75	3.75	3.75	4.25	4.25	Weaker
Care Homes Prime 2	4.75	4.75	4.75	5.25	5.25	Weaker
Hospitals	4.50	4.25	4.25	4.75	4.75	Weaker
LEISURE						
Prime Leisure Park	6.75	6.75	7.00	7.50	7.50	Weaker
Good Secondary Leisure Park	8.50	8.50	8.75	9.50	**10.00 (9.50)**	Weaker
Cinema Prime	6.50	6.50	6.75	7.50	7.50	Weaker
Health & Fitness Prime	4.50	4.50	4.75	5.50	**5.75 (5.50)**	Weaker
PUBS						
Prime London Corporate Pub	3.50	3.50	3.50	4.00	4.00	**Stable**
Prime Regional Corporate Pub	5.75	5.75	5.75	6.75	6.75	**Stable**

	Mar 2022 (%)	June 2022 (%)	Sept 2022 (%)	Dec 2022 (%)	Mar 2023 (%)	Trend
ROADSIDE & AUTOMOTIVE						
Car Showroom Prime RPI lease	5.25	5.00	5.00	5.75	5.75	Weaker
Petrol Filling Station Prime RPI lease	4.50	4.50	4.50	5.25	5.25	Weaker
Car Park Prime RPI lease	4.75	4.75	4.75	5.50	5.50	Weaker
FINANCIAL INDICATORS						
Base Rate	0.50	1.00	1.75	3.00	4.00	◀▶
5 Year Swaps	1.51	2.14	3.43	3.63	4.02 (3.52)	▲
10 Year Gilts	1.38	2.25	3.09	3.16	3.82 (3.54)	▲
RPI	7.80	11.10	12.30	14.20	13.40	◀▶
CPI	5.50	9.00	10.10	11.10	10.10 (10.50)	▼

CBRE

Investor interest is slowly returning to the market for Q1

- Signs of investor interest slowly returning to the market.
  Residential
- Strong rental growth for the upcoming academic year is mitigating yield expansion as market looks towards potential reversions.
  Student
- Transactions showing signs of stability ahead.
  Hotels

	Mar 22 (%)	Jun 22 (%)	Sep 22 (%)	Dec 22 (%)	Mar 23 (%)	Trend
RESIDENTIAL						
London Zone 2 Prime	3.25	3.25	3.25	3.50	3.60	Weaker
London Zone 2 Good Secondary	3.65	3.65	3.65	4.00	4.00	Weaker
London Zone 3 to 6 Prime	3.35	3.35	3.35	3.65	**3.75**	Weaker
London Zone 3 to 6 Good Secondary	3.65	3.65	3.65	4.00	4.00	Weaker
Outer London and South East Prime	3.60	3.60	3.60	3.90	**4.00**	Weaker
Outer London and South East Good Secondary	4.00	4.00	4.00	4.50	4.50	Weaker
Regional Centres excluding South East Prime	4.00	3.85	3.85	4.15	4.15	Weaker
Regional Centres excluding South East Secondary	4.50	4.25	4.25	4.75	4.75	Weaker
Other Regional Centres Prime	4.40	4.15	4.15	4.50	4.50	Weaker
Other Regional Centres Secondary	5.00	4.75	4.75	5.25	5.25	Weaker

	Mar 22 (%)	Jun 22 (%)	Sep 22 (%)	Dec 22 (%)	Mar 23 (%)	Trend
STUDENT ACCOMMODATION						
Central London Direct Let	3.65	3.50	3.50	3.75	3.75	Weaker
Super Prime Regional Direct Let	4.65	4.50	4.50	4.75	4.75	Weaker
Prime Regional Direct Let	5.00	4.75	4.75	5.00	5.00	Weaker
Secondary Regional Direct Let	8.00	8.00	8.00	8.50	8.50	Weaker
Central London RPI Lease	3.00	2.75	3.25	4.00	4.00	Weaker
Super Prime Regional RPI Lease	3.00	2.75	3.25	4.00	4.00	Weaker
Prime Regional RPI Lease	3.00	2.75	3.25	4.00	4.00	Weaker
Secondary Regional RPI Lease	4.00	4.00	4.50	5.25	5.25	Weaker
HOTELS						
Prime London Vacant Possession	4.50	4.50	4.50	4.75	4.75	Weaker
Prime London Management Contract	5.50	5.50	5.50	5.75	5.75	Weaker
Prime London Lease	3.75	3.75	3.75	4.50	4.50	Weaker
Prime Regional Vacant Possession	6.75	6.75	6.75	7.25	7.25	Weaker
Prime Regional Management Contract	7.75	7.75	7.75	8.50	8.50	Weaker
Prime Regional Lease	4.25	4.25	4.25	5.25	5.25	Weaker

Inflation Update March 2023

Inflation Rates v UK 15 year Gilt Yields

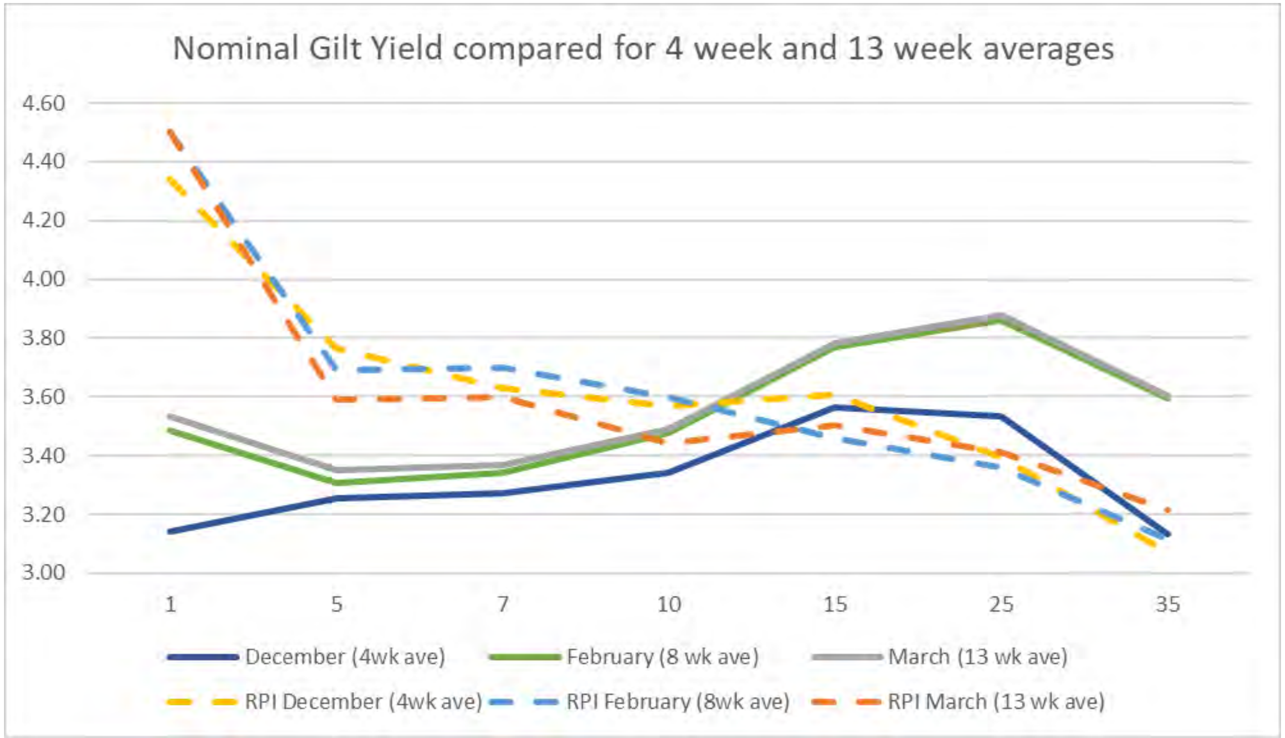
ONS Annual Inflation Rates - Released 22nd March 2023

Index	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Dec-21
CPI-H	9.2%	8.8%	9.2%	9.3%	9.6%	8.8%	8.6%	8.8%	8.2%	7.9%	7.8%	6.2%	4.8%
CPI	10.4%	10.1%	10.5%	10.7%	11.1%	10.1%	9.9%	10.1%	9.4%	9.1%	9.0%	7.0%	5.4%
RPI	13.8%	13.4%	13.4%	14%	14.2%	12.6%	12.3%	12.3%	11.8%	11.7%	11.1%	9.0%	7.5%

UK 15 Year Gilt Yield

22-Mar-23	20-Feb-23	20-Jan-23	06-Dec-22	16-Nov-22	19-Oct-22	14-Sep-22	17-Aug-22	20-Jul-22	22-Jun-22	18-May-22	13-Apr-22	23-Mar-22	Dec-21
3.800%	3.843%	3.710%	3.467%	3.477%	4.148%	3.541%	2.641%	2.658%	2.767%	2.126%	2.010%	1.851%	1.144%

CBRE


Nominal Gilt Yield compared for 4 week and 13 week averages
4.60
4.40
4.20
4.00
3.80
3.60
3.40
3.20
3.00
1
5
7
10
15
25
35
December (4wk ave)
February (8 wk ave)
March (13 wk ave)
RPI December (4wk ave)
RPI February (8wk ave)
RPI March (13 wk ave)

Long Income Q1 2023 Update

Few investment deals in Q1, albeit some pockets of activity. Public Markets start to turn negative again.

- Spot GILT pricing has started to move out (c+40bps since February) in light of higher than expected US inflation, and a more resilient UK Economy. Next BoE interest rate announcement is 23rd March.
- Despite the public market wobble, Income Strip activity has started to pick up, largely led by Annuity book investors and Insurers, albeit no completed deals.
- Long range inflation forecasts have fallen c30bps, with the 25-year RPI forecast now sitting at c3.40% (13-week trailing average).
- Marginal improvement on transactional activity, albeit main theme is distressed sellers bringing product to market to meet redemptions calls.
- Insurers likely to dominate bidding activity in 2023 on strong rated cashflows.

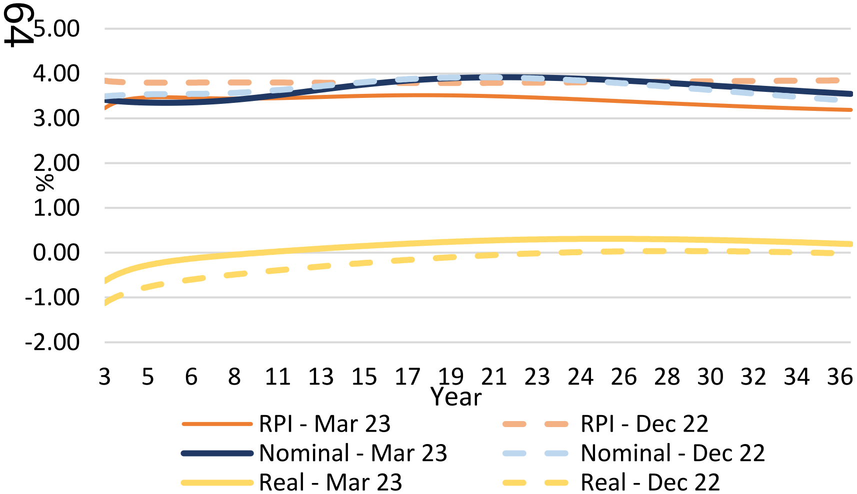


FIGURE 1: 13 Week Average - Nominal, Real and RPI Curve
(Source: Bank of England)

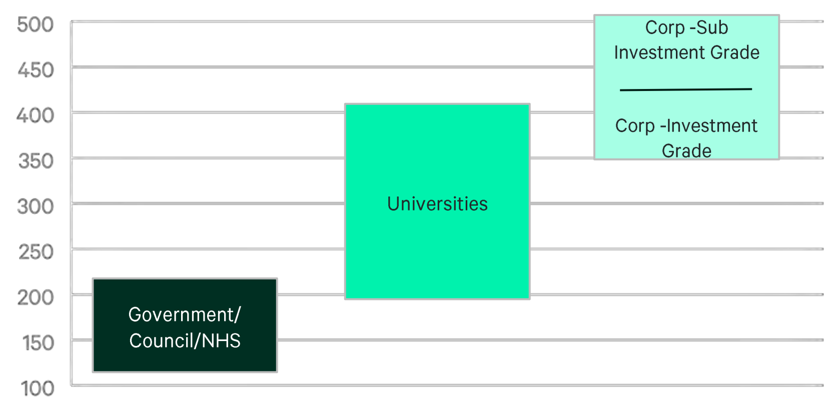


FIGURE 2: Income Discount Rate Gross Z-Spread (bps) Q4 22 (Source: CBRE)
The above is for illustrative purposes only. Asset specific advice should be taken when appraising any investment.

LONDON OFFICES

1 New Street Square, London, EC4A 3BF

Property Description

275,00 sq ft of office and ancillary space over ground, upper ground and 14 office floors.
LLH with 147 years unexpired geared at 7.00%.
Annual fixed uplifts of 2.35%.
Sale to be done on an SPV basis.
Rent review in March/June.

Key Facts	
Property Type	Office
Tenure	Long Leasehold (147 years unexpired, geared at 7.00%)
Area	274,766 sq ft
Tenant	Single-let to Deloitte LLP
WAULT (WAUTC) Years	14.50
Current Rent Per Annum	£16,844,948 (£61.31 per sq ft)
Quoting Price	£440,000,000 (£1,601 per sq ft)
Quoting Price NIY %	3.76
Date to Market	June 2022
Vendor	Landsec
Purchaser	Chinachem Group
Sale Price	£349,500,000 (£1,272 per sq ft)
Sale Price NIY %	4.72
Status Date	February 2023
Status	Sold

EPC: C

Excellent

CBRE

Building 2, Ruskin Square, Croydon, CR0

Property Description

Prominent landmark new build office. Pre-let in entirety to the Home Office on a 25-year lease (break at 20 years, with 5 yearly CPI reviews).

Key Facts	
Property Type	Office
Tenure	Virtual Freehold
Tenant	Home Office
Area	300,000 sq ft
WAULT (WAUTC) Years	25.00 (20.00)
Current Rent Per Annum	£ - (£ - per sq ft)
Quoting Price	£ - (£ - per sq ft)
Quoting Price NIY %	-
Date to Market	November 2022
Vendor	Schroders
Purchaser	PIC
Sale Price	£267.6m
Sale Price NIY %	
Status Date	March2023
Status	Exchanged
Comment	Press reported pricing - unconfirmed

CBRE

Dorland House, 121-141 Westbourne Terrace, London, W2

Property Description

Grade A office building arranged over lower ground, ground and five upper floors. 5 yearly fixed uplifts at a rate of 2.5% annually compounded.

Key Facts	
Property Type	Office
Tenure	Freehold
Area	85,457 sq ft
Tenant	Single-let WPP Group (UK)
WAULT (WAUTC) Years	13.0 (13.0)
Current Rent Per Annum	£4,131,996 (£48.35 per sq ft)
Quoting Price	£85,000,000 (£995 per sq ft)
Quoting Price NIY %	4.55%
Vendor	M&G Real Estate
Status Date	February 2023
Status	Under Offer

EPC: C

215 Great Portland Street, W1W 5PN

Property Description

Prominent corner building part of Great Portland Street Hospital.
One of four properties making up the hospital campus.
Comprises of 34,253 sq ft of healthcare and high quality office arranged over basement, ground and six upper floors.
Home to Lister Fertility Clinic.

EPC: B

Key Facts	
Property Type	Office
Tenure	Freehold
Tenure comment	Basement and 1st – 6th floor 5-yearly open market reviews with next in December 2025. Ground floor separated 5-yearly open market review pattern with next review December 2023.
Area	34,253 sq ft
Tenant	HCA International
WAULT (WAUTC) Years	17.8
Current Rent Per Annum	£2,240,335 (£65.41 per sq ft)
Quoting Price	£56,000,000 (£1,635 per sq ft)
Quoting Price NIY %	3.75
Date to Market	March 2023
Vendor	Amsprop
Status Date	March 2023
Status	Available
Comment	

CBRE

One Lyric Square, London, W6 0NB

Property Description

Grade A office accommodation over ground and 13 upper floors. Well located opposite Hammersmith station. 1970s construction extensively refurbished and reclad in 2018 at a cost of £42m. Additional £7m spent by The Office Group on internal fit out.

EPC: B

Very Good

Key Facts	
Property Type	Office
Tenure	Freehold
Tenant	Single-let (The Office Group Properties t/a TOG)
Area	103,374 sq ft
WAULT (WAUTC) Years	16.00 (16.00)
Current Rent Per Annum	£5,346,823 (£51.72 per sq ft)
Quoting Price	£95,400,000 (£922.86 per sq ft)
Quoting Price NIY %	5.25
Vendor	Schroders
Date to Market	September 2022
Status Date	March 2023
Status	Available
Comment	

CBRE

12/14, 14 New Fetter Lane, London, EC4A

Property Description

LLH 154 Years.
Single-let to Bird & Bird LLP.
Bids received at 5.25% in December.
Sold on an SPV basis.

BREEAM

Excellent

Key Facts	
Property Type	Office
Tenure	Long Leasehold (143 years unexpired at 6% of passing rent)
Area	142,270 sq ft
Tenant	Single-let to Bird & Bird LLP
WAULT (WAUTC) Years	13.4 (-)
Current Rent Per Annum	£8,295,203 (£57.90 per sq ft)
Quoting Price	£170,200,000 (£1,188 per sq ft)
Quoting Price NIY %	4.50
Date to Market	November 2022
Vendor	Nuveen Real Estate
Status Date	March 2023
Status	Available
Comment	Interest at 5%, Vendor targeting 4.75%

33 Foley Street, London, W1W 7TL

Property Description

Newly developed in 2017. Single-let to Kier Group on a lease expiring in October 2042 (c. 19.5 years remaining) with annual RPI linked reviews capped and collared at 2% and 4% per annum.

Comprises lower ground, ground and five upper floors with a roof-top and perimeter terraces to the 5th and 6th floors.

EPC: B

Key Facts	
Property Type	Office
Tenure	Freehold
Area	42,462 sq ft
Tenant	Single-let
WAULT (WAUTC) Years	19.5
Current Rent Per Annum	£3,784,094 (£89.12 per sq ft)
Quoting Price	c.£80,0000,000 (£1,901 per sq ft)
Quoting Price NIY %	4.40
Vendor	Abrdn
Date to Market	January 2023
Status Date	February 2023
Status	Available

CBRE

51 Eastcheap, London, EC3M 1DT

Property Description

Located a short walk from Monument Station.

Comprehensively refurbished in 2019.

Leased entirely to WeWork, lease expiry February 2039.

Sold on behalf of a Jersey SPV.

Key Facts	
Property Type	Office
Tenure	Freehold
Area	89,459 sq ft
Tenant	Single-let to WeWork
WAULT (WAUTC) Years	16.70
Current Rent Per Annum	£6,396,319 (£71.50 per sq ft)
Quoting Price	£123,000,000 (£1,374.93 per sq ft)
Quoting Price NIY %	5.11
Date to Market	July 2022
Vendor	A Jersey SPV
Status Date	March 2023
Status	Withdrawn
Comment	Was at 6.00% £100,000,000 but vendor did not want to trade at that level.

Very Good EPC: B

CBRE

265 Strand, London, WC2A

Property Description

New York University (NYU) have entered into an Agreement for Lease (AFL) to pre-lease the entirety of the building for 25 years with two further five-year tenant options to extend. Bids received at 4.25% leading to withdrawal.

Key Facts	
Property Type	Office
Tenure	Freehold
Area	74,250 sq ft
Tenancy	Single-let to New York University
WAULT (WAUTC) Years	25.0
Current Rent Per Annum	£5,250,000 (£70.71 per sq ft)
Quoting Price	£123,000,000 (£1,657 per sq ft)
Quoting Price NIY %	4.00
Date to Market	October 2022
Vendor	Euro Properties Investments Limited
Status Date	December 2022
Status	Withdrawn

EPC: D

CBRE

REGIONAL OFFICES

Halo, 1 Temple Street, Redcliffe, Bristol, BS1 6EU

Property Description

Newly constructed Grade A office with flexible 15,500 sq ft floor plates.

EPC: A

Outstanding

Platinum

Key Facts	
Property Type	Office
Tenure	Freehold
Area	116,024 sq ft
Tenant	Multilet
WAULT (WAUTC) Years	10.56 (-)
Current Rent Per Annum	£4,322,316 (£37.25 per sq ft)
Quoting Price	£70,350,000 (£607.00 per sq ft)
Quoting Price NIY %	5.75
Date to Market	February 2023
Vendor	Tesco Pension Fund
Purchaser	CBRE Investment Management
Sale Price	
Sale Price NIY %	
Status Date	March 2023
Status	Under Offer
Comment	Believed to be U/O to CBRE IM at 5.60% with other interest from a Private Egyptian investor and Schroders. Slightly reversionary

CBRE

Electric House, 3 Wellesley Road, Croydon, CR0 2NW

Property Description

Grade II Listed Art Deco building which has recently been refurbished and refitted to form a new campus for London South Bank University. Includes central secure courtyard with parking for 16 vehicles.

Key Facts	
Property Type	Office
Tenure	Freehold
Tenant	South Bank University
Area	56,189 sq ft
WAULT (WAUTC) Years	14.20 (14.20)
Current Rent Per Annum	£1,892,647 (£33.68 per sq ft)
Quoting Price	£35,450,000 (£630.91 per sq ft)
Quoting Price NIY %	5.00
Vendor	Private Investor
Date to Market	June 2022
Status Date	March 2023
Status	Under Offer

Mitchells & Butler, Fleet Street, Birmingham

Property Description

27 Fleet Street and 65 Lionel Street corner property.

Passing rent £24 per sq ft office

Includes 120 bed hotel.

Key Facts	
Property Type	Office and Hotel
Tenure	Freehold
Tenure Comment	5-yearly reviews on an upwards-only basis to the higher of the open market rental value, or the RPI reviewed rental value (2.5% - 5%) cap and collar.
Area	95,000 sq ft
Tenant	Mitchells & Butler (office) and Accor Group (Ibis)
WAULT (WAUTC) Years	20.9
Current Rent Per Annum	£3,300,000
Quoting Price	£59,600,000
Quoting Price NIY %	6.25
Date to Market	March 2023
Vendor	Legal & General Investment Management
Status Date	March 2023
Status	Available
Comments	

EPC: A+

CBRE

One Angel Square, Manchester, M4 4GL

Property Description

BREEAM Outstanding and EPC A+ office accommodation in Manchester city centre arranged over basement, lower ground and 14 upper floors.

EPC: A+ Outstanding

Key Facts	
Property Type	Office
Tenure	Freehold
Area	329,219 sq ft
Tenant	Single-let to The Co-operative Group
WAULT (WAUTC) Years	15.50 (15.50)
Current Rent Per Annum	£11,601,393 (£35.24 per sq ft)
Quoting Price	£210,000,000 (£637.87 per sq ft)
Quoting Price NIY %	5.17
Date to Market	June 2022
Status Date	February 2023
Status	Available
Comments	5 yearly upwards only RPI linked rent reviews compounded annually, cap and collar of 4% and 1.5% p.a.

Florence Building, Basing View, Basingstoke, RG21 4FA

Property Description

Asset represents a best in class, Grade A office. The property is a 5 storey property comprising of 61,415 sq. ft of internal space.
203 parking spaces (best ratio in town).

EPC: A

Excellent

Key Facts	
Property Type	Office
Tenure	Long Leasehold (993 Years Remaining, £100 + VAT per annum)
Tenure Comment	5-yearly RPI (2% - 4%) cap and collar
Tenant	Sovereign Housing Association Limited
Area	61,415 sq ft
WAULT (WAUTC) Years	16.00
Current Rent Per Annum	£1,488,963 (£24.24 per sq ft) (topped up)
Quoting Price	£24,260,000 (£395 per sq ft)
Quoting Price NIY %	5.75
Vendor	L&G
Date to Market	February 2023
Status Date	March 2023
Status	Available

CBRE

Q12, Quorum Business Park, Newcastle-upon-Tyne, NE12 8BU

Property Description

Verisure HQ grade A office building.

Q12 comprises a detached building over ground and two upper floors

EPC: B

Very Good

Key Facts	
Property Type	Office
Tenure	Freehold
Area	94,656 sq ft
Tenant	Single-let to Verisure Services (UK) Limited
WAULT (WAUTC) Years	14.5 (14.5)
Current Rent Per Annum	£1,500,000 (£15.85 per sq ft) (topped up)
Quoting Price	£20,000,000 (£211.29 per sq ft)
Quoting Price NIY %	7.03
Date to Market	February 2023
Vendor	-
Status Date	February 2023
Status	Available

CBRE

Carnival House, 100 Harbour Parade, Southampton, SO15 1ST

Property Description

Grade A office headquarters. The property was originally constructed in 2009 and totals 152,571 sq. ft of internal space.

EPC: C

Key Facts	
Property Type	Office
Tenure	Freehold
Tenant	Single Let (Carnival UK)
Area	152,571 sq ft
WAULT (WAUTC) Years	15.70 (-)
Current Rent Per Annum	£2,551,945 (£16.91 per sq ft)
Quoting Price	£39,835,000 (£261 per sq ft)
Quoting Price NIY %	6.00
Vendor	Aviva
Date to Market	February 2023
Status Date	March 2023
Status	Available
Comment	

CBRE

Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP

Property Description

Grade A office located in Edinburgh's City Centre, only minutes walk to bus and rail, links to the city and nationally.

Excellent

EPC: A

Key Facts	
Property Type	Office
Tenure	Freehold
Area	122,000 sq ft
Tenant	Multi Let to 6 tenants including Brodies LLP, Pinsent Masons LLP, Anderson Strathern
WAULT (WAUTC) Years	12.53 (11.30)
Current Rent Per Annum	£4,547,433.00 (£37.27 per sq ft)
Quoting Price	£88,000,000 (£721.31 per sq ft)
Quoting Price NIY %	4.84
Date to Market	October 2022
Status Date	March 2023
Vendor	Bam Properties
Status	Available
Comments	Reversionary income profile. Recent interest reached 6% but withdrew.

CBRE

BBC, Digbeth, Birmingham

Property Description

Forward funding for “The Tea factory” BBC’s new studio.

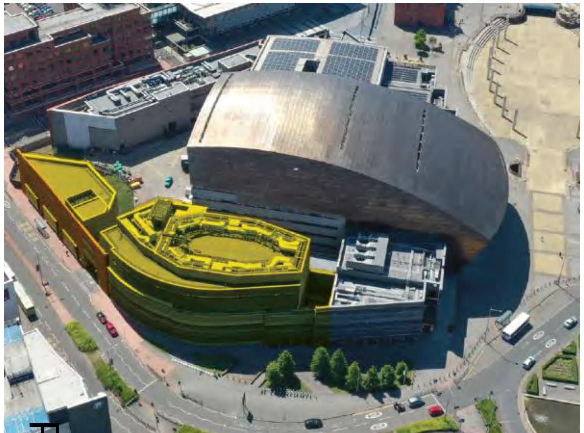
The studio will be located inside the Grade II listed Banana Warehouse on Fazeley Street.

Expected completion 2026.

Key Facts	
Property Type	Office and studios
Tenure	Freehold
Tenure comment	RPI reviews (1.5 – 4.5%) cap and collar
Area	84,000 sq ft
Tenant	BBC
WAULT (WAUTC) Years	20
Current Rent Per Annum	-
Quoting Price	£56,000,000
Quoting Price NIY %	4.75%
Date to Market	January 2023
Vendor	
Purchaser	
Status Date	March 2023
Status	Under-offer
Comments	Believed to be under offer to Aviva for a 25 year lease at over 5% NIY.

CBRE

BBC Hoddinott Concert Hall & Offices, Wales Millennium Centre, Cardiff



Property Description

Purpose built concert hall & offices forming phase 2 of Wales Millenium Centre.

43,000 sq ft concert hall and 16,114 sq ft offices on G & 3 upper floors.

93% of income subject to annual uncapped RPI uplifts.

85% of rent roll to BBC with 10 years remaining on lease.

Key Facts	
Property Type	Purpose built concert hall and offices, built c.2008
Tenure	LLH – 972 years unexpired at a peppercorn
Area	59,114 sq ft
Tenant	Multi-let BBC, Wales Millennium Centre and The Arts Council of Wales
WAULT (WAUTC) Years	9.3 (9)
Current Rent Per Annum	£1,671,018 (£28.27 per sq ft)
Quoting Price	£21,000,000 (£355 per sq ft)
Quoting Price NIY %	7.39%
Date to Market	March 2023
Vendor	
Purchaser	
Status Date	March 2023
Status	Available
Comments	

CBRE

FOODSTORES

Aldi, Mercery Road, Weymouth, DT3 5FA

Property Description

Site area of 1.83 acres (0.74 hectares).
99 parking spaces (1:188 sq ft).

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	18,571 sq ft
Tenant	Aldi subject to 5-yearly RPI linked rent reviews, collared and capped at 1% and 3%. Next rent review is May 2025.
WAULT (WAUTC) Years	17.20 (-)
Current Rent Per Annum	£309,210 (£16.65 per sq ft)
Quoting Price	£7,890,000 (£424.86 per sq ft)
Quoting Price NIY %	3.67
Date to Market	June 2022
Vendor	London Metric Property Plc
Purchaser	Private Family Trust
Sale Price	£6,800,000 (£366.16 per sq ft)
Sale Price NIY %	4.26
Status Date	March 2023
Status	Sold
Comment	Anticipated running yield of approx. 4.90% at the next rent review in May 2025.

CBRE

Morrisons, Outland Road, Plymouth, PL3 5UQ

Property Description

Part of sale and leaseback portfolio from CDR

Site area of approx. 6.17 acres (2.5 hectares).

Rack rented and £18 psf represents a topped up rent.

EPC: C

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Tenure Comment	First 5 years annual CPI (0% - 4%). Remaining term 5-yearly CPI (0% - 4%).
Area	c.60,000 sq ft
Tennant	Morrisons
WAULT Years	25
Current Rent Per Annum	£1,080,000 (£18 per sq ft)
Quoting Price	Estimated £150,000,000 (Portfolio)
Date to Market	October 2022
Vendor	CD&R
Purchaser	Fiera Real Estate
Sale Price	c. £18m
Sale NIY %	6.5%
Status Date	March 2023
Status	Sold

CBRE

Morrisons, Chiltern Drive, Verwood, BH31 6UQ

Property Description

Site area of 1.48 acres (0.60 hectares). Originally marketed as part of the Jubilee portfolio.

EPC: A

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Tenure Comment	Open Market rent Reviews
Area	64,797 sq ft
Tenant	Morrisons
WAULT (WAUTC) Years	17.3 (-)
Current Rent Per Annum	£1,450,000 (£18.51 per sq ft)
Quoting Price	£28,000,000 (£432.12 per sq ft)
Quoting NIY %	4.85
Date to Market	July 2022
Vendor	British Steel Pension Fund
Purchaser	Undisclosed
Sale Price	£22,000,000
Sale Price NIY %	6.13
Status Date	March 2023
Status	Sold
Comments	

Lidl, London Road, High Wycombe, HP11 1LJ

Property Description

Site area of 2.82 acres (1.14 hectares).

134 parking spaces with 6 EV chargers. A1 planning consent for the sale of food and comparison goods and A1/A3 for two adjoining units.

EPC: B

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	30,396 sq ft
Tenant	Lidl, Starbucks and Wenzel's Bakers. Lidl is subject to 5-yearly CPI linked rent reviews capped at 2% pa compounded annually. Vendor top up on Wenzel's Baker's rent free
WAULT (WAUTC) Years	21.17 (11.52)
Current Rent Per Annum	£637,300 (£20.97 per sq ft)
Quoting Price	£12,600,000 (£414.53 per sq ft)
Quoting Price NIY %	4.50
Date to Market	June 2022
Vendor	Oval Real Estate
Sale Price	£11,000,000 (£361.89 per sq ft)
Sale Price NIY	5.17%
Status Date	January 2023
Status	Sold

Aldi, New Market Road, Bury St Edmunds, IP33 3TU

Property Description

Site area of 1.69 acres.

83 car parking spaces (1:185 sq ft).

Class open A1 food consent.

EPC: A

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	15,350 sq ft
Tenant	Aldi 1%-3% per annum compounded rent reviews with next rent review in August 2023
WAULT (WAUTC) Years	14.5
Current Rent Per Annum	£280,627 (£18.28 per sq ft)
Quoting Price	£6,580,000 (£428.66 per sq ft)
Quoting Price NIY	4%
Date to Market	June 2022
Vendor	Private Investor
Sale Price	£6,600,000 (£429.97 per sq ft)
Sale Price NIY	4.0% (running yield c. 4.5% August 2023)
Status Date	January 2023
Status	Sold

Asda, Surtees Road, Peterlee, SR8 5HA

Property Description

Site area of 5.21 acres.

352 parking spaces.

EPC: B

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	80,592 sq ft
Tenant	Asda is the only tenant. The lease benefits from 5-yearly, upward only, OMV rent reviews
WAULT (WAUTC) Years	19.00 (-)
Current Rent Per Annum	£1,470,804 (£18.25 per sq ft)
Quoting Price	£22,960,000 (£284.89 per sq ft)
Quoting Price NIY %	6.00
Date to Market	October 2022
Vendor	Abrdn
Purchaser	Realty
Sale Price	£36,300,000 (Combined price for Peterlee and Smethwick)
Sale Price NIY	7.42%
Status Date	January 2023
Status	Sold
Comments	Sold with Asda, Cape Hill, Smethwick.

Asda, Cape Hill, Smethwick, B66 3EN

Property Description

Site area 2.24 acres.

450 parking spaces.

EPC: D

Key Facts	
Property Type	Supermarket
Tenure	Leasehold
Area	73,977 sq ft
Tenant	Asda is the only tenant. The rent is reviewed 5-yearly to OMV
WAULT (WAUTC) Years	17.90 (-)
Current Rent Per Annum	£1,405,563 (£19 per sq ft)
Quoting Price	£21,950,000 (£296.71 per sq ft)
Quoting Price NIY %	6.00
Date to Market	October 2022
Vendor	Abrdn
Purchaser	Realty
Sale Price	£36,300,000 (Combined price for Smethwick and Peterlee)
Sale Price NIY	7.42%
Status Date	January 2023
Status	Sold
Comments	Sold with Asda, Surtees Road, Peterlee.

Aldi, Northolt Road, Harrow, HA2 8EQ

Property Description

Site area of 1.07 acres.

55 parking spaces.

The Property includes 6 residential flats above the Aldi sold off on a long leasehold. Open A1 (now class E) on the Aldi and residential (C3) on the flats above.

EPC: B

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	27,993 sq ft
Tenant	Aldi subject to 5 yearly RPI linked rent reviews, collared and capped at 1-3% pa compounded
WAULT (WAUTC) Years	18.50 (-)
Current Rent Per Annum	£397,500 (£14.20 per sq ft)
Quoting Price	£9,310,000 (£332.58 per sq ft)
Quoting Price NIY %	4.00
Date to Market	July 2022
Vendor	Private Investor
Purchaser	DVS Property
Sale Price	
Sales Price NIY %	5.50%
Status Date	December 2022
Status	Sold

Tesco Extra, Culverhouse Cross, Cardiff, CF5 6XQ

Property Description

Supermarket with mezzanine floor.
Under offer with Sainsburys Wigan

EPC: C

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	150,000 sq ft
Tenant	Tesco Stores Limited
WAULT (WAUTC) Years	13 (-)
Current Rent Per Annum	£ - (£ - per sq ft)
Quoting Price	£100,000, 000 (combined)
NIY %	
Date to Market	February 2023
Vendor	M&G
Purchaser	PE - Buyer
Sale Price	£100,000,000 (Combined)
Sale Price NIY %	6.65%
Status Date	March 2023
Status	Under offer
Comments	Under offer for £100m with Sainsburys Wigan

CBRE

Sainsbury's, Marus Bridge Retail Park, Worthington Way, Wigan, WN3 6XA

Property Description

Under offer with Tesco Extra, Cardiff

EPC: B

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	90,000 sq ft
Tenant	Sainsbury's Supermarket Limited
WAULT (WAUTC) Years	14 (-)
Current Rent Per Annum	£ - (£ - per sq ft)
Quoting Price	£100,000, 000 (combined)
NIY %	
Date to Market	February 2023
Vendor	M&G
Purchaser	PE - Buyer
Sale Price	£100,000,000 (Combined)
Sale Price NIY %	6.65%
Status Date	March 2023
Status	Under offer
Comments	Under offer for £100m with Tesco Extra, Cardiff

CBRE

Tesco, Springfield Road, Chelmsford, CM2 6QT

Property Description

Site area of 1.48 acres (0.60 hectares).
565 car parking spaces (1:110 sq ft).

Originally marketed as part of the Jubilee portfolio.

EPC: A

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Tenure Comment	Open Market Rent Reviews
Area	64,352 sq ft
Tenant	Tesco
WAULT (WAUTC) Years	10.8 (-)
Current Rent Per Annum	£1,298,000 (£20.92 per sq ft)
Quoting Price	£26,000,000 (£432.12 per sq ft)
NIY %	4.65
Date to Market	July 2022
Vendor	British Steel Pension Fund
Status Date	March 2023
Status	Under offer
Comments	Under offer for a price equating to a NIY higher than 6.50%.

CBRE

Asda, Millington Road, Hayes, UB3 4AZ

Property Description

4.75 acre site.

Originally marketed as part of the Jubilee portfolio.

EPC: A

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Tenure Comment	Open Market Rent Reviews
Area	85,738 sq ft
Tenant	Asda
WAULT (WAUTC) Years	18.0
Current Rent Per Annum	£1,843,367 (£21.50 per sq ft)
Quoting Price	£45,000,000
Quoting NIY %	4.05%
Date to Market	July 2022
Vendor	British Steel Pension Fund
Status Date	March 2023
Status	Under Offer
Comments	Believed to be under offer better than 6%

CBRE

The Moorland Centre, Tritton Road, Lincoln, LN6 7TN

Property Description

Site area of 7.64 acres (3.09 hectares).
439 parking spaces (1:128 sq ft).
12 electric charging spaces.
Open A1 planning.

EPC: B

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	64,966 sq ft
Tenant	Aldi, M&S, Starbucks, Co-Op
WAULT (WAUTC) Years	16.90 (12.30)
Current Rent Per Annum	£739,556 (£11.38 per sq ft)
Quoting Price	£12,900,000 (£198.57 per sq ft)
Date to Market	October 2022
Vendor	Lincolnshire Co-operative Ltd
Purchaser	
Status Date	March 2023
Status	Under offer
Comments	Under offer at around the asking price. Due to complete in March. Interest from a number of parties but not institutional buyers.

CBRE

108-114 Fulham Palace Road, London, W6 9PL

Property Description

New build food shop with 34 residential units above (not included with purchase).

Key Facts	
Property Type	Street Retail
Tenure	Virtual Freehold
Area	4,255 sq ft
Tenant	Pre-let to Co-op with strong tenant covenant. 110,000 pa for a 15-year term with 5-yearly RRs linked to CPI with cap and collar of 1%-3% pa
WAULT (WAUTC) Years	15.00 (-)
Current Rent Per Annum	£110,000 (£25.85 per sq ft)
Quoting Price	£2,300,000 (£540.54 per sq ft)
Quoting Price NIY %	4.50
Date to Market	July 2022
Status Date	January 2023
Status	Under Offer
Comments	Under offer for 4.0%-4.25% (sharper than asking)

EPC: D

CBRE

Tesco, Bicester Road, Aylesbury, HP19 8BU

Property Description

726 car parking spaces (1:147 sq ft).

Site area of 9.29 acres (3.76 hectares).

EPC: D

Key Facts	
Property Type	Retail Warehouse
Tenure	Leasehold
Area	106,439 sq ft
Tenant	Tesco. The lease subject to annual RPI linked reviews (collar and cap of 1% and 3% per annum) until August 2028, with annual CPI reviews (1% - 3% c&c) thereafter.
WAULT (WAUTC) Years	14.00 (-)
Current Rent Per Annum	£2,765,805 (£25.98 per sq ft)
Quoting Price	Approx. £47,000,000 (£441.57 per sq ft)
Quoting Price NIY %	Approx. 5.50
Date to Market	May 2022
Vendor	Canada Life Investments
Status Date	March 2023
Status	Available
Comments	Bids 09/03/2023. Marketed in May 2022 for a quoting price of £61,000,000 with a NIY of 4.12%.

CBRE

Aldi, Mumby Road, Gosport, PO12 1BG

Property Description

Site area of 1.36 acres (0.55 hectares).

104 parking spaces (1:159 sq ft).

Class E planning consent.

EPC: A

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	16,501 sq ft
Tenant	Aldi – RPI RR, collar and cap of 1% & 2.75% compounded.
WAULT (WAUTC) Years	15.67 (-)
Current Rent Per Annum	£327,244 (£19.83 per sq ft) topped-up to September 2023 RPI linked rent.
Quoting Price	£6,140,000 (£372.10 per sq ft)
Quoting Price NIY %	5.00
Date to Market	February 2023
Vendor	Palace Capital
Status Date	March 2023
Status	Available
Comment	2 or 3 parties interested expected to be between 5-5.25% NIY

CBRE

Asda, The Galleries, Washington, NE38 7NF

Property Description

1,000 car parking spaces (1:119 sq ft).

EPC: C

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Tenure comment	Reviewed every 14 years amd will be equal to the ‘rack rent value of the premises’ or the ‘yearly rent previously payable’. Next review in March 2029.
Area	118,611 sq ft
Tenant	McLagan Investments ltd t/a Asda
WAULT (WAUTC) Years	49.6 (49.6)
Current Rent Per Annum	£1,240,800 (£10.46 per sq ft)
Quoting Price	No quote
Quoting Price NIY	No quote
Date to Market	November 2022
Vendor	LCP
Status Date	March 2023
Status	Available
Comment	Bid received at 6% but was rejected

CBRE

Sainsbury’s, 297A High Street, Sutton, SM1 1LD

Property Description

3.72 acre site.

450 car parking spaces → 20 EV chargers.

The property is arranged with undercroft car parking at ground floor, and a travellator and lift leading directly into the main store at first floor.

EPC: A - 12

Key Facts	
Property Type	Foodstore
Tenure	Freehold
Tenure comment	5-yearly RPI (1% - 4%) cap and collar Next review August 2026 (running yield 7.39%)
Area	94,404 sq ft
Tenant	Sainsbury’s Supermarkets Limited
WAULT (WAUTC) Years	18.4
Current Rent Per Annum	£3,155,24 (£33.42 per sq ft)
Quoting Price	£53,725,000 (£569.10 per sq ft)
Quoting Price NIY	5.50
Date to Market	March 2023
Vendor	Aviva
Status Date	Available
Status	March 2023
Comment	

CBRE

Sainsbury's, 10 Darnley Mains Road, Darnley, Glasgow, G53 7RH

Property Description

607 car parking spaces and 6 petrol pumps.
Refit and extension in 2010 including mezzanine floor accessed by travelator, development of petrol filling station and decked car park.

2 tenant options for lease extension, each 25 years with commencing rent rebased o market rent with subsequent annual RPI reviews (1% - 4%).

Key Facts	
Property Type	Foodstore
Tenure	Freehold
Tenure comment	Annual RPI (1% - 4%) cap and collar
Area	111,211 sq ft
Tenant	Sainsbury's Supermarkets Limited
WAULT (WAUTC) Years	19
Current Rent Per Annum	£2,937,766 (£24.7 p sq ft after 7.5% allowance for PSF)
Quoting Price	£45,850,000
Quoting Price NIY	6.00%
Date to Market	March 2023
Vendor	-
Status Date	Available
Status	March 2023
Comment	Running yield March 2025 6.37%

EPC: D (Store) A+ PSF

CBRE

Morrisons, Sale Way, Leigh, Wigan, WN7 4JY

Property Description

6.16 acre site.
8-pump petrol filling station.
301 car parking spaces.
In Leigh Sports Village Development.

Key Facts	
Property Type	Foodstore
Tenure	Freehold
Tenure comment	5-yearly RPI (2.5% - 4%) cap and collar Next review July 2026 (RY 8.41%)
Area	63,636 sq ft
Tenant	WM Morrisons Supermarkets Limited
WAULT (WAUTC) Years	23.3 (13.3)
Current Rent Per Annum	£1,553,887 (£22.61 per sq ft)
Quoting Price	£20,075,000
Quoting Price NIY	7.25%
Date to Market	March 2023
Vendor	-
Status Date	March 2023
Status	Available
Comment	

EPC: B (Store and PSF)

CBRE

Morrisons, Elder Gate, Milton Keynes, MK9 1BL

Property Description

3.81 acre site.
470 car parking spaces.

The store includes solar panels on the roof and EV charging points in the undercroft car park.

EPC: D

Key Facts	
Property Type	Foodstore
Tenure	Freehold
Tenure comment	5-yearly RPI reviews (1% - 4%) cap and collar. Next review January 2025.
Area	80,324 sq ft
Tenant	WM Morrisons Supermarkets Limited
WAULT (WAUTC) Years	26.8
Current Rent Per Annum	£2,043,641 (£25.33 per sq ft)
Quoting Price	£28,350,000
Quoting Price NIY	6.75%
Date to Market	March 2023
Vendor	-
Status Date	March 2023
Status	Available
Comment	Running yield January 2025 7.83%

CBRE

Lidl & Carpetrite, Sevenoaks Way, Orpington, BR5 3AQ

Property Description

Site area of 2 acres (0.81 hectares).
82 car parking spaces (1:365 sq ft).
Unit A (Lidl) used for the sale of food and Unit B (Carpetright) for the sale of retail goods.

EPC Unit A: A

EPC Unit B: B

Key Facts	
Property Type	Retail Warehouse
Tenure	Freehold
Area	29,944 sq ft
Tenant	Lidl & Carpetright
WAULT (WAUTC) Years	17.8 (12)
Current Rent Per Annum	£735,000 (£24.55 per sq ft)
Quoting Price	£14,000,000 (£467.54 per sq ft)
Quoting Price NIY %	4.92%
Date to Market	November 2022
Vendor	Metric GP Income Plus Limited Partnership
Status Date	April 2023
Status	Available
Comments	Terms were agreed with Lidl but the offer was withdrawn.

CBRE

Tesco, Faraday Retail Park, Coatbridge, ML5 3SQ

Property Description

85,402 sq ft GIA omnichannel foodstore.

1,138 free car parking spaces across the combined scheme.

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	85,402 sq ft
Tenant	Tesco. 5 yearly RPI, C/C 0%-4% per annum, compounded
WAULT (WAUTC) Years	14.60 (-)
Current Rent Per Annum	£1,281,030 (£15 per sq ft)
Quoting Price	£24,000,000 (£281.02 per sq ft)
Quoting price NIY %	5.00
Date to Market	October 2022
Vendor	Legal and General
Status Date	February 2023
Status	Withdrawn
Comments	Bids were reported to be north of 6%.

CBRE

Waitrose, Phillips Road, Weston-super-Mare, BS23 3UZ

Property Description

157 parking spaces (1:218 sq ft).

EPC: B

Key Facts	
Property Type	Supermarket
Tenure	Freehold
Area	34,218 sq ft
Tenant	Waitrose subject to 5-yearly upwards only open market rent reviews
WAULT (WAUTC) Years	22.92 (7.92)
Current Rent Per Annum	£919,723 (£26.88 per sq ft)
Quoting Price	£14,350,000 (£419.37 per sq ft)
Quoting Price NIY %	6.00
Date to Market	June 2022
Vendor	Capital Trust Limited
Status Date	March 2023
Status	Withdrawn
Comments	Pricing expected to be worse than quoting.

PORTFOLIOS

Morrisons Portfolio

Property Description

Starbeck Retail Park, Harrogate: Long Leasehold. 82,049 sq ft. £2,134,075 pa.

Killingworth, Newcastle: Long Leasehold. 82,426 sq ft. £1,946,230 pa.

Wycke Hill, Maldon: Leasehold. 63,848 sq ft. £1,546,043 pa.

Cheadle Heath, Stockport: Long Leasehold. 87,468 sq ft. £2,275,022 pa.

Key Facts	
Property Type	Supermarket
Tenure	Leasehold and Long Leasehold
Area	315,791 sq ft
Tenant	Morrisons
WAULT (WAUTC) Years	Approx. 17 years (-)
Current Rent Per Annum	£7,901,370 (£25.02 per sq ft)
Quoting Price	£135,000,000 (£427.50 per sq ft)
Date to Market	October 2022
Vendor	M&G Real Estate
Purchaser	Pimco
Sale Price	£110,000,000
Sale Price NIY %	7.00 (estimated)
Status Date	February 2023
Status	Sold
Comments	Pricing reportedly in the region of 7% NIY. Yield will increase at next RPI review in 2024.

Morrisons Portfolio

Property Description

5 supermarkets (Plymouth sold)

Sale and leaseback basis. 20-year lease with indexation.

