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Cabinet

Agenda

Date:	**Tuesday, 16th September, 2014**
Time:	**2.00 pm**
Venue:	**Committee Suite 1, 2 & 3, Westfields, Middlewich Road, Sandbach CW11 1HZ**

The agenda is divided into 2 parts. Part 1 is taken in the presence of the public and press. Part 2 items will be considered in the absence of the public and press for the reasons indicated on the agenda and at the foot of each report.

PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT

1. **Apologies for Absence**

2. **Declarations of Interest**

   To provide an opportunity for Members and Officers to declare any disclosable pecuniary and non-pecuniary interests in any item on the agenda.

3. **Public Speaking Time/Open Session**

   In accordance with Procedure Rules Nos.11 and 35 a period of 10 minutes is allocated for members of the public to address the meeting on any matter relevant to the work of the meeting. Individual members of the public may speak for up to 5 minutes but the Chairman or person presiding will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers. Members of the public are not required to give notice to use this facility. However, as a matter of courtesy, a period of 24 hours' notice is encouraged.

   Members of the public wishing to ask a question at the meeting should provide at least three clear working days' notice in writing and should include the question with that notice. This will enable an informed answer to be given.

Contact: Paul Mountford, Democratic Services Officer
Tel: 01270 686472
E-Mail: paul.mountford@cheshireeast.gov.uk

4. **Questions to Cabinet Members**

A period of 20 minutes is allocated for questions to be put to Cabinet Members by members of the Council. Notice of questions need not be given in advance of the meeting. Questions must relate to the powers, duties or responsibilities of the Cabinet. Questions put to Cabinet Members must relate to their portfolio responsibilities.

The Leader will determine how Cabinet question time should be allocated where there are a number of Members wishing to ask questions. Where a question relates to a matter which appears on the agenda, the Leader may allow the question to be asked at the beginning of consideration of that item.

5. **Minutes of Previous Meeting** (Pages 1 - 10)

To approve the minutes of the meeting held on 2nd September 2014.

6. **Notice of Motion - Planning Inspectorate Decisions** (Pages 11 - 14)

To consider and respond to the motion.

7. **Notice of Motion - Definition of Sustainable Development** (Pages 15 - 18)

To consider and respond to the motion.

8. **Alderley Park Investment Fund (Ref CE 14/15-6)** (Pages 19 - 74)

To seek approval to establish an investment fund in relation to Alderley Park.

9. **Brownfield Development (Ref CE 14/15-20)** (Pages 75 - 78)

To consider a report setting out proposals to facilitate the development of more brownfield sites in Cheshire East, focussing on Macclesfield as a pilot area.

10. **Key Worker Accommodation (Ref CE 14/15-22)** (Pages 79 - 84)

To consider a report outlining a suggested interim approach to secure key worker accommodation on new development sites whilst a formal Supplementary Planning Document is developed.

11. **The Independent Living Fund** (Pages 85 - 88)

To consider a proposal that the transfer of Independent Living Fund funding into the Council budget in 2015 be ring-fenced to the Adult Social Care commissioning budget to ensure that the Council continues to meet eligible need.

12. **Award of Contracts for Supported Local Bus Services** (Pages 89 - 92)

To seek approval to award a number of contracts for local bus services.

13. **Treasury Management Annual Report 2013/14** (Pages 93 - 112)

To consider the annual report on the performance of the Council’s treasury management operation.

14. **2014/15 First Quarter Review of Performance** (Pages 113 - 166)

To consider a report on the Council's financial and non-financial performance at the first quarter stage of 2014/15.

THERE ARE NO PART 2 ITEMS

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Cabinet**
held on Tuesday, 2nd September, 2014 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor M Jones (Chairman)
Councillor D Brown (Vice-Chairman)

Councillors Rachel Bailey, J Clowes, J P Findlow, L Gilbert, B Moran, P Raynes and D Topping

Members in Attendance
Councillors Rhoda Bailey, G Baxendale, L Brown, S Corcoran, K Edwards, D Flude, M Grant, P Groves, A Harewood, S Hogben, O Hunter, L Jeuda, B Livesley, D Mahon, R Menlove, A Moran, B Murphy, D Newton, and A Thwaite

Officers in Attendance
Mike Suarez, Lorraine Butcher, Peter Bates, Anita Bradley, Caroline Simpson, Heather Grimbaldeston, Brenda Smith, Tony Crane, Brian Reed and Paul Mountford

Apologies
Councillor D Stockton

36 DECLARATIONS OF INTEREST

There were no declarations of interest.