Key Facts	
Property Type	Supermarket
Quoting Price	Estimated £150,000,000
Date to Market	October 2022
Vendor	CD&R
Status Date	February 2023
Status	Available
Comments	No guide price quoted but press report has indicated sale price £150m Reports that individual sales are being pursued. Reported that one store in the portfolio is close to completion at approx. 6.5%.

CBRE

RETAIL WAREHOUSES

B&Q, London Road, Stevenage, SG1 1XW

Property Description

Site area of 5.4 acres (2.2 hectares).
500 car parking spaces (1:266 sq ft).
Planning permission for the sale of bulky goods.

2 stories
Newly regeared lease.

EPC: B

Key Facts	
Property Type	Retail Warehouse
Tenure	Freehold
Area	133,000 sq ft
Tenant	B&Q
WAULT (WAUTC) Years	11.8 (-)
Current Rent Per Annum	£1,463,000 (£11.00 per sq ft)
Quoting Price	£22,000,000 (£148.65 per sq ft)
Quoting Price NIY %	6.23%
Date to Market	February 2023
Vendor	Orchard Street
Status Date	March 2023
Status	Under Offer
Comments	Initially 5-6 parties bidding, believed to be under offer around quoting price to complete in 2 weeks. Minimum rental increase to £1,596,000 per annum in 2028 and NIY will rise to 6.82%.

CBRE

Homebase, Stadium Way, Rayleigh Weir, SS7 3NT

Property Description

Site area of approximately 2.2 acres.

79 dedicated parking spaces but has access to 580 spaces shared with Sainsbury's.

Open A1 including food planning permission.

150-year lease from March 2005 at peppercorn rent.

Key Facts	
Property Type	Retail Warehouse
Tenure	Freehold
Area	34,500 sq ft
Tenant	Homebase subject to 5-yearly upward only open market rent reviews
WAULT (WAUTC) Years	12.00 (-)
Current Rent Per Annum	£517,800 (£15.01 per sq ft)
Quoting Price	£8,440,000 (£244.64 per sq ft)
Quoting Price NIY %	5.75
Date to Market	June 2022
Vendor	Longmead Capital Limited
Status Date	March 2023
Status	Available
Comments	Was under offer at 6.25% NIY, offer withdrawn.

CBRE

Wickes, Duke's Road, Carlisle, CA1 1JD

Property Description

Site area of 1.79 acres.

80 parking spaces.

Wide Bulky Goods planning consent.

Key Facts	
Property Type	Retail Warehouse
Tenure	Freehold
Area	23,401 sq ft
Tenant	Wickes subject to 5-yearly open market rent reviews
WAULT (WAUTC) Years	11.75 (7.75)
Current Rent Per Annum	£269,000 (£11.50 per sq ft)
Quoting Price	£4,580,000 (£195.72 per sq ft)
Quoting Price NIY %	5.50
Date to Market	June 2022
Vendor	London Metric
Status Date	February 2023
Status	Available

Next, Charles Watts Way, Hedge End, Southampton, SO30 4RT

Property Description

Site area of 3.2 acres (1.29 hectares).
211 car parking spaces (1:174 sq ft).
Class E planning consent.

EPC: B

Key Facts	
Property Type	Retail Warehouse
Tenure	Freehold
Area	86,523 sq ft GIA (3 story's, garden centre and conservatory) The lease stipulates that the hypothetical area for the store for the purposes of review and calculation of rent at years 10 and 15 is **36,743 sq ft.**
Tenant	Next
WAULT (WAUTC) Years	11.6 (-)
Current Rent Per Annum	£1,566,708 (£42.64 per sq ft)
Quoting Price	£18,350,000 (£499.41 per sq ft)
Quoting Price NIY %	8.0%
Date to Market	February 2023
Vendor	Abrdn
Status Date	March 2023
Status	Available

CBRE

INDUSTRIAL DISTRIBUTION

Prodrive Motorsport, Banbury, OX16 4XD

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Property Description

The property comprises a warehouse distribution and ancillary offices.

Key Facts	
Property Type	Warehouse/Distribution
Tenure	Long Leasehold (approx. 120 years unexpired)
Area	128,046 sq ft
Tenant	Let to Prodrive Motorsport Ltd on two leases. 5-yearly RR to the higher of open market value or RPI, with a collar and cap of 1% and 4% compounded annually
WAULT (WAUTC) Years	20.00
Current Rent Per Annum	£907,000 (£7.75 per sq ft)
Quoting Price	£16,185,000 (£126.39 per sq ft)
Quoting Price NIY %	5.25
Date to Market	October 2022
Vendor	Owner Occupier
Purchaser	Leftfield
Sale Price	£15,000,000 (£117.15 per sq ft)
Sale Price NIY %	5.61%
Status Date	March 2023
Status	Sold

Amazon, Bolton, Greater Manchester, BL5 1DB

Property Description

The property comprises a site area of approximately 18.24 acres (7.38 ha), with a low site coverage of 44%.

EPC: B

Key Facts	
Property Type	Warehouse/Distribution
Tenure	Freehold
Area	399,267 sq ft
Tenant	Let to Amazon UK Services Ltd
WAULT (WAUTC) Years	9.80
Current Rent Per Annum	£2,320,339 (£6.48 per sq ft)
Quoting Price	£62,100,000 (£155.53 per sq ft)
Quoting Price NIY %	4.50
Date to Market	September 2022
Vendor	Aviva
Purchaser	Amazon
Sale Price	£43,500,000 (£108.94 per sq ft)
Sale Price NIY %	5.00%
Status Date	March 2023
Status	Sold

Brake Bros, Reading, RG6 1AZ

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Property Description

The property comprises a warehouse distribution extending to 225,000 sq ft.

NIY of 4.67% based on the current passing rent. On the assumed outstanding RR settlement from March 2022 NIY 5.52% (Settlement at £13.13psf) HL rent on the unit £14.70psf.

Key Facts	
Property Type	Warehouse/Distribution
Tenure	Freehold
Area	208,972 sq ft
Tenant	Let to Brakes Group. Outstanding RR (March 2022) OMV & based upon a 50,000 sq ft unit
WAULT (WAUTC) Years	14.50
Current Rent Per Annum	£2,325,858 (£11.13 per sq ft)
Quoting Price	£56,000,000 (£267.97 per sq ft)
Quoting Price NIY %	3.89
Date to Market	October 2022
Vendor	Abrdn
Purchaser	Aviva
Sale Price	£46,600,000 (£222.99 per sq ft)
Sale Price NIY %	4.67%
Status Date	December 2022
Status	Sold

The Co-Op, Avonmouth, BS11 0YW

Property Description

Modern cross-docked detached warehouse on a site of 32.45 acres providing a site cover of 31%.

BREEAM EXCELLENT

EPC: B

Key Facts	
Property Type	Warehouse/Distribution
Tenure	Freehold
Area	439,005 sq ft
Tenant	Let to Co-Operative Group Limited
WAULT (WAUTC) Years	9.89
Current Rent Per Annum	£2,761,284 (£6.29 per sq ft)
Quoting Price	£62,000,000 (£141.22 per sq ft)
Quoting Price NIY %	4.17
Date to Market	September 2022
Vendor	AXA
Purchaser	-
Sale Price	-
Sale Price NIY %	-
Status Date	March 2023
Status	Available

Travis Perkins, Shires Gate Trade Park, Leamington Spa, CV34 6RH

Property Description

Five trade units, including a standalone Travis Perkins builders merchants and yard and a terrace of four smaller trade units totalling 3,471 m² (37,364 ft²).

EPC: B

Key Facts	
Property Type	Warehouse/Trade Counter
Tenure	Freehold
Tenure Comment	5-yearly fixed 3% compounded uplifts.
Area	35,364 sq ft
Tenant	Travis Perkins, City Plumbing, Tile Giant, Benchmarx and Toolstation
WAULT (WAUTC) Years	25.8
Current Rent Per Annum	£354,102 (£9,74 per sq ft)
Quoting Price	£7,910,000 (£211 per sq ft)
Quoting Price NIY %	5.00%
Date to Market	March 2023
Status Date	March 2023
Status	Available
Comment	The rent will be topped up to the 2023 uplift of £422,094 per annum.

Symington's Limited, Thornes Farm Business Park, Leeds, LS9 0DN

Property Description

Cross-docked, last mile warehouse facility extending to 161,448 sq ft with a site area of 12.41 acres reflecting a site coverage of 28.9%. EPC B (39).

EPC: B

Key Facts	
Property Type	Warehouse/Distribution
Tenure	Freehold
Area	161,448 sq ft
Tenant	Fully let to Symington's Limited. The lease provides five-yearly rent reviews to the higher of open market rental value or fixed 2.50% pa compounded rental uplifts
WAULT (WAUTC) Years	13.20
Current Rent Per Annum	£1,017,202 (£5.31 per sq ft)
Quoting Price	£22,500,000 (£139.36 per sq ft)
Quoting Price NIY %	4.23
Date to Market	May 2022
Vendor	Investcorp
Purchaser	-
Sale Price	-
Sale Price NIY %	-
Status Date	February 2023
Status	Available

CBRE

PORTFOLIOS

Orlando Portfolio

Property Description

7 modern trade counter units situated in sought after locations across the South East and Midlands.

Key Facts	
Property Type	Warehouse/Distribution
Tenure	Freehold
Area	115,784 sq ft
Tenant	Let to Travis Perkins Trading Company Limited on new 15 year FRI leases
WAULT (WAUTC) Years	15.00
Current Rent Per Annum	£1,429,000 (£12.34 per sq ft)
Quoting Price	£26,770,000 (£231.20 per sq ft)
Quoting Price NIY %	5.00
Date to Market	October 2022
Vendor	Owner Occupier
Purchaser	-
Sale Price	-
Sale Price NIY %	-
Status Date	March 2023
Status	Under Offer

GARDEN CENTRES

CBRE

CARE HOMES

Project Knight

Property Description

Grace Care Centre, Bristol – Orders of St John Care Trust (OSJCT) – 70 beds

Oak Manor, Shefford – Methodist Home (MHA) – 64 beds

Abbey Field – Methodist Home (MHA

Both purpose built in 2017 and rated 'Good' by CQC.

EPC: B

Key Facts	
Property Type	3 x Care Homes
Tenure	Freehold
Tenure Comment	Annual RPI (1% - 4%) cap and collar
Area	134 Beds
Tenant	St Johns Care Trust and Methodist Homes (MHA)
WAULT (WAUTC) Years	27 (-)
Current Rent Per Annum	£1,184,802 (£8,842 per bed)
Quoting Price	£29,600,000 (£220,896 per bed)
Quoting Price NIY %	3.75%
Date to Market	-
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Under Offer
Comments	Due to exchange next month softer than quote. Pricing expected to reflect a + 50 bps shift.

Norfolk House, 39 Portmore Park Road, Weybridge, KT13 8HQ

Property Description

Hotel conversion

EPC: B

Key Facts	
Property Type	Care Homes
Tenure	Freehold
Tenure Comment	
Area	76 Beds
Tenant	Care UK
WAULT (WAUTC) Years	13
Current Rent Per Annum	
Quoting Price	
Quoting Price NIY %	
Date to Market	
Vendor	
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	March 2023
Status	Under Offer
Comments	4 bids received 5.8-5.9%

CBRE

NURSERIES

Kido Nursery, 2A Palmer road, Battersea, London, SW11 4GJ

Property Description

A newly built day nursery within the Prince of Wales Drive scheme, developed by Berkeley Homes.

New 15 year lease from 23 June 2022

EPC: B

Key Facts	
Property Type	Nursery
Tenure	Virtual Freehold
Tenure Comment	5 yearly RPI 2%-4% cap and collar
Area	5,990 sq ft
Tenant	Kido Nursery Limited
WAULT (WAUTC) Years	14.5
Current Rent Per Annum	£150,000 (£25.04 per sq ft)
Quoting Price	£2,250,000 (£375.63 per sq ft)
Quoting Price NIY %	6.25%
Date to Market	February 2023
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	Reportedly under offer at 6%

HOTELS

Premier Inn, Forest Gate Business Park, Ringwood, BH24 3AS

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Property Description

4 floors

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5-yearly CPI reviews (0% - 4%) cap and collar. Next review Dec 2023.
Area	83 rooms
Tenant	Premier Inn t/a Whitbread
WAULT (WAUTC) Years	15.7 years
Current Rent Per Annum	
Quoting Price	
Quoting Price NIY %	
Date to Market	
Vendor	LondonMetric
Purchaser	
Sale Price	£8,650,000
Sale NIY %	4.63
Status Date	March 2023
Status	Sold
Comments	Completion due end of the month Pricing rising to 5.32% NIY in Dec 23, suspected top up from LondonMetric

Native Bankside Aparthotel, Empire Warehouse, 1 Bear Gardens, London SE1 9ED

Property Description

Constructed in 2018. Includes 2 commercial units. Potential to add 2 additional floors to provide an extra 23 units.

EPC: B/C

Key Facts	
Property Type	Apart Hotel
Tenure	Freehold
Area	75 Beds
Tenant	Native
WAULT (WAUTC) Years	19 (-)
Current Rent Per Annum	£- (£ per bed)
Quoting Price	£46,200,000 (£616,000 per bed)
Quoting Price NIY %	4.50%
Date to Market	September 2022
Vendor	Macro Investments Limited / Create REIT
Purchaser	Jastar Capital / Gem Hotels
Sale Price	£41,400,000
Sale NIY %	5.00%
Status Date	February 2023
Status	Sold
Comments	

Travelodge, 3 Waterloo Place, Edinbrugh

Property Description

EPC:

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5-yearly RPI (0% - Inf) cap and collar
Area	96 beds
Tenant	Travelodge UK
WAULT (WAUTC) Years	22
Current Rent Per Annum	£719,055
Quoting Price	
Quoting Price NIY %	
Date to Market	-
Vendor	M&G
Purchaser	-
Sale Price	£11,200,000
Sale NIY %	6%
Status Date	March 2023
Status	Sold
Comments	

Premier Inn, Holborn, WC1R 4PS

Property Description

Next review in July 2024

EPC: B

Key Facts	
Property Type	Hotel
Tenure	LLH 123.5 years ULT, subject to a peppercorn rent
Tenure Comment	5-yearly CPI (0% - 5%) cap and collar
Area	153 Beds
Tenant	Whitbread Group PLC
WAULT (WAUTC) Years	21 (17)
Current Rent Per Annum	£1,791,738 (£11,710.71 per bed)
Quoting Price	£41,950,000 (£274,183 per bed)
Quoting Price NIY %	4%
Date to Market	September 2022
Vendor	M&G
Purchaser	Whitbread
Sale Price	-
Sale NIY %	4.8%
Status Date	December 2022
Status	Sold
Comments	Sale price rumoured to be 4.85%

CBRE

Travelodge Gatwick Central, Povey Cross Road, RH6 0BE

Property Description

400 en-suite bedrooms arranged over ground and 6 upper floors. The hotel underwent a comprehensive refurbishment in 2021 to upgrade the rooms, common parts and Bar Café. The hotel now trades as Travelodge Plus. 250 on-site parking spaces.

EPC: B

Key Facts	
Property Type	Hotel
Tenure	Long leasehold (975 years unexpired) £1,000 p.a. fixed ground rent
Tenure Comment	5-yearly uncapped RPI (next review July 2026)
Area	400 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	27 (-)
Current Rent Per Annum	£3,062,836 (£7,657 per bed)
Quoting Price	£47,840,000 (£119,600 per bed)
Quoting Price NIY %	6%
Date to Market	August 2022
Vendor	M&G
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Under Offer
Comments	Believed to be under offer at 7%

CBRE

Malmaison, 104 Quayside, Newcastle upon Tyne, NE1 3DX

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Property Description

EPC: C

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	Annual RPI (2% – 4%) cap and collar
Area	122 Beds
Tenant	Malmaison
WAULT (WAUTC) Years	24 (-)
Current Rent Per Annum	£- (£- per bed)
Quoting Price	£23,700,000 (£194,262.30 per bed)
Quoting Price NIY %	5.50%
Date to Market	November 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	March 2023
Status	Available
Comments	Expected to go 6%

Malmaison, 2 Rougier Street, York, YO90 1UU

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Property Description

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5-yearly RPI
Area	150 Beds
Tenant	Malmaison
WAULT (WAUTC) Years	33.0
Current Rent Per Annum	£ (£ per bed)
Quoting Price	£ (£ per bed)
Quoting Price NIY %	5%
Date to Market	January 2023
Vendor	
Purchaser	
Sale Price	-
Sale NIY %	-
Status Date	March 2023
Status	Available
Comments	Expected to go 5.5 - 6%

EPC:

Travelodge Bradford Central, 2 Valley Road, Bradford, BD1 4AF

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Property Description

The subject property comprises a 69-bedroom Travelodge hotel arranged over part ground, first, second, third and fourth floors. The hotel is designed to the Travelodge brand specification. The hotel benefits from 28 on site car parking spaces. There is a retail unit on the ground floor which has been 'sold off' on a long lease

EPC: B

Key Facts	
Property Type	Hotel
Tenure	LLH – 239 yrs remaining, ground rent £53,010.87 per annum and is revied annually to RPI 2% collar.
Tenure Comment	5-yearly uncapped RPI Next review March 2027
Area	69 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	14 (-)
Current Rent Per Annum	£306,391.14 (£4,440.45 per bed)
Quoting Price	£3,390,000 (£49,130.43 per bed)
Quoting Price NIY %	7.00%
Date to Market	March 2023
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	March 2023
Status	Available
Comments	

Travelodge Twickenham, London Road, TW1 3QS

Property Description

Built in 2011, the hotel offering includes 111 en-suite guestrooms and an onsite restaurant and bar accessed off London Road. The property is formed in sections with a lower six-storey section to the rear and other parts extending up to 10 stories

EPC: B

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5-yearly uncapped RPI
Area	111 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	28.9 (-)
Current Rent Per Annum	£792,984 (£7,144 per bed)
Quoting Price	£11,000,000 (£99,099.10 per bed)
Quoting Price NIY %	6.75%
Date to Market	February 2023
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

CBRE

Premier Inn, Sunbury, TW16 7AT

Property Description

Premier Inn Sunbury (Kempton Park) redeveloped in 2010.
5 miles from Heathrow Airport and Twickenham Stadium.
112 car parking spaces
Medium-term redevelopment opportunity, subject to planning permission.

EPC: B

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	
Area	109 Beds
Tenant	Premier Inn (UK) Limited
WAULT (WAUTC) Years	12.5 (7.5)
Current Rent Per Annum	£647,500 (£5,940 per bed)
Quoting Price	£10,554,000 (£96,825.69 per bed)
Quoting Price NIY %	5.75%
Date to Market	-
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

CBRE

Travelodge,100 Berkshire Place, Reading, Winnersh, Berkshire RG41 5RD

Property Description

Initially launched start of 2022 at a guide price of £8,500,000

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5 yearly uncapped RPI
Area	93 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	23 (-)
Current Rent Per Annum	£- (£ per bed)
Quoting Price	£8,000,000 (£86,021.51 per bed)
Quoting Price NIY %	5.75%
Date to Market	September 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

EPC: D

Travelodge, 38 Exchange Street East, Liverpool L2 3PS

Property Description

Includes 3 ground floor retail units.

EPC: B

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5 yearly uncapped RPI
Area	125 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	22 (-)
Current Rent Per Annum	£- (£ per bed)
Quoting Price	£10,650,000 (£85,200 per bed)
Quoting Price NIY %	6.5%
Date to Market	September 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

Travelodge, Cameron Toll, Edinburgh, EH16 5PD

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Property Description

Next review in April 2025.

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	5 yearly RPI
Area	115 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	22 (-)
Current Rent Per Annum	£644,000 (£5,600 per bed)
Quoting Price	£11,000,000 (£95,652 per bed)
Quoting Price NIY %	5.5%
Date to Market	September 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

Travelodge, Pegler Way, Crawley, RH10 1GE

Property Description

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	
Area	110 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	21 (-)
Current Rent Per Annum	£- (£- per bed)
Quoting Price	£10,940,000 (£99,454.55 per bed)
Quoting Price NIY %	6.25%
Date to Market	November 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

CBRE

Travelodge, 227 Lewisham High Street, London, SE13 6LY

Property Description

Newly built 2020.

EPC: A

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	
Area	127 Beds
Tenant	Travelodge Hotels Limited
WAULT (WAUTC) Years	24 (-)
Current Rent Per Annum	£- (£- per bed)
Quoting Price	£19,750,000 (£155,511.81 per bed)
Quoting Price NIY %	5.30%
Date to Market	November 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

CBRE

PORTFOLIOS

Chamber Portfolio London and South-East

Property Description

2 freehold and 4 long lease with unexpired term of 214 years.

6 Travelodge hotels expiring late 2035 - Redhill (with M&B), Northampton (with M&B), Woodford Green, Borehamwood, Snaresbrook and Northolt.

5 with landlord option to extend giving average unexpired term of > 17.5 yrs.

Key Facts	
Property Type	Hotel and Leisure
Tenure	Freehold and Leasehold
Tenure Comment	5 yearly uncapped RPI
Area	223 Beds
Tenant	Travelodge Hotels LTD and Mitchells & Butler
WAULT (WAUTC) Years	17.5 (average)
Current Rent Per Annum	£1,310,865 (£5,878.32 per bed)
Quoting Price	£18,890,000 (£84,708.52 per bed)
Quoting Price NIY %	6.50% (blended)
Date to Market	November 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

STUDENT ACCOMMODATION

Haddington Place, Edinburgh, EH7 4AG

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Property Description

240 beds arranged as 159 ensuite cluster beds and 81 self contained studios.

4 retail units on the ground floor extending to 6,330 sq ft (NIA) which currently generates an income of £119,430 per annum (£18.86 psf) with a WAULT of 7.83 years.

EPC: C

Key Facts	
Property Type	Student Accommodation
Tenure	Freehold
Tenure Comment	Annual RPI (2% - 5%) cap and collar
Area	240 Beds
Tenant	Multi-Tenant inc University of Edinburgh (for 159 cluster ensuite rooms)
WAULT (WAUTC) Years	20 (15)
Current Rent Per Annum	£2,233,568 (retail and room income)
Quoting Price	£ 30,900,000
Quoting Price NIY %	4.90%
Date to Market	-
Vendor	M&G
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	Yield go to 5.2% in September

Duryard Student Residences, Lower Argyll Road, Exeter, EX4

Page 154

Property Description

INTO Exeter – JV between INTO and the University and Exeter.

5 purpose built student accommodation blocks built in 2011.

517 rooms – 160 studios, 174 twodios and 183 en-suite cluster rooms.

EPC: C

Key Facts	
Property Type	Student Accommodation
Tenure	Long Leasehold (109 years)
Tenure Comment	RPI no cap and collar
Area	240 Beds
Tenant	INTO University of Exeter LLP
WAULT (WAUTC) Years	24
Current Rent Per Annum	£3,717,962.71
Quoting Price	£ -
Quoting Price NIY %	-
Date to Market	-
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

Host Student Development, 36 - 44 Westfield Road

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Property Description

Located opposite Murrayfield Stadium. Planning approved by City of Edinburgh Council for development of 289 bedrooms across a mix of studios and 5, 6 and 8 bedroom flats.

The site on 36-44 Westfield Road was previously used as the Cirrus Logic office and is currently occupied by a car showroom and office.

Key Facts	
Property Type	Student Accomodation
Tenure	Development forward funding
Tenure Comment	-
Area	289 beds
Tenant	Host Student Housing
WAULT (WAUTC) Years	
Current Rent Per Annum	
Quoting Price	
Quoting Price NIY %	
Date to Market	
Vendor	
Status Date	
Status	Available
Comments	

PETROLEUM & AUTOMOTIVE

Jaguar Land Rover, Sunbury on Thames, TW16 5LN

Property Description

Showroom accommodates over 130 cars.

Over 400 parking spaces.

EPC: B

Key Facts	
Property Type	Car Dealership
Tenure	Freehold
Tenure Comment	5 yearly RPI (0% - 3.5%) cap and collar
Area	172,768 sq ft
Tenant	Guy Salmon Limited (AGA Sytner Group Limited)
WAULT (WAUTC) Years	27.5 (-)
Current Rent Per Annum	£1,461,500 (not topped up) £1,735,804 (topped up)
Quoting Price	£31,000,000 (£179.43 per sq ft) (based on topped up rent at 5.25%
Quoting Price NIY %	5.25%
Date to Market	October 2022
Vendor	Fiera Real Estate
Purchaser	Sytner (tenant)
Sale Price	£25,000,000 (based on topped up rent at 5.5%)
Sale NIY %	5.50
Status Date	February 2023
Status	Sold
Comments	

PORTFOLIOS

Project Chariot - NCP Portfolio

Property Description

37 NCP car parks comprising of nearly 15,000 spaces concentrated in major cities such as Birmingham, Manchester, London, Bristol and Liverpool.

Key Facts	
Property Type	37 Car Parks (31 leased and 6 under management agreement)
Tenure	Freehold and Long Leasehold
Tenure Comment	
Area	
Tenant	NCP
WAULT (WAUTC) Years	19 years on 31 sites
Current Rent Per Annum	
Quoting Price	
Quoting Price NIY %	
Date to Market	
Vendor	
Purchaser	Greenpoint Partners
Sale Price	£305m
Sale NIY %	6.3% (on 31 leased sites)
Status Date	March 2023
Status	Sold
Comments	

Prime Portfolio

Property Description

VW Coulsdon – Long Leasehold – 15.9 yrs. RPI cap and collar (7.7 – 15.9%)

Audi Swindon – Freehold – 14.9 yrs RPI cap and collar (5.10 – 15.9%)

VW Watford – Freehold – 15.6 yrs
RPI cap and collar (1-3%)
(December 2018 RR outstanding)

All leases guaranteed by Volkswagen Group UK Limited.

Key Facts	
Property Type	Car Dealerships
Tenure	Freehold and Long Leasehold
Tenure Comment	5-yearly RPI
Area	96,478 sq ft
Tenant	Motorline (Kent) Ltd, Inchape Estates Ltd, Citygate Automotive Ltd
WAULT (WAUTC) Years	15.5 (weighted average)
Current Rent Per Annum	£1,492,001
Quoting Price	£24,000,000
Quoting Price NIY %	6.11% (based on December topped up rent)
Date to Market	February 2023
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	Considering offers for assets in isolation

LEISURE

Nuffield Health Club Stoke Gifford, Hunts Ground Road, Bristol, BS34 8HN

Property Description

High quality, purpose built, premium health and fitness club extending to 41,908 sq ft GIA, and occupying a freehold, 3-acre site

Key Facts	
Property Type	Gym/Health Club
Tenure	Freehold
Area	41,908 sq ft
Tenant	Nuffield Health Fixed 2.5% annual uplifts compounded in October 20238 and 2033.
WAULT (WAUTC) Years	23.10 (-)
Current Rent Per Annum	£549,566 (£13.11 per sq ft)
Quoting Price	£8,590,000 (£204.97 per sq ft)
Quoting Price NIY %	6.00
Sale Price	£8,141,719 (£194.28 per sq ft)
Sale Price NIY %	6.75
Status Date	February 2023
Status	Sold
Comments	A complete gym re-fit was completed in 2020 and a lease re-gear was agreed in July 2022, demonstrating Nuffield Health's commitment to the location.

Bannatyne Carlisle, Kingstown Road, Carlisle, CA3 0AD

Property Description

Substantial detached health club arranged over 3 floors, totalling 28,371 sq ft. Facilities include gymnasium, pool, spa facilities and a cafe. Total site extends 1.43 acres.

Key Facts	
Property Type	Gym/Health Club
Tenure	Freehold
Area	28,371 sq ft
WAULT (WAUTC) Years	11.00 (-)
Current Rent Per Annum	£380,140 (£13.40 per sq ft)
Quoting Price	£5,100,000 (£179.76 per sq ft)
Quoting Price NIY %	7.00
Sale Price	£4,100,000 (£144.51 per sq ft)
Sale Price NIY %	7.30
Status Date	February 2023
Status	Sold
Comments	Let to Hilton Worldwide Limited with over 11 years remaining (no breaks) sublet to Bannatyne Fitness; guaranteed fixed rental uplift to £440685 p.a. in 2024 and 4510,873 p.a. in 2029

EPC: A

CBRE

Virgin Active Northampton, Ferris Row, Northampton, NN3 9HX

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Property Description

The property comprises a detached purpose-built leisure facility constructed in 2000, set on a self-contained site with ample car parking provisions, the property is two-storey and of steel framed construction with part brick and part clad elevations.

Key Facts	
Property Type	Gym/Health Club
Tenure	Freehold
Area	53,903 sq ft
WAULT (WAUTC) Years	13.80 (-)
Current Rent Per Annum	£400,000 (£7.42 per sq ft)
Quoting Price	£7,140,000 (£132.46 per sq ft)
Quoting Price NIY %	5.25
Vendor	-
Purchaser	Private Charity
Sale Price NIY %	7.00
Status Date	February 2023
Status	Sold
Comments	Virgin Active Limited have recently regeared to provide a term certain in excess of 13 years. Regeared lease demonstrates tenant commitment to the location.

Nuffield Health, 2 Fred Atkinson Way, Otley Road, Shipley, BD17 7HE

Property Description

Site area 3.45 acres.

Prominent purpose built health and fitness club with indoor swimming pool and 230 car spaces

Key Facts	
Tenure	Freehold
Area	38,212 sq ft
Tenant	Nuffield Health Wellbeing Limited 5-yearly RPI reviews (1% - 3.5%) cap and collar
WAULT (WAUTC) Years	20
Current Rent Per Annum	£360,000 (£9.42 per sq ft)
Quoting Price	£6,740,000 (£176.38 per sq ft)
Quoting Price NIY %	5.00
Vendor	
Status Date	March 2023
Status	Available
Comments	

Nuffield Health, Highfield Park Drive, St Albans, AL4 0AH

Property Description

The property is a purpose built and fully equipped gym let in its entirety to Nuffield Health Wellbeing Limited on two leases with coterminous expiry dates in December 2036.

Current rent p.a. is £1,005,388 which breaks back to £15.76 psf on the gym and £70,668 on the surrounding land total site size 4.66 acres

Key Facts	
Tenure	Freehold
Area	59,323 sq ft
Tenant	Let to Nuffield Health Wellbeing Limited 5-yearly upward only rent review to Open market.
WAULT (WAUTC) Years	14.30 (-)
Current Rent Per Annum	£1,005,388 (£23.08 per sq ft)
Quoting Price	£15,700,000 (£360.42 per sq ft)
Quoting Price NIY %	6.00
Vendor	CBRE Investment Management Limited
Status Date	March 2023
Status	Available
Comments	We are advised that the club is a strong trader and a core asset in the Nuffield estate. Interest at c.7.0%

CBRE

Virgin Active, Repton Park, Manor Road, Woodford Green IG8 8GN

Property Description

142 car parking spaces
Revisionary Yield (2028) – 9.06%

Was previously relaunched in September 2022 quoting price was £5.3m

Key Facts	
Property Type	Gym
Tenure	Freehold
Tenure Comment	5 yearly RPI (2% - 4%) cap and collar
Area	27,949 sq ft
Tenant	Virgin Active Limited
WAULT (WAUTC) Years	15.8 (-)
Current Rent Per Annum	£339,230
Quoting Price	£4,500,000 (£161 per sq ft)
Quoting Price NIY %	8.00%
Date to Market	February 2022
Vendor	Aprirose Limited
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	

The Gym, Portfield Way, Chichester, PO19 7YH

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Property Description

The property comprises a purpose-built roadside unit of steel frame construction totalling approximately 13,279 sq ft with the benefit of 95 car parking spaces.

EPC: B

Key Facts	
Property Type	Gym
Tenure	Freehold
Tenure Comment	5-yearly open market reviews capped at 10%
Area	13,279 sq ft
Tenant	The Gym Limited
WAULT (WAUTC) Years	12.5 (7.5)
Current Rent Per Annum	£160,000 (£12.05 per sq ft)
Quoting Price	£2,500,000 (£188.27 per sq ft)
Quoting Price NIY %	6.00%
Date to Market	February 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	March 2023
Status	Available
Comments	-

The Gym Group, Palmer Road, Battersea, SW11 4FA

Property Description

Ground floor and basement gym.

Initial rent of £243,210 per annum (£15.00 psf) with 5 yearly rent reviews subject to a fixed 15% increase to £279,691 p.a in December 2024 and to £321,645 p.a in December 2029 and £369,892 p.a in December 2034

Key Facts	
Property Type	Gym
Tenure	Virtual Freehold
Tenure Comment	5 yearly reviews 15% fixed uplift
Area	16,214 sq ft
Tenant	The Gym Limited
WAULT (WAUTC) Years	17 (-)
Current Rent Per Annum	£243,210 (£15 per sq ft)
Quoting Price	£3,513,000 (£216.66 per sq ft)
Quoting Price NIY %	6.50%
Date to Market	February 2022
Vendor	-
Purchaser	-
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Available
Comments	-

CINEMAS & ENTERTAINMENT

Everyman Crystal Palace, Church Road, London, SE19 2TE

Property Description

The property has recently undergone a comprehensive £4.5m restoration including 4 different sized screens and a lounge and bar area. Everyman Media Group PLC is a leading independent cinema group positioned at the premium end of the UK's cinema market and fully listed on London Stock Exchange. The company currently operates from 38 cinemas with approximately 128 screens.

Key Facts	
Property Type	Cinema
Tenure	Freehold
Area	17,224 sq ft
Tenant	Everyman Media Group PLC
WAULT (WAUTC) Years	24.75 (-)
Current Rent Per Annum	£255,000 (£13.06 per sq ft)
Quoting Price	£4,215,000 (£244.72 per sq ft)
Quoting Price NIY %	5.00
Sale Price	£3,800,000 (£220.62 per sq ft)
Sale Price NIY %	5.75
Status Date	February 2023
Status	Sold

The City Gates, York Street, Swansea, SA1 3LZ

Property Description

The City Gates is a restaurant and leisure complex in Swansea city centre, including a 12 screen cinema, 166 bed hotel and a 255 space car park. The property is held on two long leaseholds from Swansea City Council with 183 years unexpired at a peppercorn.

Key Facts	
Property Type	Leisure
Tenure	Long Leasehold
Area	154,700 sq ft
WAULT (WAUTC) Years	16.60 (15.20)
Current Rent Per Annum	£2,198,705 (£14.21 per sq ft)
Quoting Price	£24,750,000 (£159.99 per sq ft)
Quoting Price NIY %	8.25
Vendor	MANSFORD HOLDINGS PLC
Purchaser	Greenridge Investment Management Ltd
Sale Price	£20,000,000 (£129.28 per sq ft)
Sale Price NIY %	10.20
Status Date	February 2023
Status	Sold
Comments	VUE multiplex cinema (21% income on a 15 year lease), 116 room Premier Inn Hotel (16% income on an 18 year lease) and NCP car park (9% income on an 18 year lease) together with restaurants, bars, new ten pin bowling family entertainment centre and Swansea's only 'superclub'. Average rent of £10.67 psf.

CBRE

Odeon Harrogate, East Parade, Harrogate, HG1 5LB

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Property Description

The property is a 5-screen, Grade II Listed cinema of 892 modern seating provisions within an approximate 23,971 sq ft (2,227 sq m) gross internal area The property is let in its entirety to Odeon Cinemas Limited on a 25 year FRI lease effective from 30/05/2013, expiring 30/06/2038

Key Facts	
Property Type	Movie Theatre
Tenure	Freehold
Area	23,000 sq ft
Tenant	Odeon Cinemas Limited
WAULT (WAUTC) Years	16.30 (-)
Current Rent Per Annum	£524,117 (£22.79 per sq ft)
Quoting Price	£7,000,000 (£304.35 per sq ft)
Quoting Price NIY %	7.00
Vendor	CBRE Investment Management Limited
Purchaser	Bramall Properties Ltd
Sale Price	£6,750,000 (£293.48 per sq ft)
Sale Price NIY %	7.25
Status Date	February 2023
Status	Sold
Comment	Odeon wanted to leave at end of lease with Everyman located close in a preferable location and in better condition

CBRE

Everyman Cinema Gerrards Cross, Ethorpe Crescent, Gerrards Cross, SL9 8PN

Property Description

Two storey purpose built, 3 screen cinema comprising a total floor area of 9885sq ft. The screens have a combined capacity of 255 and the site benefits from an 18 space customer carpark

Key Facts	
Property Type	Movie Theatre
Tenure	Freehold
Area	13,939 sq ft
Tenant	Everyman Media Group Plc
Current Rent Per Annum	£166,183 (£11.92 per sq ft)
Quoting Price	£2,975,000 (£213.43 per sq ft)
Quoting Price NIY %	5.25
Status Date	March 2023
Status	Available
Comments	cinema capacity of 255. The rent is reviewed annually to RPI (Collar and Cap 1%-5%). The next rent review is on 1st July 2023.

The Old Dairy, Old Dairy Lane, Ruislip, HA4 0FY

Property Description

A newly completed development (2017). The scheme includes a foodstore, petrol filling station and an 11-screen cinema with stadia seating, plus 4 restaurants and a gym.

Key Facts	
Property Type	Leisure
Tenure	Freehold
Area	133,168 sq ft
WAULT (WAUTC) Years	19.20 (-)
Current Rent Per Annum	£3,239,811 (£24.33 per sq ft)
Quoting Price	£60,380,000 (£453.41 per sq ft)
Quoting Price NIY	5.04%
Status Date	February 2023
Status	Available
Comments	The development was completed in 2017 by Citygrove and was forward funded as a development by the Vendor

Streatham, Odeon Cinema, 47-49 Streatham High Road, London, SW16 1PW

Property Description

Streatham, Odeon Cinema, The property is an 8-screen cinema with 1,364 modern seating provisions within an approximate 34,984 sq ft (3,250 sq m) Net Internal Area.

Key Facts	
Tenure	Freehold
Area	35,284 sq ft
Tenant	Odeon Cinemas Limited
WAULT (WAUTC) Years	15.60 (-)
Current Rent Per Annum	£447,417 (£12.79 per sq ft)
Quoting Price	£7,620,000 (£215.96 per sq ft)
Quoting Price NIY %	5.50
Status Date	November 2022
Status	Available

Vue & Harvester, Paignton, Esplanade Road, Paignton, TQ4 6AG

Property Description

Prominent cinema (trading as VUE) and Harvester restaurant situated directly on the seafront let to Vue Entertainment Ltd and Harvesters (Mitchells & Butlers Retail (No2) Limited).

Key Facts	
Property Type	Movie Theatre
Tenure	Long Leasehold
Area	43,262 sq ft
Tenant	Vue Entertainment Ltd and Mitchells & Butlers Retail (No2) Limited
WAULT (WAUTC) Years	13.99 (-)
Current Rent Per Annum	£396,619 (£9.17 per sq ft)
Quoting Price	£4,952,000 (£114.47 per sq ft)
Quoting Price NIY %	7.50
Vendor	BAE Systems Properties Limited
Status Date	March 2023
Status	Available

CBRE

Tenpin, Clifton Boulevard, Redfield Way, Nottingham, NG7 2UW

Property Description

2.9 acre (1.2 hectares) site with site cover c.23%.

26 lanes and bar.

203 car parking spaces. Inc adjoining overflow car park owned by Tenpin Limited.

EPC: C

Key Facts	
Property Type	Bowling Ally
Tenure	Freehold
Tenure Comment	5-yearly RPI linked reviews (1% - 4%) cap and collar compounded. Next review June 2026.
Area	37,670 sq ft
Tenant	Tenpin Limited
WAULT (WAUTC) Years	27.6
Current Rent Per Annum	£460,750 (£12.23 per sq ft)
Quoting Price	£5,760,000
Quoting Price NIY %	7.50%
Vendor	
Status Date	March 2023
Status	Available

CBRE

PUBS

Rose & Crown, 65 Union Street, London SE1 1SG

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Property Description

Large public house and hostel (45 guest beds) arranged over ground, basement, first and second floors totalling 5,072 sq ft and benefitting from a large beer garden

The property was fully refurbished in 2019

The pub benefits from external customer areas to the rear (60 covers) and to the front (24 covers)

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	5,072 sq ft
Tenant	Ei Group
Tenure Comment	5-yearly RPI linked (3% - 4%) cap and collar
WAULT (WAUTC) Years	23.5 (-)
Current Rent Per Annum	£81,398 (£10.84 per sq ft)
Quoting Price	£1,250,000 (£166.53 per sq ft)
Quoting Price NIY %	-
Sale Price	£2,190,000
Sale Price NIY %	3.5%
Status Date	February 2023
Status	Sold
Comment	

EPC: B

CBRE

O'Neills, 3 Eden Street, Kingston Upon Thames KT1 1BQ

Property Description

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	- sq ft
Tenant	Mitchells & Butler
Tenure Comment	-
WAULT (WAUTC) Years	18 (-)
Current Rent Per Annum	£151,000 (£- per sq ft)
Quoting Price	£- (£- per sq ft)
Quoting Price NIY %	-
Vendor	SAL Pension Fund Ltd
Purchaser	Mitchells & Butlers (tenant)
Sale Price	£2,700,000
Sale Price NIY %	5.25%
Status Date	January 2023
Status	Sold
Comment	

The Landor, 70 Landor Road, London SW9 9PH

Property Description

Large public house arranged over ground, basement, first and second floors totalling 9,349 sq ft and benefitting from a large beer garden/

EPC: D

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	9,349 sq ft
Tenant	Ei Group
Tenure Comment	5-yearly RPI (3% - 4%) cap and collar
WAULT (WAUTC) Years	23.5
Current Rent Per Annum	£115,314 (£12.34 per sq ft)
Quoting Price	-
Quoting Price NIY %	-
Vendor	
Purchaser	Private
Sale Price	£3,095,000
Sale Price NIY %	3.5%
Status Date	December 2022
Status	Sold
Comment	

CBRE

Spectre, Hogs Head, 73-75 High St, Cheltenham GL50 1DU

Property Description

Arranged over ground, first and second floors. Lease extended by 5 years in 2020.

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	7,506 sq ft
Tenant	Stonegate Pub Company Limited
Tenure Comment	Annual RPI linked (2% - 4%) cap and collar
WAULT (WAUTC) Years	16.00 (-)
Current Rent Per Annum	£100,377 (£13.37 per sq ft)
Quoting Price	£1,250,000 (£166.53 per sq ft)
Quoting Price NIY %	
Sale Price	
Sale Price NIY %	7.6%
Status Date	February 2023
Status	Under Offer

EPC: C

CBRE

The Oxford Arms, 265 Camden High Street, Camden, NW1 7BU

Property Description

Building dates back to 1858.

Pub and residential accommodation on the second floor totals 4,553 sq ft.

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	4,553 sq ft
Tenant	EI Group Limited (subsidiary of Stonegate)
Tenure Comment	5-yearly RPI reviews (3% - 4%) cap and collar. Next review in January 2026.
WAULT (WAUTC) Years	23
Current Rent Per Annum	£203,579
Quoting Price	£4,775,000
Quoting Price NIY %	4.0%
Status Date	March 2023
Status	Available
Comment	Sale at 4% reflects a reversionary yield of 4.8% at January 2026 review.

EPC: E

CBRE

Revolution, 9-11 Castle Street, Cardiff, CF10 1BS

Property Description

The property comprises a three storey and basement property, the majority of which is occupied by the bar and restaurant. The second floor comprises office space as highlighted in the tenancy schedule below. The 2nd floor has been split into 4 office suites of which 2 are occupied.

EPC: E

Key Facts	
Property Type	Street Retail
Tenure	Freehold
Area	23,131 sq ft
Tenant	Basement, Ground and First is occupied by Revolutions (Bar),
Tenure Comment	5 yearly open market rent reviews.
WAULT (WAUTC) Years	18.50 (-)
Current Rent Per Annum	£319,800 (£13.83 per sq ft)
Quoting Price	£3,750,000 (£162.12 per sq ft)
Quoting Price NIY %	8.16
Status Date	February 2023
Status	Available
Comment	Interested beyond 8% past quoting NIY

CBRE

The William Morgan, 29-31 High Street, Prestatyn, LL19 9AH

Property Description

Large corner property located in a popular market town. Arranged over ground, first and second floors with a substantial beer garden.

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	5,391 sq ft
Tenant	Stonegate Pub Company Limited
Tenure Comment	Annual RPI reviews (2% - 4%) cap and collar
WAULT (WAUTC) Years	23 (-)
Current Rent Per Annum	£126,212 (£23.41 per sq ft)
Quoting Price	£1,300,000 (£241.14 per sq ft)
Quoting Price NIY %	9.16
Status Date	March 2023
Status	Available
Comment	

EPC: C

CBRE

The Oxford Blue, 32 Marston Street, Oxford, OX4 1JU

Property Description

The property comprises the ground, basement and first floor of a two storey end of terraced building with painted brick elevations beneath a pitched and hipped roof.

Open market rent review on 14th March 2023.

EPC: D

Key Facts	
Property Type	Pub
Tenure	Freehold
Area	3,146 sq ft
Tenant	Charles Wells Limited
Tenure Comment	5-yearly OMV and annual RPI (2% - 4%) cap and collar
WAULT (WAUTC) Years	15 (-)
Current Rent Per Annum	£53,290 (£16.94 per sq ft)
Quoting Price	£1,230,000 (£390.97 per sq ft)
Quoting Price NIY %	4.09
Date to Market	February 2023
Sale Price	-
Sale Price NIY %	-
Status Date	February 2023
Status	Available

CBRE

PORTFOLIOS

GROUND RENTS

Clayton Hotel Cambridge, Station Road, Cambridge, CB1 2FB

Property Description

This modern 160-bedroom upscale hotel is situated adjacent to Cambridge Train Station and surrounded by a cluster of some of the largest multinational corporations and a plethora of leisure demand generators.

Underlease to Dalata Hotel Group plc on an inflationary linked lease for 27 years.

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	Annual RPI (1% - 5%) cap and collar
Area	160 Beds
Tenant	Station Road Development (Cambridge) Limited
WAULT (WAUTC) Years	147.00 (-) Tenant has buy-back option of £1 at the end of the term
Current Rent Per Annum	£541,993 (-)
Quoting Price	£22,555,000 (-)
Quoting Price NIY %	2.25%
Date to Market	July 2022
Vendor	CBRE IM
Purchaser	Macquarie (Just Group)
Sale Price	-
Sale NIY %	2.65
Status Date	March 2023
Status	Sold
Comments	Under offer at 2% in June 2022

Aria Resorts & Coppergreen

Property Description

The Bay Filey, Yorkshire
Retallack Resort & Spa, Cornwall
Newperran Holiday Resort, Cornwall
St Helens Coastal Resort, Isle of Wight

Key Facts	
Property Type	Hotel
Tenure	Freehold
Tenure Comment	Annual RPI (2% - 5%) cap and collar
Area	943 developed pitches
Tenant	Away Resorts
WAULT (WAUTC) Years	60
Current Rent Per Annum	
Quoting Price	
Quoting Price NIY %	
Date to Market	2022
Vendor	
Purchaser	Alpha Real Capital
Sale Price	c. £50m
Sale NIY %	Confidential
Status Date	November 2022
Status	Sold
Comments	

CBRE

INCOME STRIPS

Teeside

Property Description

The facility, which sits on a 90 acre site, is subject to a 40-year FRI lease. A sub-let to SeAH Wind, and a guarantee from its parent SeAH Steel Holdings Corporation, is also in place.

Due to be operational from 2024.

Key Facts	
Property Type	Manufacturing
Tenure	-
Tenure Comment	RPI Lined (1% - 3.5%)
Area	1.1m sq ft
Tenant	SeAH Wind
WAULT (WAUTC) Years	40 (-)
Current Rent Per Annum	£3,650,000 (top lease)
Quoting Price	£100,000,000
Quoting Price NIY %	3.65%
Date to Market	-
Vendor	Tees Valley Combined Authority
Purchaser	Macquarie on behalf of Just Group
Sale Price	-
Sale NIY %	-
Status Date	February 2023
Status	Under Offer
Comments	

Agenda Item 5

Committee:	Investment Board	**Date:**
Title:	Government reviews into local authority commercial investments	Monday, 17 July 2023
Report Author:	Adrian Webb, Director - Finance and Corporate Services awebb@uttlesford.gov.uk Tel: 01799 510421	

Summary

1. This report summarises the recent findings from Government reviews of commercial investments at Thurrock Borough Council and Woking Borough Council.

Recommendations

2. Members note the report.

Financial Implications

3. None

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

   None

Situation

5. As a local authority Investment Board, it is good practice to review reports into failed investments at other local authorities. Only be doing this can this council ensure its policies and procedures remain fit for purpose.

6. Over the last couple of months there have been reports issued into the failings at two councils: Thurrock and Woking. The Government reports are attached as Appendices One (Thurrock) and Two (Woking).

   Thurrock

7. The main findings can be found from paragraph 38 onwards and can be summarised as follows.

   a. An investment strategy unique within local government predicated on borrowing money solely on a short-term basis to fund longer term investments.

b. A lack of Member governance and oversight.

c. A lack of oversight by the Chief Executive and member of the corporate management team (other than the Section 151 Officer).

d. A lack of skills, capability, advice and resource to deliver major projects

8. The Section 151 Officer had delegated authority to make investments without financial limit or sign-off by others, be that Members or the Chief Executive.

9. Despite having a strategy promoting diverse investments, the vast majority of funding was invested in a single entity, operating in a single market, that ultimately did not deliver on its commercial commitments.

10. The scale of the financial loss is not fully known but estimated to be in the region of £650 million.

11. With regard to the findings in point 7 above, at this council

    a. The investment strategy has a mix of short, medium and long term borrowing, from local authorities, the Public Works Loan Board and the wider financial markets.

    b. The Investment Board provides the member governance and oversight.

    c. The Corporate Management Team receive quarterly updates on the finances of the Council, including on commercial investments.

    d. From day one, the Council has used highly regarded industry expertise in both asset identification (e.g. Jason Winfield, Cushman and Wakefield) and asset acquisition (e.g. Dion Panambalana, Hogan Lovells).

Woking

12. The most indebted local relative to its size in the UK, with borrowing of £2.4 billion compared to a net budget of £24 million.

13. The main spend has been on regeneration of the borough (paragraph 28 of Appendix Two) rather than in direct commercial activity.

14. Paragraph 31 of Appendix Two sets out how a 'revolving' loan facility has been used to fund the wholly owned regeneration companies. Effectively each year the council loans the company money to pay back the interest owed to the council. This has created an extremely high debt profile that is not matched by the value of assets.

15. Woking has not applied Minimum Revenue Provision (MRP) to its commercial investments and loans to subsidiaries. If it does seek to apply MRP as per statutory guidance it has insufficient funds to cover the additional costs.

16. The main findings can be summarised as follows.

a. A lack of commercial skills and capacity to manage complex commercial activity.

b. The Corporate Leadership Team did not have sufficient information to properly monitor the situation.

c. No MRP applied

17. Of the points highlighted in paragraph 16 above it is interesting to note that a and b also appear in the Thurrock review. AT this council full MRP is applied to all commercial activity, including loans to the wholly owned subsidiaries.

Essex County Council

Thurrock Council Best Value Inspection Report

May 2023

Foreword

Essex County Council's (ECC) appointment as Best Value Inspector of Thurrock Council reflected the view of the then Secretary of State that 'when a council gets into difficulties, its local government neighbours should be the preferred source of help in turning it around.' ECC has a track record of providing help, support and advice to other councils in times of difficulty and its political and managerial leadership stepped up to support its neighbour by undertaking the inspection. I know that the County Council shares the Secretary of State's hope that by working together, colleagues from Essex and Thurrock councils 'can deliver the improvements local people expect and deserve.'

In the months since September, we have learned that the difficulties facing Thurrock Council are extremely serious. The Council faces significant losses from its investments and a likely on-going structural budget deficit. In this context, placing local services on a secure and sustainable footing will be a major undertaking.

Our inspection has looked beyond the specific financial difficulties facing Thurrock Council and has focused on wider factors such as leadership, culture, governance and the system of checks and balances, all of which will need to work well if Thurrock Council is to succeed in the future. We have no doubt that our findings and the recommendations we have made will be challenging to the Council. However, we believe this level of challenge is necessary if the Council is to secure meaningful change.

Throughout our inspection I, and the wider inspection team, have been struck by the dedication and passion of Thurrock Council's employees who work tirelessly to improve the lives of local people. We have also been grateful for the willingness and openness with which the Council's members and officers have engaged with the inspection process.

The inspection team wish to acknowledge the efforts made by the Council to provide substantial documentation and to make available senior councillors and officers to meet the timetable. All requests for documents, information or the facilitation of meetings were dealt with efficiently and speedily. No doubt many staff were involved in making this happen, but special thanks go to Darren Kristiansen, Denise Morley, Rebecca Peter, Amber Robinson, Kerry Thomas and Luke Tyson who helped enormously.

The inspection team would also like to thank all those officers, members and wider stakeholders who came forward to share their experiences. Their willingness to contribute and share information has strengthened our report.

It is our sincere hope that we will soon see the Council take positive steps forward.

Tony McArdle
Best Value Inspection Lead

Contents

Note: Thurrock Council's former Chief Executive and former s151 Officer have been consulted on some sections of the report which the inspection team felt related particularly to them.

The Inspection Team has considered all comments received in finalising this version of the report.

In Brief

1. Essex County Council (ECC) was asked by the Secretary of State to undertake a Best Value inspection of Thurrock Council in September 2022. We were asked to look beyond the evident financial failings and to consider the wider operating environment of the Council within which these failings took place, and to make recommendations to the Secretary of State on managing any further risks.

2. We found that, although serious mistakes have been made by individuals, the challenges facing Thurrock stem from a series of self-sustaining, systemic weaknesses which have allowed for repeated failure over many years.

Background

3. Between 2016 and 2022 Thurrock Council pursued a strategy of borrowing large amounts of money, predominantly from other local authorities, and using this to undertake a range of investments for the purposes of securing a return. The income from this strategy enabled local political leaders to forestall or avoid difficult decisions on savings, raising council tax, and the transformation of local services for several years. But the Council failed to understand and control the risks of this investment strategy. The ultimate failure of the strategy, and the scale of the financial loss that has resulted has undermined the financial viability of the authority and will require significant external support to be provided.

4. The full extent of the Council's financial difficulties will not be known for some time. At the time of writing, the Council's Quarter 2 Finance Update 2022/23 suggests that there is an in-year deficit of some £470m, and an estimated structural deficit in 2023/24 of £184m. This is the sum in excess of the budget which must be found for the provision of services to the residents of Thurrock (£154m in the 2022/23 General Fund revenue budget). Setting aside the current in-year deficit position, this presents an ongoing structural deficit of 120%. Given this, it is clear that the Council will be unable to set a balanced budget in 2023/24 within its current resources. As stated above, the Council will require significant external support, as well as large increases in council tax and the delivery of an extensive savings programme, for years to come.

5. In its Capital Strategy report presented to Council in February 2022, the level of borrowing estimated as at 31 March 2023 is shown as £1.3bn (excluding the Housing Revenue Account (HRA)) all of which must be properly accounted for. The annual revenue costs associated with this debt make Thurrock Council – one of England's smaller unitary councils in terms of population and tax base – highly vulnerable from a financial point of view. The Council has limited assets and their sale will not significantly reduce this debt burden.

Our findings

6. Our inspection has found that Thurrock Council has experienced repeated failures both in the delivery of its investment strategy, and in the delivery of major infrastructure and regeneration projects. These failures have resulted in the loss of substantial sums of public money. When initially faced with these failures, members and senior officers within the Council have attempted to conceal bad news and avoid public scrutiny.

7. This pattern of failure, and the nature of the Council's response, has been enabled by dereliction in political and managerial leadership, inadequate governance arrangements and serious weaknesses in internal control.

8. The Council's lack of openness and transparency has given rise to a culture of insularity and complacency. Internal challenge has been discouraged, and external criticism and challenge have been routinely dismissed. This has undermined the Council's ability to learn from others and from its own previous mistakes. It has placed the Council in a state of 'unconscious incompetence' and has undermined its ability to secure continuous improvement. Thurrock Council has, therefore, failed to meet the 'Best Value Duty' placed on all local authorities.

9. Urgent change is required. The scale of the financial challenge now facing the Council means it is inevitable that, in addition to making extensive efficiency savings, the Council will have to undertake a significant and rapid reduction in the scope of local services. Many services, which have been relatively well funded over the past decade may, as a consequence, be equipped to do little more than the statutory minimum for the foreseeable future. Leading this transformation will be a hugely difficult task, not least because the Council does not have a good record in delivering major projects. This transformation will need to be effectively managed at both the corporate and service level if the Council is to avoid serious operational failures.

Recommendations

10. Our findings have informed the recommendations set out below. The scope of these recommendations reflects the fact that:

   - **Thurrock Council is already subject to intervention regarding its financial management.**

     The Secretary of State issued directions to Thurrock Council requiring it to prepare and agree an improvement plan to achieve financial sustainability, secure savings, reduce levels of debt and improve key aspects of its financial management. This improvement plan must be prepared to the satisfaction of the Commissioner (Essex County Council). A copy of the directions can be found in Appendix 1. Thurrock Council is already working with the Commissioner to bring forward this plan.

     We have not, therefore, sought to make additional recommendations regarding the Council's financial management.

   - **We wrote to the Secretary of State in December 2022 to provide an update on our inspection of Thurrock Council and to share a number of recommendations.**

These recommendations were shared ahead of our final report to enable the Secretary of State to consider immediate action to support the Council's recovery. At the time of writing, the Secretary of State has indicated that he is minded to issue further directions to Thurrock Council, informed by these recommendations and the first report from the Commissioner.

The recommendations set out in this report are wholly consistent with those provided in December. Where necessary we have expanded upon our recommendations. A copy of our December 2022 letter to the Secretary of State can be found in Appendix 2.

11. Ultimately, our recommendations seek to ensure that Thurrock Council has the leadership necessary to deliver meaningful change; a clear roadmap for the future, and the right foundations in place to enable it to manage this change effectively. We believe it is in the interests of the residents of Thurrock that these recommendations inform timely action to secure improvements in the running of the Council:

Recommendation 1: The Secretary of State should consider expanding the powers of Commissioners in overseeing Thurrock Council's improvement and recovery. The Commissioners' central role should be to build, embed and sustain a fit for purpose operating environment within Thurrock Council.

The specific functions that should be exercised by the Commissioners, and through which they should influence this operating environment, are set out in the recommendations below.

Recommendation 2: The Secretary of State should consider directing Thurrock Council to prepare, agree and implement a recovery plan to the satisfaction of Commissioners. This will build upon and extend the scope of the improvement and recovery plan currently being developed. The extended recovery plan should set out robust actions to:

- reconfigure council services around a set of Council approved priorities, ensure they can be delivered within the radically reduced financial resources that will be available, and put in place robust arrangements for their performance management;
- secure the proper resourcing and functioning of the system of internal controls, including risk management and internal audit; and
- develop and sustain more open, transparent and positive working practices and behaviours within the Council. This should be supported by actions to enhance leadership and management, and to enable employees at all levels to identify and learn from good practice across their respective professions and the sector more broadly.

Recommendation 3: The Secretary of State should consider directing Thurrock Council to do the following to the satisfaction of Commissioners:

- design an appropriate officer structure for the authority. This should provide sufficient resources to deliver the authority's functions in an efficient and effective way;
- put in place the skills, capabilities and capacity necessary to lead and manage this change; and
- develop an enhanced performance management framework for the efficient and effective operation of the Council.

Recommendation 4: The Secretary of State should consider granting Commissioners the authority to make appointments and dismissals with respect to senior positions, and to determine the processes for making these appointments and dismissals. 'Senior positions' should be understood as including the Chief Executive, his/her direct reports, and their direct reports.

This will include authority to make appointments to the three statutory roles – Head of Paid Service, section 151 Officer and Monitoring Officer – to ensure they fulfil the roles that legislation envisages in maintaining the integrity of the Council. In making these appointments Commissioners should consider the full requirements associated with these roles beyond any specific professional qualifications.

Recommendation 5: The Secretary of State should consider directing Thurrock Council to prepare, agree and implement a plan to address the fundamental issues that have allowed decision-making power to be drawn to a small group of members and officers. This should be part of the extended recovery plan (see recommendation 2) and include:

- immediate action to address the weaknesses in governance as these have undermined transparency and effective and informed decision-making, including by making improvements in the taking and recording of formal decisions, reviewing the constitution, and improving the functioning of scrutiny;
- a programme of work to strengthen members' capability through:
  - the development and delivery of an effective and continuing member development programme - members should be actively involved in the development and delivery of this programme; and
  - the delivery of a programme which actively encourages local residents to participate in local democracy and to consider standing for election.

Commissioners should agree the design of these programmes and arrangements for independent evaluation of their reach and impact.

Should the Council be unable to address these fundamental issues to the satisfaction of commissioners, it should review the most appropriate governance model for the council, with a view to securing the effective engagement of all elected members and improving transparency of decision-making. Any such review should be conducted prior to any move to all-out elections (recommendation 6).

Recommendation 6: The Council should move to all-out elections and if the Council does not itself make such arrangements by 31 July 2023 the Secretary of State should consider making an order under Section 86 of the Local Government Act 2000, to secure this. This will help provide the opportunity for greater consistency and longevity in political direction, and an opportunity to enhance the Commissioners' work to embed new ways of working and a fit for purpose operating environment.

Recommendation 7: The Secretary of State should consider directing the Council to prepare and agree, to the satisfaction of Commissioners, a set of arrangements and protocols by which it will embed good practice with respect to information sharing and transparency. These should reflect and support wider work to develop more open and transparent working practices and behaviours within the Council. They should make explicit:

- the practical mechanisms through which appropriate information on Council decisions and performance will be made available to elected members and to the public; and
- the standards to which Thurrock Council will hold itself in making this information available.

Once developed, these should be included within the Council's constitution.

12. Given the serious nature of the issues that this inspection has highlighted within Thurrock Council, there are clear implications for the wider sector. The Secretary of State may wish to reflect on these, and we would draw particular attention to our findings and reflections in two areas: the role that external audit currently plays in the assurance framework, and the role of statutory officers in maintaining the integrity of governance arrangements and the control environment of their authority. We have made the following recommendations:

Recommendation 8: The Secretary of State may wish to commission a review of external audit for local authorities, to consider the role that external audit currently plays in the assurance framework and to make recommendations on how to strengthen the quality of the service and the reporting requirements, particularly in support of an early warning mechanism.

Recommendation 9: The Secretary of State may wish to consider:

- issuing guidance to strengthen the role of the three statutory officers, requiring them to work together, and in an integrated way, to maintain the integrity of the governance arrangements and the control environment of their authority; and
- making legislation to strengthen and clarify the role of the Monitoring Officer and the head of the paid service. This may require parliamentary time but in the short term, this should include:
  - amending regulation 4 of the Accounts and Audit Regulations 2015 to introduce a requirement for the Head of Paid Service and the Monitoring Officer to be consulted by the section 151 Officer on any determination on the financial control environment; and,

- amending regulation 6 of the Accounts and Audit Regulations 2015 to require the Head of Paid Service, section 151 Officer and Monitoring Officer to be formally consulted on the contents of the annual governance statement.

This will support the effective functioning of authorities generally and the relationships between the three key statutory officers in particular.

Part 1: Introduction

13. On 2 September 2022, the then Secretary of State for Levelling Up, Housing and Communities wrote to Gavin Jones, Chief Executive of Essex County Council (ECC), appointing ECC to carry out a best value inspection of Thurrock Council. A copy of the appointment letter can be found in Appendix 3. This report sets out the findings of that inspection and makes recommendations to the Secretary of State.

14. At the time the inspection was initiated, the Secretary of State was already satisfied that there had been failures in financial management within Thurrock Council. The purpose of the inspection was not, therefore, to examine these financial failures in detail. Rather, it was to examine any wider contributing factors and the context of the council's operations that had enabled these failings to take place. Within this, the Secretary of State directed ECC to specifically consider the operation of functions such as governance, audit (internal and external), risk management, overview and scrutiny functions, and their impact on service delivery.

15. The specific purpose of the inspection was to assess the extent of the failure of Thurrock Council to comply with the 'Best Value duty'. This is a duty placed on all local authorities, requiring them to make arrangements that are economic, efficient, and effective, and that requires them to secure continuous improvement in how they carry out their work. We are aware that other agencies are looking into wider issues that have come to light as a result of failures in Thurrock Council's financial management. These agencies will report to the relevant authorities in due course.

16. ECC was directed to report its findings to the Secretary of State by 3 January 2023. In December 2022, ECC wrote to the Secretary of State seeking an extension to the inspection deadline to 17 February 2023, and this was agreed.

The Best Value inspection

17. In undertaking this work ECC's first responsibility has been to inspect Thurrock Council's arrangements for the functions set out in the letter from the Secretary of State. In doing so we have sought to present a series of well-evidenced recommendations to the Secretary of State on how to mitigate and manage any further risks to the Council and to the residents of Thurrock. We have also sought to prepare a report that can be of use to Thurrock Council, and to those who provide leadership for local communities in the future.

18. This is the first Best Value inspection for which the Secretary of State has appointed another local authority as Best Value Inspector. It is also the first Best Value inspection that has run concurrently with a programme of intervention, also being led by ECC. In its role as Commissioner, ECC is working with Thurrock Council to secure the necessary improvements in its arrangements for strategic financial management.

19. ECC and Thurrock Council are neighbours with longstanding links. There is a multi-faceted relationship between the two authorities. The two councils share, jointly-

commission and co-fund services; they are jointly responsible for some public assets; they work together on highways, health and community safety issues; they both participate in several joint committees. They are partners in a range of projects and programmes across South Essex and sit together on a range of non-statutory joint boards.

20. The depth and complexity of this relationship has required ECC to mobilise the Best Value inspection with the aim of securing objectivity, and to produce a well-evidenced, balanced and useful report.

21. To meet this aim, ECC has shaped its inspection approach to emphasise:

- **Independence:** the inspection team has been led by Tony McArdle OBE, a former local authority Chief Executive at Lincolnshire County Council and an experienced Local Government Commissioner who led the intervention in Northamptonshire. He currently chairs the Improvement Panel at the London Borough of Croydon, and has worked in national roles relating to local government on behalf of both the Department for Education and the Department of Health and Social Care. Margaret Lee is also a member of the inspection team and although she is a former employee of ECC, she left in 2021 and works in other local authority interventions including the London Borough of Croydon and Slough Borough Council. None of the ECC officers on the inspection team have specific links to services or work programmes that are jointly owned by ECC and Thurrock.

- **Structured inspection:** the inspection team has followed a structured process, working iteratively through phases of discovery and hypothesis-testing, before moving on to draw conclusions, verify the supporting evidence and frame recommendations. All findings expressed in this inspection report have been triangulated and verified, either through the testimony of those interviewed as part of the process, or through the examination of documents and emails.

  Thurrock Council's former Chief Executive and former s151 Officer have been consulted on some sections of the report which we felt related particularly to them. The Inspection Team has considered all comments received in finalising this version of the report.

- **Broad engagement:** the inspection team have listened widely. They have engaged with elected members from the cabinet, former and current chairs of committees as well as backbenchers from all political groups; they have interviewed current and former statutory officers, members of Thurrock Council's directors' board; middle managers and front-line staff. The team have also engaged with a cross-section of Thurrock Council's partners, MPs and relevant external advisers. As well as undertaking interviews, the team issued a questionnaire inviting input from all Thurrock Council staff and elected members, and have held focus groups with key groups of officers including contact centre staff, democratic services officers and those supporting the Council's Human Resources and Finance functions.

- **Ethical practice:** the inspection team have sought to ensure that meetings and interviews created a 'safe space' for people to talk to us and share their experiences. The team have sought to be respectful throughout the interview process, recognising that the challenges facing Thurrock Council, and the need to answer questions about these, may be a source of stress for many. The team have also sought to act with integrity, undertaking interviews on the basis of informed consent and ensuring that specific claims presented in this report are not attributed to specific individuals.

The inspection process

22. Our work on the Best Value inspection of Thurrock Council began in earnest on Monday 26 September. Since then, we have spent twelve days on site at Thurrock offices and have conducted over 80 interviews, workshops and focus groups either face-to-face or online. A list of interviewees can be found in Appendix 5. We also received a further 77 responses to a questionnaire issued to Thurrock Council staff and members.

23. The inspection team was designed to bring together officers with a range of skills, expertise and experiences that would be relevant to the areas of focus outlined in the Secretary of State's instructions to ECC and, more broadly, to the conduct of effective and impactful review projects. It comprised the following officers:

Tony McArdle OBE, Inspection Lead

As a local authority Chief Executive for over twenty years, Tony led the recovery and improvement of Wellingborough BC and Lincolnshire CC from significant corporate governance and service failures, leaving both as highly respected, capable councils.

He was Lead Commissioner for the government's intervention in Northamptonshire CC, which over three years transformed the insolvent and failed authority into a financially sound and operationally competent one in advance of local government reorganisation in the area. He chairs the London Borough of Croydon Improvement and Assurance Panel in the wake of that Council's difficulties.

Tony leads on the Department for Education's negotiations with councils with the most financially challenged High Needs Systems and was an independent adviser to the Department's recently published SEND review.

During the Covid pandemic he managed the interface between national and local government outbreak response arrangements as Director of Local Engagement and Response at the UK Health Security Agency.

Margaret Lee FCPFA, Inspection Lead for Finance

Margaret has worked in local government for more than 30 years. She was the Executive Director for Corporate and Customer Services at Essex County Council, responsible for the majority of support services as well as the customer front door. She was also the Chief Finance Officer (s151 Officer).

She is past President of the national Society of County Treasurers (SCT), was an SCT core adviser to the Local Government Association (LGA) and also sat on various national local government finance working groups. She was a member of the LGA Finance Peer Review team who reviewed Northamptonshire County Council in September 2017, and worked on a CIPFA panel on the new code of Practice for Financial Management and Planning to improve financial resilience. She was also co-author of the CIPFA paper on the role of the s151 for Local Enterprise Partnerships.

She is now the finance lead on the Improvement and Assurance Panel for the London Borough of Croydon, and is also the Best Value Finance Commissioner for Slough Borough Council – supporting both authorities on their journey back to stability following their S114 notices.

Pam Parkes FCIPD, Executive Director People and Transformation, Essex County Council

Pam is currently employed at Essex County Council as the Executive Director, People & Transformation. Her leadership for services includes: Human Resources, Organisation Development, Digital Service Design, Programme Office and Business Support services. She is a FCIPD qualified senior HR and OD practitioner with a track record of delivering measurable workforce success at some of the most challenging and ambitious local authorities in Central and Greater London.

Pam's expertise and experience in HR and OD spans 38 years including working for the London Boroughs of Southwark, Lambeth, Hackney and Croydon, operating at executive level in Hackney and Croydon Councils and has earnt a reputation for leading and achieving award winning workforce transformation.

Pam is a board member of the Public Services People Managers Association (PPMA), as well as a trustee for the SHiFT Organisation, a charity focused on supporting young people in or in danger of repeated cycles of criminal activity.

Pam is a driven and passionate practitioner of people management and organisation development and has a strong interest in the factors that create the right conditions that make organisations in local government high performing and the best places to work.

Paul Turner, Director, Legal and Assurance, and Monitoring Officer, Essex County Council

Paul is currently responsible for Essex County Council's Legal and Democratic Services and its Assurance services including risk management, internal audit and counter fraud, emergency planning, information governance and health and safety. Having worked for six local authorities since 1992, including a very large district and a metropolitan district, he has significant local government experience and legal expertise in almost all areas of local authority law.

He has been Monitoring Officer or deputy Monitoring Officer for over twenty-one years, managing a diverse range of issues and legal cases. He played a key role in the management of the local authority response to coronavirus (COVID-19) in Essex and has since been working on delivery of the Homes for Ukraine scheme in Essex.

Paul is currently Chair of the Lawyers in Local Government Eastern Region.

Joanna Boaler, Head of Democracy and Transparency, and Statutory Scrutiny Officer, Essex County Council

Joanna's career so far has been spent supporting politicians to be effective.

Following a brief spell working for two MPs, she joined Essex County Council almost 19 years ago as a Cabinet Adviser, later taking on responsibility for wider support and development of councillors. She was instrumental in the creation and accreditation of the member development programme and undertakes peer assessments as part of the LGA Councillor Development Charter and Charter Plus.

She is currently Head of Democracy and Transparency, responsible for a team who support all members and their meetings as well as the scrutiny and civic functions. She is the Council's statutory Scrutiny Officer and deputy Monitoring Officer. She also has responsibility for freedom of information and information governance.

Outside ECC she is a board member of the Association of Democratic Services Officers, where she leads on communications.

Alastair Gordon, Head of Profession: Research and Insight, Essex County Council

Alastair has sixteen years of experience in local government, all spent with Essex County Council. He currently leads the council's award-winning Research and Citizen Insight function. He was previously Head of Policy and Strategy.

In his current role, Alastair is responsible for the Council's quantitative and qualitative research programmes, including its work on public health intelligence. He also leads on work to ensure effective public consultation, the evaluation of key policy programmes and the development of its public engagement infrastructure.

Alastair has also spent several years working in central government, initially with the Department for Work and Pensions and, most recently, as Local Government Adviser to the National Infrastructure Commission.

24. Between them the inspection team have some 181 years' experience of working in local government across sixteen different local authorities.

The borough of Thurrock

25. Thurrock has an estimated population of 176,000 people living in some 70,000 homes. It lies on the River Thames to the east of London. It has 18 miles of riverfront and covers an area of around 64 square miles. With Greater London to the west and the river to the south, its other borders are formed by the administrative County of Essex to the north and east.

26. In common with neighbouring areas across the Thames estuary, Thurrock has long been seen as an area with significant opportunities for growth and development. Its location means it has excellent transport links with London, and the rest of the UK, by road (via the M25 and A13 corridor) rail, river and air. This creates opportunities for residents, many of whom commute into the capital for work. Links with London have helped to maintain relatively high levels of economic activity and higher than average incomes for many of those living in the borough.

27. Partly as a result of Thurrock's location, the local economy has developed strengths in sectors such as transportation and logistics. The borough is home to the Port of Tilbury and London Gateway - a new deep-water port and enterprise park. Thurrock also has a burgeoning cultural and creative sector with notable local assets such as the High House Production Park providing a focal point for partners' work to develop an international centre of excellence. The borough is also home to the Lakeside Shopping Centre - one of the busiest retail sites in Europe.

28. These opportunities, and the benefits they offer for local communities, have yet to be realised in full. Where economic growth has been secured, the proceeds have not been enjoyed by all residents and the borough faces challenges associated with significant pockets of poverty and deprivation. This is a driver of significant inequality in wider social, economic and health outcomes between neighbourhoods.

29. Thurrock Council is ambitious for the borough and its residents. Recognising the area's economic potential, the Council has previously articulated a programme of borough-wide economic regeneration focused on six distinct growth hubs: Purfleet-on-Thames, Lakeside, Grays, Tilbury, London Gateway and the Thames Enterprise Park.

Thurrock Council

30. A local authority serving the whole Thurrock area was first created in 1936, with the Thurrock Urban District Council. The council was reconstituted with similar boundaries in 1974 as Thurrock District Council, becoming a borough by Charter in 1984. Between 1974 and 1998 Thurrock Council was a non-metropolitan district council within a two-tier local government system. As such services such as education, social care and highways were run by Essex County Council.

31. In April 1998 Thurrock absorbed the powers of Essex County Council for its area, becoming a unitary authority. The planning function for large developments was exercised by the Thurrock Thames Gateway Development Corporation in the whole of

the borough from 2003 to 2012. The development corporation was abolished and most of its functions and assets transferred to the Council in April 2012.

32. Thurrock is divided into 20 wards and elects 49 councillors. One-third of the Council is elected every year for a four-year term and so in every fourth year there is no election.

33. Political control within Thurrock has been finely balanced for at least 15 years. Thurrock Council has been led by a minority administration in all but four years since 2007. There was a Labour majority administration between 2012 and 2014 and there has been a majority Conservative administration since 2021. In the intervening years the Council was led by minority administrations, first by the Labour Group (2014-2016), and latterly by the Conservative Group (2016-2021). The minority or small majority administrations which have run the Council, combined with frequency of elections, has created a challenging environment in which members and officers must work hard to develop and deliver long-term plans for the borough. The Council operates a leader and cabinet model of governance and has done so since the introduction of this model in 2001. As at mid-2022 the Council's Leader had been in his position for six years.

34. As with most local authorities, the Council's senior management team is a mix of 'home-grown' officers and those recruited with experience elsewhere. At the beginning of our inspection, the Chief Executive had been in post for six years and the Chief Financial Officer (section 151 Officer) for seven. Both have since resigned and new appointments have been made on an interim basis. The Council's Monitoring Officer position changed frequently during this time with five incumbents since 2017. Two of the five were more junior officers filling the position on an interim basis. During our work an experienced interim Monitoring Officer was appointed from outside the Council, although we understand he is shortly to be replaced.

35. Since becoming a unitary authority Thurrock Council has experienced periods in which it has struggled to sustain good performance and continued improvement. For example, in February 2007, the Audit Commission gave Thurrock Council a two-star rating under its Comprehensive Performance Assessment framework, indicating that the Council was meeting only minimum requirements. Key challenges in securing improvement following this judgement included the departure of the then Chief Executive, weaknesses in financial management arrangements and strained relationships between members and officers. In response to this, the Council established a voluntary Improvement Board, working closely with Improvement East and the IDeA. The results of a Corporate Peer Challenge in 2011 suggested that the Council's work had set it on a positive trajectory.

36. In more recent years, Thurrock has benchmarked well against its peers and nearest neighbours in terms of its operational performance. For example, examination of data published under national performance frameworks suggests that Thurrock Council achieves good results in its Adults Social Care and Children's Services functions. The Council has also secured and sustained improvements in Ofsted assessments, with the Council assessed as 'Good' in 2019, following a judgement of 'Requires Improvement' in 2016.

37. Thurrock Council has also enjoyed a reputation as a low council tax authority. Only three single tier authorities outside London had a lower Band D council tax rate in 2022/23, meaning that local residents have enjoyed good quality services at a lower cost than that paid by others across the country. Undoubtedly, the presence of the investment programme outlined in the following section had some bearing on this.

Part 2: Thurrock Council's Investment Strategy

38. Over the past five years, Thurrock Council has pursued an investment strategy unique within local government. The strategy was based on borrowing money on a short-term basis from the local authority market to fund longer-term investments which secured a higher rate of return. The strategy ultimately failed. The full scale of the financial losses incurred is not yet known. Nevertheless, it is clear that if the Council is to be placed on a sustainable footing – and it is not yet certain whether this will be possible – it will need to operate very differently in the future.

39. If Thurrock Council is to learn lessons and make improvements, it will need to understand how it has come to be in the position it is in today, and consider how it needs to go about its business going forward.

The origins of Thurrock Council's Investment Strategy

40. The root of Thurrock's unique investment strategy can be traced back to May 2016 when the Council made an investment of £24m in Swindon Solar Farm operated by Rockfire/Toucan. This investment was made by the then s151 Officer, under delegated authority set out in the Treasury Management Strategy approved by the Council in February 2016, and having consulted with the then Chief Executive. Prior to this, the only investments the Council held were in the Local Authority Property Fund run by CCLA Investment Management. A further £10 million was invested in Swindon and Willersley Solar in August 2016, again under delegated authority.

41. Investments continued to be made throughout the early part of 2017/18. These included a £40m investment in Wirsol Solar (part of Rockfire/Toucan), an investment of £8m in Chip Chip Limited – a renewable energy firm specialising in reclaiming energy from wood chippings, and a £10m investment in bonds issued by Just Cash Flow plc – a provider of loans to small businesses. Again, all these investments were made by the s151 Officer under delegated authority.

42. Although the range of investments placed by the Council was already growing steadily, a step change occurred following the adoption of the Council's new 'Investment and Treasury Management Strategy' in October 2017. This strategy was adopted with cross-party support. This marked the start of a significant expansion of the Council's investment programme, positioning investments at the heart of the Council's wider strategy to tackle significant funding pressures. We have heard from some elected members and senior officers that this was intended to be a time limited strategy to create 'breathing space' to enable the Council to invest in the much-needed transformation of services. Some have suggested that the purpose of the strategy was to help the authority repay debt and others that it was primarily intended to help maintain service levels.

43. The report to Council on the Investment and Treasury Management Strategy set out how the expanded investment programme was to be managed. The overall programme was subject to six new 'principles' approved by Council:

- "the agreement to invest does not supersede existing work streams such as the service review process, asset utilisation, etc; [all of which were intended to secure savings and/or increase income];
- Council should consider a diversified investment approach;
- investments should favour short-term borrowing by the council;
- appropriate due diligence, including the assessment of borrowing risk, must take place before new significant investments are made;
- accountability and governance to the Executive / wider council must be a critical component of 'open' investments and an overview of any investment in excess of £10m and for longer than one year [should] be presented to the three group leaders and their deputies before any firm commitment;
- there has to be firm differentiation between investments which have an implied municipal duty, and investments made in private sector markets. Where the latter, appropriate expertise must be procured so to ensure that the council does not obscure its role and manage entities outside of its expertise."

44. In 2017/18 the Council increased the scale of the 'non-specified' investments that the s151 Officer could make under delegated authority from £200m to £550m, and the cash limit for any one external fund manager from £75m to £425m (the limit on investments that can be placed with an external fund manager would be increased further to £750m in 2019/20). This is an extraordinary expansion in the delegated authority of officers. It was made without consideration of the experience and skills that would be needed: experience and skills that officers have since recognised did not exist within the Council.

The growth of the Council's investment portfolio

45. Having adopted this strategy, the Council quickly expanded the scale of its investment portfolio. In December 2017, it invested £268m in Rockfire/Toucan's 'Miramar' project. This was the Council's largest investment to date. It had been presented to the leaders and deputy leaders from the Council's three main political groups via a meeting of the 'Council Spending Review' (CSR) – the informal vehicle set up to ensure members had an overview of the Council's finances. This was seen as the natural route to provide oversight of Council investments, in accordance with the principles set out above. The Miramar investment appears to have been supported by all attendees. The CSR meetings were not formally authorising the investments as it was an informal body with no decision-making powers, and the Council had formally delegated that power to the s151 Officer. The CSR meetings were not formally minuted and, while some attendees may have taken informal notes, we have not seen these as part of our inspection.

46. Other investments followed and, by the end of 2017/18, Thurrock Council had made investments totalling £446m. This increased to £847m by the end of 2018/19. By early 2020 the value of Thurrock Council's investments was approaching £1 billion and there were plans to increase to £2 billion in future years.

47. It is astonishing, given the principles agreed by Council in 2017, that only one further investment proposal was tabled for a substantive discussion at the informal CSR meeting during this period – a £43.8m investment in the Sheringham Shoal Offshore Wind Farm. Although the investment programme was referenced in broader discussions around the Council's medium term financial strategy (MTFS), there were only three other discussions dedicated to investments at the CSR up to the end of 2019/20, despite the establishment of the investment principles referred to in paragraph 43 above. We have seen no evidence that papers were prepared to support these discussions, and formal minutes were never recorded, but the agendas suggest that dedicated discussions on the investment opportunities were scheduled to last no more than two hours in total over these two years. Despite the fact that Council had delegated decision-making to the s151 Officer, there was a clear opportunity to use CSR meetings to oversee the investment programme and ensure that investments conformed to the principles approved by Council. This opportunity was never taken.

48. Reporting on the investment strategy was equally limited outside the CSR. There was no reporting of the performance of the programme or associated risks to the Council's 'directors board' – the most senior officer group within the Council; nor was there reporting to informal meetings of the cabinet. We have found no evidence to suggest that the s151 Officer provided the Cabinet Member for Finance with anything other than informal and high-level updates. Our examination of email exchanges between the s151 Officer and the Cabinet Member suggest that there were no reports on the Council's investments that would be sufficiently meaningful to allow the cabinet member to understand the merits of specific investments. It was therefore not possible for there to be an adequate understanding or appreciation of the risks being taken, including the lack of diversification in the portfolio, despite Council agreeing this would be one of the investment principles.

49. Over this time, the s151 Officer made investments of over £500m without meaningful reference to elected members. He did so on the basis that individual transactions were below £10m in value or were with organisations with which the Council had already made investments and were therefore not 'new' investments. Unbeknown to anyone beyond the s151 Officer and staff in the Treasury Management function, the Council built-up substantial investments with particular organisations without any Member or Executive oversight.

50. The internal checks and balances that one would expect to see, which would have provided challenge and possibly prevented this situation from arising were either weak or wholly absent. Although the investment programme was arguably the most significant and high-risk activity the Council was undertaking it was:

- rarely, if ever, discussed among senior officers. Beyond the s151 Officer, Chief Officers had little knowledge or understanding of the nature or extent of the investment programme. There was certainly no sense of shared ownership for the programme or a shared stake in (far less accountability for) its success;

- only ever placed as an 'opportunity' on the Council's strategic risk register. The level of risk associated with the programme was never properly identified or made explicit within strategic risk reports. These reports received only the most light-touch and transactional attention in directors board meetings;
- never a focus for internal audit. The Council's internal audit function was at no time instructed to examine any aspect of the investment strategy, nor did internal auditors seek to recommend or prioritise any such examination based on an assessment of the risks;
- never considered as a risk by the Standards and Audit Committee. Reports to this committee identified the investment programme as an opportunity only;
- acknowledged by one external auditor in reports as a solution to gaps in the Council's MTFS gap, with little attention paid to the risks the programme presented to the authority; and
- not a regular topic of discussion between the Chief Executive and the s151 Officer. The s151 Officer's annual performance objectives do not reference the investment strategy, other than as an input to the wider MTFS, until 2020/21. In any case, one-to-one meetings may not have functioned in a way that would have allowed for an open discussion of risks and emerging issues (see paragraphs 123 - 125). We cannot see any actions coming out from these meetings to suggest that such discussions had taken place.

51. This meant that, although the s151 Officer's actions were wholly inconsistent with the principles approved by Council, these actions went unchallenged by members, the Chief Executive and senior officers for several years, and until at least 2020.

52. The overall scale of the programme was presented in aggregate in the annual budget papers, and in high level updates to the Corporate Overview and Scrutiny Committee and the Standards and Audit Committee. But the information was minimal and high-level at best. It was not supported by adequate explanatory text, nor was it set out in a way that would aid understanding by non-specialists in local government finance. Only readers who understood what they were looking for, and knew how to interpret the figures reported, would be able to fully understand these reports. Given that Thurrock members had received virtually no training in reading accounts or in local government/ council finance, it seems unlikely that members can have understood the reports which they were asked to review and upon which they voted.

Full Council 27 February 2019

The effects of the Investment Strategy on the operations, and seemingly the mindset, of the Council are at this point quite considerable.

At the meeting of the Council (the annual Council Tax setting and budget meeting) on the evening of 27 February 2019, the budget debate is preceded by a consideration of the annual review of the Council's Capital Strategy. This is where the Council's Investment Strategy is reviewed.

In the presentation of the proposed strategy, it is reported by the Cabinet Member for Finance that in the current year (2018/19) the contribution of investment income to the Council's revenue budget totals £13.6m, and that it is projected for the coming year (2019/20) to be £23.4m, over one-fifth of the sum that is about to be proposed as the Council's budget requirement. The report envisages further borrowing for investment purposes which will raise the Council's debt level to almost £2bn by 2022.

Both opposition group spokesmen rise to support the report. No debate takes place. The item is concluded in under 2½ minutes.

The minutes of the meeting record that the Cabinet Member for Finance, 'presented the report that set out the strategic framework underpinning capital expenditure and the associated financing at the Council. The report also included the Treasury Management Strategy which had been previously considered in isolation up to 2018/19 which was also linked to the Council's ambitions of becoming a more commercially focused borough; one where sensible transactions were completed which created revenue returns that could then be allocated to spending on the services for Thurrock residents.'

53. It is notable that cabinet members asked few questions and provided too little challenge to officers. Members of the cabinet were prepared to trust the word of the s151 Officer without substantive supporting evidence or independent assurance, and did not seriously question the programme as long as the revenues continued to come in.

> 'The money coming in was nice and we can't escape that. When other places were looking at significant cuts we were having arguments here on how to spend the surplus.'

54. These revenues were allocated to avoid cuts and council tax increases, and to fund short-term political priorities. They were not used to enable service transformation or pay down debt. Rather than driving the modernisation of services and reducing costs as a result – an exercise that was playing out across the wider local government sector – Thurrock Council built the income from high-risk investments into its base budget. At the time of the Council's February 2020 budget meeting, the Cabinet Member for Finance reported that "income from investments was projected for the coming year to be over £33m which equated to around 25% of this Council's non-grant income". The Council allowed itself to become reliant on these investments to support its business-as-usual spending.

Full Council 26 February 2020

This is the next annual review of the Capital Strategy, again preceding the setting of the Council's budget.

Some adverse press coverage of the Council's investment strategy has recently appeared. It is nonetheless confirmed by the Cabinet Member for Finance that the administration plans for the protection of services afforded by income from the strategy to continue and indeed for the Council's operations to be expanded to include provision of additional services that residents want – examples given include funding more police officers, mental health support and enhanced air quality measures. The contribution to the Council's projected spending requirement of £140m to be derived from the investment strategy is estimated at £33m – around 25% of the Council's budget. It is evident that by this point the product of this revenue source is an essential part of the Council's base budget. The report, indeed, includes estimates through to 2023 which project borrowing rising to over £2bn.

At this point, no long-term debt has been repaid, and no corporate transformation strategy is being pursued. While these facts may reasonably be known to the Council, it will not be clear to members generally, and seemingly insufficiently so to the small number of leading members who are aware, that the principles under which the investment strategy is required to be undertaken are being ignored; the Council's investment advisers have resigned and have not been replaced; the warnings given in the Peer Review six months previously have gone unheeded, no one is holding the s151 Officer to account and the first impairment under the strategy has already occurred, with a loss (of £14m) resulting from the collapse of Chip Chip Ltd.

In the course of the debate which follows, concerns are raised by opposition members over the total amounts being invested, and over the adequacy of the oversight arrangements that members are in a position to exercise. While no record is made of the vote that ensues, it seems clear that opposition members do not vote in favour of the recommendation. However, the strategy is agreed despite the reality of the situation being that, in essence, the Council is not investing; it is gambling.

55. Members, including those within the cabinet, backbench members and those in opposition groups, did ask some questions, but were routinely denied information on the Council's investments by officers. They were either told that this was "commercially sensitive" or that it wasn't their role to consider this information.

56. This denial of information fuelled questions about the transparency of the Council's investment strategy and the levels of debt that the Council had taken on to fund its investment activity. As early as September 2018, the LGA Corporate Peer Challenge team, assembled to review progress within the Council, highlighted the importance of ensuring the investment strategy "operates in an open and transparent way and has robust governance arrangements in place, this is to ensure that everyone understands the risks versus the rewards". Later, in January 2020, the Corporate Overview and Scrutiny Committee recommended to cabinet that "it considers the best way to increase democratic oversight of investment." These requests were echoed by the opposition in the February 2020 Full Council meeting – the first occasion on which opposition members voted against the strategy. At this stage, the Cabinet Member for Finance made commitments to improve oversight and monitoring of the investment programme – but he was unable to introduce this change (see paragraph 60 below).

57. In any case, before meaningful progress could be made, in May 2020 the Financial Times published an article about the Council's investment programme and the manner in which it was being undertaken. The Opposition called for an Extraordinary Meeting of the Council to discuss the article. This was held on 8 July 2020.

58. It is generally agreed among the people we have spoken to that the Extraordinary Council meeting resulted in a decision to 'pause' the investment strategy and not to make any further investments. While there is no record of any formal decision (see Appendix 4, Case study 1) we were consistently informed that such a pause was agreed, and there is reference to this in several documents considered subsequently by the Council.

Extraordinary Full Council Meeting - 8 July 2020

This Extraordinary Meeting of the Council is called by the main opposition (Labour) group to 'address the issues of concern raised by the Financial Times article'. This highly critical article appeared on 22 May 2020.

The meeting considers an investment briefing report from the Cabinet Member for Finance which sets out a formal response to the key themes included within the article. It rejects the claims made in large part, asserting that 'we do not recognise the concerns set out within the article' and mounts a robust defence of the steps taken with the intention of ensuring that the strategy is being delivered properly and gives good results.

In presenting the report, the Cabinet Member reiterates the investment briefing. Both the report and Cabinet Member mention the opportunity the investment income provides to think longer term on to transform services more effectively. The briefing notes that it has always been intended that the level of investment would reduce over time.

Whilst these aspirations were certainly expressed in the early days in the strategy, they have not been reflected in the annual growth in the scale of borrowing and investment, nor in the decisions taken to expand areas of service provision. They do, however, represent the emergence of some elements of caution, and may presage some of the move towards a pause, although the intention to do this is not stated in the briefing or any part of the discussion that takes place upon it. The debate, indeed, demonstrates some polarisation of opinion within the Council, with demands being made for greater transparency on one hand whilst on the other some expressions of interest in being even bolder, given how successful the strategy is proving to be.

The debate concludes with the briefing report being noted. It is impossible to conclude other than that the intent of the Council is to continue as planned, and towards the £2bn programme previously agreed, but as time passes this does not prove to be wholly the case.

The investment programme following the 'pause'

59. Two years passed between the informal but understood 'pause' to the investment programme and the unravelling of the wider investment strategy in summer 2022. Public discourse in this period was dominated by the coronavirus (COVID-19) pandemic and the policy response. Partly as a result of this, members and officers' focus on the investment programme reduced even further than had hitherto been the norm.

60. There are, however, several key points to note about the Council's investment programme between 2020 and 2022:

- Investments continued to be made. Despite the generally acknowledged 2020 'pause', further investments were made and existing investments were refinanced.

Evidence for this comes from the reports to the Council's Standards and Audit Committee. A report to the committee on 10 September 2020 shows investments valued at £987m. By the time of the 24 November meeting, the value of the investments is reported as £1,034m, and by 9 September 2021 they have risen again to £1,068m. Whilst some of this may reflect commitments made ahead of the apparent 'pause' decision, it is clear that some of it was new. For example, as late as April 2022 the Council signed an agreement with the Shard group of companies which included new commitments, including non-return of capital money due. This allowed Shard to retain £20m from capital repayments with a view to investing in future projects. This didn't oblige the Council to invest in any particular schemes, but created a clear statement of intent: "As at the date of this Agreement, Thurrock holds the Existing Commitments to the Existing Shard Credit Vehicles… It is intended that Thurrock will make New Commitments in the future."

- The Cabinet Member for Finance pushed for greater oversight and transparency, having committed to greater openness at the February 2020 Council Budget meeting. An informal 'Shadow Investment Committee' was established and met once in September with a second meeting being held in December 2020. It received updates from the s151 Officer informed by analysis undertaken by Camdor Global Advisers – the Council's new investment advisers appointed in July 2020. Although it is not clear exactly what information was put before members, Camdor's December report highlighted key risks, data gaps and immediate issues that required attention. The Shadow Committee did not meet again after this.

  Nevertheless, the Cabinet Member continued to seek support for a formal committee to oversee investment decisions, and for the Council to prepare an 'investment strategy statement (ISS) that would make the investment programme transparent to all members. Following consultation with officers, the Cabinet Member began work on a draft ISS. He also pursued the development of a new investment committee with both the s151 Officer and at the Corporate Overview and Scrutiny Committee's June 2021 meeting. But limited progress was made. Emails shared with the inspection team show the cabinet member's increasing frustration with inaction on the part of the s151 Officer, whose workload was acknowledged to have significantly increased during this period of time due to taking on regeneration project delivery, culminating in his writing to the Chief Executive to raise concerns in November 2021. Only in January 2022 does the s151 Officer take a discussion paper on 'Investment Committees' to the Corporate Overview and Scrutiny Committee. Members indicated that their preferred option was to oversee what they believed to be a 'diminishing portfolio' of investments through existing committees.

- The Council's investment programme featured further in the media. The Council continued to receive questions from journalists to which it continued to offer unwavering defence of its investment strategy. Emails showing exchanges between senior officers and members on the preparation of reactive press statements have been shared with the inspection team. These emails illustrate the strength of the reassurance provided by officers to members on the soundness of the Council's investment strategy, a disregard for credible external challenge and reasonable questions, and a denial of key risks and issues – even when these have been recognised as genuine by members of the Council.

61. As this was happening, those closest to the investment programme were being made to face up to serious issues relating to the investments. Following Chip Chip's entry into administration in February 2020, further issues were exposed by the work of Camdor and, by late 2020, red flags were being raised about a £30m investment with Pure World Energy (PWE) – another firm operating in the renewable energy sector. By July 2021 serious issues were being raised about the £94.2m the Council had invested with JCF/JLG (a provider of loans to small businesses) and concerning Rockfire/Toucan where the Council had lent £655m to enable the company to invest in solar farms.

62. The s151 Officer together with the Monitoring Officer, Camdor and some other Council staff formed a group to attempt to recover the situation with these failing investments. We believe they largely kept these matters to themselves, and the Chief Executive, Leader, and other senior officers (including the Deputy s151 Officer) and members were not informed about the seriousness of the situation. Far from raising these issues, however, the 2022/23 Budget report set before Council in February 2022 appears to admonish members for the "pause" in the Council's investment programme:

> "…despite the approach successfully enduring the test of a 22-month international pandemic, the Council continues to deprioritise the previously council-wide agreed investment approach. This means investments that were planned and agreed as part of the medium-term financial strategy have been removed from forecasts and existing investments will not be replaced. The removal of this funding support mechanism increases the funding gaps faced by the Council over the short to medium term. As such, the current investment surplus in excess of £30m per annum will be removed in a phased manner from the council's finances over the next decade adding to the annual pressures that every council faces."

63. But just four months later, in June 2022, the s151 Officer briefed the Chief Executive on the reality of the challenges facing the Council's investment portfolio. The Leader was subsequently briefed, and the Chief Executive resolved to take direct control over the response to the issues. She mobilised officers and advisers to begin to gather the information she needed to understand the situation.

64. However, in July 2022, Arlingclose – operating in their capacity as a Treasury Management adviser to many local authorities across the sector – wrote to their clients advising them against lending to Thurrock Council. As part of its strategy the Council regularly needed to borrow money to repay previous short-term borrowing. The contraction in lending squeezed the Council's cash flow such that it would have been unable to pay back loans to other councils, and unable to pay its own employees' salaries which were due in the following week. This led the s151 Officer, without wider consultation, to apply for loans from the Public Works Loan Board (PWLB). But the Council's urgent requirement for funds was outside of the normal timeframe for enabling such requests to be processed - five days' notice being required to access PWLB funds. The s151 Officer therefore had to seek emergency PWLB advances which had to be escalated via the Department for Levelling Up, Housing and Communities

(DLUHC), and HM Treasury, and ultimately signed off by the Chief Secretary to the Treasury.

65. This is the extraordinary chain of events which prompted DLUHC to appoint Essex County Council as Commissioner to oversee Thurrock Council's financial management and to initiate this Best Value inspection. It is these events that triggered the resignation of the former Council Leader, the suspension and subsequent resignation of the s151 Officer, and the Chief Executive being placed on extended leave and then resigning.

Red flags and prompts for reflection

66. A key factor in the ultimate failure of Thurrock Council's investment strategy, was that external challenge and criticism was readily dismissed and downplayed within the Council. There were multiple 'red flags' and warning signs in the 2017-2020 period which provided the Council with an opportunity to take stock of the way the investment strategy was being run and to consider changes. But we have found that those who knew about these red flags generally ignored them or explained them away. As a result, opportunities to pause, learn and make changes were lost.

Advice from Arlingclose – the Council's treasury management advisers

67. Perhaps the first significant 'red flag' came in March 2018. Arlingclose, who were then the Council's Treasury Management advisers, wrote to the s151 Officer to express concerns about the way in which the Council was managing its investment programme. In the letter, Arlingclose set out that 'the Council's higher risk appetite and adopted strategy is what we would classify as extreme,' and that it had 'moved the Council well beyond the bounds of what we consider to be prudential risk management boundaries.' The letter raised concerns about investment in unrated bonds, the risks of refinancing investments and the overall debt levels being taken on by the Council.

68. The s151 Officer did not heed these warnings. It is not clear who if anyone other than the s151 Officer saw the correspondence with Arlingclose although it appears that the full contents were not shared with the Cabinet Member for Finance, the Leader or the Chief Executive. The March 2018 letter added that the risks being taken by the Council went far beyond the services that Arlingclose were mandated to provide and that whilst Arlingclose was prepared to work to support the Council to remedy the situation, to do so it would need to perform a larger role which would attract higher fees (£75,000 per year, compared to the £15,000 per year which the Council had been paying up to this point). Arlingclose have told us that the proposed fee increase was commensurate with other clients with extensive investments.

69. The issues raised by Arlingclose did not result in any changes. Arlingclose wrote again to the s151 Officer in December 2018 to give notice of their intention to terminate their contract with Thurrock Council. The s151 Officer wrote back to Arlingclose in January 2019 stating 'I do not believe we can have a working relationship going forward'. It appears that those who knew about the letter in the Council's finance department dismissed the correspondence as an attempt by Arlingclose to charge

higher fees and that this was how the correspondence was presented to those members who were told about it. We found no evidence that members or other senior officers were given a copy of the letter. No substantive attention seems to have been paid to the concerns expressed by the treasury management advisers. Since the end of the contract with Arlingclose in March 2019, the Council did not have a contract with anyone for treasury management advice, until Link were appointed in November 2022, some two years and eight months later.

LGA Corporate Peer Challenge 2018

70. Further concerns about the level and nature of Thurrock Council's investment risk came through the LGA's Corporate Peer Challenge in September 2018. The report of this Peer Challenge noted that 'there are a series of significant risks, which although you recognise, you need to really understand and proactively manage them.' These were identified as:

- 'The scale and complexity of the world in which the Council was operating…, this is a very specialist field and although you have skilled officers the peer team have concerns regarding the scale and leverage of your investments and suggest that it warrants more than the classic local authority audit.' They recommended having a specialist review.
- 'Risk Management… the peer team ask you to carefully consider whether the risks associated with your investment strategy are fully recognised and are as well managed as they could be…' They recommended improvements in the council's 'approach to governance and openness and transparency, broadening the portfolio of investments, being explicit about the investment structures being used and establishing clear limits on how much can be invested.'
- 'Long term future policy direction.' The peer team questioned the sustainability of continuing to borrow short and lend long. 'Further down the line you will need to repay debt and will have needed to forecast and plan for this. It would therefore, be prudent to look at the medium to long term plan for this now.'

71. The report from the Peer Challenge was not widely circulated. An action plan was discussed at directors board in January 2019, but in this document the risks identified by the LGA peer team appear to have been largely dismissed. Rather than defining meaningful actions to address the peer team's recommendations, the plan sets out a series of statements that seem dismissive of the points raised in the peer team's report. We found no evidence that the Corporate Peer Challenge report, or the action plan, was considered at a meeting of the Council's informal cabinet, or at any public meeting. Nor can we see any reference to the Peer Challenge, or the completion of agreed actions, in the Council's published performance reports. In interviews with the small number of senior officers and members who were aware of the report at the time of its publication, the inspection team heard that they had 'assumed' that the s151 Officer and the Cabinet Member for Finance had acted on these findings. But given the extensive work needed to address the recommendations, it is difficult to see how the s151 Officer and Cabinet Member could have addressed the recommendations alone. In any event, it appears that no actions were taken as a result of the report.

Losses resulting from investments

72. Even when the first issues arose with one of the Council's investments, there was limited engagement with the risks of the programme. We have been told that when Chip Chip Ltd went into administration in February 2020 this was viewed as unfortunate, but since it was minor by comparison with the scale of the investment programme (c.£1bn) as a whole, it was judged to be tolerable as an expected aspect of any investment strategy.

> 'Out of a large portfolio, investments go up and down, you have one fail and this [£14m] is a very small number.'

73. Notwithstanding this view, this should have triggered reflection and review of the overall strategy. Despite losing borrowed public money, the Council did not do so. Had this instead been viewed as a loss equivalent to 10% of the Council's net revenue budget it can only be imagined that more searching questions would have been asked and perhaps a wider understanding of the risks being taken by the Council would have resulted. Ultimately this opportunity was missed, as many members of the Council – having never been made aware of the existence of this investment – were neither told of its loss. There are no references to the loss in reports to Standards and Audit Committee or to Corporate Overview and Scrutiny.

74. The Council endorsed a refreshed investment strategy which potentially increased the size of the borrowing just two weeks after this loss was incurred, at their annual budget setting meeting. There was no reference to the loss in any of the supporting reports.

Articles in the media

75. Articles by the Bureau of Investigative Journalism, published in the Financial Times in May 2020 (and in other media outlets) provided a further opportunity to pause and reflect. But instead, members and officers doubled-down and defended the Council's position. There is no evidence to suggest that members of the cabinet sought additional reassurance from officers in light of these media reports and before publicly leading this defence. When an Extraordinary Council meeting was called in July 2020 to discuss the article, members largely ignored the information and concerns raised, and instead congratulated the Council and its officers on the success of the programme. As one member described in discussion with the inspection team, the administration felt they had 'got away very lightly' simply because the opposition made no new criticisms as part of the Council debate.

LGA Corporate Peer Challenge 2022

76. Further warnings were contained in the report of the 2022 LGA Corporate Peer Challenge. This took place in January 2022 – some 18 months after the 'pause' in the investment strategy came into effect – and made clear that:

- the Council had yet to grasp the urgent need for long-avoided transformation, and that the Council's ambitions outstripped the resources available over the medium term. This peer team's report stated that 'Council finances are severely challenged … using more reserves than in previous years … with no solid plans for 2023/24 and there is likely to be insufficient reserves available for use … This is not a sustainable position and does not demonstrate good financial management.'
- Improvements were required in governance and oversight of the Council's investment, commercial activity, and current/future capital programmes.
- Members needed more information. With respect to financial planning and management, the peer team recommended informal briefings and further detail in published reports.

At the time of our inspection, we could see no sign that the Council had made significant steps towards addressing these issues.

Financial impact on Thurrock Council

77. During the initial years of the investment strategy the additional revenues it delivered allowed the administration to avoid some of the difficult decisions on service reductions and council tax increases that were seen across the wider local government sector. The additional income also helped to shore-up local services. Emails shared with the inspection team suggest that the informal feedback received from Ofsted was that if Thurrock Council hadn't been in a position to fund a range of initiatives for children, it may not have secured the improvements it had in Children's Services at the time of its 2019 inspection (the authority went from 'Requires Improvement' to 'Good').

78. But in the longer-term, the ultimate failure of the investment Strategy will have a catastrophic impact on Thurrock Council's finances. The full extent of the Council's financial difficulties will not be known for some time. At the time of writing, the Council's Quarter 2 Finance Update 2022/23 suggests that there is an in-year deficit of some £470m, and an estimated structural deficit in 2023/24 of £184m. This is the sum that is in excess of its budget and must be found over and above the cost of the provision of services for the residents of Thurrock (£154m in the 2022/23 General Fund revenue budget). Setting aside the current in-year deficit position, this suggests an ongoing structural deficit of 120%. Given this, it is clear that the Council will be unable to set a balanced budget in 2023/24 within its current resources and without significant support from government. It will need to deliver an extensive savings programme for years to come.

79. In its Capital Strategy report presented to Council in February 2022, the level of borrowing estimated as at 31 March 2023 is shown as £1.3bn (excluding HRA) all of which must be properly accounted for. The annual revenue costs associated with this debt make Thurrock Council – one of England's smaller unitary councils in terms of population and tax base – highly vulnerable from a financial point of view. The Council does not have a sufficient portfolio of assets that can be sold to significantly reduce this debt burden.

Thurrock Council beyond the investment strategy

80. In our view, the actions of the former s151 Officer were central to the conception, development and ultimate failure of the Council's investment strategy. He sponsored a strategy that neither he, nor the finance teams he led, had the skills and experience to safely deliver and failed to secure appropriate investment advice. He failed to respect the investment principles agreed by the Council and instead made high-risk investments whilst failing to adequately manage and report on these risks. He also failed to make the Chief Executive and Leader sufficiently aware of issues as they emerged.

81. These factors, and others, prompted the Council's decision to start a disciplinary process against the former s151 Officer. This process began in autumn 2022, following the appointment of Commissioners and as the scale of the Council's financial difficulties became clear. The s151 Officer resigned before this process was concluded.

82. But the account of the investment programme set out above clearly demonstrates that the failings in the Council's financial management do not stem entirely from the actions of the council's s151 Officer. Put simply, the s151 Officer could not have acted as he did in a well-functioning, well-led local authority. Our assessment therefore is that, although serious mistakes have been made by individuals, the challenges facing the Council stem from a series of self-sustaining, systemic weaknesses which have allowed for repeated failure over many years.

83. Over the last five years Thurrock Council has repeatedly failed to identify, understand and properly manage the risks it has taken. It has failed to put in place appropriate structures and processes to ensure accountability and oversight. It has failed to identify and has, in many cases, actively dismissed clear warning signals. When its investments have incurred losses, members and officers have sought to hide these losses, removing the opportunity to take stock and learn from previous mistakes. Thurrock Council's financial difficulties should therefore be viewed as a consequence of wider dysfunction within the Council – not as the cause of this dysfunction.

84. Through our inspection we have identified that this pattern of failure, and the nature of the Council's response, has been enabled by:

- failures in political and managerial leadership and oversight, including a lack of consistent strategic direction and the creation of an inhibiting working environment for those in senior leadership positions;
- inadequate governance arrangements;
- weaknesses in the Council's control environment, including failures of the officers in the Council's three statutory roles to maintain the integrity of the authority; and
- a failure to secure appropriate and sufficient skills, capability, advice and resource to successfully deliver major projects.

85. These factors have combined to create a culture of insularity and complacency, within which:

- the collective work of the Council's most senior officer group has focused on transactional activity at the expense of corporate endeavour;
- transparency has been diminished;
- the normal and proper checks and balances have been eroded; and
- internal challenge has been constrained or discouraged, and external criticism and challenge have been routinely dismissed.

86. The impact of these failures can be seen beyond the Council's investment programme. Although key services such as Adult Social Care and Children's Services have performed well under professional leadership, and with the benefit of a higher level and security of funding than they might have expected, there have been significant and repeated failings in the Council's delivery of major projects. These failings provide further evidence that Thurrock Council has failed to comply with the Best Value duty.

87. Significant transformation is now required within Thurrock Council. The Council's financial position means it is inevitable that, in addition to making extensive efficiency savings, it will have to make a significant and rapid reduction in the scope of local services. Many services, which have been relatively well funded over the past decade may, as a consequence, be equipped to do little more than the statutory minimum for the foreseeable future. Leading this transformation will be a hugely difficult task. It will need to be effectively managed at both the corporate and service level if the Council is to avoid serious operational failures.

88. Tackling failings in leadership, governance, control and culture will be fundamental to the effective delivery of this transformation. Action is therefore required to build, embed and sustain a fit for purpose operating environment within the Council. The recommendations set out at the beginning of this report are designed to support this process.

89. In the sections which follow, we set out more detailed findings from our inspection. As well as providing evidence for our conclusions and recommendations, we hope that these findings will provide a practical guide to those who must lead the process of securing change within Thurrock Council.

Part 3: Failures in political and managerial leadership

90. We identified significant failings of leadership throughout our inspection. These failings were evident in the behaviours of members and officers, and in the operating style and behaviours of the former Chief Executive.

91. The failings observed are long-standing, systemic and self-sustaining. We have not, therefore, sought to identify a 'principal' or 'first cause.' It is difficult to see what value this would have, even if such a thing could be isolated. Rather, we have sought to describe the aspects of Thurrock Council's operations that enabled these failings to sustain, and the characteristics and behaviours that need to be addressed.

Leadership provided by members

92. The political leadership of the Council have not set a clear and consistent strategic direction. There is a broadly accepted need for the borough to 'grow', but this is not articulated in any developed way, beyond a series of 'strap lines'. Nor have many of the growth projects undertaken by the Council, either as local initiatives or as a contractor acting for other agencies, been properly understood in terms of the governance, skillset or degree of attention necessary to bring about successful delivery. The Council's Corporate Plan, which was designed to ensure, among other things, that operational activity was aligned with strategic aims, fell into disuse and production and approval of its replacement has been repeatedly postponed. A draft has existed for some time, but members and officers have not been able to agree a version to publicly report it to cabinet for recommendation to the full Council.

93. The cabinet also failed to set direction by taking difficult decisions. We have heard from multiple sources that the cabinet avoided difficult choices on the prioritisation of resources. In years when budget savings had to be identified, cabinet members rejected all savings options, leaving it to officers to develop plans to achieve a balanced budget.

94. In the absence of clear goals and a strategy to achieve these, political leaders' energy has been concentrated on a narrow range of operational activities focused on 'place' and 'street-scene' issues. The phrase 'clean it, cut it, fill it' has been central to the administration's thinking and to its interaction with wider members and officers. The clearest examples can be seen in those years in which the investment programme delivered returns - these were used to fund short-term initiatives set out through what has been described to us as a "members' wish-list" rather than to enable any wider strategic change.

95. This short-termism is driven, in large part, by a combination of Thurrock's fine political balance, exacerbated by holding elections 'by thirds' which results in an election taking place in three out of every four years. This leaves any minority administration vulnerable, with any small change in election results potentially leading to a wholesale

change in political control. We have heard consistently that work to bring members' attention to the big strategic issues is only possible for a few months each year, as they quickly go back into 'election mode' for the following year.

96. As well as failing to set a clear political direction, cabinet members have failed to hold officers to account for delivery. Our discussions with current and former cabinet members indicate that many now recognise that there was a fundamental lack of curiosity, tenacity and follow-through in the scrutiny of Council investments:

- Too few questions were asked of officers. Members adopted the investment strategy with a clear expectation as to how it would operate but did not seek to institute a regular system of reporting on the scale, composition, and performance of the Council's investment portfolio. Instead, they accepted a monitoring arrangement through which minimal and high-level information was shared. This undermined proper oversight of the programme.

  We did not see any evidence of members asking questions about the risks of the programme and how these were being managed or mitigated – even when third-party reports such as the 2018 LGA Corporate Peer Challenge, raised concerns. A senior cabinet member told the inspection team that "it was agreed that everything that came from that [report] would be embedded in the way that we operate… and I assumed that it had been done".

- Questions asked were too often rebuffed. Where members did ask questions about the scale, composition and performance of the investment programme, and indeed about the companies with which investments were held, they were routinely told by officers that this was 'operational' and/or 'commercially sensitive', and that it therefore could not be shared with members. These responses were often unsustainable and potentially unlawful, but they were accepted too readily and without effective challenge.

- Casual spoken answers were too readily accepted. Members accepted spoken reassurance from officers that everything was 'going well' with the Council's investment strategy and that appropriate protections were in place to safeguard the Council's interests. Even after senior cabinet members were informed of substantial losses within the investment programme (e.g. the £14m Chip Chip loss in February 2020), they continued to be satisfied with spoken assurances on the performance of the programme.

97. There was little understanding of the nature of the investments made and the associated risks, and little expertise among members on the subject. In the absence of this understanding and expertise, the administration placed its trust in officers, but ultimately did too little to assure itself that this level of trust was warranted.

98. This lack of curiosity and failure to hold officers to account is not limited to the Council's investment programme. This theme is explored further in Part 5 of this report which examines failings in the delivery of major projects.

99. Wider failings in the behaviours of some members have contributed to these problems. It is well understood among Thurrock Council officers that some members

routinely leak information to the press although, it cannot be proved which members are involved. This is not a problem that is unique to Thurrock, but the response of officers sometimes seems to have been to simply restrict the flow of information that is given to members, on the basis that if they are not told, they cannot leak.

100. These failures in political leadership and weaknesses in member performance have developed in an environment where the training, development and support of members is not regarded as a priority. This will need to be addressed if the Council is to tackle some of the broad failings set out above.

- The current member training and development programme focuses almost exclusively on induction and is run in the three months following an election. It is dominated by generic and high-level briefing sessions on broad topic areas and is poorly attended.
- Beyond induction, we have heard that there is no meaningful support for member development, with one senior member describing the provision as 'diabolical,' and focused on compliance and box ticking.
- There is no training or development offer for those undertaking cabinet roles. Any members who wish to undertake such training are required to make their own arrangements with third party providers such as the LGA.
- The Council does have a 'member development working group' but it appears not to meet frequently and is not a priority for those involved. After speaking to some members who were disparaging about training, we were informed by officers that they were members of this working group - but those members did not mention the existence of the group to us.

101. The absence of an effective training and development programme, together with senior officers' inappropriate deflection of legitimate enquiries or proposals, has created an inhibiting environment for members within the Council. They are left to fend for themselves to far too great an extent, navigating complex and initially unfamiliar governance structures and processes. The Council's senior managers have failed to ensure that members are equipped, trained and supported in their roles, and senior members have not done enough to ensure that those who are new to their role have access to good quality training and support. The effect is that many members have become remote from the core business of the Council – they are less able to pursue the ambitions and aspirations for with which they were elected, and they are not empowered or equipped to take sound decisions and hold officers to account.

102. Even within this inhibiting operating environment, it is clear that members have not done enough to get a firm grip on the operations of the Council. As a whole they have been too timid and have lacked the tenacity to follow through on their responsibilities. Given the challenges facing the Council now, the borough will require members to hold and demonstrate qualities of strength, determination and decisiveness that have not been enough in evidence in recent years.

Leadership provided by senior officers

103. Discussions with Thurrock Council directors have suggested that, in the absence of clear strategic leadership from the administration, officers have played a greater role in defining strategy than might otherwise have been the case. Consequently, both elected members and officers have described the authority and its process and operating practices as 'officer-led' rather than 'member-led.' But the leadership provided by many of the Council's senior officers has been inadequate in several important respects.

104. We have been told repeatedly throughout the inspection that the Council's directors have failed to act as a corporate leadership team. Instead, they have pursued silo-based ways of working, within which professional leaders have been able to deliver services and, in some cases, secure significant change within their own business functions. The consequence of this has been that, with the possible exception of the Council's emergency response to the coronavirus (COVID-19) pandemic where the Council responded effectively, directors have failed to provide collective, strategic leadership.

105. When the Council's directors have come together – through the Council's directors board – they have focused disproportionate attention on operational performance issues and on transactional discussions between their siloed professional functions, rather than on working corporately. The Board spent considerable time on collectively reviewing all papers and reports to be presented to members with a view to minimising, what has been described to us as 'noise in the system,' but it created little time for strategic planning, or for taking a 'helicopter view' on the wider operating environment and changes that will impact on the Council and local residents.

106. That the directors board has been able to operate in this way for some years is a reflection of the fact that, while there are generally positive relationships between individual directors and cabinet members, there is an unproductive collective relationship between the directors board and cabinet. This has undermined the authority's ability to progress the collective discussion on strategy and to consider difficult discussions on the allocation of resources to key priorities.

107. It is also clear that levels of income available in the early years of the Council's investment strategy ensured there was sufficient funding to deliver on operational priorities, sustaining and in some respects enhancing service levels. This reduced the need for difficult collective discussions on resource allocation or prioritisation across council functions. Any savings that were required could be delivered within existing service silos. It is worthy of note that, with the exception of challenges in the Council's waste management service, we have not seen anything to raise significant concerns in respect of the manner in which day-to-day service operations have been conducted.

108. Directors' transactional, silo-based working weakened the Council's corporate 'centre' and, in so doing, eroded one of the natural checks and balances on the work of senior officers. By focusing narrowly on their own disciplines, directors failed to raise questions and exert challenge beyond their own professional area. They failed to

demonstrate the curiosity and rigour required to effectively safeguard the Council and secure its continued improvement. Other than the s151 Officer, none of the directors interviewed as part of the inspection had any real knowledge of the Council's investment strategy and what this involved. Despite the risks to the authority, and the significance of the income generated to service delivery, this was viewed as the sole preserve of the s151 Officer. Again, this narrowness of ownership was not limited to the investment strategy. We have been told consistently that the delivery of major projects – including infrastructure and regeneration projects the scale of which should necessitate corporate ownership of risk – were seen as the responsibility of individual project managers.

109. There is an urgent need for Thurrock Council to improve collective working between its senior officers, and between senior officers and cabinet members. Positive one-to-one links between individual directors and cabinet members and effective leadership of the Council's professional services will not be sufficient to sustain the burden of decision-making required to guide the Council through change of the scale necessary to secure its future.

110. Directors and senior officers were also directly complicit in the development of a 'good news' culture, in which messaging to members, and to the public, has become focused on the delivery of continuous success. In cases where challenged projects and programmes have excited curiosity from councillors or members of the public, senior officers have too often sought to minimise concern by shrouding the facts in secrecy and delay, often as efforts were being made to deal with issues in the hope of negating the need to deliver bad news at all.

111. There are examples of this practice throughout the Council's investment programme. Failing investments were never widely discussed or reported and we have seen throughout our inspection that members – including many of those holding cabinet roles – were unaware of significant financial losses until mid-2022. But there are wider examples:

- Senior officers hid the full extent of multi-million pound projected overspends on the A13 widening project from members for several years. Although cabinet members were aware of the details, at the time of writing the majority of Thurrock members have still received no formal report on the final anticipated costs of this scheme. Senior officers provided some information on projected cost over-runs to funding bodies such as the Department for Transport and the South East Local Enterprise Partnership and as things stand, these wider bodies have received more information on the project costs than Thurrock Council members.
- Senior officers withheld reports by specialist auditors, commissioned to examine the issues underlying failures in the A13 widening project and the Stanford Le Hope Station scheme. These reports, which were critical of these projects' set-up, management and governance, were never shared with members or with project funders despite commitments to do so. When information on cost-overruns on the A13 widening project were shared with members, they were described as arising exclusively from on-site factors rather than from the council's poor contracting and risk management.

- Senior officers also concealed difficulties with wider regeneration projects for fear of losing political support. The inspection team heard from officers that in presenting to project boards, there was an emphasis on relaying positive news and detailing action that had already been taken to mitigate issues. We heard that where challenges were reported, they were rarely shared with members: "there could have been more openness on the difficulties that the projects were facing. That was all reported up to the program boards and then didn't necessarily go any further to overview and scrutiny and cabinet as often as it should. There was a reluctance that, if we shared issues, then the political support for the scheme will be lost and senior managers didn't want to face that risk."

  These issues are explored further in Part 6 of this report.

112. This practice has contributed to the broader decline in transparency within the Council. Both members and officers have reported this as a concern to the inspection team. If members are not given facts which they can use as the basis for asking questions, it is all too easy for questions to be dismissed as at best speculative, and at worst vexatious. The desire to showcase good news and minimise the bad, has contributed to:

    - poor quality formal reports which omit key information (this is explored further in paragraphs 149 - 155);
    - a routine performance reporting regime that brings operational successes to the foreground whilst underplaying the risks and issues facing major projects and programmes;
    - a tendency to rebuff questions from members on challenging topics wherever possible; and
    - a defensiveness in the Council's engagement with the local press.

113. The failures demonstrated by the Council's directors – silo working, a focus on transactional issues, sharing only good news with members – were driven, in large part, by the behaviours and operating style of the former Chief Executive. These are explored further below.

114. It is worth noting that individual directors did, from time to time, express their frustration with this way of working. There are some examples of directors seeking to promote a more collective approach to corporate leadership and to sponsor discussions on cross-cutting transformation. Nevertheless, it is clear that the director cadre as a whole – through timidity and lack of tenacity – did too little to change these operating practices. We have heard that, rather than speaking up collectively to challenge the status quo, senior officers either left the authority or retreated into informal 'support groups' providing advice and moral support to one another and seeking ways to 'work around' the Chief Executive. Although this may be an understandable human response, it indicates that opportunities to tackle the factors underlying the Council's current difficulties may have been missed. The Council's current directors, many of whom were not in post throughout this period, will need to demonstrate a considerably stronger approach to corporate leadership if they are to guide the Council through the changes that lie ahead.

Operating style and behaviours of the former Chief Executive

115. Leaders at the top of an organisation invariably set the tone and have a major influence on an organisation's culture. The leadership style of the Council's former Chief Executive has therefore been a recurring theme throughout the interviews we have undertaken with officers and cabinet members. Many described the impact that former Chief Executive had on the way the Council operated from the very start of her tenure in 2015. 'The culture did change, certainly from the point I joined the Council to when [the former Chief Executive] joined, she had a very particular management style.'

116. Among those officers who had a direct working relationship with the Chief Executive, there was a clear view that – at a personal level – the former Chief Executive was very supportive in dealing with individual pastoral matters. She was generally supportive of staff and accessible to them. But this supportive style was not extended to professional issues or to matters of performance and delivery. In these cases, senior officers described the former Chief Executive as having an autocratic leadership style. They described a clear command and control approach and highlighted an absence of psychological safety in their relationships with the former Chief Executive. Many felt reticent to have open and honest conversations with her for fear of being blamed or being publicly shamed. We were told that:

> 'If something went wrong people were fearful that it would "hit the fan" with the Chief Executive and of her reaction. There was a blame culture… where the Chief Executive needed someone to blame.'
>
> 'She would frequently say "who do we sack for this?"'
>
> '…you would find you have an e-mail in your inbox where she'd identify the spelling mistake in one of the outgoing letters, et cetera. And then you know there would be hell to pay for certain errors, etcetera. And it did make you feel a little bit guarded, I guess in terms of what's going to happen next.'

117. This leadership style led to many of the senior officers adopting coping strategies to avoid confrontation with the former Chief Executive. Many described either 'keeping their head down' or 'protecting their teams' from this style of leadership. Some reported that they sought HR support regarding the Chief Executive's behaviours. Some highlighted instances where the Chief Executive refused to speak with them for a period lasting several weeks, following disagreements. Others still described the long-term impact that this style had on their relationship with the Chief Executive, and the strategies that senior officers would adopt to manage the risk.

> 'I think people became weary of this leadership style over time rather than do something about it'.
>
> 'We would often plan outside the meeting how we would present an issue or problem to minimise a strong reaction from the Chief Executive'.

118. Those directors and senior leaders we asked were unable to describe times where the former Chief Executive inspired trust or created a working environment where they could have transparent and constructive conversations with her. Few could give examples of cases where their views and opinions were valued, or of where giving and receiving feedback and constructive challenge was welcomed.

119. The Chief Executive's leadership style had an equally significant impact on the way directors and senior officers worked together as on her relationships with individual colleagues. Paragraphs 103 - 105 above discuss how the Council's directors board has failed to act as a true corporate leadership team, focusing attention on operational issues and transactional discussions rather than a shared corporate agenda.

120. The directors were in broad agreement that this way of operating the directors board was 'heavily influenced' and 'driven' by the Chief Executive. Directors described the former Chief Executive's lack of desire to prioritise or give appropriate time to strategic discussions. Few could give examples of where they were encouraged to collaborate with others around strategic issues or to solve problems.

> 'Any strategic conversation in terms of what needed to be prioritised would always be overtaken by something operational that the Chief Executive wanted to fix at directors board'.

121. Directors also described their reluctance to bring strategic matters to the meeting. This was seen as the Chief Executive's meeting and one in which she set the agenda and tone. It was her prevailing mood or her view on an agenda item or issue that would determine how it would be discussed. Directors described that the Chief Executive would often speak first to give her view. This would have the effect of closing down the conversation and crowding out challenge.

> 'When there was a crosscutting corporate issue raised at the directors board meeting, no one would want to say anything until they knew what the Chief Executive's view was on the issue for fear of disagreeing with her. It was a parent – child relationship with directors board and no one wanted to be the naughty child.'

122. This was not a meeting where open debate and constructive challenge were encouraged or facilitated. Directors described the Chief Executive's behaviours at this meeting as being 'challenging' and difficult to respond to whilst in the meeting. 'You often felt that you were not listened to and that your opinions did not count'.

123. Through our interviews with directors board members, we sought to establish whether their experience of this leadership style in directors board differed from that in their line management meetings with the Chief Executive. Some described regular contact with her via line management meetings, but conversations focused largely on transactional and operational issues.

> 'Our one-to-one meetings with the Chief Executive were in the main transactional and very rarely strategic and if the meetings were cancelled people were relieved'.

124. Others described infrequent 1:1 meetings and a desire to avoid raising strategic issues wherever possible so not to draw attention to areas of ambiguity and uncertainty, issues still in development or problems that they may have experienced. These officers reported a fear that the Chief Executive would get too involved in the detail or in micro-managing. In effect, these directors were happy to be 'left alone' to get on, and told us that 'it was sometimes easier not to tell her things'.

125. The former Chief Executive's style of management had serious consequences for the performance of the Council. It eroded the effectiveness of informal checks, balances and early warning mechanisms:

- **It reduced the extent to which problems could be identified early and addressed.** Directors described an unpredictable and at times volatile persona, where the Chief Executive was not accepting of, and visibly angry when receiving, 'bad news.' Several of the directors interviewed recounted the Chief Executive losing her temper on several occasions in the open plan offices. They recalled incidents where the Chief Executive was 'screaming' at them or at other senior officers. Directors and senior officers felt they needed to work out solutions before flagging problems, instead of seeking help or support.
- **It reduced the extent to which senior leaders could challenge beyond their professional disciplines.** Without the necessary level of psychological safety, trust and confidence in their relationship with the Chief Executive, senior officers cannot confidently focus on their corporate responsibilities or be effective in holding each other to account.
- **It reduced senior leaders' ability to work in the open.** It contributed to a culture where it was challenging for senior officers to work collegiately; to contribute proactively to building medium to long term plans; to be inquisitive and curious about strategic programmes and initiatives; to invite feedback and give constructive challenge; to openly share concerns in order to learn from setbacks and failure together in order to find solutions and feasible mitigations.

126. The operating style and behaviours of the Chief Executive were therefore a major contributor to the failure of the directors board, and its members, to understand, oversee and own major corporate initiatives such as the articulation of clear priorities, the investment strategy, the delivery of cross-cutting transformation activities and of financially significant infrastructure and regeneration projects.

127. This 'dereliction' of accountability cannot stem solely from the behaviours of the Chief Executive. All members of the directors board hold some responsibility for the effective stewardship of the Council. But such was the dominance of the Chief Executive's autocratic leadership that directors appear to have accepted a 'parent-child' relationship. Many adopted a 'bunker' mentality within their own professional and service silos and, as such, failed to effectively exercise their corporate leadership roles.

128. It is perhaps regrettable that the position of Chief Executive in local government is not formally defined (beyond the limited definition of the 'Head of Paid Service'). But as the Council looks ahead it will need to identify and recruit a Chief Executive who can

both navigate the scale of change facing the Council services and tackle the cultural issues that have emerged in the way that senior officers have operated within the Council. A future Chief Executive will need to:

- effectively hold others to account for delivery: enhancing the quality of one-to-one management discussions and creating an environment where his/her senior team feel able to present emerging challenges and issues to both the Chief Executive and his/her peers, and to seek support;
- put in place the proper checks and balances: in addition to securing improvements in the Council's formal system of checks and balances (see Part 5 of this report) any new Chief Executive will need to ensure senior officers are empowered to respectfully challenge beyond their own professional disciplines, to identify potential red flags and warning signs and, where necessary, to insist on satisfactory responses from their colleagues within a healthy corporate operating environment; and
- ensure that the Council's collective output and value exceeds that of the sum of its parts: reversing the directors board's focus on transactional, operational discussions and establishing a true corporate leadership team.

Awareness of these issues

129. Many of these issues were known to senior leaders within Thurrock Council and had been for some time.

130. The LGA Corporate Peer Challenge Report from January 2022, recommended that the Council; "Strengthen corporate leadership, organisational culture and member/officer relations – make time for facilitated conversations, be clear on roles and responsibilities and describe and then demonstrate the culture you want to be." Following this, the Chief Executive commissioned an external coach to work with the directors board on their team and leadership development. The coach carried out one-to-one interviews with members of the directors board and provided the Chief Executive and directors with a diagnostic report in March 2022 in advance of their first team development session.

131. This diagnostic report makes for stark reading, however, its key themes are consistent with our findings:

- directors board was not operating as a team focussed on the strategic corporate responsibilities and priorities of Council;
- its dysfunctional way of working was determined by the Chief Executive's leadership style.

132. The directors commented that this was the first structured development that they had undertaken together as a leadership team, and that it was their first opportunity to provide feedback on the effectiveness of the directors board and on how they might work with the Chief Executive, and each other, going forward. The directors commented that whilst they were not surprised at the descriptions of the Chief

Executive's leadership style contained within the diagnostic report, they were surprised at the consistency in their own accounts, and of their lived experience under her leadership.

133. The diagnostic report summarised the following themes:

- Challenging alignment with cabinet members: describing the relationships with cabinet members as 'disconnected and lacking in trust'.
- A will to become more strategic: describing a need 'to have a more strategic approach as a team' and a 'lack of coherence around what shared objectives' they had as a team apart from delivering the budget.
- A team of individuals working operationally: describing a team that 'operates as individuals who come together in a regular forum but seldom work closely as a team outside of this' and a 'sense of a lack of psychological safety and a last-minute-culture'.
- Coming together, challenging and connecting your silos more: describing where they wanted to 'challenge each other more as a collective, strategic team of leaders'.
- A way of working as a team: describing the Chief Executive as 'a strong, decisive leader who is committed to Thurrock' but there is a common challenge around 'the dynamics when working as a team with the Chief Executive as leader'.

134. This diagnostic report broadly accorded with the leadership behaviours of the Chief Executive that the inspection team heard repeatedly from many of the senior officers and elected members that we interviewed and who had a direct working relationship with the Chief Executive.

Interview with the Chief Executive as part of the inspection

135. The inspection team interviewed the former Chief Executive at an early stage of this inspection, but unfortunately, part way through the interview the Chief Executive advised us that she was unable to continue that day. Despite attempts to do so, we were unable to secure an appointment for the interview to continue, and the interview could not be concluded. The former Chief Executive ultimately chose to send a written response to some general points relating to her perspective on a number of issues, including her leadership and management style and role at the council.

136. This response included details of her most recent externally facilitated performance appraisal which raised no specific concerns about her performance. This also included the outcome of her annual 360-degree assessment involving a 'range of officers and external stakeholders to provide feedback' on her leadership, and she stated that the outcome was consistent with feedback in previous years.

137. As was corroborated by her direct reports, she stated 'I am very supportive, a number of the team have dealt with very difficult personal issues in their lives and I have worked hard to make sure they feel supported by both me and the organisation. This

has included supporting colleagues who have suffered loss, had mental health or other significant health issues'.

138. The former Chief Executive told us that she held her direct reports to account by setting them objectives and that these were discussed at directors board to ensure there was senior leadership sign-up. She also referred to a corporate scorecard used to monitor performance against key priorities which are monitored at scrutiny committees. She met with direct reports generally every four to six weeks. She told us that she had a 'no surprises policy' to share issues that arose and that if there was underperformance there would be support and an improvement plan, but if that did not work then action would be taken if necessary to 'exit' the officer 'allowing this to be done with dignity'. Where there were service issues, she would step in or support a directors board lead if a service was under performing or experiencing difficulty.

139. She told us that the Council had not been open to external scrutiny before she had arrived, and gave examples of what she had done to bring in external scrutiny and challenge. This included commissioning LGA Peer Reviews focused on corporate activity, finance, communications, and bringing in external experts to review key services and latterly, a leadership coach to work with her senior team. The former Chief Executive told us that she was a 'firm advocate of continuous improvement' and sought to learn from difficulties at other councils such as the London Borough of Croydon.

140. The former Chief Executive also told us that she worked hard to pursue a good relationship with members, speaking to the Leader every day ensuring that she kept him sighted, was responsive to his requests and was generally available to him. She told us that the political dimensions of Thurrock Council took up a disproportionate amount of time for her and the senior team, but she recognised that it was an important investment in order to deliver the organisation's goals. She told us that managing relationships with politicians was a challenging part of the job, that the opposition group did not want to engage with the administration and that, having secured a majority, the administration did not want to engage with opposition parties, trying to take seats away from them. She told us that she tried to improve the political culture of the organisation.

The impact on the culture of the Council

141. The failures in political and managerial leadership outlined above combined to create an operating environment within which very few people had a clear understanding of what was going on across the Council:

- members were focused on short-term initiatives without curiosity beyond their own areas of interest;
- senior officers were operating largely within their own professional silos rather than acting corporately;
- there was a culture among senior officers of 'keeping their head down' or 'protecting their teams' from the Chief Executive's style of leadership; and

- the sharing of information was distorted to showcase operational successes while risks, issues and challenges were shrouded in mystery. Opportunities to deal with emerging issues in a timely manner, and to prevent escalation in these matters, were lost as a result.

142. The Council has operated in a manner in which the reality of what was happening – whether that be good or bad – was understood only by a relatively restricted group of senior members and officers. Senior officers shared little of it among themselves.

143. This pattern of dysfunction is clearly visible in the case of the Council's investment strategy. Few people knew what was actually happening and only one person knew everything (the s151 Officer). Others, who could and should have known more – the Leader, the Cabinet Member for Finance and the Chief Executive, the wider cabinet and the directors board – knew varying amounts, but nowhere near enough. Given that the programme was saving the authority from having to make difficult decisions that other authorities were making, it perhaps suited the authority to not ask more questions and insist on full answers.

144. In any case, the compartmentalisation of activity and accompanying restriction on flows of information has led the Council into a way of working in which poor decisions are taken without appropriate challenge and scrutiny and that where risks, issues and mistakes are not made visible in a timely way (if they are made visible at all). This undermines the Council's ability to respond effectively, taking remedial action and preventing further escalation, and to learn.

Part 4: Inadequate governance arrangements

145. We identified serious failings in Thurrock Council's governance arrangements through our inspection. We recognise that every council has its own way of doing things, but good councils have a clear legal framework for decision-making which enables everyone involved to know who can take what decision at what time. When they take decisions, the facts known to the decision-maker and the advice received is recorded alongside the decision taken. This enables transparency inside and outside the organisation and makes it clear what decisions have been taken by whom, based on what information, and with an understanding of the associated risks. This clarity ensures accountability. That hasn't been our experience of decision-making at the Council.

146. The Council lacks some of the fundamental elements of good governance and decision-making. We have found the following:

- Officers and members do not always understand their roles.
- Reports to members frequently do not include enough information to enable decisions to be taken or understood by anyone without specific expertise, and officers do not always give the right advice.
- Risks are often not appropriately drawn to members' attention.
- Sometimes 'decisions' are 'taken' which are not decisions, but which are treated as if they were decisions.
- Practice at meetings and of minuting means that decisions are often not properly formulated or recorded.
- Scrutiny is weakened by a lack of access to information and by the fact that senior officers and members have diverted its resources onto non-productive activity. Scrutiny members have not been listened to by senior members.

147. These shortcomings have:

- seriously impaired the ability of the Council to make good, well-evidenced, reasonable and lawful decisions subject to the proper scrutiny;
- created an environment in which officers have taken decisions without being properly bound to follow the wishes expressed by members;
- diminished levels of transparency; and
- led to a disengagement in the democratic functioning of the Council among members – continuing the cycle of decline in the functioning of Council governance.

148. The weaknesses we have observed in the Council's formal decision-making processes are set out below and are supported by case studies at the end of this report. **The range and breadth of the weaknesses identified suggest that a comprehensive review of the Council's governance arrangements is urgently required.**

Quality of reports

149. Many of the reports we have seen at the Council contain significantly less information than we would expect. None of the formal reports that we have examined include all of the following elements, which we would consider a minimum requirement: the decision requested, the key issues, the pros and cons, the risks, financial implications and any legal advice. Nor do they always set out the options to consider.

150. This undermines decision-makers' ability to take decisions and the ability of others to hold them to account. Some reports included so little information that it is difficult for members to take proper decisions. Too often, reports introducing technical documents do not explain them and do not draw members' attention to risks, issues and things that are out of the ordinary.

151. In other cases, reports contained such poorly formed options and recommendations that the decision requested of members was equally unclear. We have seen cases where members did not appear to fully understand the decisions they were taking, what they were voting for or, in scrutiny meetings, what they were scrutinising. Indeed, some members openly admitted to the inspection team that this was the case.

152. There is evidence to suggest that the lack of information and clarity provided in reports reflects – at least in some cases – a conscious choice by senior officers:

- Both officers and members told us that the former Chief Executive had asked for reports to be less detailed and to omit information that the author would otherwise have wanted to include.
- Several members told us that they had made reasonable requests for additional information, or for reports to be produced on specific issues, but were not provided with what they had requested.

153. The consequence is that where the Council's members are asked to approve documents, they frequently don't have enough information to do so. The covering report should explain technical documents, particularly if something is out of the ordinary. This often does not happen, and it can have severe and far-reaching consequences.

154. The approval of the Council's Treasury Management Strategy provides an example of where reports failed to include sufficient information to explain the decision requested. It is also a helpful example of the consequences that this can have.

155. In adopting the Council's Treasury Management Strategy (see Appendix 4 – Case Study 2 for more detail), members were asked, in successive years, to approve a policy presented as an annex to an appendix to a report without a clear explanation of this policy, or its implications. In most authorities the treasury management strategy is a routine document, but within Thurrock Council it has been the document which gave the s151 Officer unprecedented freedom to place hundreds of millions of pounds of investments without meaningful oversight. This arrangement is highly unusual among local authorities – a point that should have been made clear to members from the outset. But this point was not made. As a result, someone who only read the report

would not be likely to understand what they were approving, much less the impact of the decision they were being asked to approve. This undermines the ability of members to hold officers to account. It means that the Council is not acting transparently.

Questions at full council

156. Accountability and transparency are further undermined by the way questions at full Council have been treated. While the constitutional process for asking questions at Council meetings is reasonable (as in section 14 of part 2 of chapter 2 of the constitution), we were told that it has not been followed. It provides for questions from councillors to be rejected if the question includes exempt information. It goes on to say that:

> 'The Monitoring Officer shall place the questions on the agenda in the order that they have been received. Where the Monitoring Officer considers that the question or the answer is likely to disclose confidential or exempt information, **he/she shall place the question in the exempt part of the agenda**.' (our emphasis)

157. Questions about the investment programme or other things considered 'commercially sensitive' - a term not used in local government law - were rejected by the Monitoring Officer even if the question itself did not include exempt information. Questions were rejected rather than being placed on the exempt part of the agenda. We have been told that things had begun to improve at the time of the inspection.

158. The overall effect of this approach to members' questions, and to the preparation of reports, is that members were deprived of the information they needed to carry out their role effectively. There are wider examples of this beyond the Council's investment strategy.

Formulation and recording of decisions at formal meetings

159. We have found that significant decisions are not formulated and minuted in such a way as to make the decision clear, or in a way that reflects what actually happened at the meeting. This diminishes transparency, blurs accountability and creates uncertainty. There is often no recorded 'single truth' of important decisions, no record of why 'decisions' were taken nor even if there was any decision taken at all.

160. At Council meetings the debate itself is minuted in significant detail. However, the most important part of the minutes is the formulation and recording of actual decisions, and insufficient attention is given to this. Members do not formulate decisions themselves when they need to and they are not guided or supported by officers to do this, meaning that the recorded decision is sometimes not what would be expected from the debate. We have been made aware of cases where:

- the majority of members have voted against a motion (meaning it is lost and no formal resolution is passed, but the minutes inaccurately record that members passed an alternative motion (see Appendix 4 - Case Study 3);

- cabinet decisions have been taken without having regard to recommendations made by scrutiny committees (see Appendix 4 - Case Study 4); and
- resolutions are sometimes not formulated in a way that records the will of the members (see the example relating to the cabinet discussion on the proposed new Town Hall in Part 6 of this report).

161. Whilst lengthy and detailed, minutes of Council meetings omit key information, such as whether or not a motion was formally proposed and seconded, which is important because under the Council's constitution a motion cannot be debated unless it has been proposed and seconded. Sometimes it appears that motions may have been debated without a proposer and seconder.

162. Frequently, reports include a recommendation that a committee comments on a particular report or proposal and minutes of the committee meeting indicate that the committee has so commented, without saying what any agreed comments were. The purpose of commenting is to ask for something to be done or for something to be considered elsewhere. Those comments should be agreed by the committee and formally minuted as such.

Recording of delegated decisions

163. The weaknesses in the recording of decisions at meetings is mirrored by weaknesses in the recording of delegated decisions. The s151 Officer had delegated authority to invest following 'due diligence and risk management'. We have not been able to find any document setting out the information that was considered when making an investment decision, nor a risk assessment, nor the rationale for agreeing to make a particular investment. We were told that at least on some occasions when money was invested, the due diligence being 'relied' upon had been commissioned and paid for by the company the authority was investing in. Without more complete records it's impossible to know what risks were considered.

164. We wouldn't expect to see detailed records for decision-making for short-term lending or borrowing to a local authority or a financial institution with a high credit rating as the Treasury Management Strategy refers to acceptable credit ratings for this activity. But for very high value long term loans to unrated companies, which is what the Council were making, there should have been a record of the rationale for making the specific investments, and the risk assessment. The presence of these also mitigates any challenges of conflicts of interest.

Accounts and Audit Regulations 2015

165. The control environment surrounding decision-making described above seems to be potentially a breach of regulation 4(4) of the Accounts and Audit Regulations 2015. This places the s151 Officer under a personal statutory duty to determine financial control systems which must include measures to enable the prevention and the detection of inaccuracies and fraud, and the reconstitution of any lost records, to ensure that risk is appropriately managed. It is difficult to see how it can be said that

the concentration of so much power in one individual has ensured that risk is appropriately managed. It may also be the case that division of responsibilities between different officers has not been achieved.

Failure to appropriately recognise key decisions

166. During the early stages of the investment strategy, decisions to make investments were initially considered by the Council to be treasury management. Treasury management is a council function under the control of the full Council as opposed to an executive function which is under the control of the Leader and the cabinet. This was unlikely to have been correct. Subsequently, statutory guidance was later clarified to put it beyond any reasonable doubt that this was capital expenditure, and that was recognised by the Council.

167. Decision-making for capital expenditure is under the control of the cabinet, and subject to the statutory rules relating to the functions of the cabinet, including the fact that significant capital expenditure, (in the Council's case, significant means more than £500,000), is a key decision.

168. Regulation 8 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 define a key decision as 'an executive decision, which is likely … to result in the relevant local authority incurring expenditure which is, or the making of savings which are, significant having regard to the relevant local authority's budget for the service or function to which the decision relates'.

169. Therefore, any decision to incur capital expenditure of over £500,000 should have been on the Council's forward plan or dealt with under the urgency procedures in the regulations - which require notice being given to the Chair of the appropriate scrutiny committee, and in cases of particular urgency, permission being granted by that person.

170. The decision would be required to be formally recorded and, except to the extent that it included material which was considered to be 'exempt' or 'confidential,' published.

171. None of the above was done. Capital expenditure decisions were taken in breach of the law and the Council's constitution. Investments were made without any key decisions being recorded. The making of investments over £500,000 without any forward plan entry being made triggered a requirement for the s151 officer and the Monitoring Officer to raise a statutory report. No such reports were made.

Irregularities in the constitution

172. Every council's constitution is different, but constitutions may only include rules which are compatible with the law. There are a number of features of the Council's constitution which do not align with the law, and which are directed at protecting the status quo. These are unusual features and do not support the ability of the Council to continuously improve its services. These features date from different times and do not

appear to be the result of concerted activity by any particular person or group of persons to protect any particular administration. A number of examples are given below, but it is likely that a review of the constitution by appropriately knowledgeable and experienced people would find others.

Motions of no confidence

173. Paragraph 16.2 of the Council's constitution says specifically that that 25 members must vote in favour of a motion of no confidence. This is a decision subject to the normal rule in Schedule 12 to the Local Government Act 1972 which makes it clear that any question coming before a local authority is to be decided by a majority of those present and voting, unless the law states otherwise.

Suspending council procedure rules

174. Paragraph 25.2 requires a two thirds majority to suspend council procedure rules rather than the simple majority which the law requires.

Removal of the Leader

175. A note to the rule which states that the Council may appoint or remove the Leader states that 'From May 2011, this Rule will apply only at the Annual Council Meeting following an election, or following the removal or death or incapacity or resignation of the Leader' – the note is correct insofar as it applies to the appointment of the Leader but it is incorrect with respect to the removal of the Leader, which can take place at any time [paragraph 1.4 of part 3 of chapter 2].

Register of interests

176. A further example of how the Council is not operating appropriately within the law is how the register of interests is operated. The register is required to be made publicly available. Section 32 of the Localism Act 2011 allows, however, sensitive interests to be withheld from the public where the member concerned and the Monitoring Officer both agree that disclosure of the details of the interest could lead to the member or connected person, being subject to violence or intimidation.

177. Globally there has been an increase in threats to elected officials. In the UK this manifested itself with the terrible murder of Sir David Amess MP in October 2021. Sir David's constituency was in south Essex. His murder sent shockwaves throughout Essex and throughout the country. In 2019 the then Secretary of State wrote to Chief Executives encouraging Monitoring Officers to look sympathetically on requests to omit information 'where there are legitimate concerns'.

178. Many local authorities responded to these events by encouraging members to apply to have their home addresses removed from the register. This seems legitimate, given that councillors risk a hostile reaction from constituents who may seek to find out where members live.

179. Thurrock Council has gone much further than any other authority we could identify. Most members also have the name of their employer omitted from the register of interests. In some cases, members' occupations/employment can be ascertained by a simple google search. We asked some members if they were concerned about the release of work details causing a risk of violence and intimidation and nobody told us that they had this fear. In fact, all were surprised at the omission of this information, suggesting that the Council is not complying with the legal requirements relating to transparency of members' interests.

Scrutiny

180. Scrutiny was introduced as a requirement for English local authorities by the Local Government Act 2000. The role of scrutiny is to hold the leader and cabinet to account. In doing so it should act as their 'critical friend'. Scrutiny does not make decisions about services or how the authority is run, but it can decide to make recommendations which must be considered. Councils are also required by law to have some form of call-in arrangement where decisions can be scrutinised after they have been taken but before they are implemented.

181. Effective scrutiny needs to feel supported and listened to by the Executive, and to be adequately supported by officers in terms of time and information supplied. None of this is present to any significant degree in the Council. This is frustrating for councillors because scrutiny consumes a lot of member time for little benefit.

182. We have found scrutiny at the Council to be ineffective. It does not add value to the work of the authority and a number of senior Scrutiny members were unable to identify anything that scrutiny has achieved.

183. The principal issues are that:

- scrutiny's capacity is not used effectively;
- scrutiny members are not sufficiently trained;
- the Executive and some senior officers do not appear to have valued or understood the role of scrutiny; and
- scrutiny is, to a significant extent, ignored by the cabinet.

This has meant that scrutiny members are not as motivated as they would otherwise be to act as a critical friend. This is not simply frustrating for scrutiny committee members – it is the erosion of an important mechanism for ensuring accountability within the Council. These issues are explored further below.

Ineffective use of scrutiny capacity

- The number of scrutiny committees: The Council has six scrutiny committees, each with six members. This is a large number of scrutiny committees. Committees typically meet in public five times a year. There are no informal meetings or briefings in between meetings and virtually no task and finish groups. All this means that officer and member resource is spread thinly and limits the ability of the committees to undertake in depth scrutiny. There were mixed views from scrutiny participants as to whether or not the number of committees is effective. We consider that the current arrangement does not represent a good basis for the use of member and officer time, and that better results would be likely for the same inputs if there were fewer committees meeting more frequently.

- A lack of member influence over the work programme: Each committee sets an annual work programme which is said to be a 'living document'. Officers produce a first draft, consult on it with the incoming chairman and it is presented to the committee for approval. Some members told us that officers did not want the committee to add things to the work programme either because of capacity issues or they felt that the item included confidential information. It was clear that a significant number of scrutiny members felt that there was resistance to their ability to control the work programme. Although the work programme may be a standing item to be added to throughout the year, it appeared that there was limited ability to do that. Members told us that scrutiny was an officer-led process.

- An emphasis on unhelpful pre-scrutiny: Pre-scrutiny can be an effective tool for scrutiny to make its voice heard and show a genuine dialogue between scrutiny and the Executive. It can give scrutiny a real chance to make a difference and shape policy. Used properly it represents best practice. Unfortunately, that is not how pre-scrutiny has operated in the Council. There is an expectation that almost all cabinet reports are pre-scrutinised and scrutiny committees have gone along with this. Pre-scrutiny amounts to a significant part of the already limited capacity of the meetings of scrutiny committees, clogging up the agenda and further depriving the Committees of the ability to control their own work programme. People have told us that this typically takes up more than half of a meeting. Central government guidance says:

  > 'The executive should not try to exercise control over the work of the scrutiny committee. This could be direct, e.g., by purporting to 'order' scrutiny to look at, or not look at, certain issues, or indirect, e.g. through the use of the whip or as a tool of political patronage, and the committee itself should remember its statutory purpose when carrying out its work. All members and officers should consider the role the scrutiny committee plays to be that of a 'critical friend' not a de facto 'opposition'. Scrutiny chairs have a particular role to play in establishing the profile and nature of their committee'.

  Not infrequently the scrutiny committee undertakes pre-scrutiny the day before a cabinet meeting. That pre-scrutiny has been particularly problematic. The Centre for Governance and Scrutiny's (CfGS) 'Good Scrutiny Guide' suggests that pre-decision scrutiny 'immediately' before a decision would take place two to three weeks before the meeting – allowing time for the recommendations to be properly considered by officers and the Executive, before the decision report is published. That does not happen in Thurrock Council. This is made more problematic by the fact that a typical pre-scrutiny report is the cabinet report with a different heading and a recommendation that the scrutiny committee endorses the officer recommendation to cabinet.

- Weaknesses in planning for scrutiny meetings: Effective planning of scrutiny meetings can help scrutiny to be effective by allowing members to prepare and focus on aspects of the issue being scrutinised which are of concern. This can be an extremely effective way of ensuring that scrutiny discharges its role of 'critical friend' and creates an engaged team of members who can work across party boundaries to achieve the best results. We heard that the only formal planning that occurs before scrutiny meeting is when the Chairman meets with officers who are presenting reports. This does not support members and can allow report authors to guide members in a particular direction. We are not suggesting that this happens in practice but there was no evidence that these meetings informed any planning of any lines of enquiry being followed by the committee.

  There is no pre-meeting of the committee where they can agree lines of enquiry and divide areas of questions between members. Without this approach it is more likely that scrutiny will be unfocussed and less effective. Some members told us that they did not feel that this would be necessary and it felt to us as though the party political nature of scrutiny was more important to some members than working together for results. That was not a universal view and it was clear to us that some would welcome joint-working.

- Lack of co-ordination between scrutiny committees: There is little or no working between committees. This limits the opportunity for committees to work jointly on topics of common interest and for good practice to be shared. It also means there is little activity outside formal meetings. There is no scope for discussing how to avoid scrutiny of the same part of the council at the same time or how to make best use of resources when scrutinising projects that are in the remit of more than one committee. We asked members whether they felt co-ordination would be a good idea. The general consensus was that this could lead to yet another meeting, but perhaps if the scrutiny function was better supported members would feel this was worthwhile. It would also accord with central government guidance which says:

  > 'Authorities with multiple scrutiny committees sometimes have a separate work programme for each committee. Where this happens, consideration should be given to how to co-ordinate the various committees' work to make best use of the total resources available.'

A lack of training and development for scrutiny members

184. Effective training is important to ensure that members understand how scrutiny can work and also to learn skills. The Council organises an annual scrutiny training event on questioning skills. This is provided by an external facilitator. In addition, in-house training is provided on technical aspects of the scrutiny function. There were mixed opinions about the effectiveness of the training and whether it was of value to members. We were told that it was not always well attended.

185. For whatever reason, there appears to be a limited understanding of what scrutiny is and is not, and a lack of understanding of basic concepts relating to the work of

scrutiny committees. For example, several senior members on the Council's scrutiny committees told us that they did not know what a 'call in' is in the context of scrutiny.

186. A number of members and officers told us that scrutiny at Thurrock Council is an officer-led process. From our review of meetings, we did not find this fully supported by what we were told, it is however clear that stronger leadership from members and more supportive attitude from officers is required if scrutiny is to be fully effective going forward.

187. None of the current or former chairs or vice-chairs we spoke to indicated they had attended or received any specific training on chairing meetings or on how to be the chairman of a scrutiny committee.

188. Members are not and cannot be subject matter experts on everything they look at. This means that a strong member development programme is needed on a wider range of subjects. Although officers talked about a member development programme, they told us that it focused heavily on the first three months following an election and was poorly attended. Briefing sessions were mentioned but again attendance of them is limited. Just as it is helpful to coordinate scrutiny, member development should also be coordinated. Although there is a member development working group, they appear not to meet frequently. In interviewing the scrutiny members none of them mentioned the group or its role.

Ability to formulate clear and effective recommendations

189. Frequently scrutiny reports include a recommendation that the committee 'comments' on something. Those recommendations are minuted as the committee having 'resolved to comment on the report', with the actual comments or recommendations not being formally recorded in the minutes of the meeting.

190. The fact that no comments are voted upon or formally agreed, makes it difficult to know what the view of the committee was. That makes it very difficult for scrutiny to have any impact on the cabinet's decision-making. Although we did see some examples of recommendations being formally proposed and agreed by the committee, there is limited officer support to help formulate and record effective recommendations. Many officers, whether in senior positions, involved in writing reports for scrutiny, or providing direct support from within the Democratic Services function, seemed content with minutes prepared in this unhelpful way.

Attitudes to scrutiny among senior officers and members

191. Many members believe – with some justification – that senior officers' support for scrutiny is mixed. They reported to us that, while some directors are open to scrutiny and to working effectively with committees, others are less keen to do so. Some members involved in scrutiny felt that:

- senior officers sought to steer scrutiny committees away from certain subjects, although no one highlighted a refusal to allow committees to look at particular issues. However, emails shared with the inspection team suggested that senior officers have sought to use the constitution and committee structure to limit the extent to which key projects are subjected to scrutiny.

- the reports they received contained limited information and often missed the information they needed to undertake any real scrutiny of a subject. When members asked for additional information they were sometimes told that they didn't need the information, or that it wasn't their role to have it as it was 'operational'. Some suggested that the Chief Executive restricted the flow of information and what members could see.

192. A lack of regard for the role of scrutiny has also led to the work of scrutiny committees being crowded-out of the decision-making process in various ways:

- Scrutiny Committees are regularly asked to make comments on decisions the day before a cabinet meeting. This is too late to influence the decision to any significant extent.
- Council officers have no system in place for tracking scrutiny committee recommendations or ensuring that they receive a response. Scrutiny committees' recommendations are allowed to 'drift' without response from the cabinet. The only time the cabinet may respond to recommendations made by scrutiny committees is in debates when a pre-scrutinised item is brought to cabinet.
- The views of scrutiny committees and recommendations they make are sometimes simply ignored. Scrutiny members told us that the cabinet has on occasions failed to consider recommendations unless the scrutiny chairman attends the cabinet meeting in person to present the recommendations. We are aware of examples of this (see Appendix 4 – Case Study 4). On that occasion the Monitoring Officer was present and failed to tell the Chairman of the meeting that refusing to consider the recommendations from scrutiny was unlawful.

Scrutiny Officer

193. As a unitary authority, the Council is required by law to appoint a Scrutiny Officer, a statutory post charged with supporting scrutiny. The role holder may not be the Head of the Paid Service, the section 151 Officer or the Monitoring Officer. At the beginning of our inspection, no one within the Council was able to say who the statutory Scrutiny Officer was.

194. It was variously suggested to us to be the current Monitoring Officer or the current section 151 Officer. Those officers could not lawfully hold the Scrutiny Officer role and those individuals told us that they did not believe themselves to be the Scrutiny Officer.

195. During the inspection the acting Chief Executive nominated the Director of Public Realm to be the Scrutiny Officer. She will need to carefully manage this work alongside her extensive other duties and be alert to potential conflicts of interest. She will also need to be trained and formally appointed by the full Council. This is a positive step – for the first time a senior officer will be clearly responsible for championing scrutiny.

Call-in

196. It is a legal requirement for all councils to have a call-in process whereby decisions already taken can be scrutinised before they are implemented. Different councils have different cultures relating to call-in. Call-ins allow concerns to be highlighted and a further examination of the decision to take place and can sometimes lead to decisions being changed as a result of the challenge.

197. The current call-in process at Thurrock Council inhibits transparency and accountability and curtails the ability of members to scrutinise decisions.

198. The number of call-ins at Thurrock Council is low. This is partly driven by a poor understanding of the call-in mechanism among scrutiny members (see paragraph 185 above). But it is also likely to be because the Council's process makes it very difficult to actually call-in decisions. The Council's call-in rules were last changed in April 2016. They afford the Chief Executive a very broad discretion to decide whether a call-in is valid. The grounds for declaring a call-in invalid are broad and include that the call in is 'not a proper use of call-in' taking account of 'any other relevant factor'.

199. This puts the Chief Executive in a very difficult position and creates the risk of abuse or a risk that the cabinet could put pressure on them to rule a call-in as invalid. Although no-one has indicated that the former Chief Executive or current acting Chief Executive had ever faced such pressure, this does not represent good practice and is not appropriate. We did come across occasions where the former Chief Executive declared a call-in to be invalid – much to the frustration of the committee members (see Appendix 4 – Case Study 4 for further details).

Part 5: Weakness in the Council's control environment

200. All organisations, both public and private, have a control environment to provide systems of checks and balances to allow the organisation to operate with confidence by providing multiple channels offering different points of view in support of balanced decision-making and operations.

201. For a local authority, this system of internal control is backed up by legal and professional frameworks. In the case of the investment programme for example, frameworks such as the Accounts and Audit Regulations and the role of the s151 Officer (CIPFA) are relevant. The system of internal control is provided through such functions as internal audit, risk management, audit committees and the activities of reporting and performance management, including reporting against performance indicators. In addition, having appropriately skilled and resourced staff to carry out activities provides a source of assurance, or where this is missing, having access to appropriate external advisers.

202. Furthermore, there are also other external oversight regimes such as external audit, Ofsted and other less formal channels such as peer reviews to provide evidence and confidence that the authority is working well.

Control environment for the investment strategy

203. We tested the strength of the control environment for the investment programme. It is clear that the necessary systems were either not in place, did not work effectively, or had their use bypassed with catastrophic consequences.

204. The programme initially started on a small scale and approval for this was given through the Treasury Management Strategy. Once appetite to increase the scale of the programme was established, the Council agreed to a set of investment principles which provided the framework for the strategy, at its meeting in October 2017.

205. However, we can find very little active reporting against these principles, which included the requirement to have a diverse portfolio, and for any investment above £10m and extending beyond 12 months to be reported. Indeed, after the principles were agreed, some £910m was invested with no reports being made to cabinet or to Council, and minimal reporting made to the CSR (which was a meeting of the Leaders of the political parties and their deputies with the CEO and s151 Officer). In addition, some £655m of the total was invested in a single company. As far as we can see, no information was given on whom the authority was investing in – this was information seemingly only known by a few officers in the finance function and when asked for this information, those making the request were told the information was commercially sensitive. A cursory view of other authorities' Pension Funds investment programmes

would have revealed that far more information is routinely made available in response to requests, and indeed published, by others.

206. The decision to invest, how much, and with whom was carried out by the s151 Officer with powers delegated to him through approval to the Treasury Management Strategy and what he took to be delegated to him via the Investment Strategy. The Treasury Management Strategy gave him authority to invest up to £750m in one external fund manager following due diligence and risk management that were to be undertaken by him. This is an extraordinary amount of authority being put in the hands of one individual – we have not seen these levels of delegation elsewhere. No explanation was sought or given as to why such powers were necessary.

Internal audit

207. There was no involvement of the Council's internal audit service in this programme. From interviews, it is apparent that the function is woefully under resourced, suggesting that it is not valued appropriately by the organisation. We were told that ten years ago there were some nine officers in the internal audit function, but by the start of the investment programme, this had reduced to five. Delays in recruiting to vacant positions had seen the team's strength reduced to three officers in 2021 and to just one officer in July 2021. At the time of our inspection, we were told that two of the team's four vacant posts had been recently filled. Even if they had been better resourced, we were told that internal audit did not undertake some finance audits because they were told that the finance team were too busy producing the accounts and doing the budget to provide the support necessary to co-operate with an internal audit. We were further informed that the internal audit plan is rarely completed – again due to resourcing issues. This points to two weaknesses in the management arrangements of the Council:

- a lack of understanding of the value of internal audit as an assurance mechanism, capable of flexible and timely deployment in the identification of and response to emergent problems; and
- the silo-ing of the audit function within the finance service that it also needed to audit.

208. It is not unusual for an internal audit service to be asked by the Chief Executive of a Council to review something in order to provide assurance, but there is no evidence of this happening with respect to the investment or capital programme, despite there being many instances where it would have been valuable, if not indeed, vital to do so. It is clear to us that the internal control environment of the authority has been severely compromised and in the specific instance of the investment programme, this has helped serve to obviate the oversight of it.

Risk management

209. We looked at risk management – the strategic risk register was presented to the directors board and also the Standards and Audit Committee. However, only the highest-level risks and opportunities were shown, and while the investment

programme was visible in the strategic risk register it was as an opportunity and not as a risk (it was scored as a '12' signifying that it was felt 'likely' that the Council would achieve an 'exceptional' opportunity). There is evidence that officers recognised a balancing risk but this was scored as '8' signifying that there was a possible but unlikely negative impact. Under the Council's informal arrangements, risks scoring 8 or 9 should be considered for inclusion on the strategic risk register on a case-by-case basis. It's clear that a decision was taken not to include the risk in the strategic risk register - it was included in a sub-ordinate 'non-strategic' risk register only. This affected the extent to which the risk was visible to directors and members.

210. Shockingly, this scoring remained the position even in the report presented to members in July 2022 when the report from Camdor had been received outlining significant issues with investments amounting to hundreds of millions. A score of 8 was wholly unrealistic and the investment strategy was clearly a strategic risk.

211. The issues with the Council's management of risk extends beyond the scoring and reporting of risk. Fundamentally, the council did not understand the risks involved in the investment programme. Insufficient consideration was given to the nature of the investments and what risks the Council was taking – with no recognition of the fact that the Council was invested in companies with complex structures and a large senior debt profile that effectively reduced its security. A comment we have received from many sources is that the Council was invested in solar farms and that these assets are good. Had they properly understood the position, greater attention may have been given to a proper risk assessment along with appropriate mitigations.

212. Given the fact that this was a very complex programme, some work should have been undertaken at the outset to consider the skills and resourcing requirements needed to run such a programme properly. Expertise would have been needed in terms of determining appropriate companies to invest in, understanding the governance structures, complex legal agreements, reporting arrangements and financial assessments. We understand initially that the Council's Treasury Management advisers were used, but relationships became strained due to the nature of the risks the authority was taking in respect of the investment programme, and they parted company with the Council in March 2019. No further Treasury Management advisers were appointed until 2022 when the Council had effectively stopped its programme. It is quite extraordinary that the Council should have run this programme without considering the skills needed to do this appropriately and without due regard for public money.

213. The Council's lack of understanding of the risks involved is illustrated by the fact that the following significant risks were neither recognised nor assessed on the risk register:

- The Council's limited lack of security over the investments. The investments were sometimes said to have been backed by assets, but the reality is that:
  - three quarters of the assets were bonds, meaning that the council was lending money to the company rather than being a part owner of the company;

  - in many cases the company being invested in or lent to did not own the assets directly, they owned shares in other companies which owned the assets; and
  - the solar assets were often constructed on land which was generally leased on medium term leases from the ultimate landowner.
- The documents granting the bonds frequently did not comply with industry best practice.
- Officers knew that the Council was taking a 'bold' and unorthodox approach with respect to the accounting treatment of the strategy by not making 'minimum revenue provision'.
- The counterparties being lent to were in many cases unrated.

214. The Council's overall approach to risk management was further undermined by lacklustre reporting. Risks on the non-strategic register were not accurately recorded and reported. The register was not updated even when risks materialised. The following risks were not recorded as having materialised by March 2022:

- **Not achieving a balanced portfolio of investment opportunities.** Given the Council's £665m exposure to one organisation it is difficult to see how this could have been considered to be anything other than having materialised.
- **Risk of failure of borrower.** The restructure of Toucan/Rockfire in early 2021 when the Council was advised that its limited security could have been lost. This must also have undermined the Council's confidence in the covenant strength of the Toucan/Rockfire companies. In addition, some borrowers had failed by this time.

External audit

215. We asked both members and officers how they gained assurance that the programme was running well and we were told on a number of occasions that the external auditors had given the Council 'a clean bill of health'. We reviewed the audit reports for the period (up to 2019/20), but could find no such statement, which is not surprising as it is not the role of auditor to give a clean bill of health, but we accept that the Council drew the conclusion in the absence of any adverse comment.

216. There was very little if any reference to the investment programme in the audit letters on the accounts. Where it was mentioned, it related to the role the programme played in closing the MTFS gap. From discussions with the two sets of auditors in place during the period of the investment programme, we have seen that in preparing for the audits, they did undertake a review of risk registers, and also the minutes of Council and cabinet meetings to gain an understanding of the environment within which the Council was operating when the accounts and the value for money assessments were undertaken. We have mentioned earlier in this report the shortcomings in the reporting of the investment programme, and also the risk registers. The auditors therefore did not gain a full understanding of the activities of the Council or the risks it was taking from Council records. However, a review of the balance sheet disclosed the extent of the Council's borrowing and investments and this was audited. Both auditors approached those organisations with whom the Council had invested to confirm the

existence and value of the investments but neither looked beyond that to see whether these could be confirmed as accurate. Whilst this is standard practice for listed or rated investments of the type generally made by public bodies, the Council's investments were not rated. An additional check could have been helpful, although both auditors took the same standard approach.

217. In the audit of the 2019/20 accounts the auditor noted the article in the Financial Times (see paragraph 75) concerning the investment strategy. In the audit notes they identified that the audit had already considered the programme but had not assessed the strategy as risky. Although it did identify the risk of interest increases on borrowings, the auditor felt that this risk had been reduced to an acceptable threshold and noted the investment return.

218. It is perhaps surprising to a non-auditor, that having noted the investments, greater attention wasn't given by the auditors to the risk of failure of an unrated investment posed to the authority given the size of the programme and the reliance the Council was placing on returns from it. It may be that the absence of comments in the audit reports gave rise to the Council's view that they were given a 'clean bill of health'.

Wider controls

219. We were told that some bodies seeking investment liked dealing with Thurrock Council because they were responsive and quick to make decisions compared to other authorities (we have seen evidence of an investment being agreed and made in 24 hours). It should be understood that this speed came at the cost of a complete disregard for the operation of appropriate internal control measures in the Council, measures which other authorities were probably and properly following. It is unlikely that this speed was essential.

220. The lead officers responsible for risk management, treasury management, accountancy and internal audit, and the Monitoring Officer all reported directly to the section 151 Officer, creating a risk of 'group-think' and enabling the section 151 Officer to exercise direct line management over the control environment and those responsible for testing and monitoring it.

221. It would have been helpful if the section 151 Officer had consulted others on the control environment. This would have provided a formal opportunity for others to review the control environment. Whilst there is no statutory or other requirement that the Monitoring Officer have a wider role in the control environment, the CIPFA guidance on delivering good governance advises authorities to consider the role of the Monitoring Officer in governance. We believe it would be helpful if section 151 Officers were formally required to consult their authority's head of paid service and Monitoring Officer when determining the control environment. It would be relatively straightforward for the Secretary of State to amend the Accounts and Audit Regulations 2015 to require this consultation to take place and we recommend that he does so.

222. All Councils have three key statutory officers who have some accountability for the organisation. The Head of Paid Service – normally the Chief Executive, the section 151 Officer and the Monitoring Officer. The three have reporting duties to Council, which sometimes overlap. In addition to the role in the control environment outlined above, the three statutory officers should work together to form what might be called a 'golden triangle'. They need to ensure the effective running of the organisation so that the law, constitution and agreed policies are upheld, that information flows with appropriate transparency and that democratic principles are upheld. We did not find that this was how Thurrock Council operated. There did not seem to be an adequate flow of information between the three officers and they do not appear to have worked together in this way or have recognised the need to do so.

223. Whilst the role of the section 151 Officer is well defined in law and in accounting standards, that is not the case for the role of the Monitoring Officer, where only a small part of the above remit – a reporting duty on unlawful activity – is set out in law. The lack of clarity on roles creates ambiguity and this would have been further exacerbated within the Council by the turnover of people holding the Monitoring Officer post and their relative junior status compared to the status of the section 151 Officer. In these circumstances, an imbalance of power and the lack of clarity of the role makes it harder for the Monitoring Officer to be assertive.

224. The Monitoring Officers we spoke to seem to have been prepared to accept a narrow focus on their statutory role rather than taking a wider remit. This represents a missed opportunity to seek to ensure that, for example, decisions taken around the investment strategy were formally taken and better considered. There are other examples of where the Council's Monitoring Officer has not adequately discharged their narrow duty.

225. We believe that accountability and proper control within local authorities could be enhanced at no cost if the Secretary of State broadened the role of the Head of Paid Service and Monitoring Officer to include a remit which they already undertake at many authorities. Our recommendation suggests ways in which this could easily be done in the short term and invites the Secretary of State to consider this more generally.

Broader risk management practice

226. Formal documented processes which require senior officers and members to identify, record and review risks are an important way of ensuring that these risks are managed with appropriate oversight. Whilst the Council has well established and followed processes they have not been operated in a way which has assisted the Council to manage its risks. We have explained how risk management of the investment strategy was poor. We believe that risk management was not well operated at the Council. The key factors which have contributed to this are as follows:

- Failings in leadership and management, set out elsewhere in this inspection report.

- The risk management policy does not represent a comprehensive statement of how risks are managed, meaning that some practices have not been the subject of specific consideration by management and members.
- The investment programme was reported in the strategic risk register as an opportunity and not a risk. That was a clear failure to accurately assess the nature of uncertainty inherent in the programme.

227. The Council has a risk management policy which requires the production of a risk and opportunity register. The policy is reviewed by Standards and Audit Committee. The Council operates an overall risk register including all recorded risks. Some higher risks are extracted from the overall register and are presented as the Strategic Risk Register. The Strategic Risk Register is the version presented to directors board and to Standards and Audit Committee.

228. The policy itself does not say how risks are scored and it does not say how risks with a particular score should be reported. Nor does it set the Council's appetite for risk. Some of this is set out an internal guidance document, but this document is not approved by members.

229. The omission of these practices from the overall policy means that practice can be changed without the agreement of members. Instead, guidance which hasn't been approved by members, appears to give considerable discretion to those preparing the strategic risk report.

230. A key discretion is the cut-off point for the inclusion of risks in the strategic risk register. In practice the Council scores risks by allocating scores from 1-4 for 'likelihood' and 'impact' and multiplying them together. Anything scoring 12 or 16 is automatically considered a strategic risk which is reported to directors board and Standards and Audit Committee, with anything scoring 8 or 9 being considered for inclusion 'on a case-by-case basis'.

231. In reviewing its risk management arrangements the Council scores itself annually using the CIPFA/ALARM risk management model. In July 2022 the Council scored itself as 70 overall, which means that it is at 'level 4 – embedded and integrated,' a score which seems not to reflect reality.

Poor risk reporting

232. Risk is reported to Standards and Audit Committee. But there are signs that risk reporting is not taken sufficiently seriously. Members have received out of date information undermining their ability to consider the risks to which the Council is exposed.

233. For example, in July 2022 the Committee considered the strategic risk register (called the 'in focus' report). The report considered was the March 2022 iteration of the register, which hadn't been updated since being deferred from the March 2022 meeting. Presenting the Committee with a four month old report is inexplicable given

that by July 2022 all three statutory officers were aware that there were serious problems with the Council's investment strategy.

234. In October 2022 the Committee was presented with a further risk register. Although this risk register was dated July 2022, it refers to the intervention by the Secretary of State in September 2022.

Part 6: Failures in the delivery of major projects

235. In conducting our interviews and reviewing information about the Council it became clear to us that there were significant concerns held in respect of some of the major infrastructure and regeneration projects that the Council was engaged in. These issues were raised by interviewees to a notably greater degree than matters concerning day-to-day service delivery for the population of Thurrock.

236. In examining these projects, we observed a pattern of failure consistent with that seen through the investment strategy. The Council would commit to undertake projects, the scale and complexity of which outstripped its ability to deliver successfully – largely because of a failure to secure the appropriate capability, advice and resource, and an ability to identify and manage risk. Then, when projects failed – or experienced major slippage and escalating costs – the underlying facts would be hidden from public view as members and officers sought to avoid accountability. Opportunities to learn would therefore be missed.

237. That the Council has experienced repeated failure in the delivery of major projects is of particular concern given the parlous state of the Council's finances and the challenges that lie ahead. It is precisely this ability to deliver complex change that the Council will need if it is to deliver the scale of service transformation that is required for it to become financially sustainable in the longer-term.

Major projects in Thurrock

238. The Council has a broad strategic aim to achieve economic growth for its area. In pursuit of this, the Council has sought to take the lead in delivering a range of infrastructure and growth projects, in large part taking up this mantle from the former Thurrock Thames Gateway Development Corporation which was abolished in 2012. Whilst many small and medium scale projects have been effectively delivered, the Council has consistently struggled to successfully deliver major and complex projects, particularly those where a range of specialist skills and experiences would be required. Examples of these include the widening of the A13; the redevelopment of Stanford-le-Hope railway station, and the construction of an extension to the Council's main offices, now known as the Town Hall, all of which we examine below. We are also aware of a loss arising from the abandonment of a scheme undertaken through the Council's wholly-owned Thurrock Regeneration Limited and of some significant delays and cost increases affecting the planned construction of an underpass beneath the railway line in Grays town centre.

239. This is a considerable range and scale of major development opportunity – and risk. Whilst the ambition may be applauded, we have heard from many of the considerable number of managers who have worked on these schemes in recent years that these schemes have stretched the council's capability and capacity to undertake effective

commissioning, procurement and project management to the extent that it has failed to match the ambition or properly deliver the tasks in hand. Many of the officers we interviewed referred to the consistent under-resourcing of projects in respect of governance, set-up, risk management, and contract management. A number of managers have left the Council in recent years, citing disillusionment with the expectations laid upon them and the management of their efforts by the Council. The 'churn' rate of project staff has consequently been high, and regularly addressed through a series of interim appointments or of permanent appointments which have turned out to be short-lived. This in itself has proven to be a destabilising feature of the management arrangements in respect of specific projects as the regular handing-over of responsibilities and inherent loss of information and memory makes for difficulties in ensuring continuity and in maintaining relationships with contractors.

The widening of the A13

240. This was a Department for Transport scheme which is now substantially completed. The South East Local Enterprise Partnership (SELEP) in their Growth Deal and Strategic Economic Plan 2014 had identified the A13 corridor as the largest single growth opportunity in the SELEP area but one which was constrained by the limited capacity of the strategic road network and in particular (in respect of Thurrock) the dual carriageway section of the A13.

241. Thurrock Council were keen to deliver this scheme, and in order to proceed agreed to a series of conditions, included among which was the requirement to meet any cost increases incurred during the delivery of the project. The conditions state that, 'as part of this approval the Department (DfT) will provide a maximum capped funding contribution of £66.05m towards an estimated total scheme cost of £78.85m. Thurrock Council is solely responsible for meeting any expenditure over and above this maximum amount'. Although the Department retained overall accountability for the scheme, the funding and assurance arrangements were devolved to SELEP.

242. In the Management Case produced for the Council by Mott McDonald in December 2016, the engineers noted that although 'Thurrock Council has limited experience of procuring works of the size and complexity of the A13 Widening, the Council has individuals working for it who have worked for other larger public and private sector organisations who have been involved in the procurement, commissioning and management of such works.'

243. The scheme was progressed by the Council, and with works commencing on site in late 2018 (and completion planned for autumn 2020) the project could be visibly seen to be progressing. Initial reports to SELEP's Accountability Board and to the Council's own Planning, Transport and Regeneration Overview and Scrutiny Committee reported that such progress was on time and within budget. While a report to the Accountability Board in June 2019 reaffirmed these same points, in parallel with this the escalating costs and delays which had become apparent to council officers led them to commission a commercial audit of the scheme by Corderoy (construction cost specialists).

244. Corderoy's preliminary Commercial Audit Report, received in September 2019, was alarming. Among 15 key findings and supporting commentary they reported that:

- **'The original intended design and build procurement strategy was abandoned in favour of separate design and construction contracts.** It seems that the Council is now dealing with the issues that were highlighted as strong reasons for a design and build route back in 2015, with no cognisance apparently taken of the reasons given for the benefits of design and build over issues that may arise in separate design and construct contracts (i.e., buildability issues, provision of information/interface issues, provision of surveys).'
- **'The issue of who was to take responsibility for conducting surveys was, at best, in a state of flux at the time of construction and design tenders** in mid 2017…. It is apparent … that the issue of surveys required to complete the detailed design …were not concluded at contract award, and has been the subject of protracted discussion causing delays and additional costs.'
- **'Risk does not appear to have been managed nor are there processes in place to manage it going forward…** Risk appears to have been managed as a contingency pot being drawn down, rather than a calculated amount based on the anticipated risks in completing the project. (This) provides no assurance that the project status and associated risks are being adequately considered in the project reporting.'
- **'No delay damages are included in the Kier (construction) and Atkins (design) contracts.'**
- **'The Project Board appears to have no roles and responsibilities set down, has no minutes and bases most of its reporting functions from the Kier Monthly Progress Report; …**

245. The Audit report further comments that 'Corderoy understands that certain political commitments were made regarding the start of physical works on site (possibly without full knowledge and consideration of the procurement route that had been embarked on), and that this may also effect the budgeting of the scheme. However, it appears that at the start of the contract many issues such as surveys in readiness for detailed design, SUs [statutory undertakings] etc were not understood and the contractual responsibilities unclear'.

246. At this point (September 2019) the projected scheme overspend was put at £12.1m. With these weaknesses built into the project the Council was evidently exposed to considerable risk of the overspend increasing further as the consequences of these weaknesses worked their way through the scheme.

247. The alarm that this generated was reflected in correspondence and activity within the Council immediately afterwards, albeit that this was shared only among a small number of individual members and officers. Much of this was directed towards trying to work out how it had happened and who was responsible. This proved in large part inconclusive. It did, however, reveal that, with external consultants being employed, the Council's procurement team were not involved in providing any advice to the project and that the Council's legal team only provided advice after the contracts had been awarded. This drew the comment from the Council's Acting Head of Law (and

Monitoring Officer) ‘If we had been instructed and engaged from the outset, I’m sure that that (named individual), a very highly experienced lawyer, would have flagged such contractual related issues up... at the point we were instructed, there was limited scope for Legal to advise on managing risk and indeed to mitigate risk.’ Certainly, the degree of failure was recognised by the Council’s Chief Executive, who referred to it in correspondence with other officers as a ‘poorly managed project’ and observed that ‘we cannot start any more major schemes without fundamentally sorting out the internal structures etc to prevent such a situation arising again.’

248. Through this activity efforts were made to establish the reason for separating the design and construction of the scheme into two separate contracts, as it was not made clear in contemporary reports (and is not yet clear to us) why this should be so. Howsoever compelling the reason for this change may have been, it was a significant alteration in the procurement arrangements which would bring attendant consequences which do not seem to have been recognised or risk-assessed at the time. The Assistant Director later summarised these in a confidential briefing note to the Leader and Cabinet Member in the following terms: - ‘The success of it (an arrangement based on separate design and construction contracts) relies upon correct sequencing i.e., detailed design comes forward with early contractor involvement (ECI) to inform the design and buildability of the scheme. It also relies upon effective collaboration between the parties which in effect puts increased need on effective contract management by the PM and ensuring the client team is working effectively.’ It is evident from the Corderoy Report that this material change in risk was not flagged, and the need to ensure that the sequencing, collaboration and effective contract management that such a fundamental change required did not happen.

249. Another key strand of activity generated was in respect of progressing the scheme with as many mitigations as possible. Corderoy made a number of recommendations for such mitigation of the risk of further cost escalation, and it is clear that many of these were applied over the remainder of the scheme’s life. A follow-up report by Corderoy in February 2021 acknowledges the value of the mitigations undertaken and proposes further improvements. It bleakly acknowledges, however, that in respect of some of the initial failures, ‘the effects of th(ese) on the project finances are still being felt’.

250. In terms of sharing information, there was a clear critical need to keep SELEP informed, since its bi-monthly Accountability Board reviewed, as a standing item, the live projects it was responsible for funding. The emergence of significantly escalating costs was reported to the Board in September, as was the commissioning of Corderoy’s audit with the observation made that it was not yet available. In November it was reported that even following a further allocation of £8.9m made by SELEP, the scheme was ‘no longer within the budget envelope’. No detailed figures for the cost escalations were given, but oddly, in reporting that ‘the council has not been able to reflect the outcome of their Audit of the project within this update’ it states that ‘The initial findings of the external audit report identified some additional risks to the timescales for the delivery of the Project. This includes unforeseen risks such as delays to the planned road closures as part of the contingency planning to help reduce congestion on routes to Ports in Essex following the new Brexit date of 31 January 2020’. We can find no such reference within the audit report.

251. A full report to SELEP's board was promised for February 2020. Throughout January, updates were prepared for presentation to this Board, and to the Council's own bodies, notably the cabinet, the Planning, Transport and Regeneration Overview and Scrutiny Committee (PTR) and the Standards and Audit Committee. A confidential report was also prepared for the Leader and Cabinet Member.

252. This latter report, issued on 22 January 2020, states its purpose as follows - 'This note is to provide an update on the project improvement plan which is being implemented for the A13. It will be recalled that the project was subject to delay in delivery and a budget over spend.' This was amended by the Chief Executive, to add in this sentence 'due to 3 specific reasons around costs associated with utilities, drainage and bridge structures.' Further amendments and suggested amendments to the note made by the Chief Executive emphasise explanations that were rooted in unforeseeable physical impediments to on-site progress (largely those beyond the Council's ability to anticipate or control) and position the council's procurement and contracting approach as having been predetermined by their use of established government frameworks – effectively explaining away the historic or procedural inadequacies raised by the auditors.

253. Indeed, the report to the SELEP Accountability Board on 14 February reminds the Board that there have been three significant issues which have impacted on the ability to deliver the project, those issues being: utilities diversion works; structures design; drainage design. The board is asked to note that the revised total project cost has not yet been formally confirmed. It also relates that the output of the Audit has yet to be made available, but notes that this output has been fed in to a targeted project plan to address any elements which were delaying delivery. This is the last time the audit report is referred to in any report to the Board, or indeed to any formal body of the Council.

254. In July 2020, a Report to the Council's Planning, Transport, Regeneration Overview and Scrutiny Committee gives an update on the operational problems, cost increases (the outturn is by now projected to be £114.65m) and delays to the scheme. The on-site obstacles (Utilities Diversion Works; Structures Design; Drainage Design) that have been encountered are reported, as is the possible effect of the Covid-19 pandemic. The report identifies other factors which have contributed to the challenges on the project in the form of (original) funding deadlines essentially driving less than optimum decisions on the project.

255. Reports to the Council's Overview and Scrutiny Committee throughout the remainder of 2020, 2021 and 2022 systematically repeat the now accepted reasons for the cost increases and delays and concentrate on the ongoing on-site difficulties and the measures being taken to address them. The anticipated outturn of £114m reported in June 2020 remains unamended throughout this time, although the ongoing cost pressures are regularly referred to as being under review.

256. The road opened across all three lanes in May 2022. Full project completion is anticipated for early 2023. Although it has not been reported to any forum, the current

anticipated outturn figure for the scheme is within the range £143m - £147m, against the original budget of £78.85m.

Observations

257. It is well understood that major projects of this nature are complex and contain much scope for unforeseeable eventualities once work commences on-site. To this end, an optimism bias is regularly made in the costing of such schemes. In this instance some £20m of the scheme's original £79m budget was identified as contingency for just this purpose and has indeed been applied accordingly. The failures identified by the Audit, however, result from the inadequate governance and management arrangements for the commissioning, procurement and initial management of the project, and thus are either additional to those arising from the on-site challenges that have emerged, or have potentially compounded them. The absence of consideration of the Audit report, however, and the significant issues it raises, enables a misleading picture to be painted of the full reasons for the cost overrun.

258. We have already referred to the strong motivation within the Council to avoid presenting bad news to members, and publicly, and the reporting of this scheme provides a further example of the presentation of known problems in a manner that negates or downplays those for which the Council could be seen to be responsible and to refer to or emphasise only those for which the Council could not reasonably be held responsible. Not only is this a distortion of the facts and an avoidance of accountability, it effectively raises no evident need nor creates any evident opportunity for the Council to learn from the experience.

Stanford-le-Hope railway station redevelopment

259. The Council in March 2016 formally undertook to deliver a station and bus interchange improvement scheme at Stanford-le-Hope. The project works included rebuilding the station to be fully accessible with new passenger facilities including toilets and a café. A new bus interchange was to be created allowing improved bus access and interchange at the station. This was to be a partnership project being delivered by the Council together with c2c, Network Rail and London Gateway.

260. SELEP supported the development and the original anticipated cost of the completed scheme was £12.05m, of which £7.5m was allocated from LGF, £3.3m from NSIP, £0.505m from DP World, £0.3m from the Council and the remainder from c2c.

261. In November 2016, Morgan Sindall was appointed to design and build the scheme under the Eastern Highways Alliance Contract. The contract was set up to include a hold point between stage 1 (develop design and produce a target cost for construction) and stage 2 (detailed design and construction). The Council was clear that it would only instruct Morgan Sindall to proceed to stage 2 when all funding was guaranteed.

262. In November 2018, an urgent briefing note was sent to the Chief Executive identifying the fact that, largely derived from the work undertaken by Morgan Sindall, the scheme costs are now projected to be £24m. Broadly, these costs are assessed as arising from

the recommendation for a complex engineering solution to enable transport movements at the site. The Council had expended £3.2m on the scheme at this point. Three options were proposed –

- Option 1 – Proceed now
- Option 2 - Abandon the project
- Option 3 – Delay the project

263. Essentially, the decision, seemingly informally taken was to institute a delay in order to consider the implications of the increased costs and the options that might be available for meeting it. However, in March 2019 the existing railway station buildings were demolished and a temporary facility put in place, as this was a condition of the funding agreement.

264. The Council allocated additional funding, with £19.09m now available (against a revised cost as at October 2019 of £25.5m).

265. In October 2019 a review of the project was commissioned through the same construction specialists (Corderoy) who had been brought in to audit the nearby A13 widening scheme. Their review report contains a significant number of observations which clarify the reasons for the cost increase.

266. In particular, delays arose from design issues, principally the change in the engineering solution proposed by Morgan Sindall from a culverted option for the adjoining Mucking Creek, to one envisaging a cantilevered podium slab spanning the Creek. This more expensive option was developed due to 'Environment Agency issues; land purchase issues and associated SELEP funding'.

267. In respect of the management of this arrangement, Corderoy observe that 'Where the Target Cost is required to be at a prescribed level, or to a fixed budget, it is imperative that design progress is monitored against tangible deliverables that can be costed, as the design develops. This way the Parties are fully aware of whether the developing design is likely to be within budget or not, and design or value engineering decisions can be made to timeously bring the Project within budget.

268. Failure to include a means of costing the design as it develops will result in it only being apparent that the Project is over budget when the Parties are in negotiation for Stage 2 (which may be too late in the process to do any significant design changes or value engineering).'

269. Corderoy further comment: - 'whilst the design development was let on a lump sum basis, the cost certainty normally associated with that disappeared when there were significant design changes required which were not Morgan Sindall's risk, and delays incurred that were also not Morgan Sindall's risk.'

270. Other delays arose or would necessarily arise from:

- The time taken to finalise the development agreement between the Council and c2c, which caused Morgan Sindall to review or develop its design.
- The late introduction into the scheme of the replacement of the deck of the bridge carrying London Road over Mucking Creek. Corderoy commented that 'this work has not been included in any design or costings thus far, and is a very late and significant change. It is likely to have significant price impact and, due to the construction methodology implications, a significant time implication.'
- The subsequent decision to instruct a redesign of the podium slab from a cantilevered steel slab to a (cheaper) fill and retaining wall option.

271. The Review Report makes further observations:

> 'Land ownership issues and Environment Agency requirements do not appear to have been robustly reviewed and challenged during the design development stage in order to obtain a more efficient and cheaper design solution'.
>
> 'Whilst we have concluded above that Morgan Sindall may have a sustainable argument as to why it excluded the London Road bridge deck replacement works, the basis of that argument relies on the Specification being vague as to which documents are included and hence the works required and/or scope of those works and/or the boundaries of those works.'
>
> '…there has been little or no internal governance within the Council for this Project… we understand that Project Board meetings were held up to April/May 2018. It is unclear what remit the Project Board had and specifically whether it was a decision-making body for the benefit of the Project or a reporting arena for information flow to the Council, or a combination of both.

272. Corderoy further noted that 'they had anecdotal evidence of a general reluctance to share information and communicate progress and project issues within the Council'. They recommend that 'a board or similar meeting arrangement be instigated on a regular basis in order to keep the various stakeholders informed of project progress and also to prevent project time and cost increases associated with delay in Employer based decisions.'

273. A note of the Review conclusions is shared with the Chief Executive on 6 November 2019. Her reaction is one of the deepest concern: - 'I have read the note and I find most of it unbelievable. How can there not have been a project meeting for a year and a half? How has the bridge been included when it wasn't originally? I understood that we had already parted company with Morgan Sindall, that an alternative provided (sic) is in place, that we should have had a planning application for a modular building this time last year etc etc'.

274. A considerable amount of activity is generated in response to the Chief Executive's concerns and her instruction to get information together and agree a plan of action.

275. Very quickly (on 29 November 2019), the Council's Director of Place proposes 'an intervention that could assist in bringing this project in on budget as well as creating placemaking benefit'. Mace were appointed to undertake a short (3 week) review of the project and produce a proposal.

276. It appears that an implication of the proposal was the need to acquire some additional land. Arrangements were made to do so speedily, and emails between officers make clear that this land is 'on the market' at £1.5m. Arrangements are made to take a confidential report to cabinet to get agreement to this expenditure. This happens in January 2020. By March 2020 it is clear that the cost of this land will be £3.2m.

277. In February 2020 Mace are appointed to develop their proposal. This is a significantly altered scheme, meeting the requirements through an increase in the footprint of the site via land acquisition which removes the need for the heavy civil engineering works and services diversions which would have been required for the original scheme. It is projected to complete within the £19.09m budget.

278. At the Planning, Transport and Regeneration Overview and Scrutiny Committee (PTR O&S) on 6 July 2020, this outline proposal was presented by the Director of Place. Members agreed that the new design for the project was greatly welcomed, especially as it managed to save the creek behind the station and included additional parking.

279. At a meeting of the same committee on 8 December 2020, the expectation of officers was reported that the scheme, upon receipt of tenders, would be delivered within budget.

280. On 7 July 2021 cabinet agreed to provide an additional £10m to the project, bringing the total to £29.09m, citing the fact that the scheme has 'faced significant project challenges since the originally funding envelopes were agreed' and that 'costs associated with the scheme have increased as the process evolved alongside inflationary pressures and the wider impacts of Covid-19'.

281. On 5 October 2021, PTR O&S were advised that the commencement date for phase 1 (the railway station building) was given as potentially being September 2022 with completion around December 2023.

282. On 1 February 2022, contract award was reported to PTR O&S as being anticipated to take place in March 2022

283. On 5 July 2022 PTR O&S were advised that a start on site within the following couple of months was still expected in respect of Phase 1.

284. On 18 October 2022 the Assistant Director of Regeneration and Place Delivery advised PTR O&S that 'it was clear there were to be further delays to the construction start date due to contract negotiations, however officers were hopeful to come to a contract agreement by the end of October'.

285. On 6 December 2022 it was reported to PTR O&S that:

'Work to execute the station construction contract has been hindered by the issues around soaring inflation, national procurement lead in times, the allocation of liabilities and risks between the parties to satisfy the fixed price contact and rail possession availability'. The Council is 'currently considering the next steps, with alternative procurement strategies being considered and developed concurrently. A revised programme for the delivery of Phase 1 will be drafted following the outcome of this procurement process and any alternative procurement option selected'. The Committee resolved that a Working Group be formed to investigate the Stanford-le-Hope Interchange Project.

Observations

286. In the six years since the initial appointment of designers for this scheme, the budget has grown from £12.5m to £29.09m, and the only activity 'on the ground' has been the demolition of the existing railway station buildings with temporary replacement facilities installed and the acquisition of additional land to facilitate a revised design.

287. With procurement options being currently reconsidered, the delivery of the project is still same way off.

288. The issues identified around poor specification and project management, lack of proper governance, inadequate identification and management of risks, delays in responding to emergent problems and reluctance to and delay in escalating 'bad news' are all similar to those seen in respect of the A13 project. Furthermore, given the cost escalation since the adoption of the speedily produced alternative solution, there must also be questions as to whether the Council properly considered the cost implications of this option.

Belmont Rd, Grays, housing scheme – Thurrock Regeneration Ltd.

289. Thurrock Regeneration Ltd (TRL) is a company wholly owned by the Council. It is tasked with, among other things, supporting the Council's regeneration goals through the delivery of specific schemes which support the economic development of the borough as well as delivering new homes. At the time of this scheme being pursued, three of the four directors of the Company were officers of the Council. The fourth was an employee of Homes England.

290. The scheme to construct 80 properties on a former allotment site at Belmont Road, Grays, received planning permission in 2017. The Council's procurement procedures were used to select a construction contractor. The plan was that the development contract, initially undertaken by the Council, would novate to TRL following this procurement. Access to the site would be achieved via an adjacent former industrial site.

291. The scheme was commenced via the identified access route but at an early stage of development, and after only some groundworks had been undertaken, a legal obstacle

was found to exist with this access route. This hitherto unknown problem required the contractor to cease use of the access route.

292. Alternative access options were considered. An options appraisal considered access to the site via a range of alternative routes. None of these routes provided an easy solution for site access. The most viable option in financial, contractual, legal and technical terms would mean accessing the site via three residential streets with mitigation measures being put in place to limit the effect on residents. However, the Council gave a clear steer that this option was not acceptable and instructed TRL not to use the residential access roads.

293. Since the contract had not yet novated at this point, TRL were unable to continue with the development. The three Council employees who were directors of the company resigned on 31 August 2020 (the fourth director having previously resigned his position in February 2020). The inspection team understands that these resignations reflected the directors' conflicted position – they were unable to take decisions in the best interests of the company and the Council. No further directors were appointed until January 2021 and the work of TRL was stalled until this point.

294. The Council's records show that on 8 October 2020 the Council entered into an agreement with the construction contractor under which the Council paid a substantial sum in order to extricate itself from the contract and an associated dispute. This agreement includes a confidentiality clause preventing either party from revealing the value of the settlement. Planning permission for the development has since lapsed and the financial, social and economic benefits of developing the 80 new homes have yet to be realised.

Observations

295. In setting up a Company to undertake activity such as housing development, it is necessary for any local authority to give some independence to the company – indeed there is an obligation under the Companies Act 2006 for directors of a company to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole**.** The fact of the company's directors being officers of the Council can make this difficult, although (as this does happen elsewhere) not impossible. It is certainly unusual, however, in these arrangements for so many of the company's directors to be employees of the Council, and this can put those directors in a potentially very difficult position, should, as in this case, there be a strong difference in view between the Council and the Company.

296. In terms of the Council's decision-making in respect of this scheme, there is a report to Council in November 2017 in which the land transfer, funding and management arrangements (planning permission having already been granted) are transferred to TRL. There are no further reports made on the matter even though the decision to not enable TRL to proceed caused this valuable development to be abandoned with the potential for additional council tax to be earned and considerable costs incurred.

297. Whilst it may have been frustrating (and surprising) that a legal obstacle to use of the chosen access was not discovered by the Council in undertaking due diligence, site access could still have undertaken via one or more of the alternative routes, with reasonable mitigations put in place for local residents. It raises the question as to why the Council did not do this. In the absence of any formal reporting, and although we have been offered various opinions on the matter from members and officers involved, we have not been able to establish a reason for this decision.

298. We have, however, been able to establish that project has incurred costs to the taxpayer – not least the financial costs of the settlement with the construction contractor. Having made errors that led to a failed project and abortive cost, the Council did not report these costs openly, avoiding scrutiny and missing opportunities to learn meaningful lessons.

The new Town Hall

299. The building of an extension to the Civic Offices was planned to provide space for a new council chamber, democratic functions and reception area as well as providing the flexibility to consider relocating other Council services such as the library and registrars. It would re-orientate the Civic Offices of the Council away from a wholly side street location by extending the western wing of the existing structure (built in 1988) across the site of some adjacent poor quality commercial premises to the point where the extension would have a High Street frontage and provide a new entrance to the Civic Offices, this all in support of the wider Grays Masterplan. In a report to the cabinet in November 2017, the costs of these works were estimated as £7.98m. It was proposed that the existing eastern wing of the Civic Centre (built in 1984) could be redeveloped for housing, realising £2.8m, which would defray some of the cost of the works. The cabinet resolved to undertake detailed design of the western extension and to draw up proposals for the disposal of the eastern wing.

300. On 12 December 2018 cabinet approved a report authorising the procurement of a new extension of the Civic Offices in accordance with a design submitted by the chosen architects. The brief to the architects was to design a building that could potentially be award winning. It had to meet, as a minimum, the Council's planning conditions of BREEAM 'Outstanding' so that it would set the tone for future town centre developments. A consequence of this was the requirement for additional capital funding of £1.8m to be made available. The cabinet also authorised the submission of an outline planning application for 120 residential units on the site of the eastern wing of the Civic Offices.

301. In June 2019 two senior opposition Councillors put forward a motion to Council calling on the cabinet to abandon this proposal. The minutes refer to a public protest against the development taking place outside the meeting and the motion calling for the cancellation of the scheme was carried by 26 votes to 16.

302. On 3 September 2019 a position statement relating to the project was considered by the Corporate Overview and Scrutiny Committee. The meeting reiterated the view of

Council that the project should be cancelled: The Committee called on cabinet to cancel the Civic Offices Project 'subject to additional work to adequately demonstrate the benefits that would be delivered by the project'.

303. At the meeting of the cabinet the following week (11 September) it was resolved:

> That cabinet noted the contents of this report and recommended how they wish to proceed with the Civic Offices element of the Grays Town Centre Regeneration programme, having regard to any comments provided by the Corporate Overview and Scrutiny Committee at their meeting held on 3 September.

304. It appears that this was a 'copy and paste' of the officer recommendation in the report asking the cabinet to make a decision – i.e. to ask them to formulate their own decision at the meeting following a discussion - rather than a draft resolution that cabinet was asked to pass.

305. The cabinet simply passed this as a resolution. This resolution is not a decision to proceed with the scheme, or to cancel it. It provides no response at all to the demands from Council or from the Corporate Overview and Scrutiny Committee. The next time the project is mentioned in a cabinet paper was on 17 June 2020 in a report relating to a proposal to override private rights over the land.

306. In any event, the scheme was progressed with no formal decision to proceed, which represents an example of a failure to formulate and minute a proper decision.

307. There was a clear determination that the scheme costs would not be exceeded, and the Chief Executive fulfilled the role of project sponsor.

308. The building has been completed and opened and the registry office relocated to the new building.

309. We have had concerns raised with us over the seeming incongruity in the non-alignment of building floor levels. Although an extension of an existing (and much larger) building in the shape of the western wing of the existing Civic Centre, the New Town Hall, (as it has been designated) has not been constructed with floor levels that match the existing building. Moving between the two parts of the building requires travel either up or down a half-flight of stairs or use of a single lift that moves between half-floors.

310. We have been advised that, following a report to the Housing Overview and Scrutiny Committee in January 2023, the development of new homes on the site of the existing eastern wing of the Civic Centre is now not considered financially viable. This shift in view has been prompted by increasing borrowing and construction costs. The future of this site has yet to be determined. This puts at risk the assumed £2.8m income to the scheme budget.

Observations

311. The creation of new civic office accommodation is almost always a contentious issue in local government, the more so at times of financial restraint and the high prevalence of other service demands. The conventional and reasonable view is that any such need must be well-evidenced and addressed via a robust business case that can demonstrate that the scheme proposed is necessary, and is the most effective and efficient (including cost-efficient) possible.

312. It is difficult to find any such case having been made for this scheme. We do not doubt that Grays High Street will benefit from having modern and attractive new buildings, and ones that have a high footfall demand. We have not, however, seen that this particular scheme has been measured against other potential options for achieving this. Furthermore, the fact of such a proposal, given that it is for the Council's own use, being proceeded with while failing to find favour with a majority of the Council's own members is unusual. We understand that, legally, had the Cabinet formally resolved to go ahead then it is likely to have been within their powers to do so, but it would not have been unreasonable for the Cabinet to have sought with more vigour to have won the argument for doing so amongst the wider membership of the Authority and remove the incongruity that this presents. That, essentially, was the advice from the Corporate Scrutiny Committee. It is surprising that a contentious decision to go ahead was not properly made.

313. Proceeding with such a scheme without establishing the use to which the existing eastern wing of the Civic Centre could be put, and the value that could be obtained from that, was evidently premature. The scheme has consequently cost £2.8m more than its budget.

Conclusions

314. We have concluded that failures in this authority arose over a period of years during which time many of the operating and behavioural norms that sustain effective local government have been permitted to decay or to fall into disuse. As they did so, the Council developed systemic weaknesses which have become the norm.

315. These weaknesses have not been recognised or addressed from within. We have catalogued many declining characteristics of this Council which, if positive political or managerial will had been applied at any point, could have been attended to and the crisis that was precipitated here either averted or substantially mitigated in its effect.

316. That will – or leadership – was not applied. Its absence was exemplified in the way the Council responded to adversity - for example in the way in which poor performance was handled. Good local authorities minimise instances of poor performance by organising themselves efficiently and operating effectively so that such failures occur rarely, and when they do are rendered manageable not least for that reason. They are also used as learning points for future operations. Within Thurrock Council, poor performance has regularly been responded to with an urge to restrict knowledge of its existence, conceal it, or find ways to explain it away. All of these tactics are not only intrinsically wrong in themselves, they diminish the integrity of the authority to a degree that goes well beyond the individual instance of failure because they build entirely the wrong lessons into the Council's future approach to adversity. The restriction of knowledge over what may have been be going on in respect of large or inherently risky projects has in particular become a debilitating embedded characteristic – often involving only a small group of members, officers or both (and not always the same people – there is not so much of a conspiracy here, more a manifestation of an enfeebled culture and the compartmentalisation of the Council's management arrangements) – and is one that is highly corrosive to transparency in decision-making and ultimately of good governance.

317. The failure of leadership in Thurrock Council is nowhere more evident than in the attention given to addressing operationally straightforward elements of the authority's work at the expense of other, more challenging responsibilities. There is nothing at all wrong with wanting to 'clean it, cut it, fill it', but a fixation with doing so while less populist, more complex, expensive and risk-bearing activities such as the commissioning and management of major infrastructure projects and the oversight of an enormous and risky investment strategy lacked the attention and care that they should have commanded, represents an abdication of responsibility by both politicians and senior managers.

318. During the five years of pursuit of its investment strategy, some astonishment was occasionally expressed by members and officers at the fact that no other council was adopting the same approach. If nothing else had done so, this fact on its own should have given the Council some cause for reflection. It seems, rather, that the scale and continuous flow of the incoming funds served to preclude such curiosity. We were told that oversight of the strategy relied upon trust. That is an admirable quality and the

right place to start. The leadership and management of a local authority, however, charged as it is with stewardship and proper expenditure of public funds, requires assurance that this trust is well placed. Copious mechanisms that could and should have provided that assurance - the 'checks and balances' of the system of operation that exist in every local authority - were debased at this Council. It is fundamental to good local government that the integrity of these systems should be maintained. The laxity and drift in the operation of basic components of governance and the misapplication or negation of its system of internal controls were managerial failures at the core of this Council's business.

319. We have made a series of recommendations, the application of which we are confident will enhance the efforts that Thurrock Council, under the control and guidance of Commissioners, makes towards recovery, albeit that recovery itself will also require external financial assistance of some scale to be provided.

320. We believe it is likely that some of the Council's failings could have been prevented had knowledge of their existence been more clearly exposed to view and to some form of deliberative and authoritative action at an earlier point, and that agencies both inside and outside the Council could have placed themselves, or have been placed, in a stronger position from which to act to effect change earlier than has been the case. To that end we have identified some potential for strengthening the requirements relating to the internal control environment of local government and have also made recommendations in this regard.

Appendices

Appendix 1: Directions to Thurrock Council

DIRECTIONS UNDER SECTION 15(5) AND (6) OF THE LOCAL GOVERNMENT ACT 1999

1. The Secretary of State for Levelling Up, Housing and Communities ("the Secretary of State") has carefully considered the following in respect of Thurrock Council ("the Authority"):

   i. The Authority's exceptional level of external borrowing and approach to managing this borrowing and the Authority's finances more widely.
   ii. The feedback report of the Local Government Association (LGA) Corporate Peer Challenge of Thurrock Council (10 to 13 January 2022).
   iii. Discussions between Ministers and Officials of the Department for Levelling Up, Housing and Communities and Members and Officers of Thurrock Council.

2. The Secretary of State is satisfied that the Authority is failing to comply with the requirements of Part I of the Local Government Act 1999 ("the 1999 Act").

3. The Secretary of State considers the matter sufficiently urgent to forego the period of representation in section 15(9) of the 1999 Act. He considers it necessary and expedient, in accordance with his powers under section 15(5) and (6) of the 1999 Act, to immediately direct the Authority as set out below in order to secure the Authority's compliance with the requirements of Part I of the 1999 Act, in particular:

   - To deliver financial sustainability by closing any short- or long-term budget gaps and reducing the Authority's exceptionally high level of external borrowing;
   - To ensure compliance with all relevant rules and guidelines relating to the financial management of the Authority;
   - To ensure that a strategic and systematic approach to risk management, with appropriate scrutiny and governance of the decision-making processes and procedures, is adopted and embedded across the Authority;
   - To address the culture of poor financial management and governance of its commercial portfolio.

4. Pursuant to his powers under section 15(5) and (6) of the 1999 Act, the Secretary of State directs:

   i. the Authority to take the actions set out in Annex A to these Directions;

   ii. that the functions of the Authority specified in Annex B to these Directions shall be exercised from the date of these Directions by the

Commissioners acting jointly or severally; the Commissioners being persons nominated by the Secretary of State for the purposes of these Directions as long as those nominations are in force;

iii. that, from the date of these Directions, the Authority shall comply with any instructions of the Commissioners in relation to the exercise of the functions specified in Annex B, and shall provide such information and assistance as the Commissioners may require for the purpose of exercising the functions specified in Annex B.

5. These Directions shall remain in force until 1 September 2025 unless the Secretary of State considers it appropriate to amend or revoke them at an earlier date.

Signed on behalf of the Secretary of State for Levelling Up, Housing and Communities.

Maxwell Soule
Senior Civil Servant in the Department for Levelling Up, Housing and Communities

Date: 2 September 2022

ANNEX A

ACTION THE AUTHORITY IS REQUIRED TO TAKE

In this Annex, the following expressions have the following meanings –

> "the Authority" includes the Leader of the Council, Cabinet Members, any committee or sub-committee; and any other person who has responsibility for the matter in question.

The actions to be taken by the Authority are:

1. Prepare and agree an Improvement Plan to the satisfaction of the Commissioner (which may include or draw upon improvement or action plans prepared before the date of these Directions), within 3 months, with resource allocated accordingly, to include at a minimum:

    a. An action plan to achieve financial sustainability and to close any short and long-term budget gaps identified by the Authority across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan;

    b. An action plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable;

    c. A strict debt reduction plan, and an updated minimum revenue provision (MRP) policy in line with all relevant rules and guidelines;

    d. An action plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority; and

    e. A suitable scheme of delegations for financial decision-making.

2. To report to the Commissioner on the delivery of the Improvement Plan at 6 monthly intervals, or at such intervals as Commissioner may direct.

3. To undertake in the exercise of any of its functions any action that the Commissioner may reasonably require to avoid so far as practicable incidents of poor financial governance or financial mismanagement that would, in the reasonable opinion of the Commissioner, give rise to the risk of further failures by the Authority to comply with the best value duty.

4. To allow the Commissioners at all reasonable times, such access as appears to the Commissioners to be necessary:

    a. to any premises of the Authority;
    b. to any document relating to the Authority; and
    c. to any employee or member of the Authority.

5. To provide the Commissioner, at the expense of the Authority, with such reasonable amenities and services and administrative support as the Commissioners may reasonably require from time to time to carry out their functions and responsibilities under these Directions;

6. To pay the Commissioner reasonable expenses, and such fees as the Secretary of State determines are to be paid to them.

7. To provide the Commissioners with such assistance and information, including any views of the Authority on any matter, as the Commissioners may reasonably request.

8. To co-operate with the Secretary of State for Levelling Up, Housing and Communities in relation to implementing the terms of these Directions.

ANNEX B

FUNCTIONS OF THE AUTHORITY TO BE EXERCISED BY THE COMMISSIONER

In this Annex –

"the Authority" includes the Leader, Cabinet Members, any committee or subcommittee; and any other person who has responsibility for the matter in question.

The Commissioner shall exercise:

1. All functions associated with the financial governance and scrutiny of strategic financial decision making by the Authority;

2. The requirement from section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authority's financial affairs, and all functions associated with the strategic financial management of the Authority, to include:

   a. providing advice and challenge to the Authority on the preparation and implementation of a detailed action plan to achieve financial sustainability and to close any short and long-term budget gaps identified by the Authority across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan;

   b. providing advice and challenge to the Authority in the setting of annual budgets and a robust medium term financial strategy (MTFS) for the Authority, strictly limiting future borrowing and capital spending;

   c. scrutiny of all in-year amendments to annual budgets;

   d. the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty;

   e. providing advice and challenge to the Authority on the preparation of sustainable and affordable capital, investment and treasury management strategies; a strict debt reduction plan; and a revised minimum revenue provision (MRP) policy;

   f. providing advice and challenge to the Authority on a suitable scheme of delegations for financial decision-making;

   g. ensuring compliance with all relevant rules and guidelines relating to the financial management of the Authority.

Appendix 2: Inspection letter (6 December 2022)

Essex County Council
Chief Executive's Office
County Hall
Chelmsford
CM1 1QH

Date: 6.12.22

Dear Secretary of State

BEST VALUE INSPECTION OF THURROCK COUNCIL

Essex County Council is making sound progress in completing its Best Value inspection of Thurrock Council. The inspection team is confident that, when they conclude their inspection, we will be in a position to make a range of recommendations that will enable significant improvement to be made in the way the Council operates.

Some of our recommendations are already complete. I am therefore writing to set out a number of these in advance of our inspection report. I am sharing them, conscious that information on the extent of the Council's financial difficulties, and the scale of necessary recovery work, is becoming clearer by the day. These recommendations will, if accepted, enable immediate action to be taken to support the Council's recovery. I believe it is in the interests of the residents of Thurrock and the Council that these recommendations are shared promptly to enable action to be taken in a timely way.

I anticipate that the Best Value inspection report will go beyond the areas covered in the recommendations set out below. The inspection team is currently undertaking detailed research into other areas where we believe it likely that we may make further recommendations to you. This work will necessarily require further time. In discussion with your officials, we have explored the possibility of extending the time available to us to complete this work. Based on these discussions, I would like to propose that we submit our report and full recommendations on 17th February 2023. I do not ask for this extension lightly. I am aware that this will incur additional cost, but it is essential that the full extent of the issues is set out clearly, not only for yourself, but also for the Council so that it understands the full scale of the recovery required.

Our recommendations

The information set out in Thurrock Council's Quarter 2 Finance Update 2022/23, considered by the cabinet on 7 December 2022, suggests that the Council will be unable to set a balanced budget in 2023/24 within its current resources. Its current year deficit has been reported at £470m and its on-going structural deficit is £184m. This surpasses that of any other local authority in England. In addition, its level of borrowing stands at £1.3billion. The Council will therefore require significant external support, and will need to deliver extensive savings, for years to come.

It is inevitable that the Council, in addition to making extensive efficiency savings, will have to make a significant and rapid reduction in the scope of local services. Many services, which have been relatively well funded over the past decade may, as a consequence, be either ceased or (where statutorily underpinned) equipped to do little more than provide a minimum level of service for the foreseeable future. Undertaking this transformation will be a hugely difficult task, not least because the Council does not have a good record in delivering major projects. It will need to be effectively managed at both the corporate and service level if the Council is to avoid serious operational failures.

To ensure that Thurrock Council has the leadership necessary to deliver this change, a clear roadmap for the future, and the right foundations in place to enable it to manage this change effectively, the team have made the following recommendations which I commend to the Secretary of State and the Council.

Recommendation A: The Secretary of State should direct Thurrock Council to prepare, agree and implement a recovery plan to the satisfaction of Commissioners. This will build upon and extend the scope of the improvement and recovery plan currently being developed.

The extended recovery plan should set out robust actions to:

- prioritise and reconfigure council services to ensure they can be delivered within the radically reduced financial resources that will be available;
- put in place the skills, capabilities and capacity necessary to lead and manage this change;
- address the weaknesses in governance that have undermined transparency and effective and informed decision-making, including by making improvements in taking and recording formal decisions, and the functioning of scrutiny, full specific details of which will be in our final report;
- put in place arrangements for the improved provision of appropriate information to elected members and to the public; and
- secure the proper resourcing and functioning of the system of internal controls, including risk management and internal audit.

Recommendation B: The Secretary of State should direct Thurrock Council to:

- design an appropriate officer structure for the authority, to the satisfaction of Commissioners. This should provide sufficient resources to deliver the authority's functions in an efficient and effective way,
- develop an enhanced performance management framework for the operation of this structure and for the senior officers within it and implement and manage this to the satisfaction of Commissioners.

Recommendation C: The Secretary of State should grant Commissioners the authority to make appointments and dismissals with respect to senior positions, and to determine the processes for making these appointments and dismissals.

For the purposes of Recommendations B and C, 'senior positions' should be understood as the top three tiers of the organisation.

A statement summarising key lessons from the Best Value inspection so far is attached to this letter. This statement provides a summary of the evidence and supporting rationale for these recommendations, and will be expanded upon further in the final report.

I hope these recommendations are helpful and that they can provide a basis for the immediate next steps necessary to secure Thurrock Council's future in the interests of local residents and communities.

Yours sincerely

Gavin Jones
Chief Executive

Best Value Recommendations: Supporting Statement **6.12.22**

1. Between 2016 and 2022 Thurrock Council pursued a strategy of borrowing large amounts of money, predominantly from other local authorities, and using these to undertake a range of investments for the purposes of securing a return. The income from this strategy enabled local political leaders to forestall or avoid difficult decisions on raising council tax, and on the transformation of local services, for several years. But the Council failed to understand and control the risks of this investment strategy. The ultimate failure of the strategy, and the scale of the financial loss that has resulted, inevitably raises serious questions over the financial viability of the authority unless significant external support is provided.

2. The full extent of the Council's financial difficulties will not be known for some time. At the time of writing, the Council's Quarter 2 Finance Update 2022/23 suggests that there is an in-year deficit of some £470m, and an estimated structural deficit in 2023/24 of £184m. This is the sum that is in excess of its budget provision, and must be found over and above the cost of the provision of services for the residents of Thurrock (£154m 2022/23 General Fund revenue budget). Setting aside the current in-year deficit position, this therefore suggests an ongoing structural deficit of 120%. Given this, it is clear that the Council will be unable to set a balanced budget in 2023/24 within its current resources and, as stated above, will require significant external support, as well as the delivery of an extensive savings programme for years to come.

3. In its Capital Strategy report presented in February 2022, the level of borrowing estimated as at 31 March 2023 is shown as £1.3bn (excluding HRA) all of which must be properly accounted for. The annual revenue costs associated with this debt make Thurrock Council – one of England's smaller unitary councils in terms of population and tax base - highly vulnerable from a financial point of view. The Council does not have a sufficient portfolio of assets that can be sold to significantly reduce this debt burden.

4. As part of its response, it is inevitable that the Council, in addition to making extensive efficiency savings, will have to make a significant and rapid reduction in the scope of local services. Many services, which have been relatively well funded over the past decade may, as a consequence, be equipped to do little more than a minimum level of provision for the foreseeable future, if indeed they can continue at all. Leading this transformation will be a hugely difficult task, not least because the Council does not have a good record in delivering major projects. It will need to be effectively managed at both the corporate and service level if the Council is to avoid serious operational failures.

5. It is important to make clear that the Council's financial difficulties are the consequence of dysfunction within the Council, not the cause of it. Our inspection has found that, although serious mistakes have been made by individuals with respect to financial management, the challenges facing the Council stem from a series of self-sustaining, systemic weaknesses which have allowed for repeated failure over many years.

6. The effective running of the Council and its ability to deliver on its ambitions have been undermined by failures in political and managerial leadership, including a lack of consistent strategic direction being given to the authority, inadequate governance arrangements, and weaknesses in internal control. These factors, and others, have created an inhibiting working environment, characterised by a focus on transactional activity at the expense of corporate endeavour for those in senior leadership positions. This has in turn bred a culture of insularity and complacency, within which transparency of decision-making and the operation of normal and proper checks and balances have been eroded, internal challenge has been discouraged, and external criticism has been routinely dismissed – placing the Council in a state of unconscious incompetence.

Evidence supporting our specific recommendations

> **Recommendation A:** The Secretary of State should direct Thurrock Council to prepare, agree and implement a recovery plan to the satisfaction of Commissioners. This will build on and extend the scope of the improvement and recovery plan currently being developed.
>
> The extended recovery plan should set out robust actions to:
>
> - prioritise and reconfigure council services to ensure they can be delivered within the radically reduced financial resources that will be available;
> - put in place the skills, capabilities and capacity necessary to lead and manage this change;
> - address weaknesses in governance that have undermined transparency and effective and informed decision-making, including improvements in making and recording formal decisions, and the functioning of scrutiny;
> - put in place arrangements for the improved provision of appropriate information to elected members and to the public; and
> - secure the proper resourcing and functioning of the system of internal controls, including risk management and internal audit.

7. In order to secure change on the scale required, the Council will need a clear and robust improvement and recovery plan. Directions from the Secretary of State already require the authority to prepare and agree an improvement plan, to the satisfaction of Commissioners, that includes a plan to achieve financial sustainability and to close long and short-term budget gaps. Our recommendation builds on these directions and makes explicit the requirements that the Council should prioritise and reconfigure services, and that it should put in place the skills, capabilities and capacity necessary to lead and manage the change.

8. These elements of our recommendation reflect:

   a. **the scale of the financial challenge facing the Council.** This is summarised in the Council's Financial Update for Q2 2022/23 above, and means it is inevitable that, in addition to making extensive efficiency savings, the Council will have to make a significant and rapid reduction in the scope of local services.

   b. **the Council does not have track record in delivering transformational change in the context of reducing financial resources.** The income from the Council's investment strategy enabled local political leaders to forestall or avoid difficult decisions on the transformation of local services for several years. Through our inspection we have heard that, rather than driving the modernisation of services and reducing the costs of services – an exercise that was playing out across the wider local government sector – Thurrock Council built the revenues from high-risk investments into its base budget and allocated surpluses to fund short-term political priorities.

   c. **the Council's historic lack of strategic planning and long-term decision-making.** The Council has struggled to give consistent strategic direction to its intentions. Both members and officers have failed to articulate a Corporate Plan through which the Council's resources, efforts and energies could be prioritised against a set of deliverable objectives.

   In the absence of an overarching and coherent strategic plan, the Council has focused on a number of large-scale regeneration and infrastructure projects (see paragraph 8d below) and short-term, highly visible street-scene based functions, encapsulated in the phrase 'Cut it, bin it, fill it'. This latter approach has regularly dominated the attention of leading members and senior officers and has become a yardstick for how success is measured. While these matters are of course important, they have also provided a distraction from more challenging concerns. The seriousness of Council's financial situation means that recovery will be a slow process extending over many years. Those who provide leadership to Thurrock Council in the future will require the discipline and resolve to sustain this process and resist distraction.

d. **the Council's track record in the delivery of major projects.** Although many council services perform well in the delivery of business-as-usual services, our inspection has highlighted repeated failures in the delivery of major projects. Examples include the development of the New Town Hall, the delivery of the A13 widening scheme, the regeneration of Purfleet and the redevelopment of Stanford-Le-Hope station.

e. **weaknesses in the Council's corporate working practices.** Through our inspection we have been told repeatedly that the Council's Directors failed to act as a corporate management team, focusing attention on transactional discussions between siloed professional functions rather than on working together corporately. This has been compounded by a lack of collective working between the directors board and cabinet. Although relationships between individual directors and portfolio holders may be functional, this cannot be sufficient to sustain the burden of decision-making required to guide the Council through the change of the scale necessary to secure its future.

9. This recommendation also makes explicit the need for the Council to put in place robust operating practices to ensure that it can manage the necessary change in an effective way, addressing historic weaknesses in governance, transparency and in the functioning of internal controls. These elements of our recommendation reflect:

a. **significant weaknesses in the Council's formal decision-making.** Through our inspection we have identified a culture of informality around decision-making in which there is often no recorded 'single truth' of important decisions, meaning that there is no record of why 'decisions' were taken and it's sometimes unclear if there was any decision at all. Too often 'decisions' are taken at informal meetings and are never followed up with formal decisions by a person or body authorised to take them, meaning that they have no formal or binding status. There are similar weaknesses in the minuting for formal meetings. Although the debate is extensively minuted, key information is regularly omitted such as the actual decision. Reports to members are not always provided in good time or with sufficient information. This informality represents a significant weakness in the Council's control environment. It limits the extent to which decisions taken by members provide clear enforceable instructions to officers, reducing their ability to lead the organisation and hold officers to account. There are also concerns about some aspects of the Council's constitution which seeks to entrench the position of whichever party is in power.

b. **significant weaknesses in the Council's scrutiny function.** Scrutiny members told us, and we agree, that at present scrutiny does not add significant value to the work of the Council. Scrutiny at Thurrock consumes a lot of member time with the Council having a large number of committees, which meet infrequently, follow work programmes that are largely controlled by officers, and spend a disproportionate amount of time reviewing forthcoming cabinet reports in a way which does not comply with best practice or add value. Members are not given the information they request and when Scrutiny make comments these are frequently not recorded properly and are not passed to decision-makers. Senior officers and members do not sufficiently engage with scrutiny. Such was the lack of engagement that early in the inspection it became clear that there was no one appointed to the statutory role of scrutiny officer. These factors limit committee members' ability to engage meaningfully with key issues, undermining the extent to which they can provide meaningful scrutiny of council activity.

c. **a culture within the Council that has bred a lack of transparency with members.** Throughout the inspection we have been told that members at all levels are not given the information they need to take informed decisions, to scrutinise the work of the Council or to hold the executive to account. This is evident in:

   i. the way reports are prepared for formal meetings. Often formal reports do not comply with basic requirements to set out the decision requested, the impact of the decision, the key issues, the pros and cons, the risks, financial implications and any legal advice. Nor do they always set out the options to consider. Some reports included so little information that it would have been difficult for members to take a proper decision; and

   ii. the way questions have been historically dealt with at full council. In breach of the constitution, questions from members have been rejected where the Monitoring Officer judged the question or answer is likely to disclose confidential or exempt information. Judgments made in rejecting questions have erred heavily on the side of non-disclosure which has hindered the ability of members to receive the information they need.

d. **significant weaknesses in internal control.** An internal control environment exists to provide a set of checks and balances that provide assurance from multiple sources that the operation of the organisation is running effectively. The strength of the internal control environment has been tested in Thurrock in relation to the Investment Programme. The conclusion is that such systems were either not in place, did not work effectively or their use was bypassed with catastrophic consequences.

   The Council agreed a set of principles which should have acted as the framework for the investment programme. However, there was very little active reporting against these principles. In addition, considerable power was delegated to the S151 Officer without any explanation being sought, or given, on why such powers were necessary. Furthermore, there was no reporting of the operation of those delegations, nor was any other mechanism deployed to either identify or challenge what he was doing There was no effective separation of roles. There was no involvement of internal audit in the programme, and resourcing of this function is in any event woefully inadequate. The corporate risk register reported the highest risks and opportunities – the only visibility of the investment programme at corporate level was as an opportunity, not as a risk, and indeed we can find no understanding of the complexity of the programme that would have informed a proper risk assessment. There was no consideration of the skills and resourcing requirements need to run this programme properly, and advice from the Treasury Management advisers given in 2018 was not only ignored, but their contract was then terminated. It wasn't until two years later, at which point £951m had been invested, that the authority contracted with external investment advisers.

   There was an almost complete absence of any proper system of internal control. Given the scale of change the authority must now undertake, it is essential that this is addressed as a matter of urgency.

Recommendation B: The Secretary of State should direct the Council to:

- design an appropriate officer structure for the authority, to the satisfaction of Commissioners. This should provide sufficient resources to deliver the authority's functions in an efficient and effective way,
- develop an enhanced performance management framework for the operation of this structure and for the senior officers within it, and implement and manage this to the satisfaction of Commissioners.

Recommendation C: The Secretary of State should grant Commissioners the authority to make appointments and dismissals with respect to senior positions, and to determine the processes for making these appointments and dismissals.

For the purposes of Recommendations B and C, 'senior positions' should be understood as the top three tiers of the organisation.

10. The scale of the change required, and the reduction in resources available to the Council will inevitably require significant change to its senior management structures. Currently, members of the directors board are not working within a structure that makes the most of their skills and abilities and which does not provide for these to add value to the corporate operation of the authority. Recommendations B and C make explicit the need for this change. These recommendations are also necessary, in practical terms, to give effect to Recommendation A. Put simply, if the Council's senior officer structure isn't fit for purpose, and isn't performing to the appropriate level, then it represents a major risk to the recovery of the Council and to future service provision.

11. These recommendations also reflect the need to:

   a. **drive a new set of behaviours among the Council's most senior tiers of management.**

      i. As noted above, the Council's directors board is not accustomed to operating as a Corporate Leadership Team – this had not been a requirement for success in a management environment that focused on operational considerations to the exclusion of strategic issues;

      ii. Tackling historic and long-standing weaknesses in governance, transparency and internal control will require more than simply changes in process. Senior Leaders will need to foster a culture of openness and collaboration with members, but one in which the proper checks and balances on decisions are accorded the level of application and respect necessary.

   b. **ensure a senior team with the skills and experience necessary to lead significant change over a sustained period.**

      i. Decision-making in the Council over at least the past seven years has been characterised by short-termism. Officers and members have failed to plan for the future and have avoided many of the difficult decisions that may require trade-offs between the needs of different groups, or between different sets of services in the long-term. It is not clear that the directors board, as currently configured, is best positioned to play this role from now; and

ii. As noted in paragraph 8d, the Council's senior team does not have a strong track record in the delivery and oversight of major corporate projects. It is vital that Thurrock Council's most senior leadership group have these skills in the years to come.

Appendix 3: Letter of appointment

Department for Levelling Up, Housing & Communities

Max Soule
Deputy Director, Local Government Stewardship

Department for Levelling up, Housing and Communities
Fry Building, 2 Marsham Street
London SW1P 4DF

www.gov.uk/dluhc

Gavin Jones
Chief Executive
Essex County Council

By email

2 September 2022

Dear Gavin,

I am writing to inform you that the Secretary of State for Levelling Up, Housing and Communities has nominated Essex County Council as Commissioner for the purposes of the Directions he has made today under section 15(5) and (6) of the Local Government Act 1999 ("the Act") in relation to Thurrock Council, and has also in exercise of his powers under section 10 of the same Act appointed Essex County Council as a person to carry out an inspection of the compliance of the same Authority with the requirements of Part 1 of that Act.

In issuing the Directions and making this appointment, the Secretary of State has had regard to the scale of the financial and commercial risks potentially facing Thurrock Council. These are compounded by that Authority's approach to financial management and the seriousness of the allegations that have been made by third parties about the processes that have been applied to the operation of that Authority's commercial strategy; and the failure of that Authority to provide assurance to Ministers and the Department on the adequacy of the actions that they are taking to address the issues, taking account of the scale and pace of the response required.

Turning first to the appointment as Commissioner, I enclose the formal nomination document. Your Authority is nominated as Commissioner for the period from 2 September 2022 to 1 September 2025. As Commissioner, the Authority will have the roles and responsibilities set out in the Directions, a copy of which I enclose along with a copy of an Explanatory Memorandum. Under the Directions, your Authority is accountable to the Secretary of State in that the Authority has been nominated by him and can have the nomination withdrawn by him. I have also enclosed terms of engagement that you will need to acknowledge and return.

Your Authority will be entitled to a fee for each day you act as Commissioner. It will also be entitled to reasonable expenses. Under the terms of the Directions, it is Thurrock Council's responsibility to meet these costs. The Secretary of State set the fee for a Commissioner at £1,100 per day, and your Authority will be paid the equivalent up to a maximum of 150 days per annum for each year. These limits should not be exceeded without prior approval of the Secretary of State. However, in light of the Commissioner role being given to the Council as an individual entity, rather than to a person acting as an individual, the Secretary of State appreciates that a different approach may be required and is committed to keeping this under review. The guiding principle is ensuring value for the taxpayer and transparency. As to reasonable expenses, we would expect these to be in accordance with the rules for senior officers set out in the Council staff handbook.

The Secretary of State has asked for regular progress reports in relation to your Authority's role as Commissioner, on a six-monthly basis or at such other times as your Authority and he might agree, with the first report expected as soon as is practical and within the next three months.

Your Authority's appointment as Commissioner has the status of an office holder and not of an employee. Nothing in this letter shall be construed as, or taken to create, a contract of service or contract for services between your Authority and the Department for Levelling Up, Housing and Communities (DLUHC), the Crown, or Thurrock Council.

Turning now to your Authority's appointment as a Best Value inspector, the Secretary of State, in exercise of his powers under section 10 of the Act hereby appoints your Authority as the person to carry out an inspection of the compliance of the Authority known as Thurrock Council with the requirements of Part 1 of the Act in relation to that Authority's functions in respect of governance, audit (internal and external), risk management, overview and scrutiny functions of that Authority, and their impact on service delivery. This is in order to assess the extent of the failure of that Authority to comply with the Best Value duty, beyond the management of financial resources, and to make recommendations to mitigate the risk to service delivery that any further failure may have.

The Secretary of State also, in exercise of his powers under section 10(4)(b) of the Act, has given the following directions to your Authority in relation to it undertaking the inspection.

First, in undertaking the inspection in relation to Thurrock Council's functions specified above, and without prejudice to the scope of this inspection, you are directed to consider, in the exercise of those specified functions, whether that Authority has effective arrangements in place for securing Best Value in its governance, audit (internal and external), risk management, overview and scrutiny functions and their impact on service delivery.

Second, your Authority is directed to report the findings of the inspection to the Secretary of State by 3 January 2023, or such later date as the inspector may agree with the Secretary of State.

The Secretary of State may, following receipt of your Authority's report, or otherwise, issue further directions to Thurrock Council.

Section 12 of the Act provides that the Authority to be inspected must pay your Authority reasonable fees for carrying out the inspection. You will want to ensure transparency around those reasonable fees and take steps to ensure value for money for the taxpayers of Thurrock.

You will want to consider whether the way in which any activities or responsibilities of your Authority are delivered need to be reviewed to ensure that no conflicts of interest arise, and that appropriate delegations or arrangements are in place in relation to the exercise of the additional powers that your Authority now possesses following the appointment as a Commissioner and Best Value Inspector and in light of the Directions issued under the Act. I envisage that you will work with Thurrock Council and provide an update to me on this work as soon as is practicable.

In addition to the administrative support you will be provided by Thurrock Council, the Department will make arrangements for further support from the civil service, and the Secretary of State may appoint assistant inspectors at your request.

I would like to take this opportunity to thank your Authority for assisting in this intervention. We are very grateful for your commitment to taking up this challenge to improve the performance of Thurrock Council so that it effectively serves and protects the people of the area.

Yours Sincerely,

Max Soule
Deputy Director, Local Government Stewardship

Appendix 4: Case studies

We have included case studies here to illustrate some of our concerns about how the Council has operated in terms of poor decision-making.

Case study 1: The 'decision' to pause making further investments in or about summer 2020.

It is generally agreed among the people we spoke to that in 2020 Thurrock Council decided not to make any further investments - effectively to press 'pause' on the investment programme. When we spoke to officers and members we were regularly informed that there was a pause, and this is reflected in several council documents.

In July 2020, there was an extraordinary council meeting, requisitioned by the opposition following reports about investments in the Financial Times. We have read the minutes of this meeting and listened to the recording of the meeting. Nowhere can we find any reference in the meeting to the question of pausing the investment strategy.

On 16 September 2020 cabinet received a MTFS and budget update whose recommendation was to comment on the budget reports. The report to the cabinet seems to consider that there has been a decision to pause:

> **"The MTFS also reflects a pause to elements of the Capital Strategy approach** (our emphasis). That equates to £11.973m of the total movement across the four years. Note that existing investments have continued to perform as anticipated (despite Covid-19), and have helped deliver services above the statutory minimum for residents of the borough since 2017. Some of the reasons behind the pause relate to new investment market opportunities reducing, along with the commitment to develop an enhanced scrutiny arrangement for members. The pause also encompasses the pause of providing Thurrock Regeneration Limited more funding to develop new schemes whilst a review is completed of best delivery models."

The cabinet's decision was minuted as:

> **"RESOLVED: That cabinet:**
>
> **1. Commented on the MTFS and the forecast outturn position for 2020/21.**
>
> Reason for decision: as outlined in the report
> This decision is subject to call-in."

This is not a decision of any kind, still less a decision to pause the investment programme.

We have had to conclude that there was no formal decision to pause the investment programme until the budget council meeting in February 2021.

Yet the consensus is that there was a decision to pause taken in summer 2020. We have concluded that this can only have been an informal non-binding decision.

We do not know where the informal 'decision' was taken or when or who by, yet this 'decision' finds its way into a formal update report to September cabinet.

Case study 2: February 2020 Capital Strategy

In most authorities the treasury management strategy is a routine document. In Thurrock Council the treasury management strategy has been the document which authorised and sought to control the investments.

The treasury management policy presented to councillors was an annex to an appendix to a report.

The controls in the policy at Thurrock Council are highly unusual. Investments approved by the section 151 Officer are not subject to any maximum level of investment except a requirement for the limit to be 'reviewed for each case'.

This effectively gave the section 151 Officer unlimited authority to invest in anything he felt fit. This contrasted with (just for example) an overall limit of £30m in housing associations and £40m in money market funds.

The report suggested that multiple short-term borrowing 'enables the Council to reduce borrowing costs' [which is true] and 'hence the overall treasury management risk' which is obviously not true, as funding long term commitments with short term borrowing, particularly at this level, makes the council vulnerable to its sources of funding drying up, as happened in July 2022.

In February 2020 the Council adopted a new treasury management strategy which authorised further investment of £250m in 2020/21 and further investments in future years. The capital strategy said that 'the Council also plans to incur £250m of capital expenditure on investments, which are detailed later in this report'. No details about capital expenditure on investments was provided in that report. There is a table showing that at this time the Council anticipated having £794m in capital investments by 31 March 2020, forecast to increase to £1.544bn by 31 March 2023.

The recommendations in the report were:

> **"Recommendation(s)**
>
> **That the Council:**
>
> **1.1** **Approves the Capital Strategy for 2020/21 including approval of the Annual Minimum Revenue Provision (MRP) statement; and**
>
> **1.2** **Approve the adoption of the Prudential Indicators as set out in Appendix 1."**

Officers told us that members were fully aware of the scale of the investment programme and the risks involved. But many members do not seem to have been aware of this and nothing in the papers put before the Council or the cabinet would do very much to bring the scale of the proposed investments to their attention.

It could be said that members should have asked for more information given that they appear to have been well aware of the existence of the investment strategy and that it was said to be helping them balance their budget. But members should have been provided with clear information about the size and risks of the investment programme without having to ask.

Case study 3: Appointment of Director of Childrens Services in June 2019

On 19 June 2019 the Council considered a report about appointing an officer as the Director of Childrens Services. It was proposed to appoint Mr Harris to this post. He was already the Director of Adult Social Services.

In fact there were two reports before the Council on this subject, an original report included in the summons for the meeting and a second late report which presumably superseded the original report. It is not uncommon for local authorities to send round late reports. However, the minutes are not clear about what was put to the vote.

It appears logical that council voted on the recommendation in the replacement report which was:

> "To approve in accordance with the Council's Constitution the appointment of Roger Harris as interim Director of Children's Services for six months pending the presentation of a report to General Services Committee to consider options for the future of this role."

The minutes record that more people voted against (25) the motion than for it (16). The clear legal and factual position is therefore that the motion was lost and no resolution had been passed. This was inaccurately minuted as:

> "RESOLVED:
>
> Members did not approve in accordance with the Council's Constitution the appointment of Roger Harris as interim Director of Children's Services for six months pending the presentation of a report to General Services Committee to consider options for the future of this role."

It is inaccurate because members never voted on that proposition and no resolution was passed. This may appear a small point, but it illustrates the inaccurate recording of decisions and levels of confusion that exists within the Council's governance processes.

Case study 4: Report relating to development of the Culver Centre site, South Ockendon, January 2022

The Council had been considering proposals for Thurrock Regeneration Limited to develop the Culver Centre site. A report was due to be considered by the cabinet on 12 January 2022. The report was 'pre-scrutinised' by the Housing Scrutiny Committee on 11 January 2022, the day before the meeting. The outcome of the Scrutiny committee was minuted as:

> "The Chair proposed that a new recommendation be put forward as she did not agree with recommendation 1.2. The Committee agreed and supported this. Officers would work with the Chair to agree the wording to reflect the Committee's disagreement with recommendation 1.2 which would be put forward to cabinet at its meeting the next day. The wording would also be shared with scrutiny committee members."

However, the actual minutes of the decision do not align with this. The minutes of the decision are:

> **"RESOLVED:**
>
> **1.1 That the Committee commented on the proposal that Thurrock Regeneration Ltd develop the Culver Centre and Field, South Ockendon site in accordance with the consented planning application.**
>
> **UNRESOLVED(sic):**
>
> **1.2 That the Committee noted that authority will be delegated to the Corporate Director of Resources and Place Delivery, in consultation with the Portfolio Holder for Finance, to agree the transfer value of the land, final funding to TRL, and to enter into legal agreements including appropriation of land, as required to enable this development, subject to the financial parameters as set out in the report."**

Following the meeting, the wording for the recommendation to cabinet was agreed by the Chair as:

> "At their meeting on 11th February 2020, Housing Overview and Scrutiny received information that decisions on the disposal of land would be referred to Full Council. Based on this previous information, the Committee does not wish to support the delegation to the Corporate Director of Resources and Place Delivery, in consultation with the Portfolio Holder for Finance, and the Portfolio Holder for Regeneration to agree the transfer value of the land, final funding to TRL, and to enter into legal agreements including appropriation of land, as required to enable this development, subject to the financial parameters as set out in the report.
>
> Housing Overview and Scrutiny Committee requests cabinet to take the decisions in full cabinet and to refer the matter to Council."

It is clear from the minutes that the scrutiny committee were unhappy with the proposal to delegate the decision. It is not clear what 'unresolved' means in the context of local authority decision-making.

On 12 January 2022 the cabinet considered a report on the same topic. The minutes don't refer to the comments from the scrutiny committee. We watched the recording of the meeting. The Scrutiny Committee Chair wasn't present at the meeting – we understand they were attending another council meeting that evening. At the meeting the Monitoring Officer offered to read out a statement from the scrutiny committee but this was not permitted by the Chairman. The recommendations in the original report were approved by the cabinet.

Cabinet should not have taken the decision without considering the statement from the scrutiny committee and they should have been advised that this was not appropriate.

Given that the Committee's recommendations were not considered by the cabinet, an attempt was made to 'call-in' the decision.

It is understood that the former Chief Executive disallowed the call-in because the decision had been pre-scrutinised, even though the comments made by Scrutiny were not presented to the cabinet and therefore could not have been considered.

Appendix 5: Interview schedule

We are grateful to the following members, officers and wider stakeholders for giving their time and inputting into this inspection.

Thurrock Council members (including former members)

Cllr Cathy Kent, Former Chair, Audit and Standards Committee
Cllr Elizabeth Rigby, Chair of Audit & Standards Committee
Cllr Graham Snell, Cabinet Member for Finance
Cllr Jack Duffin, Former Cabinet Member for Finance
Cllr Jane Pothecary, Former Leader of the Opposition
Cllr John Kent, Leader of the Opposition
Cllr Mark Coxshall, Acting Leader
Former Cllr Oliver Gerrish, Former Leader of the Opposition
Cllr Rob Gledhill, Former Leader
Cllr Shane Hebb, Former Cabinet Member for Finance
Cllr Shane Ralph, Chair, Health Overview and Scrutiny Committee
Cllr Susan Little, Former Chair of Corporate Overview and Scrutiny Committee
Cllr Tony Fish, Former Chair, Audit and Standards Committee
Scrutiny Committee Chairs and Vice Chairs who participated in our workshop discussions
Scrutiny Committee members who participated in our workshop discussions

Thurrock Council officers (including former officers)

Andy Millard, Director, Ederra Consultancy and Former Director of Place, Thurrock Council
Andy Owen, Corporate Risk and Assurance Manager
Anna Eastgate, Corporate Director for Place Services, Dorset Council and Former Assistant Director, Transport Infrastructure, Thurrock Council
Brian Priestley, Regeneration Programme Manager
Chris Buckley, Treasury Management Officer (retired)
Dan Kirk, Managing Director, Toucan Energy
David Kleinberg, Former Counter Fraud and Investigation Lead
David Lawson, Former Monitoring Officer and Head of Legal Services
Democratic Services Officers who participated in our workshop discussions
Ewelina Sorbjan, Interim Director, Housing
Contact Centre Staff who took part in our focus group discussion
Gary Clifford, Head of Internal Audit
Gary Staples, Assistant Director, Transformation
HR Business Partners who participated in group discussions
Helen McCabe, Company Secretary, Thurrock Regeneration Ltd
Henry Kennedy-Skipton, Former Strategic Lead for Regeneration
Ian Hunt, Former Monitoring Officer and Assistant Director
Ian Wake, Acting Chief Executive
Jackie Hinchliffe, Director of Human Resources, Organisational Development and Transformation
Jessica Nwoko, Corporate Procurement Lead

Jo Broadbent, Director of Public Health
Jonathan Wilson, Acting section 151 Officer
Julie Rogers, Director of Public Realm
Karen Wheeler, Director of Strategy, Engagement and Growth
Kerry Thomas, Chief Executive's Business Manager
Kevin Munnelly, Assistant Director, Regeneration
Luke Tyson, Delivery and Strategy Manager
Lyn Carpenter, Former Chief Executive
Mark Bowen, Interim Head of Legal
Mark Bradbury, Interim Director of Place
Mark Stokes, IS Business Partner (former Strategic Lead for Transformation)
Matt Boulter, Former Interim Monitoring Officer and Current Head of Democratic Services
Michael Dineen, Counterfraud and Investigation Lead
Rebecca Ellsmore, Head of Development, Ebbsfleet Development Corporation and former Strategic Lead for Regeneration, Thurrock Council
Roger Harris, Former Director of Adult Social Services
Sarah Welton, Strategy Manager
Sean Clark, former section 151 Officer
Sharon Bayliss, Director of Programme Implementation, ASELA, and former Commercial Director, Thurrock Council
Sheila Murphy, Corporate Director of Children's Services
Tim Hallam, former Interim Monitoring Officer

We also received a further 77 responses to a questionnaire issued to all Thurrock Council employees.

External advisers or auditors to Thurrock Council

Bob Swarup, Principal, Camdor Global Advisers Limited
Debbie Hanson, Partner, Ernst & Young LLP
Matthew Pickering, Managing Director, Arlingclose Limited
Rachel Brittain, Director, BDO LLP

Partners and local stakeholders

Adam Bryan, Chief Executive, South East Local Enterprise Partnership
Andy Lewis, Chief Executive, Southend-on-Sea City Council
Cllr Chris Hossack, Leader of Brentwood Borough Council
Helen Dyer, Capital Programme Manager, South East Local Enterprise Partnership
Jonathan Stephenson, Chief Executive, Brentwood and Rochford Councils
Kate Willard OBE, Chair of the Thames Estuary Growth Board
Lorna Norris, Senior Finance Business Partner, Essex County Council
Martin Whitely, Chief Executive, Thames Freeport
Neil Woodbridge, Chief Executive, Thurrock Lifestyle Solutions CIC
Scott Logan, Chief Executive, Basildon Borough Council

MPs

Jackie Doyle-Price, MP
Stephen Metcalfe, MP

Others

Gareth Davies, Bureau of Investigative Journalism
Joanna Merek, GMB
Peter Sansom, Unison
Tony Davis, Unite
Elizabeth Smith, Department for Transport
Robert Fox, Department for Transport

We also received a written statement from Mr Alan Leyin.

Essex County Council

This information is issued by:
Essex County Council

Contact us:
thurrock.commissioners@essex.gov.uk

Essex County Council
County Hall, Chelmsford
Essex, CM1 1QH

Essex_CC
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The information contained in this document can be translated, and/or made available in alternative formats, on request.

Governance, Financial and Commercial Review of Woking Borough Council

for the Secretary of State for Levelling Up Housing and Communities

May 2023

Reviewers:
Jim Taylor
Carol Culley OBE
Mervyn Greer

A note on the text:
This report is comprised of two documents (Parts One and Two) that summarise the findings of two periods of investigation by the review panel in 2023: the field work for the first was undertaken in January and February, the second in April and May. The second period of investigation was undertaken due to the presentation of fresh evidence and updated reporting of the council's finances, the seriousness of which raised concerns for both the panel and DLUHC. The numbered recommendations included in this document are drawn from the first period of investigation, but remain relevant in light of the findings of the second period of investigation. The conclusions within Part Two represent the most up-to-date picture of both the council's position and the degree of support required.

Some of the contents of this report is commercially sensitive in nature and therefore certain information has been redacted.

Contents

Woking as a place

1. Woking Borough Council (WBC) is one of 11 borough and district councils in the county of Surrey. It is a modern and diverse town born out of the railway and communication revolution. Comprising 6,357 hectares, 60% of the borough is designated green belt land and large areas of the borough's open space are protected.
2. Approximately 100,000 people live in the borough and the council provides services to around 43,000 homes. Woking, West Byfleet and Knaphill are the borough's main urban and economic centres followed by Brookwood, Byfleet, Goldsworth Park, Horsell, Kingfield, Old Woking, Sheerwater, St Johns and Westfield, which have their own identities and local interests.
3. Woking is the third most densely populated borough in Surrey. The average household size is 2.49 persons, slightly above both the regional and national average. Compared to the rest of Surrey Woking has a young population, with the second highest proportion of under 16s and the second lowest number of over 65s in the county. However, in common with the rest of the country, the borough has an ageing population, with the over 65s expected to increase by 3,900, more than 20% in the next 10 years.
4. Residents are generally healthier than the English average. However, in the most deprived areas of the borough, life expectancy is approximately 5 years lower.
5. The borough benefits from excellent transport links and proximity to London makes Woking an important regional hub with enormous potential for growth. Woking has a large economic workforce. 85% of the working-age population is economically active, the second highest proportion in Surrey and well above both regional and national averages.
6. Woking has 30 elected members. The council had been led by the Conservative group for 14 years until May 2022 when the Liberal Democrats formed a new administration following the local elections. The current political breakdown (reflecting May 2023 elections) is 20 Liberal Democrats, 4 Conservative, 3 Independent and 3 Labour. At the time of the initial field work for this review the Liberal Democrats had been in control of the council for 10 months.

Background to the review

7. Throughout the summer of 2022 the Department for Levelling Up Housing and Communities (DLUHC) were in discussion with Woking Borough Council (the council) regarding the sustainability of Woking's financial position. This was due to concerns with the council's level of debt and the risk this poses to financial sustainability.
8. Following DLUHC's initial engagement, in January 2023 the Secretary of State commissioned a non-statutory review of governance, finance and commercial aspects of the council's business and appointed a review team of Jim Taylor, Carol Culley OBE and Mervyn Greer.
9. The fieldwork took place between 23rd January 2023 and 24th February 2023. During that period 73 interviews were conducted by the team and significant council documentation was reviewed. The panel were asked to undertake further work by

DLUHC at the end of April. This was due to additional council-commissioned external reports emerging, which indicated further concerning financial developments. The additional work by the panel is outlined in Part Two of this review. Jim Taylor is an ex-Chief Executive Officer of three Metropolitan Borough Local Authorities and was appointed in March 2022 by the Secretary of State as a commissioner at Sandwell Council. He also led on a Governance review of Slough Borough Council for the Secretary of State in 2021. He was a member of the team conducting a recent governance review of Northumberland County Council.

10. Carol Culley OBE is the current Deputy Chief Executive and section 151 officer at Manchester City Council. She is CIPFA qualified and has a diploma in management and is CIPFA Junior Vice President, a member of the CIPFA Council and Chair of the CIPFA Public Financial Board.
11. Mervyn Greer is a Crown Representative at the Cabinet Office where, amongst other responsibilities for strategic suppliers to HMG, is the appointed Crown Representative for Local Government Commercial and the LGA. His background is in property and built asset management in the private sector, where he was responsible for major outsourcing and property related commercial contracts. He retired from the private sector in 2016. He was a member of the team which conducted the initial statutory inspection of Liverpool City Council in 2021.

Part One: Executive Summary

12. Woking Borough Council is the most indebted local authority relative to its size in the UK, with borrowing of £1.9bn compared to a net budget of £24m. The two largest commercial schemes in the council's portfolio are the regeneration of Victoria Place in the town centre and the regeneration of Sheerwater housing stock; financing these schemes account for the majority of the council's debt. The council's historic investment and borrowing decisions are disproportionate to its ability to manage complex commercial activity and the council lacks the commercial skills and capacity to identify a longer-term strategy to resolve its commercial arrangements. This report considers the areas of leadership and governance, finance and commercial.

Strategy, governance and leadership

13. A new Chief Executive and leadership team, working with a new political administration, are making great efforts to deal with these significant issues to provide financial stability for the future of Woking. They have placed financial resilience at the heart of their priorities and now understand and recognise the significant challenges faced by the council and significant changes are underway in how the council manages its finances and governs its companies. These positive changes in the most part remain in their infancy, with concerted efforts from autumn 2022 and efforts must continue to be made to identify a sustainable solution to the council's finances.
14. The new leadership team is essentially rebuilding most internal processes as they had not been fit for purpose. Management information to inform decision making is recognised as inadequate and plans are in place to rectify this. Financial information does not currently enable managers to be agile in their approach to departmental budgets. The constitution is being reviewed. New company governance and processes have been put in place from October 2022 to manage the companies with the establishment of a Shareholder Advisory Group (SAG). The council's approach to procurement is being redeveloped as are its processes for change management, digitisation, and transformation. All these developments are in their early stages, nevertheless the review team recognise that these initiatives are required and have the correct direction of travel.
15. There are some very committed and talented members of staff at all levels in Woking, particularly at the senior level. New staff brought in have made a positive difference to the skills required within the council. Despite this, there is not enough capacity or capability to manage the significant number of issues the council is now facing. In reshaping the council, new skills and approaches can be built up in most areas, but this will take time that the council does not have.
16. Despite recent best efforts of the new leadership team, the council does not have the commercial skills or capacity to identify the longer-term strategy to resolve its commercial arrangements. From the historic base, the sheer scale and complexity of the investment and commercial activity of the council, means that the council will never have the capacity to effectively manage all the commercial and economic considerations which would only be enacted properly by expert investors and

developers steeped in experience for a programme of this nature. This is why the council must look to find partners to share risk and any benefit from the council's ongoing programmes.

Finance

17. Woking Borough Council has £1.9 billion of borrowing and a further capital financing requirement to 2025/26 which extends the debt to £2.4 billion. The associated capital financing costs are £62m per year. It is the most indebted council relative to its size in the UK. The two largest commercial schemes in the council's portfolio are the regeneration of Victoria Place through the company Victoria Square Woking Limited (VSWL) in the town centre, and the regeneration of Sheerwater housing stock and public realm facilities, through the Thameswey Group. These two schemes alone have accounted for the majority of the current debt level.
18. Due to the Covid pandemic and the current economic climate, the council car parking and commercial income has reduced whilst its debt repayments have remained relatively constant but are forecast to grow.
19. In March 2021, the council applied to the Department for Levelling Up Housing and Communities (DLUHC) for Exceptional Financial Support (EFS), but at that time the previous chief executive in his statement to DLUHC remained confident that the council's financial strategy was able to withstand normal economic cycles. The council felt that an injection of emergency funds would bridge a gap which would then bring their financial plan into line. In July 2021, DLUHC refused this request. At that time, the council was holding reserves which could be used to support the budget and there had been no significant evidence that services had been redesigned or altered to fit a budget envelope of similar sized borough councils. The position of the council was not based on an evidence-based assessment of the council's financial position and was optimistic.
20. It is difficult to conclude the council has complied historically with accounting best practice and the Prudential Framework. The scale of borrowing was disproportionate to the council's assets and ability to manage complex commercial activity. There was insufficient regard to the level of risk the council was being exposed to. The decisions to invest were made in line with the constitution, assessed against the Prudential Framework, the 2018/19 and earlier accounts had unqualified VfM opinions. However, given the scale of the borrowing and the fact that future risks of refinancing were not considered it cannot be argued that the approach had been prudent. The arrangements put in place for VSWL and Sheerwater were taken without an adequate assessment of the risks to the council or a full assessment of the legal considerations, including state aid/subsidy, best value consideration and the structure of the financing arrangements.
21. The leadership of the council has changed at an officer and political level since the major commercial decisions were made. The new leadership team is to be commended for a systematic and whole systems approach to establish and address the council's financial challenge and to fundamentally redesign governance. The establishment of the 'Woking for All' strategy and the iterative approach to the

Medium-Term Financial Strategy, alongside management of risk, commissioning independent advice and reviews, has established that the financial position of the council is significantly worse than the position set out in March 2021 at the time of the application to DLUHC for Exceptional Financial Support. These positive steps in the most part remain in their infancy, with concerted efforts from autumn 2022. The direction of travel is encouraging; however, time is not a luxury the council has due to its current financial position.

22. The council is probably able to set a balanced budget for the years 2023/24 and 2024/25 with the use of its reserves. This gives a possible two-year window to work on the consolidation of strategic plans to deal with the model of the regeneration vehicles. This is if all its assumptions materialise and there is not an immediate need to make provision for Minimum Revenue Provision (MRP). The current council's MRP Policy is that no provision is required to be made on £1.3 billion of council borrowing associated with the loans. The new administration has commissioned an independent review of the current MRP policy. According to the council's own calculations prior to the independent review there could be a material risk of an under provision of MRP when reviewed against the DLUHC Consultation on changes to the capital framework: Minimum Revenue Provision in 2022. This under provision amounted to £11.9 million annually in 2021, rising to £23.4 million annually when averaged over a 50-year period.
23. Whilst a balanced budget can be achieved in 2023/24 and potentially in 2024/25 using reserve balances to bridge the budget shortfall, this will not be achieved in 2025/26 unless the savings required can be fully delivered and there are no further external shocks or risks. This does not take into account any changes in MRP policy. Despite best efforts of the current leadership team, it is likely that the council will need to issue a section 114 notice within the coming two-year budget period.
24. A balanced budget for 2023/24 can only be achieved with a disproportionate use of reserves and non-recurrent funds. In setting the budget, the Section 25 report to Council in February 2023 has highlighted that there is a real risk that a section 114 notice could be issued during the upcoming financial year, if the assumptions made do not materialise.
25. A significant risk to balancing the budget is the ability to deliver the savings included in the 2023/24 budget and to deliver the target of £11m savings over a three-year period. This equates to 25% of the council budget. This will fundamentally change the services the council delivers and will require political will and a step change in activity to reconfigure services accordingly. The level of work that has recently been carried out on the budget is encouraging, but it is important the council guard against optimism bias and continue to monitor the position closely. The council does not have a history of redesigning its services or of the decision making needed to save circa £11m over three years.
26. Section 114 of the 1988 Act further requires the Section 151 Officer to report to full Council if it appears to him/her that the expenditure of the Council incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure. In making such

assessments we advise the Section 151 Officer to look at both the immediate-term as well as at the wider sustainability of the budget and reserves position.

27. The current finance team have a wealth of experience and knowledge, but limited capacity to deliver the type of financial information that is required and there is a lack of management accountancy experience. It is recognised that the format of the financial information and reporting requires an overhaul and has not been fit for purpose.

Commercial

28. The two largest commercial schemes in Woking BC's portfolio are undoubtedly the regeneration of Victoria Place in the town centre and the regeneration of Sheerwater housing stock and public realm facilities. These two schemes alone have accounted for the majority of the current £1.9bn debt level. As a result of the complexities of the loan facilities this debt level is predicted to rise to £2.4bn within the next two years. Added to this is the complex arrangements by which the council has decided to deliver and manage these major projects, placing 100% of risk with the council and this is a key factor contributing to the council's current precarious financial position.
29. Until 2022, Woking Council's vision had been one of local and economic social regeneration which included investment in sustainable energy particularly through its community heat networks. The strategy was based on commercialisation and income generation to develop a greater degree of financial independence and to avoid service transformation. This approach was considered an alternative to taking a more fundamental look at changing council services through transformation and significant restructure, as had been the common approach in Local Government at that time.
30. During the period 2016-2019, the council embarked on an ambitious regeneration programme, funded by money borrowed from Public Works Loan Board at lower than commercial interest rates. This was used to fund a number of commercial properties within the borough and, more significantly, to support the regeneration of the Town Centre via a joint venture and through its wholly owned Thameswey group of companies for sustainable energy and housing, most notably, the plans for the regeneration of Sheerwater. The council then loaned money to the joint venture and the companies to develop the schemes. The council received a margin on some of these loan transactions. This margin, along with the rental income from the commercial priorities, contributed to the council's budget to fund services. This process was used by the council to generate funds for its regeneration schemes over several years. The council is effectively self-funding the borrowing costs through additional borrowing, which is deferring risk.
31. The loans to the regeneration companies on business cases of 50 years and over have built in an inherent dependency for ongoing capital support. Working capital support to service the debt has been provided by a 'revolving' loan facility. Effectively, the council lends money to its companies and the companies then use this money to pay back to the council. This has created an extremely high debt profile which is not backed by assets in any way matching that debt. Some companies are making

operational losses but still extending their borrowing to cover principal and interest repayment costs.

32. The council sought to bring benefits to the communities of Woking 'upfront' and in the shorter term, for example, in Sheerwater, by providing the social infrastructure of the development (leisure centre and community facilities) and social housing, before the 'profit making' element of market housing. As a result of this sequencing, development is taking place whilst the companies are in their loss-making phase of the business plans.
33. These investment and borrowing decisions leave a legacy for the council and pose the biggest threat to its future financial resilience. Although work has started, there is currently no long-term commercial strategy in place. Commercially, the council is overstretched and remains reliant on further support in the form of additional skills and capacity to continue to find a resolvable solution to its commercial position. The leadership team has put in place several initiatives and actions to get to grips with the current situation but is yet to set out a structured overarching council commercial strategy, to maximise the assets the council now holds. Until this strategy is in place the council remains open to commercial risk brought about by a piecemeal approach to challenges and opportunities the council now faces. Before confidence can be restored in the council's management of future financial risk there must be a clear commercial strategy, more robust commercial risk assessment in all business cases put forward and commercial expertise in the council.
34. The situation is well understood by the council leadership team and there are actions in place to reconfigure and have greater control over the schemes. There is an integrated service and financial framework provided by the 'Woking for All Strategy'. However, these actions appear to be taking place outside of the 'Business as Usual' of the council. This leads to the conclusion that, despite many initiatives and advice being actioned there is no overarching strategy for the whole situation under the council's control. There is a huge amount of council energy and resource (both officer and member) being expended on remodelling of business plans, financial models and programming to try to manage the relationship with their subsidiary companies and regeneration projects. The focus of the leadership team should not be distracted away from managing the council's services on behalf of its communities.
35. The justification historically within the council for the sizable investment model had been the alignment of the investments to the social regeneration of the borough. The intent and social value of these two major investments will have an impact on the borough and its ability to attract business and investment in this highly competitive region. However, the reality is that the council currently has double the level of borrowing per head of population compared to the next highest council and is struggling to set a balanced budget. The council has amongst the strongest economic vitality prospects outside of London, higher than average earnings of its population and relatively lower levels of deprivation. Therefore, the quantum of the borrowing and the scale of investments made, for the council to shoulder on its own, had been disproportionate, too large and the risk taken is disproportionate to the social impact.

36. The introduction of the new Shareholder Liaison Service and the Shareholder Advisory Group, coupled with changes made recently to the directorship of the Thameswey company, gives greater comfort that high level governance of Thameswey Group and VSWL is much improved. However, further development of reporting content notably in commercial risk analysis is necessary to underpin and fully inform decisions.
37. There had been a long-term regeneration focus without adequate attention to short term financial viability of the council and the associated risks of the scale of these investments on the council's budget. Many of the regeneration business cases had a 50-year plus time horizons.
38. [Content redacted for commercial sensitivity.]
39. The review team recognise that to avoid a requirement to write off a significant amount of debt now, the current arrangements would need to be maintained while the sustainable strategies are pursued at pace. The council have estimated that this will require c£100m per annum additional borrowing for the three-year period 2023/24 to 2025/26, based on current investment plans. It is acknowledged that this is a risk, but on balance it is felt to be a lesser risk than halting all activities now.
40. As set out in the commercial section of this report, a rapid sale of assets would be an inappropriate course to recommend and would be very detrimental to the Council financial position. With VSWL the current value of the assets has been estimated to be £300m to £350m against the outstanding debt of c£700m. [Content redacted for commercial sensitivity.] Therefore, by stopping the working capital support without a longer-term strategy in place, the council would need to write off a significant amount of outstanding debt.
41. There had been little capacity and capability put in place to manage the scale of commercial activity, the client function was inadequate. The council had the corporate capacity of a small district council, yet the investment portfolio of a very large city/metropolitan council. Despite best recent efforts of the new leadership team, the council still lacks capacity to deal with this scale of commercial activity.
42. There is little evidence to suggest that the systems and processes were initially put in place to ensure that the developments were delivered in an effective way from the outset.
43. There is some evidence to suggest that some investment decisions were made without appropriate business cases and records of robust land valuation. In some cases, project scope had been increased and budgets had to be extended. For example, the scope of Victoria Square had increased from the initial approval of approximately £460m in November 2016 to £700m in February 2021. Some strategic asset acquisitions lacked evidence of robust valuation, which resulted in borrowing more than the asset value.
44. Not enough attention had been given to consider the council's financial resilience and its risk profile. It was the belief that the council's commercial income and its ability to take margins on loans to companies would cover any financial eventuality. This has proved not to be the case. [Content redacted for commercial sensitivity.]
45. Prudential indicators have been set, monitored, and published in the Capital Strategy Report and have been assessed for affordability as required by the code. The initial

assessment of affordability of the regeneration schemes was dependent on the cash flow forecast rather than a robust financial investment model so the risks to principal repayment were not fully understood. There is little evidence that adequate consideration was given to option appraisal or that decisions were being made with sufficient regard to the long run financing implications and potential risks to the authority, especially regarding proportionality to the council's overall resources. The indicators showed that by 2020/21 debt costs would be at almost 100% of the net revenue income.

Recommendations

[S] short term 6 months [M] medium term 12 months [L] long term 2 years

46. Based on the report findings, that the Secretary of State considers the appropriate mechanism to support and challenge the council to give it the best opportunity to resolve its financial and commercial position. [S]
47. That the council consolidate the recently introduced spending controls with rigour. [S]
48. Develop a long-term commercial strategy to consider external partnering which could include all council assets. [S to L]
49. Implement the planned redesign of the system for management information to better inform decision making. This should include asset management, ICT, financial information and reporting, the integration of finance information and performance reporting. There is a need to streamline reporting to avoid constant updates to the Medium-Term Financial Plan. [S]
50. Develop a clear budget planning timeline that aligns the work on service redesign, savings, consultation timescales and implementation. [S]
51. Review the scrutiny function and establish a regeneration scrutiny panel which would discuss regeneration schemes in public (on the understanding that some commercial information may need to be restricted to the public). Review the number and function of the member-only working groups and reduce the number of meetings overall. [L]
52. Review and agree an approach to implement the expert advice on MRP treatment and the approach to any potential loan impairments. [S]
53. Develop a small client team to oversee Victoria Square and other strategic developments. [M]
54. Conduct the planned assessment against the Financial Management Code [S]
55. Review the council's position on subsidy/state aid and best consideration with regard to its wholly owned companies and review and reassess the legal position of the structure of company financing arrangements. [S]
56. Seek tax advice on company structures and financing and to ensure best consideration duties are met. [S]
57. Ensure the accounting treatment is correct for MRP, the treatment of receipts in the capital adjustment account and impairment. [S]
58. Further assess the impairment risk to the council loans. [S]

59. Continue the review of the constitution and pay particular attention to the content of reports to inform decision making, in particular the appropriate management of risk. Ensure that future reporting includes detail on alternative options, external tax and legal advice and appropriate commercial risk analysis. [L]
60. Work to close the several outstanding annual accounting years as soon as possible. This will require high level discussion between DLUHC, the external auditors BDO and the council. [S]
61. Review the decisions to acquire land during the period 2015-2019 regarding valuation, shareholder direction, legal advice, VfM and general governance of such decisions. [M]
62. Prepare a 30 year Housing Revenue Account (HRA) Business Plan and takes steps to ensure the current HRA is in balance. [S]
63. Define and implement an organisational design programme to support new ways of working and the Fit for The Future (FFTF) change programme. Ensure the change programme includes an analysis of skills and capability for the future needs of the council. [M]
64. Ensure that the FFTF change programme urgently realises savings and embeds a culture of service redesign. [S]
65. Strengthen staffing capacity and capability across the council particularly in Finance, Legal and Commercial as part of the FFTF change programme. [M]
66. Review the provision of earmarked reserves and update the earmarked reserves for the current planned use of reserves. Ensure HRA reserves are separately accounted for and not included in the General Fund balance and that the HRA earmarked reserves do not fall into a negative position. [S]
67. Continue to review the 23 council-owned companies to evaluate fitness for purpose. [S to L]
68. Strengthen the Shareholder Advisory Group with independent external advisors. [S]
69. Develop the reporting content from the Shareholder Liaison Service to the Shareholder Advisory Group with particular emphasis to commercial risk analysis. [S]

Governance commentary

Strategic direction

70. The organisation now has a five-year corporate plan, 'Woking for All'. It sets out the policy priorities of the administration; healthier, engaged, greener and prospering communities, underpinned by an overarching need for a high performing council. The plan was formulated following member, community roadshow and senior manager engagement. The community engagement was in response to an independent resident survey undertaken in 2020/21. According to the survey, residents valued the services provided by the council, but they did not trust the council (based on the levels of reported debt).
71. The new administration from May 2022 set out its post manifesto priorities and the first of these was noted as 'Getting the council's finances under control'.

72. The corporate plan has more than 200 actions which are monitored. The progress on the actions was reported to the Executive on 6th October 2022 and again on 2nd February 2023. According to the council reports, over 80% of the actions were rated as green, achieved or on target.

Internal processes

73. The new leadership team is essentially rebuilding most internal processes as they had been deemed not fit for purpose. Management information to inform decision making is recognised as inadequate and plans are in place to rectify this. Financial information does not currently enable managers to be agile in their approach to departmental budgets. The constitution is being reviewed. New company governance and processes have been put in place to manage the companies with the establishment of a Shareholder Advisory Group (SAG). The council's approach to procurement is being redeveloped as are its processes for change management, digitisation, and transformation. All these developments are in their early stages, nevertheless the review team recognise that these initiatives are required and have the correct direction of travel.

Culture and leadership

74. The council has a permanent Chief Executive appointed in April 2021. She is supported by three new capable permanent Directors. One Director is due to leave the council for a promoted post, but this will give an opportunity to add more commercial expertise to the senior team. There have been new senior appointments; for example, to lead the changes to the Shareholder function, lead the change and digital programme and to strengthen the finance team. The Monitoring Officer (MO) is leaving the council for a promoted post in April. The Section 151 officer indicated her intention in November 2022 to leave the council. There are plans in place to replace these two crucial roles. An experienced interim Section 151 officer has started in March and the Deputy MO at the council will act up pending a recruitment process.
75. The new leadership team is determined to develop a distributed leadership model. This will promote decision making at all levels and will empower staff to be creative, innovative and be encouraged to suggest solutions to ongoing issues. The review team were made aware of many examples of a 'dependency culture', staff used to pass decisions 'up the line' as this was described as the predominant culture previously. Some staff feel that the new leadership approach indicates that current senior staff are not interested in their work, but this is not the case. Due to the significant immediate issues with council debt and the council budget, the senior team acknowledge that they have not had as much time as they would like to properly engage with staff. The organisation is getting used to this new leadership style and the council is planning a programme of organisational development, previously lacking, to accelerate and embed this culture change. There is a long way to go to embed this new way of working.
76. The review team found there to be a good relationship between members and officers, however, this was described as not always having been the case.

77. The council is very open to support and challenge, evidenced by the significant number of external reviews commissioned to quickly understand existing practice. The council uses the outcome of this activity in a positive proactive manner. The new political administration has pledged to make public any significant documentation as and when necessary and has already demonstrated transparency.

Council services

78. In an independent survey during 2021/22, residents did express satisfaction with council services and the current rating of most services provided by the council does perform well compared to other statistical neighbours. As a result of commercial income supporting the core budget, the council did not choose to reform at scale its services to residents, whilst neighbouring authorities (and most nationally) engaged in significant change programmes and spent time reforming services.
79. The immediate focus of the council is dominated by financial and commercial considerations which does place a strain on 'business-as-usual' to deliver services.
80. Councillors, senior officers, and the workforce in Woking have not experienced the council working within tight financial constraints. They are not used to making decisions to reduce and reform services based on a clear set of strategic priorities. The budget situation in Woking will now require a significant change programme, which is due to be rolled out. It is imperative that everybody commits to the savings targets and delivers them in what will be a very short period. This is to give the council a fighting chance to remain solvent in the coming years. There will be hard political decisions to make in the coming months.

Capacity and capability

81. There are some very committed and talented members of staff at all levels in Woking, particularly at the senior level. New staff brought in have made a positive difference to the skills required within the council. Despite this, there is not enough capacity or capability to manage the significant number of issues the council is now facing. In reshaping the council, new skills and approaches can be built up in most areas, but this will take time that the council does not have.
82. From the historic base, the sheer scale and complexity of the investment and commercial activity of the council, means that the council will never have the capacity to effectively manage all the commercial and economic considerations which would only be enacted properly by expert investors and developers steeped in experience for a programme of this nature. This is why the council must look to find partners to share risk and any benefit from the council's ongoing programmes.
83. Nevertheless, the current knowledge in the council about investment, debt and commercial aspects of development, outside of the financial team is impressive for a small council. This however, will not be sufficient to move forward.

Decision making

84. There is evidence to suggest that historic business cases for investment decisions were considered at the executive and at full council, the review team did not have time to examine every decision in detail.

85. The decisions examined by the review team were made 'in plain sight' and would be deemed to be in line with the constitution at that time. However, the level of understanding of risk by decision makers is less clear. The reports taken through the council decision making process historically did not show enough evidence of the level of risk or financial analyses that the review team would normally expect. Further work is needed to review this area, but presentations made to full council are very high level and there is little evidence of the commercial risks that members would be required to consider.
86. What is clear is that the investments by the previous leadership were made with little provision or consideration of the council capacity and capability to manage these programmes effectively and efficiently. The council constitution determined that the previous Chief Executive could hold an 'Opportunity Acquisition Fund', which gave him delegated responsibility to spend up to £3m on regeneration projects without formal recourse to the executive or council. This delegation is very unusual and has now been removed by the new leadership and executive.
87. Several development decisions and acquisition of land and/or property undertaken historically by the council are being reviewed by the Monitoring Officer to enable current business plans to be drawn up to develop this land and property held by the council. [Content redacted for commercial sensitivity.] Several parcels of land were acquired by the council between 2015 and 2016. Enquiries to date indicate the paper trail is limited in respect of valuations, shareholder directions and company board minutes for the acquisition. [Content redacted for commercial sensitivity.] There may have been a rationale to purchase this land at the time, but it is unclear whether some of this land was acquired at a market rate based on a robust valuation to ensure value for money.

Financial commentary

The Council's financial position

88. The strategic and policy context are set out in the 'Woking for All' Strategy and underpinning documents, the Woking Economic Development Action Plan and the Draft Town Centre Masterplan. The council have produced a 'Plan on a Page' setting out the council change programme to be delivered over the next three years.
89. The Woking for All Strategy includes a new strategic outcome and additional priority commitments relating to affordability, financial control and delivery of value for money, with the strategic objective of being 'a financially sustainable council with sustainable and affordable plans.' This is accompanied by priority commitments to: get the council's finances under control; consider new approaches to increasing income and make decisions in an open and transparent way.
90. A material refresh of the MTFS was carried out and reported to the Executive in July 2022. This recognised:
    - The strategic and corporate context for the Medium-Term Financial Strategy (MTFS).

91. The financial challenges the council is facing including:
    - Inflation costs for pay, non-pay, and energy
    - Pressures on car parking income and commercial rent. These budgets are still at pre covid levels and total c£30m and the shortfalls against this target are one of the main reasons for the overspend. The budgets have been rebased for 2023/24.
92. The need to make significant savings to offset those pressures, targeting £11m by 2025/26. There has since been additional capacity bought into the council with some systematic work to look at how these savings could be identified.
93. As with many local authorities during 2022/23, the in-year financial position has continued to deteriorate. The monitoring reported to Executive in January 2023 (based on the October position) shows a projected outturn or year-end overspend of £3.173m. The most material variation is an increase in the parking income shortfall, alongside some new service pressures emerging.
94. The final projected outturn overspend position for 2023 is more likely to be in the region of £3.5m to £4m.
95. The table below sets out the comparison of the position when the 2022/23 MTFS was set. The figures shown are the budget gap which will need to be met with reserves.

Table 1

	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**
March 2022	4,134	4,929	4,490	5,450
July 2022	7,414	8,874	9,935	11,181
February 2023*	8,841**	8,345	9,476	10,482

*As per February 2023 MTFP
**Assumes outturn overspend of £3.4m

96. The council is clearly attempting to get to grips with the financial position and have reached out for additional support, including from Surrey County Council and the LGA and are building their own capacity to deliver the change programme. The latter includes a focus on delivering savings and improving the management information to move the council away from the reliance on the use of reserves. The challenge is the scale and extent of the change required. The council is aware what it needs to do but does not have either the skills or capacity to fully execute, or the luxury of time to implement the changes required to deliver a balanced budget.
97. Proposals for the additional staffing capacity required have been developed. The funding is estimated to cost £3.2m over a two-year period. This must be seen in the context of the need to reduce the debt burden and potential S114 position. The review team feel that this 'invest to save' funding is required in order to enable the council to realise the targets for balancing the budget over the three-year period.
98. The December 2022 MTFS update was stark. The Finance Director (Section 151 officer) stated that, based on current analysis, the expenditure that authority is

projecting for 2023/24 - 2025/26 could exceed the resources that the council has at its disposal to meet the expenditure'. This would in effect trigger a section 114 notice.

The Housing Revenue Account (HRA)

99. The HRA is a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities and is a ring-fenced account within the General Fund. Legislative features are:
    - It is a ring-fenced account within the General Fund
    - no general discretion to breach the ring-fence.
    - cannot budget for a deficit.
    - all borrowing within the HRA is in line with the Prudential Code.
100. The HRA budget should be set each year in the context of a 30-year business plan. The Business Plan is a statutory requirement used to assess the ongoing financial viability of the HRA and its ability to deliver the council's housing priorities.
101. The HRA has not been considered in detail as part of this review but there are some issues which should be highlighted.
102. The HRA is in deficit for 2022/23 (an estimated deficit before the use of reserves of £804.8k in 2022/23 increasing to £1.6m in 2023/24) and the balance has had to be met from reserves. The maximum allowable rent increase of 7% has been applied generating almost £1.7m of income. However, budgeted spend has increased by £2.2m, with pressures on the maintenance budgets where contracted costs have increased by 10.1% and a £1.5m increase in supervision and management costs. Salary and other central costs have been allocated to the HRA in accordance with normal accounting rules to show the full cost of the service. An initial review of recharges was conducted in 2022-23 with a full review planned for 2023-24. There appears to be an increase over and above what would reasonably be expected from pressures in pay costs etc and it is essential that the review of recharges is carried out.
103. The HRA deficit is driven by the Sheerwater Regeneration project where approximately 426 HRA dwellings will be demolished. The vacant land will be transferred to Thameswey Developments Ltd with the new replacement affordable housing dwellings owned and managed by Thameswey Housing Ltd. The HRA loses the rental income from these dwellings, whilst still incurring costs to maintain and secure them. There are now only around 90 occupied HRA dwellings within that scheme and it is assumed that there will be a further 50% reduction in occupied homes (and therefore rental income) within the 2023/24 budget.
104. In addition [content redacted for commercial sensitivity], abortive costs relating to the work with New Vision Housing were also met from the HRA. The review team have been told that these are due to be repaid to the HRA in March 2024, although Thameswater Housing Ltd will need to be supported with the working capital to be able to do so.
105. The two HRA reserves are:
    - HRA working balance of £334k per annum.
    - The Housing Investment Reserve (HIP) – this is due to decline from £4.2m in 2020/21 to a negative position of £266k in 2024/25. The balance on the HIP

Reserve was £2.6m on 31 March 2022 and is forecast to have dropped to £221.5k by 31 March 2024 after the transfer from reserves to the HRA and will go into a negative position in the following year. This is a further deterioration from the predicted reserve position in March 2022.

106. No 30-year business plan exists for the HRA. It is important that the 30-year business plan is prepared and used to assess the long-term viability of the current HRA arrangements. The business plan will need to address the impact of the reduction in housing stock on the longer-term viability of the HRA.

An overview of council's commercial operations / investments / company portfolio and respective management arrangements

107. The major financial impact is from the previous commercial activity, particularly with the Thameswey Companies and Sheerwater Regeneration and Victoria Square Woking Ltd. Whilst the council understand the need for a long-term solution for the investment cost, this is still not reflected in a strong and resourced client side and in the council's business as usual activity. For example, the Risk Register excludes these commercial activities and there are separate asset planning processes. The financial risks that the council is exposed to on their regeneration investments are material and cover:
    - The scale of exposure to market valued assets and long-term debt, and
    - The need to make prudent provision for the repayment of debt and the associated accounting risks of the Minimum Revenue Provision (MRP) and impairment of the council loans.

The scale of exposure to market valued assets and long-term debt

108. Following July 2021 Council and the notice of motion about the council's financial affairs, Ernst & Young (EY) were commissioned, after a tender process, to undertake a comprehensive statement on the Council's affairs and work to assess the council's medium term financial resilience. The comprehensive statement on the Council's financial affairs, including its assets, borrowing, investments and contractual obligations was presented to the Council's Overview and Scrutiny Committee on 24th January 2022 and Executive Cabinet on 3rd February 2022 as part of the Medium-Term Financial Strategy reports. The work on financial resilience was reported to the March 2022 Executive Cabinet. Both reports can be found on the council's website.

109. According to the review, 37% of the council's asset base is investment properties which have a net book value of £330m at the end of 2020/21. They are valued at fair value, or the price that would be received for selling the asset and were revalued £43m downwards during that year to reflect the market position. These assets which are separate to the investments in VSWL and the Thamsewey development, currently generate c£22m income that supports the revenue budget.

110. The borrowing position was £1.8bn, of which 98% is with PWLB. The annual interest paid as a proportion of net service expenditure is 135%. Whilst this was deemed to be affordable at 90% of the Capital Financing Requirement (CFR) this leaves the council financially exposed. It also does not consider the future borrowing

requirements and recent increases in PWLB rates (the average interest on the £1.8bn is 1.62%).

111. The council investments total £1.15bn of long-term investments to Joint Ventures or Group Companies, £38m in associated share capitalisation and £18m to external organisations. For the long-term investments, the council has moved from equity to a loan capital model and whilst there is sufficient turnover to meet short term debt repayments, this is largely due to the working capital facilities provided by the council. The loans are secured against the subsidiaries assets which means they would revert to the council in the event of default. Victoria Square (Woking) Ltd has a negative asset value, indicating that the liabilities of the company are greater than the assets. [Content redacted for commercial sensitivity.] The shares held by the council have not been revalued in the Statement of Accounts since their acquisition.
112. As the debt gearing is so high for VSWL and Thameswey group, it is recommended that the council has up to date tax advice on their structure and gearing.

Associated accounting risks, Minimum Revenue Provision (MRP) and impairment

113. The position against the statutory codes and guidance is set out later in this report. In summary the position is that:
    - If the proposed new MRP guidance is implemented, the council estimate the risk initially as £11.9 million annually in 2021, rising to £23.4 million annually when averaged over a 50-year period. This is a complex issue and the council will need specialist accounting advice.
    - Capital Adjustment account – the council needs to be ensured that the capital receipts from the loan repayments are applied to write down the requirement for the Capital Financing Requirement or CFR. The Capital Strategy reports set out the receipts set aside but the council needs to be ensured this follows through into the accounting treatment.
    - The impairment risks for the loans, particularly to VSWL have not been assessed and could be material given the value of the assets is so much lower than the value of the loans.
    - The shares held by the council have not been revalued since their acquisition.
114. The council's current position therefore is not in line with the proportionality and changes to the Prudential Code in 2017.
115. In summary, there is a significant financial risk to the council and if the changes to the MRP guidance (consulted on in 2022) are implemented there will be insufficient resources to cover those additional costs. At that point, there would need to be a discussion with relevant parties as to how a sustainable position can be reached.

Other issues

116. As set out in the EY 'comprehensive statement' as of 31st March 2021, there were £17m of loans to external organisations (assuming an expected repayment to the council of £9.25m) the most material being £6.3m to the Peacock Centre, which has been recovered in full through the administration process, and £6.4m to Greenfield School. These loans should be carefully monitored.

117. Opportunity to Purchase Budget – The previous Chief Executive's delegated authority to make strategic acquisitions of land and property for a value of up to £3m was used to make a number of purchases, largely between 2016 and 2019. These sites include 10 Acre Farm (£1.5m), Robin Hood Pub (£1.4m), Anchor Pub (0.9m). In addition, a land assembly acquisition, known as Brookwood Lye was acquired by Thameswey in 2017 for £18m.
118. As set out in the commercial section of this report, a rapid sale of assets would be an inappropriate course to recommend and would be very detrimental to the council's financial position. With VSWL the current value of the assets has been estimated to be £300m to £350m against the outstanding debt of c£700m. In a sale position [content redacted for commercial sensitivity] the council would need to write off a significant amount of outstanding debt. By halting the working capital support without a longer-term strategy in place, the sale position would de facto be required.
119. In both these cases the review team advise that to avoid a requirement to write off a significant amount of debt now the current arrangements would need to be maintained while the sustainable strategies are pursued at pace. The council have estimated that this will require c.£100m per annum additional borrowing for the three-year period 2023/24 to 2025/26, based on current investment plans. It is acknowledged that this is a risk but on balance it is felt to be a lesser risk than halting all activities now.
120. If the arrangements continue, the financial impact of the accounting risks related to the need to apply a more prudent level of MRP and the potential that some of the loans will need to be impaired cannot be ignored. There is a need to make a more prudent provision to support the level of debt. There will need to be a discussion and agreed approach with DLUHC and with the External Auditors on how these risks can be managed and accommodated.

Financial governance arrangements

121. The finance team within the council is small with the Section 151 officer having responsibility for the Finance, the Revenues and Benefits Service and the Internal Audit service, currently provided externally by Mazars. The finance function has no management accountancy or commercial finance expertise. With the reduction in government expenditure and the additional freedoms in the 2011 Localism Act, the council embraced the move to commercialism with significant investments particularly between 2016 and 2019. There is no commercial expertise within the finance function. The team was not geared up to deal with the scale of the investments made by the council, nor was the function strengthened to effectively manage those investments.
122. The council have historically been confident in the approach that they have taken. Justification for the approach is described as investments not being made 'out of' borough or purely for investment purposes. The belief was that the council response was prudent and delivered significant benefits to the borough. This rationale is reflected in the language of the reports and previous assessments of the S25 position. However, this justification did not reflect the reality of the situation.

123. Previous S25 reports have used the CIPFA Resilience Index and highlighted risks with future government funding and specific pressures (and in 2021 the need to reduce the reliance on reserves). However, they have not highlighted risks associated with the very high levels of borrowing until the most recent report.
124. Both the 2022/23 and the 2023/24 Capital Strategy Reports conclude 'The Finance Director is satisfied that the proposed capital programme is prudent, affordable and sustainable, and that the revenue impacts of the projects included have been recognised in the budget'. This statement was optimistic and not realistic.
125. The February 2023 papers contain a separate S25 report that is much more realistic about the risks faced.

Position against statutory codes and guidance

Prudential Code

126. Under the Prudential Framework, local authorities have freedoms to borrow and invest without the need for government consent, if borrowing is affordable. The Framework includes the Prudential Code and Treasury Management Code. The former is to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable and the latter governs the council's Treasury Management activity.
127. The Prudential Code was strengthened in 2017 to include a stronger emphasis on the prudence and affordability of capital plans and borrowing, stating that 'The local authority shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt (including through MRP/loans fund repayments) and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. The fundamental objective in the consideration of the affordability of the authority's capital plans is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits.'
128. The codes were further strengthened in late 2021 with requirements around proportionality, alongside the existing Code objectives of affordability and prudence. This is to be implemented for 2023/24.
129. The decisions to invest in the regeneration of Sheerwater and Victoria Place were both made in 2016 and the council had already committed to this path when the Prudential Code was strengthened. The weaknesses in the reports used in the decision-making process and lack of an adequate assessment of risk have been addressed elsewhere in this report.
130. The Prudential Indicators have been set, monitored and published in the Capital Strategy Report and have been assessed for affordability as required. The initial assessment of affordability was dependent on the cash flow forecast rather than a robust financial appraisal so the risks to principal repayment were not fully understood. There is no evidence that adequate consideration was given to option appraisal or that decisions were being made with sufficient regard to the long run

financing implications and potential risks to the authority, especially regarding proportionality to the council's overall resources. The indicators showed that by 2020/21 debt costs would be at almost 100% of the net revenue income. Efforts were made however to de-risk the Council and protect against economic shocks by matching interest rates.

131. The council is now in the following position:
    - External debt of £1.9bn (internal borrowing 4%), MRP of £7.4m or 0.37% of debt.
    - With a population of 100,008 this means debt per head of £19k
    - 4th highest level of debt in the country and the highest level of debt per head.

132. It is difficult to conclude the council has complied with accounting best practice and the prudential framework. The scale of borrowing was disproportionate to the council's assets and ability to manage complex commercial activity. There was insufficient regard to the level of risk the council was being exposed to, particularly as the borrowing for VSWL and Thameswey Development covered development costs and the working capital to repay the loans for the majority of the financing period. The decisions to invest were made in line with the constitution, assessed against the Prudential Framework, the 2018/19 and earlier accounts had unqualified VfM opinions.

133. Given the scale of the borrowing and the fact that future risks of refinancing were not considered it cannot be argued that the approach was prudent.

134. The leadership of the council has changed at an officer and political level since these decisions were made and efforts must continue to be made to identify a sustainable solution to the council's finances.

Minimum Revenue Provision (MRP)

135. Where authorities borrow to finance capital spend, they are required under regulations to set aside money each year from their revenue account. This is referred to as Minimum Revenue Provision (MRP) and is to make sure they can afford to repay the principal of their debt.

136. An underpinning principle of the local authority financial system is that all capital expenditure has to be financed either from capital receipts, capital grant or eventually from revenue income. The broad aim of prudent provision is to require local authorities to put aside revenue over time to cover the gap between their Capital Financing Requirement (CFR) and grant income/capital receipts. In doing so, local authorities can align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits.

137. In 2019, the MRP guidance was updated and the commentary states that 'Whilst recognising that local authorities have options other than building up prudent provision to repay debt, the Government has identified that there is a mismatch between the weighted average lifetime of local authority debt and the length of time it would take to fully provide for that debt based on current levels of MRP charged. Whilst this is not a risk if ease of access to PWLB remains unchanged, assuming that

this will remain the case over the length of longer dated local authority debt instruments is not a prudent approach. For this reason, the Government has changed the definition of "prudent provision" to highlight that there is a balance between matching MRP to the service potential of assets and to the weighted average lifetime of local authority debt.'

138. In signing off the 2018/19 Audit Opinion, the External Auditors reviewed the council's policy that there are no charges on the borrowing used to fund the loans to subsidiaries, as the intention is that these entities will be able to make sufficient returns in the future to be able to repay these loans and the receipts will be used to repay the debt. At that point the council were satisfied that the business models would result in full repayment of the loans over the next 50 years and no MRP was required. The External Auditors recommended that:
    - The council reviews its existing MRP policy to confirm that it is compliant with the new CLG guidance for investments supported by borrowing from 1 April 2019.
    - For pre-April 2019 investments, that the council closely monitor the business plans of the subsidiaries to confirm that, in the current environment, the loans will be fully repaid, or, in the event of any risk, it considers whether it would be appropriate to commence making an MRP charge against that borrowing.
139. The council have chosen their MRP approach on the basis that that there is sufficient cashflow in the entities' business plans to cover the loan repayments and that the provision of MRP for share capital over 100 years is a prudent provision, considering the underlying assets of the companies. Their Treasury advisors have reviewed the MRP for Thameswey and recommended that as part of its annual impairment review WBC should consider:
    - The third parties' financial position and whether the assets held provide sufficient collateral to cover the loan value in event of default and that business plans still forecast sufficient surpluses.
    - Whether there are adverse changes in economic or business conditions which could reduce the ability of the borrower to meet the loan obligations
    - Should this review provide an indication that the third party could default on a loan repayment then the Authority should consider commencing a prudent MRP provision. Consideration of MRP provision should be given for any loan provided to a third party.
140. Once loan repayments become due under the loan agreement, the council set aside the capital receipts arising from the repayments to reduce the capital financing requirement in lieu of MRP.
141. The MRP Policy has been updated to reflect the annuity asset life approach for property acquisition and the justification where assets lives beyond 50 years are used. It also commits to reviewing its approach going forward if the recently consulted on changes to MRP policy are implemented.
142. It should be noticed that there is a challenge to the 2019/20 accounts regarding the treatment of MRP.

143. DLUHC launched a further MRP consultation in November 2021 which closed in February 2022. The proposals are to strengthen the 2003 Regulations to make explicit that capital receipts may not be used in place of the revenue charge (although not to prevent authorities using capital receipts to reduce their overall debt position) and that prudent MRP must be determined with respect to the authority's total capital financing requirement. This is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Revised regulations have not yet been published.

144. The council's own assessment, as set out in the response to the DLUHC consultation, is that 64% of their borrowing, or £1.169bn, will not be compliant with the proposed changes in the guidance as drafted. The current level of MRP provided for in the council's general fund is £6.2m per annum – using the council's calculations this would increase by £11.9m (192%) in the first year and £23.4m (377%) averaged over 50 years.

145. In the consultation response the council expressed concerns about the proposed changes on the basis that as the investment is not for commercial purposes there are not excess yields from which to set aside further funds in the short term. To set aside MRP would risk undermining the business plans for the investment in the Borough. The council has since committed to "should those or other changes be taken forward the Council will review its approach going forward as required".

146. The loans to VSWL and Thameswey are complex with a mix of annuity and interest only loans. The repayment of the annuity loans includes repayment of principal in a similar way to how a mortgage operates and secures repayment of principal over the life of the loan. However, the profile of the principal repayment is considerably backloaded meaning there is additional risk at the start of the loan period. This should have called into question the MRP policy that was followed prior to the November 2021 consultation.

147. The council has commissioned an expert external review of their approach to impairment and MRP. With the complexity of the financing and MRP arrangements alongside the changes to the MRP guidance, this review is welcomed. With the financial position of the council, significant changes to MRP treatment cannot be covered by available resources and a discussion will be required with DLUHC and external auditors on how this can be implemented in a sustainable way.

Capital Adjustment Account and impairment

148. As referenced earlier in the report, there is a need to ensure that the capital receipts received from the repayment of the loans are being accounted for to reduce the capital financing requirement. The loans need to be assessed for any impairment risk.

Future capital financing charges

149. The loan funding provided to Thameswey and Victoria Square includes a revolving credit facility which provides working capital to cover the financing costs for the previous debt. If the funding is stopped, however the position is not viable and there is a risk the debt will not be recovered. The loan interest payable is based on the PWLB rate. The impact on the council's capital financing budget is not significant. Capital

financing costs are due to increase in 2023/24 and are then forecast to be relatively steady. The exposure to increased PWLB rates for borrowing to support VSWL and Thameswey is also limited as the increases are passported on to the companies.

150. The impact on the capital financing budget will need to be carefully evaluated if any changes are made to the VSWL and Thameswey structures. The impact of the increased capital financing costs for future borrowing due to the increase in PWLB costs should also be considered.

Financial governance and budget management

Transformation programme and Fit for the Future (FFTF)

151. The council has not been through a significant process of transformation and service redesign. As a result, there is limited experience and the lack of the right infrastructure to support the scale of the change that is now required.

152. This has started to change. A golden thread from the new Corporate Plan to the budget decisions has been established and the culture at a senior level has shifted significantly. This is not yet reflected throughout the whole council and work will be required to ensure this is embedded across each layer in the organisation. All services need to understand the severity of the budget situation. There has been a need to 'rebuild the council very fast'.

153. Example of the progress made to bring the organisational infrastructure into place include the following:
    - Risk management training has been carried out with the senior leadership team (CLT) and members with support from the council's insurance provider. A Risk Strategy and Appetite Statement is in place alongside a Risk Register which is monitored quarterly and reported to the Executive.
    - Work is underway to improve procurement and contract monitoring. Discussions are underway with a potential partner to provide a 'trusted advisor' relationship and a dedicated business partner resource. Whilst arrangements are in place for the large contracts, the contract monitoring function itself was disbanded 7-8 years ago.
    - A Project Management Office (PMO) function has been established to deliver the Fit For The Future (FFTF) 'Plan on a Page'. Two new posts have been recruited to support the PMO and benefits realisation work.

154. FFTF is a series of CLT priorities to make the council fit for the future. The scope is broad and ambitious and includes:
    - Savings and income
    - Asset management
    - Governance and controls – including the 'Programme on a Page'
    - Transformation and channel shift

155. Rigour is being provided with the establishment of a new PMO and a high level roadmap for the programme is now in place. There is a risk however, that the scope becomes too broad. While understandable, it is also noticeable that the work does not relate to that required to establish the longer-term asset management

programme and a solution for Thameswey companies and VSWL. At the appropriate stage some of the programmes will need transitioning into business as usual so the focus can be on driving the benefits realisation work.

156. The benefits realisation work is split into different phases. A MTFP group led by the Strategic Director for Corporate Resources has been established to ensure delivery and track progress. This brings together key personnel from finance, transformation and the PMO. Additional support has also been provided by the LGA who have provided the Council with a separate report on the budget position and the effectiveness of the savings process. The work of the LGA has informed this report.

157. *FFTF 1 – Summer 2021* – This predated the establishment of the PMO and was based on a spreadsheet exercise led by Finance. Round 1 was tasked to deliver £2.4m in 2022/23 from 95 savings options. Effective monitoring was not in place and the delivery has been mixed with some double counting and a net total of £1.2m achieved. The savings have been taken out as part of the 2022/23 budget. As the savings are now 'mainstreamed' and taken out of budgets it is hard to track this through into the recent financial reports.

158. *FFTF 2 – Summer 2022* - Managers were asked to identify further savings over the summer and early autumn 2022. A long list of 120 were identified and mapped from 2022 to 2025/26 with a final list of just over 60 savings and cuts measures delivering £4m across 2022/23-2025/26. These were reported to the November 2022 Executive meeting and form part of the 23rd February 2023 budget reports.

- £598k of the savings will be delivered in 2022/23. Of these £377k relate to removing vacancies and a small restructuring.
- £1.978m are due to be delivered in 2023/24 alongside the savings already identified in 2022/23. Of these just over £1.255m relate to corporate measures with £550k to be achieved from reductions in one-off contract spend, £160k relates to a revaluation appeal for car parks (which will impact on the overall business rates retained income if achieved) and £146k reduced pension costs post revaluation.
- £1.21m to be delivered in 2024/25 - including a further £550k for one off contract spend and £146k for pensions.

159. These measures do not yet include the more challenging reductions and service reconfigurations that will be required to achieve the scale of the budget cuts required. The new post in the PMO will manage the benefits realisation, to ensure that all savings identified are delivered and properly reflected in the council's general ledger. Based on the success rate from Round 1 the council will need to be extremely focused to ensure that these savings are achieved.

160. Work has started on the '*Third Round'(FFTF3)* of budget cuts and savings. This is based on the recent work on the impact of each service delivering just the statutory minimum. Ninety functions have been mapped, with 25 workshops involving 30 managers. A potential £5.5m has been identified but this would include very significant service closures. This is a good starting point, but a more realistic assessment has been that around £3m could be deliverable.

161. The need for pace is well understood by the council but there has to be clarity on how the work will align with the MTFP process with a timeline for how and when decisions on service redesign will be made. Broadly this has been described as:

- A clear strategy will be in place and proposed measures will be in place by autumn with consultation on the changes from autumn into the winter. The consultation process will need to be carefully managed with a clear understanding on how changes relate to statutory provision.
- The second year will then be focused on implementing service redesign.
- The process will be completed by the end of 2 years.

162. Traditionally, the council has been a 'cash rich' council and not too close to the detailed budget position, which means that a culture of ensuring services are delivered at best value is not embedded and there is a limited awareness of the cost of service delivery. The PMO team will need strengthening and to act as an internal consultancy to support the benefits realisation and changes that must be delivered. The Finance team are very stretched and struggling to manage all the additional demands. Integration of the work of the PMO and the Finance function is key. The role of the new Section 151 officer will be critical to this.
163. Additional HR support to deliver organisational change will be required. The ICT infrastructure and management information is being improved but the lack of an asset management system will hamper the work required to really get to grips with the council's large estate. More work is required on the provision of integrated financial and performance information which will be picked up through the review of the Green Book.
164. To provide the capacity required there is a £3.2m capital receipt request which identifies a requirement for an organisational development specialist, design lead and business analyst to work with all the service managers. If this is approved by the council, this will need to be submitted to the Government before the beginning of the financial year. This will allow the council to fund the 'invest to save' transformation work without placing additional burden on the revenue budget.
165. A balance must be struck between organisational and service redesign and the urgent need to deliver cashable savings that would lead to a sustainable budget. Setting set up a programme management approach to delivering the change in accordance with best practice will need to ensure this is delivered at pace and within acceptable financial parameters. The need to prioritise the savings work must be at the front and centre of the Fit for the Future programme.
166. There will be some difficult political budget decisions that have to be made. Resident perspectives are important and it has been relayed that there are concerns about the levels of debt the Council has and what this will mean for levels of council tax.

Expenditure Controls

167. A recruitment freeze is in place with leadership team permission required to fill a vacancy. This has taken some time to bed in with some differences of opinion on what is an essential post, but this process is now working effectively and can be tracked by a monitoring spreadsheet.
168. The other expenditure controls had been delayed while work was carried out to look at how spending could be stopped and the impact of the measures monitored. During

the period of fieldwork for this review, the planned further controls were put in place. These have now been expedited as per below.

The controls in place include:

- A freeze on non-essential recruitment to vacant posts.
- Reviews of Investment Programme, Thameswey Business Plan and projects.
- An additional £400k of savings included in MTFP for 2022/23. The restrictions of spending to 'essential only' has been communicated to all managers as of 8th February 2023.
- A weekly cost control panel and reporting process is proposed.

Financial information and reporting

169. The current finance team have a wealth of experience and knowledge, but limited capacity to deliver the type of financial information that is required and there is a lack of management accountancy experience. It is recognised that the format of the financial information and reporting needs an overhaul and is not fit for purpose.
170. Savings are monitored by the Programme Team and cross referenced to the financial ledger. The Finance team are undertaking work to finalise restructuring the general ledger to reflect the new organisation structure in time for 1 April 2023. The current budget structure and monitoring process is complex with cost units which contain staffing and overheads which are then allocated to the service units. Notional capital charges are also allocated to services and netted off again in the budget. A great deal of effort goes into this work and the resource could usefully be deployed on other tasks.
171. Detailed information is in place for the staffing budget which is monitored on a spreadsheet on a post-by-post basis. Managers have access to the financial system Integra.
172. The senior officer team (CLT) and the Executive receive the Green Book which is the formal monitoring report. It reflects the material issues (staffing, interest, car parking income, commercial income), it does not provide the standard monitoring information by service area with the projected outturn that you would expect. Performance and finance information is not integrated and there is no narrative that explains the position or indeed provides insight or recommendations. CLT feel that they are not receiving the quality of financial reports they require.
173. A report to October 2022 Executive described plans for a new format of the Green Book. Capacity will be required to deliver this and it will also need to drive the benefit realisation work. The new Green Book is due to go live in April 2023.
174. Surrey County Council have also provided some additional technical support which has been welcomed.
175. In March 2022, a financial resilience framework was introduced which provides more of the levers to manage the budgets. This alongside improved financial reporting will provide some of the key enablers for financial control.

Reporting against the financial management code

176. The Financial Management Code sets out the standards of financial management expected for local authorities. The Code builds on the CIPFA Prudential and Treasury Management Codes taking a principle-based approach to financial management, considering areas including financial leadership and governance, sustainability and assurance. It requires a longer-term view to be taken to financial planning and it is expected that local authorities will self-assess against the requirements of the Code. The council do not currently carry out this assessment. For 2023/24 a separate S25 Report has been made and this includes the commitment to programme a review in 2023/24 as part of its delivery of the MTFS strategy. This will form an important part of assessing the effectiveness of the financial management arrangements.

Financial viability

Revenue budget – risks and delivery of savings

177. The Council has a net budget of approximately £24m when benefits and capital charges are excluded. £36m of this is funded by sales, fees and charges and rent. The previous growth in the rental income, which is now c£20m and has protected the council from previously having to make reductions in services.
178. Due to the format of the current monitoring reports, there is little detailed scrutiny of the service budgets and it is important that the changes to financial and performance reporting endorsed by Overview and Scrutiny and Executive in October and November 2022, are implemented for the new financial year. These reports are required to effectively understand and monitor financial and operational performance as well as the delivery of the savings required.
179. The biggest risks to the revenue budget position are the performance of the commercial investment estate and the parking income. Aside from general inflationary pressures, these are the main factors behind the 2022/23 projected overspend and increased use of reserves required in year. The commercial rent and car parking budgets were at pre-covid levels, offset by the use of reserves and did not reflect current levels of performance. This has been corrected in the 2023/24 budget.
    - The car parking budget has been rebased and modelled over three years to reflect the reduced level of activity post covid, in part offset by the new car parking charges introduced. A top down and bottom-up approach to budget setting has been taken with a combination of seeking to achieve an income target whilst considering likely activity levels. It is important this is carefully monitored and not impacted by optimism bias.
    - The commercial rental budget has also been rebased and reduced by c£2.5m to reflect current income levels. Detailed analysis of leases sits behind this, but the service is hampered by the lack of an effective asset management system.
180. The amount of work that has been carried out is encouraging, but it is important the council guard against optimism bias and continue to monitor the position closely.

181. Another significant risk is the ability to deliver savings included in the 2023/24 Budget and to deliver the target of £11m over the three-year period. This equates to taking out over 25% of the council budget. This will fundamentally change what the council can deliver and will require political will and a step change in activity to identify savings and reconfigure services.
182. A policy setting out the intended flexible use of capital receipts to fund transformation project costs is being prepared and will be included with the budget papers to Council in February 2023. If approved, this will allow the Council to fund the Transformation work without placing significant additional burden on the revenue budget although there will be a cost.

2023/24 Budget position, reserves and future resilience

183. A combination of factors will enable a balanced budget to be delivered for 2023/24 and potentially 2024/25 (aside from the risk with MRP):
    - A better-than-expected financial settlement – with c£1m from additional New Homes Bonus funding, the new services grant and changes to business rates.
    - The inclusion of £1.8m of savings.
    - The continued and increasing requirement to use reserves to support the budget position. The council will have sufficient reserves for 2023/24 and 2024/25 only.
184. No allowance has been made for the next savings round in the budget position as the proposals are not sufficiently well developed or consulted on.
185. The council have assessed a prudent level of reserves to be £10m to reflect 10% of operational expenditure (£5m) plus £5m for business change and budget savings risk. Efforts have been made to strengthen the reserves position and this has been achieved in 2022/23 through the release of development funds and a one-off saving from renegotiating a car parking charge.

Table 2

	Opening Balance £'000	**Estimated Use Of Reserves* £'000**	**Additions £'000**	**Closing Balance £'000**
2022/23	24,998	(9,525)	7,466	22,939
2023/24	22,939	(8,957)	0	13,982
2024/25	13,982	(9,476)	0	4,506

*includes planned use of Investment Programme Reserve as well as support to Revenue Budget

186. The use of reserves to cover revenue deficits is forecast to reduce balances beneath the minimum level and there is a real risk all reserves will be used during 2025/26. The actions taken to reduce the use of reserves have improved the position in 2024/25. There remains a risk that if the targeted £11m cuts and savings are not

delivered then all available balances will be used during 2025/26. This is before any MRP changes are considered.

187. The 2023/24 MTFP does not include a detailed schedule of earmarked reserves. It is important that the position on all of the individual reserves is reviewed and recast so that the planned use of reserves is appropriately allocated. It is also important that the Housing Investment Reserve, which is an HRA reserve, is kept separate and is not allowed to go into a negative balance.

188. Whilst a balanced budget can be achieved in 2023/24 and potentially in 2024/25 this will not be achieved in 2025/26 unless the savings required can be fully delivered and there are no further external shocks or risks. This does not take into account any changes in MRP policy.

Assurance

189. The external audit process and 'signing off' the accounts are a key part of the external assurance framework for a local authority.

190. BDO are the current auditors and took over from KPMG for the 2018/19 audit process. Under the most recent PSAA process Grant Thornton has been awarded the contract and will take over for the 2023/24 accounts. The last fully signed off accounts are for 2018/19 which have been signed off without qualification. Audit opinion for 2019/20 was dependent on the work on the group consolidation of Thameswey accounts which has been delayed due to a change in the Thameswey auditors and issues with the valuation methodology. To resolve this a significant additional piece of work is now needed requiring resources from BDO, the council and Thameswey to give assurance over material balances in the Thameswey accounts [content redacted for commercial sensitivity]. BDO are also responsible for the Housing Benefit claim audit which has also not been signed off.

191. Work on 2020/21 Accounts has not started. 2021/22 and shortly 2022/23 will then need to be completed. This results in three sets of annual accounts being open, which is a risk to the council's awareness of its financial baseline.

Commercial commentary

192. The two largest commercial schemes in Woking BC's portfolio are undoubtedly the regeneration of Victoria Place in the town centre and the regeneration of Sheerwater housing stock and public realm facilities. These two schemes alone have accounted for the majority of the current £1.9bn debt level. As a result of the complexities of the loan facilities this debt level is predicted to rise to £2.4bn within the next two years. Added to this is the complex arrangements by which the council has decided to deliver and manage these major projects, placing 100% of risk with the council and this is a key factor contributing to the council's current precarious financial position.

193. The review found that, by-and-large, this situation is well understood by the Council Leadership Team (CLT) and there are actions in place to reconfigure and have greater control over these schemes. Despite the council's finance and service plan, these actions appear to be taking place outside of the 'Business as Usual' of the council. This leads to the conclusion that, despite many initiatives and advice being actioned there

is no overarching strategy for the whole situation under the council's control. There is a huge amount of council energy and resource (both officer and member) being expended on remodelling of business plans, financial models and programming to try to manage the relationship with their subsidiary companies and regeneration projects. The focus of the CLT should not be distracted away from managing the council's services on behalf of its communities.

Commercial strategy

194. There are a few new initiatives either in development or in the early stages of implementation. These are the Fit for the Future Strategy, Corporate Asset Management Strategy, Thameswey Business Plan options appraisal, Commercial Strategy review for Victoria Square (Woking) Ltd (VSWL) and the Medium-Term Financial Strategy. Although these are linked at several points the council is yet to develop a robust commercial strategy that will support the Council in paying down its current debt burden.
195. There is no further capacity for the council to make new investments or borrowing in its current circumstances. However, there will be a need to invest in the new structures to improve management information and commercially to improve their management and returns on their commercial estate. It is recognised that this will be hard to achieve against a backdrop of a potential s114 regime, but their asset portfolio is the key area in which the council can generate capital receipts to reduce debt.
196. Following further discussion with the senior team the opportunity to develop a commercial strategy to manage the two major investment projects and to leverage its property investment portfolio more effectively was discussed.
197. The council commissioned Porter Brook Associates to review and recommend a strategy for Victoria Place and the wider town centre. The review team has not seen the second draft final report from Porter Brook but have interviewed their principal consultant.
198. Following established business planning processes, it is recommended that the council's senior team clarify their commercial goals for Victoria Place, their objectives by which success in achieving goals will be measured and the strategies that will be deployed to achieve objectives. Once this work has been completed a second phase of work may require a different partner who can drive delivery of the strategy(ies) and drive business inward investments.
199. What is accepted by the council is that they do not have the capacity nor expertise to do this alone. The review team's recommendation is that the council develop a small but effective intelligent client function to oversee this, and other, strategic relationships. It should be noted that VSWL and the investments that have gone into Victoria Place are very complex and have developed over time with minimal oversight or application of due diligence and transparency. This short review has not been able to take a deep dive into the complicated arrangements and pressures.

Future debt costs

200. The borrowing requirement is largely driven by the investment in the Thameswey Group of companies and VSWL. The total capital financing requirement or CFR is

forecast as £2.1m in 2022/23, reaching £2.4bn by 2025/26. Of this £2.4bn, £1.7bn is for their capital investments, £522k for general fund services and the balance for the HRA. It should be noted that the February 2021 Capital Strategy included a £3bn CFR for 2024/25.

201. As part of the role of SAG and the business plan review, work is being carried out to minimise the investment required in future years and this has been reflected in the CFR position.
202. As of 31 March 2022 (and as set out in the February 2023 Investment Programme Report) the council had £1.18bn of loans of which £1.15bn are to VSWL and the Thameswey Group of Companies, with a further £161m due to be advanced in 2022/23, which includes the last substantive commitment to VSWL. Most of the lending beyond that date is to Thameswey Housing Ltd and Thameswey (Sheerwater). Shareholdings at that date equal £37.8m, of which £31.2m is with Thameswey Ltd. The council are scheduled to borrow £173m in 2022/23, £118m in 2023/24 and c£110m per annum in 2024/25 and 2025/26 by which time the majority of the projected borrowing is completed.
203. The loans are split between long term debt support and a revolving loan facility. For the years in the business plans where the profits are not sufficient to meet operating costs and loan repayment costs, the companies take further loan advances through a revolving loan agreement. These are within the limit of the approved loan facility and the overall level of borrowing agreed as part of the business plan. In addition, the Council does make a margin on some of the loans. This was to spread the benefit of the regeneration scheme to the Council over the life of the scheme. This arrangement is being reviewed. As mentioned earlier in the report the position has been reviewed by EY. The review recognised that company losses were forecast in the short-term reflecting the long-term nature of the business plans and / or the development being undertaken.
204. The gross capital financing budget is £62.1m for 2023/24 rising to £67m in 2025/26. The net budget after repayment of interest is considered is £18.8m rising to £19.3m. The increase in borrowing costs has been factored into the revenue budget position.
205. The structure of the funding agreements with Thameswey and VSWL mean that the increases in borrowing costs is passed directly on to the companies so, to a certain extent, the council is correct in stating that it is insulated from the impact of the increase in borrowing costs. However, given that working capital is also provided to support the company's cash flow to repay the loans, an increase in the cost of the loan may ultimately lead to an increased working capital support and hence the borrowing requirement.

Investment decisions – debt levels and repayment timescales

206. The previous investment and borrowing decisions leave a legacy for the council and pose the biggest threat to its future financial resilience. Although work has started, there is currently no long-term commercial strategy in place.
207. Support needs to be provided to assist the council in developing its longer-term commercial strategy and sustaining the current arrangements until a resolution can

be achieved. In order to resolve the current arrangements and avoid a more significant write off of debt, the revolving credit facility support and some investment will need to be continued. The current investment plans to continue require c£100m borrowing per annum. The strengthened client-side arrangements recommended in this report along with some form of external support and oversight will be critical to ensuring effective management of risk and the move to more sustainable long-term arrangements.

208. The council is largely insulated from the increase in capital financing costs whilst the revolving credit arrangement remains in place. The bigger risk is the lack of provision previously made to protect against non-payment of debt. When the changes to the MRP code are implemented, provision does need to be set aside. This may well be unaffordable for the council and the risk that the loans will need impairing due to the reduction in asset values cannot be mitigated from within the council's budget.

Oversight of commercial and investment risk

209. Measures are currently being implemented through the Shareholder Liaison Service to provide senior officers and members, who have been appointed to the board of Thameswey and VSWL, to improve understanding, decision making and direct the forward strategies of both companies. However, having reviewed a recent paper from the Shareholder Liaison Service to the Shareholder Advisory Group on 8th February 2023, it is considered that the two recommendations made lack sufficient commercial analysis of risks for a fully informed decision to be made.

Wholly owned companies

210. The Council currently has 23 wholly owned companies some of which are inactive and the majority are set up to deliver small community support services. Ownership of these companies and a plan to reduce their number, or reliance on the Council, is being developed. The review team concentrated on the relationship with the two major company holdings, these being Thameswey Group (100% owned by the council) and Victoria Square (Woking) Ltd (a 48%/52% joint venture with Moyallen Holdings (Woking) Ltd).

211. Thameswey Group comprises 13 companies separated into two broad sectors, housing regeneration/development and energy. Originally set up in 1999 to spearhead the council's carbon reduction target commitments, the remit of Thameswey was extended in 2009 to include residential and commercial schemes across the borough. Thameswey Group is reliant on loan facilities from the council and has stated that without continued funding support from the council there is significant doubt in their ability to continue [content redacted for commercial sensitivity].

212. The introduction of the Shareholder Liaison Service and the Shareholder Advisory Group (SAG) coupled with the changes made recently to the directorship of the Thameswey gives greater comfort that high-level governance of Thameswey Group and VSWL is much improved. However further development of the reporting content from the Shareholder Liaison Service to the SAG, in particular commercial risk analysis to underpin and fully inform decisions is necessary.

213. It is also recommended that tighter control of the relationship at a (tactical) project level will improve transparency over draw down of loans and expenditure. The Fit for the Future programme sets out clear intention to focus on best practice project (and contract) management. This will give greater confidence that there is strong oversight of wholly owned companies at strategic and tactical delivery levels.

Assistance and support to Council Companies

214. Any support provided by a council to a trading company counts as assistance, whether in cash or other forms. Therefore, significant subsidies in grants, assets, or services could be deemed state aid, which is regulated under European competition rules, which has now been replaced by the UK Subsidy Control Act 2022.
215. It is important to note that state aid and subsidies can take many different forms, and includes soft loans, grants, guarantees, overly favourable contracts, and soft support such as free office accommodation or services. To avoid issues with state aid, the trading company should pay commercial rates for all staff time, premises, payroll, finance, HR, assets, access to IT systems and other support it gets from the local authority. The local authority also ought to avoid treating a local authority trading company more favourably than it would treat any other third-party contractor.
216. It is commonly argued that state aid restrictions do not apply between local authorities and their Teckal vehicles (companies established by local authorities to provide services back to it/them), based on the argument that this is an internal contract and would thus not have an impact on competition. However, this is a difficult argument to maintain and is very unlikely to be successful, especially if the company is allowed to trade outside of the council, with third parties.
217. There is also the requirement to achieve 'best consideration' for the disposal of a local authority asset including land, irrespective of whether land transfers are to externally joint ventures or wholly owned companies. Transferring land or property assets to internal or external companies will also attract Stamp Duty Land Tax (SDLT) and this would occur again at final sale effectively paying SDLT twice. Until assets are ready for final sale then transfers should not be made. The Review team have not had the opportunity to review all the arrangements regarding the transfer of land and assets but if this duty is not met, or consent achieved, then the transactions are potentially ultra vires.
218. Assurance has been given that the position of state aid had been considered at the outset of these company arrangements, but the documentation and advice has not been examined and there was no reference to external advice being sought in the 2016 reports. This type of advice is required to be taken regularly and to date the council has not yet reviewed its position on state aid. The council needs to undertake this exercise as soon as is possible.

Commercial income

219. The council's assets currently generate c£30m of income annually. This is made up of c £22m from commercial properties and c£8m from car parking. Both income streams are subject to volume variations. Until there is a clear commercial strategy to maintain the income from major investments such as Victoria Place then it is difficult to predict how stable this will be. The Fit for the Future programme will be critical in ensuring that projected benefits from investments are realised or adjustments to forecast are made.

220. The council has commissioned a Property Asset Management Strategy for its existing operational, office and commercial estate. At the time of the rapid review this was not available for the review team. It will be critical that this strategy maximises the value from the estate and reduces operational cost.

Commercial decision making

221. From our discussions and interviews a picture emerges of strong senior level ambition to drive through the redevelopment of the town centre and the regeneration of Sheerwater. Some of the officers who were at the council at the time these decisions were made commented on the lack of involvement or transparency of what was being decided. The information and presentations made to Council, that have been seen by the review team outline compelling cases and forecasts for the developments and these formed the basis of approvals given. Some members felt that there was not enough commercial information for them to be fully informed on the decisions to be taken. What is clearly apparent is the fact that there was little consideration, when pushing through the schemes, of how the Council would manage the new developments to maximise returns as they became operational. There remains a clear absence of expertise and capacity to fulfil the Council's role as an 'intelligent client'.
222. The main commercial activities took place between 2016 to 2019 including the approvals of Sheerwater and the Victoria Place redevelopment and most of the major acquisitions. The model adopted for the regeneration of Sheerwater and Victoria Square and the Town Centre was one where the local authority provided the financing and took all the risk.
223. For example, the original model for the Sheerwater Regeneration scheme involved a total investment plan of £372m financed through the sale of properties. Development was to be carried out by the council wholly owned development partner, Thameswey Developments Ltd, to avoid profit being paid to private developers to ensure that the affordable homes could be delivered and rents would be affordable. Thameswey Developments would access a revolving loan facility of £76m for eight years to provide working capital to cover the development financing costs, including the interest on the loans from the council. This revolving loan facility is funded through the council loans to Thameswey Developments and hence through Prudential Borrowing. Properties would then be sold either on the open market or for affordable homes, to the subsidiary company Thameswey Housing. The council would borrow up to £129m to finance share capital and a loan facility for Thameswey Housing Ltd to acquire those homes based on a 75%/25% debt/equity split. All the financing and development risk ultimately sat with the council.
224. The models for both Victoria Square and Sheerwater have changed significantly over time since the original business cases were agreed.
225. Some common features in the historic decision making for the investments included:
    - The reports were transparent in the financial implications and decisions. They were presented to Cabinet and Council meetings and as such did fulfil the requirements of the constitution.

- Financial assurance reliance was placed on externally prepared cashflow models as opposed to a financial investment model. The reports did not consider the return on investment or the VfM of the investment.
- There was no evidence of a full options appraisal. An appraisal of alternative options was limited which could have led members towards the decision of supporting the recommended approach.
- There was limited evidence of the use of external advisors to inform the decision. Advisors were used to prepare the cashflow model, prepare valuations and for Sheerwater external legal advice was sought for the CPO process.
- The reports did not include evidence of external legal and tax advice for the company structures to be established, for the consideration of state aid or evidence of the requirement to achieve best consideration in any asset transfers. Similarly, there was no evidence of the financing arrangements proposed.
- The reports did not outline any external financial appraisal to support scheme viability and the assessment of value for money.
- The risks of the local authority taking both the financing and development risk do not appear to be clearly highlighted or adequately assessed. The impact of the level of borrowing and the development and financial risk sitting solely with the council was not adequately considered.

226. In house capacity and skills were not strengthened to deal with investments of this magnitude. Whilst member oversight panels were put in place, the council lacked the project grip and commercial skills to manage these developments. Both projects experienced significant scope creep and cost pressures over time resulting in the debt requirement to be considerably higher than first envisaged in the initial reports.

227. The review team were informed that previous decision making was clustered around a few officers and members and while decisions were transparent and constitutional, there were gaps in the reports for the decision-makers. The potential acquisition of Victoria Square car park was described by interviewees as an example. Briefings to members covered issues of control and receiving income, but not the need to get working capital into VSWL. Thameswey was viewed as a delivery arm of the local authority rather than its own company, with little recognition of the need for a strong council client side (or the resources needed) to manage it.

Improvements to commercial governance

228. The council have recognised that historically company governance had not been robust enough. Steps have been and are continuing to be made to change this. A report to cabinet in July 2022 resulted in changes to company governance which was put in place by October 2022.

229. The EY medium term financial resilience assessment recommended:

Financial Strategy and Planning □ Prepare a response to the MRP consultation □ Structured review of policy and regulatory change □ Review revenue reserves	**Financial Governance** □ Challenge high-cost service expenditure □ Develop a financial resilience strategy □ Evaluate the reporting and business intelligence landscape
Financial Control □ Develop a shareholder centre of excellence that strengthens strategic finance □ Strengthen the contract register and commitment tracking □ Review the quality of financial capability and capacity	**Commercial Oversight of Investment Performance** □ Undertake an appropriate level of scrutiny on companies □ Develop an Asset Management Strategy □ Define Place Making strategic objectives and investment criteria.

230. Progress is being made on all of the above. The review of company governance is based on best practice from Local Partnerships and CIPFA. In July 2022 the Executive approved a number of new measures to improve company oversight and £150k funding to establish two new posts to support the arrangements which are:
- The designation of the Leader of the Council as Shareholder Representative with responsibility for oversight of all shareholder decisions.
- Shareholder Agreement – ensuring clarity on reserved matters and ensuring the requisite documents are in place: the Business Plan, Articles of Association, Shareholders Agreement, financial agreements and business plan.
- Establishment of a Shareholder Advisory Group – a sub-committee of the Executive and ensure the necessary oversight is in place. Responsibilities include monitoring performance, returns on investment and risks and opportunities. SAG will have three separate meetings for Thameswey, Victoria Place and other company matters which are to be held quarterly. Membership will include Members of the Executive appointed by the Leader, the Chair of the Overview and Scrutiny Committee, a member from outside the Executive will attend. The Section 151 Officer and Monitoring Officer will act as advisors but this is not sufficient expertise.
- Strengthening the role of scrutiny as the Scrutiny Chair will be able to take items to the Scrutiny Committee that warrant further attention.
- Establishing a shareholder liaison service to provide support.
- Changes to board membership to take councillors off company boards with membership being the Chief Executive, independent directors with appropriate expertise and other council officers as required.

231. Work has been ongoing for about 18 months and the council have estimated that there are a couple of years to go due to the sheer scale of the task. There are around 20 joint ventures and the Shareholder Group are reviewing them all. The Thameswey company structures are complex and need consolidating and the council has bought

several companies which need to be properly understood. The previous Chief Executive acted as shareholder. Record keeping was limited.

232. Progress includes:
- There are whole council briefings in advance of decisions.
- Directors have all had formal training. A conflict of interest process has been established. The CLO and CFO are on the client side and councillors have been taken from company boards.
- A directorships file has been set up.
- The new shareholder board and shareholder advisory group have started.
- The constitution is being reviewed.
- The recent Mazars internal audit report update to the Standards and Audit Committee in November 2022 has rated the 'Corporate Governance Arrangements' review substantial assurance.

233. There is limited capacity within Legal Services and Finance and not all the resources are in place. A new project officer has started and the Head of Service role is out to recruitment. An ex Section 151 officer from a core city is providing financial support to the Shareholder Advisory Group (SAG) which has been described as the de facto shareholder support. It is important that SAG has access to commercial finance and development, legal and property expertise to support decision making.

234. There are positive signs that the SAG is starting to have an impact. The Thameswey Business Plan was not initially endorsed by SAG who requested a revised one year business plan with a number of options to be reviewed. The Business Plan is being finalised for the end of May 2023. [Content redacted for commercial sensitivity.]

235. Managers in VSWL and Thameswey companies are starting to see changes being made. The Thameswey leadership team described how they now feel as though they are being held to account. They would welcome a true client function – if they are to be judged commercially, they need a formalized, contractual relationship and this increased rigour is welcomed.

236. The council needs to review the capacity in place to support this work. At present a lot of reliance is placed on external resources as there is insufficient commercial expertise to support SAG in its role. The finance team need a commercially aware accountant to support the option appraisal, monitoring and drawdown process. The finance team also need access to the correct commercial advice and support to help work through potential options for the future.

Future financial risk

237. Commercially the council is overstretched and remains reliant on further support to continue to pay down its loans. The CLT has put in place several initiatives and actions to get to grips with the current situation but yet to set out, in a structured overarching commercial strategy, what its ambitions are to maximise the assets that it now holds. Until this is in place the council remains open to commercial risks brought about by a piece-meal approach to challenges and opportunities the council now faces. Before confidence can be restored in the council's management of future financial risk there

must be a clear Commercial Strategy, more robust commercial risk assessment in all business cases put forward and Commercial expertise in the council.

Debt levels

238. As has been previously noted a sale of assets would be an inappropriate course to recommend and would be very detrimental to the council financial position. The council must therefore consider how it can best use its asset base to reduce its debt levels and maintain an overall balanced budget.
239. In summary, it is considered that the historic decisions made to invest heavily in the redevelopment of Victoria Place and the regeneration of Sheerwater were made with the intention to raise the profile of Woking in the highly competitive Surrey borders region. What has not been built into the business case for such major investments is consideration of the expertise and capacity of a small borough council to manage projects through to final maturity or exit.
240. It is clear that the council will need experienced commercial support to enable them to realise the full benefits of their investment. Other support can be provided by Crown Commercial Services whose frameworks for property management and car park management can be accessed quickly significantly reducing procurement times.
241. The recommendation to put in place a Strategic Oversight Panel will be guided by the strategy and will measure progress against milestone events. Until this is in place and the Council has a settled budget then it is too early to comment on future borrowing.

The commercial way forward

242. It is recommended that the council use a tried and tested model for commercial business planning that will aid them in taking a structured approach to developing their commercial strategy. In common use in central government is the VMOST model (Vision, Mission, Objectives, Strategies and Tactics). Alignment of commercial objectives with the overall vision for the council and a mission to maximise commercial benefits from its assets whilst reducing debt will be paramount for the future success of the council. Once the council is clear on the immediate commercial objectives, fully informed by expert advice on the planned use of its full property portfolio, then the commercial strategy(ies) to deliver objectives can be developed and implemented. Specific commercial risk assessments, set against potential rewards for the council must form an integral element of the strategy. This will allow members to consider any trade-offs that might be taken to increase reward/reduce risk against. Other investment properties should be considered for disposal on a case-by-case basis as discussed.
243. Many of the initiatives that can be appraised and followed will be influenced by commercial strategy and driven by the need to protect and improve the council's financial position. The review team has discussed with CLT members, a number of options that could be assessed for their viability and potential to reduce commercial risk for the council whilst contributing to reduction in debt levels and delivering promised schemes to its communities. The review team also appreciated the complexities of the current major investment projects in Victoria Place and

Sheerwater, however it is important that all initiatives are appraised to satisfy the need for continued long-term support.

244. In broad outline it is recommended that the council continue to appraise the following initiatives:
    - The approach taken to car park management and ownership ensuring that the council protects its minimum income requirement from these assets.
    - Using the council's investment property portfolio to generate short term capital receipts or to generate sustainable rental income.
    - Reviewing the delivery model for Sheerwater and, where appropriate, bring forward the development of open market properties for sale.
    - Consider the value of non-core services that could be wrapped into new partnering arrangements.

245. As stated previously, the review team recognise the complex nature of the current situation and are also cognisant of the pressure that is placed on the small team leading the programme to work through this challenge. We also are aware of the commercial and market expertise that will be needed to make the most of the opportunities that are now presented. It is therefore considered that procuring and engaging with new and effective private sector partners to complement the support provided by other organisations will be necessary.

Commercial next steps

246. The review team recommend that the council:
    - Carry out appraisal of the initiatives outlined above.
    - Set clear objectives for each initiative so that specific needs of the council are enshrined in any procurement process following appraisal.
    - Carry out early engagement with the market to establish what can be achieved and what risks investors or suppliers will not tolerate.
    - Develop a clear view on commercial risk apportionment and management.
    - Develop a programme that can be delivered by the available resources or identifies where additional resource is required.
    - Ensure at every stage that full and clear detail is presented to council, allowing fully informed decisions to be made and considering trade-offs that might have to be taken.

Part Two, 5 May 2023

Scope and purpose

1. Following the completion of the original review work and report, Woking Borough Council ("the Council") continued work to understand the extent of its financial challenges. In April, the Council provided further information to DLUHC setting out increasing risks to its financial position. [Content redacted for commercial sensitivity.] Given the seriousness of the developing situation with respect to the Council's investments, DLUHC commissioned a short extension to the review. The scope of the extended work is to provide the government with an assessment of the short- and longer-term decisions facing the Council; the sufficiency and adequacy of the Council's plans to mitigate immediate risk; and where the Council needs priority support to achieve the best outcome.

Executive summary

2. Since the original review, the Council has continued to undertake work to progress its understanding of its financial position. This includes an external review of the Council's lending and borrowing arrangements, impairments, and the position of its companies (the "investment review"). An external review of the Council's Minimum Revenue Provision (MRP) policy has also been completed. The multiple pieces of work are providing a clearer picture of the financial situation.
3. Although the issues are consistent with the findings from Part One of this review, the financial issues are more severe and immediate than initially thought. Despite the efforts of the current leadership team, it is clear that the Council cannot manage the scale of the challenge alone and needs urgent support to navigate through the decisions and actions needed in the coming weeks.
4. The external MRP review has indicated there could be a £40 million charge on the budget annually, rather than, according to the Council, a £11.9 million charge annually in 2021, rising to £23.4 million annually when averaged over a 50-year period, noted in the initial report. The Council were not making appropriate provision and will need to increase future charges to be compliant with the statutory duty. There may also be a historic underspend that the Council will need to correct; the exact value of this is still being determined. The Council are not able to absorb this additional cost.
5. Work undertaken by the investment review, and further legal advice the Council have taken, indicate that the Council's arrangement of borrowing from the Public Works Loan Board (PWLB) to lend to its companies for revenue purposes, some of which is paid back to the Council to meet the interest costs of those loans, is probably *ultra vires*. [Content redacted for commercial sensitivity.]
6. [Content redacted for commercial sensitivity.]
7. The scale of this issue is unprecedented. The Council has a net budget of £24m and core spending power of £14 million. The scale of the likely deficit relative to the size of the Council means that there is no realistic means by which the Council can return to financial sustainability on its own. [Content redacted for commercial sensitivity.]

8. Taking into account the findings of part 1 of the review, and the evidence that has come to light since, the complexity and scale of the task facing the Council cannot be understated. The new leadership of the Council is taking the right steps. However, it does not have the capacity or capability to address a challenge of this scale without additional support. Historically, record keeping has been poor and this hampers the Council's ability to understand their own position. Decisions made several years ago have put the Council in an untenable situation and resulted in the Council failing its best value duty. As set out, on the current trajectory the Council will not rectify these issues itself and will continue to fail its best value duty. The Council will require significant support, including statutory oversight.

Report findings

Companies and associated borrowing

9. [Content redacted for commercial sensitivity.]
10. [Content redacted for commercial sensitivity.]
11. [Content redacted for commercial sensitivity.]
12. [Content redacted for commercial sensitivity.] As a matter of urgency, the government needs to take action to make sure the Council is supported and that the appropriate expertise and capability is in place.

Overall financial position

13. [Content redacted for commercial sensitivity.]
14. The Council commissioned an external review of its MRP policy, which has now concluded. Part One of this review made clear that there was a risk the Council had been underpaying MRP, and this could result in a need to increase the charge in future. The MRP review has found that the underpayment is more than the £11 million, and that the Council will need to increase future payments by £40 million. In context, the Council's gross service expenditure is around £44 million. The Council may also need to make additional charges to address prior year underpayments from 2015/16 onwards, adding to the overall cost pressure; this is still to be determined.
15. The review team understands that the Council's total external borrowing is £1.8bn, most of which is from the PWLB. The original review details that most of this debt has been incurred by on-lending to its companies, to finance both capital spend and to provide the revolving loan facility (described in paragraph 5). The Council is currently using the loan repayments from its company to meet its own interest costs to the PWLB. Therefore, as well as incurring the impairment charge, the Council will also need to determine how it can meet its own debt liabilities, and the cost of meeting both the ongoing interest charge and increased MRP cost. The Council are currently working with an external partner to determine the modelling options in debt management.
16. In terms of future borrowing and capital spend, the Council is likely to require an estimated additional £250 – 300 million of borrowing this financial year. This will include the refinancing of c.£200 million of loans, and c.£25 million of contractual obligations carried by the Thameswey group (as described in paragraph 11). The significant office property estate owned by the Council needs fitting out and refurbishment in order to

maintain the revenue they are currently receiving. The Council predicts this to be a further cost of around £25-30 million to bring the office buildings up to standard; work on evaluating this cost is currently concluding within the Council. The exact timing of this borrowing need is not yet clear to the review team, but the Council may approach government within 2 to 3 months. Further work will be required to determine the exact borrowing need. [Content redacted for commercial sensitivity.]

17. The current revenue budget for the Council has a gap of c.£9.5 million in 2024/25, which could increase throughout the year. The Council does not currently have a costed maintenance programme for their current assets and this quantum will also need to be included in their future Medium Term Financial Plans (MTFP).

Nature and urgency of additional support required

18. The key priorities can be divided into three inter-related workstreams: handling the technical legacy of the borrowing and lending arrangements; effective management of the asset portfolio; and a wholesale review of the size and shape of the Council to quickly identify ways of cutting costs to bring the organisation's spending in line with its size. The details of these workstreams are outlined below.
    a. **Resolving the legacy issues on debt and lending arrangements.** The Council faces a legacy of technical issues including the revolving credit facility, the portfolio of assets and the ultra vires factor of the revolving loans. [Content redacted for commercial sensitivity.]
    b. **The Council need to develop and enact a strategy to achieve the best possible value for their property portfolio.** This may include maximising profit of the property portfolio which would include increasing capacity within the property team and seeking external opinions on how best to do this. The Council require help in the management of their asset stock, and this is probably best achieved if passed out of Council control. There are different options to achieve this, including partnering with development companies or central government.
    c. **Transformation of the Council to achieve savings and efficiencies.** The Council must prioritize service transformation to achieve cost savings and efficiencies commensurate with its size. This will require difficult decisions, including rationalising some 'County-level' services and developing exit strategies for other services. The Council needs to address issues with its treasury management and capital accounting systems, which require consolidation and additional specialist resource The Section 151 officer is working to position the Council to tackle these issues on a macro scale. However, the Council's limited experience with service transformation on the required scale highlights the need for expert support to manage this process effectively.

19. The Council will need government support. Senior Management recognises that the Council is in need of additional support and that it does not have the resource base to service the debt alone. The net revenue budget is £24 million, which leaves no room for the repayment of debt of this large a scale. There is no realistic route to the Council returning to financial sustainability alone. Finding a solution is urgent: there are concerns that the debt will increase further once a Section 114 is issued, and further

Section 114 notices may be required going forward. The Council will need to undertake significant service transformation and consider their future operating model.

20. In conclusion, as a result of past investment decisions, the Council has failed its best value duty leaving an unprecedented legacy for the current Leadership Team, which they have not been able to address to prevent financial failure. It is evident that the Council does not have the capacity and expertise to address the scale and complexity of these issues, and so it will continue to fail its best value duty. Resolving the issues and moving the Council back to a place of financial stability and value-for-money for the taxpayer will require significant support, including statutory oversight. There is a need for commercial and financial support including capital, legal and forensic accounting specialists. The Council will also need additional leadership capacity to help deliver this swiftly [content redacted for commercial sensitivity]. There are critical decisions that need to be taken in the next 2-3 months, for which immediate expert support is required.