37 PUBLIC SPEAKING TIME/OPEN SESSION

There were no members of the public wishing to speak.

38 QUESTIONS TO CABINET MEMBERS

Councillor K Edwards asked what processes the Council had in place to ensure that as many people as possible who were eligible to vote at elections in Cheshire East were registered in view of recent changes to the way in which the electoral registration process was to be conducted.

The Portfolio Holder for Governance, Councillor J P Findlow, responded that the recent changes to electoral registration arrangements required individuals to register themselves rather than the householder having to register all those eligible to vote at an address. He had scrutinised the Council's processes for conducting the annual canvass and was satisfied that these were thorough and were achieving significant results. He added that the Government had stipulated that anyone already on the existing register would in any event be permitted to vote in the May 2015 elections even if they had for whatever reason failed to renew their registration. Cheshire East Council wanted to be more inclusive and get more people onto the register.

Councillor D Flude referred to the forthcoming consultation on Dementia services in relation to Hollins View and Lincoln House and asked about the Council's policy on consultation, adding that she would like to see a copy. She also asked if the Health and Voluntary Sectors would be taking part in the Dementia consultation.

The Portfolio Holder for Care and Health in the Community, Councillor J Clowes, responded that each consultation was looked at in terms of what would best serve the users and their carers. Individual users of the services and their families will have received letters from the Council inviting them to attend a one-to-one meeting to talk through what was being looked at and what the various options were. For those users who did not have a family or carer, the Council would arrange for them to have a mentor or advocate to help them through that process. People with learning difficulties would be given the necessary support to respond to the consultation.

Councillor L Jeuda referred to the failure of two private care homes in Macclesfield where the CQC was concerned. She also quoted the chief executive of Age UK in Macclesfield as saying publicly that the care provision in Macclesfield was reaching crisis point and that it was difficult for anyone to find affordable good quality care in the town. Councillor Jeuda added that if Hollins View were to close with the loss of 32 short term respite beds, this would only add to the crisis, with many people being left unsupported. She asked the Portfolio Holder to agree with her that now was not the time to close a well run and greatly valued local facility at Hollins View.

The Portfolio Holder for Care and Health in the Community, Councillor J Clowes, responded that Sutton Oaks Care Centre was due to close; it had failed to carry out the agreed procedure by going to its users without consulting the Health Service or Cheshire East Council which had put their clients in a distressing position. The Council was insisting that Sutton Oaks keep to its twelve week notice period and Council and Health Service staff would be approaching service users on a one-to-one basis to discuss their care needs and alternative service provision across the Borough. She welcomed the fact that the Care Quality Commission was doing its job by holding care providers to account and ensuring a high quality of service provision. She also expressed disappointment with the reported comments of the chief executive of Age UK Macclesfield as the Council had not been consulted and was, as part of its own strategy, moving forward in accordance with Age UK national protocols. The Council would be inviting the chief executive to a meeting to discuss the Council's strategy and to remind her of the alignment with the Age UK national strategy. Finally, with regard to Hollins View, Councillor Clowes said that the Council was not reducing respite care and was in fact aiming to increase the provision of respite care throughout the Borough and that those assessed as being in need of respite care would always receive that care. The Leader added that the Council was working to get the best quality care provision through the Council and the independent and private sectors and would continue to challenge care homes where standards were considered unacceptable.

39 **MINUTES OF PREVIOUS MEETING**

RESOLVED

That the minutes of the meeting held on 22nd July 2014 be approved as a correct record.

40 **RAIL NORTH LTD - GOVERNANCE ARRANGEMENTS**

Cabinet considered a report on the proposed governance arrangements for Rail North Ltd.

Rail North was a group of 30 Local Transport Authority (LTA) partners, including Cheshire East, who were working together with the Department for Transport (DfT) on devolving more responsibility for specifying and managing passenger rail services in the north of England. The aim was to develop a more collaborative approach to managing local rail services.

Rail North and DfT were working together on the design of the next Northern and TransPennine Express (TPE) franchises, which between them accounted for most regional services in the local authority areas covered. The franchises were due to commence from February 2016.

The devolution programme had now reached a critical stage with the need to formalise the governance arrangements and decision making process. Each LTA in the Rail North area was being invited to sign-up to membership by the end of September 2014. The report set out the proposed governance arrangements for Rail North Ltd and the Association of Rail North Partner Authorities and sought Cabinet approval for the Council to become members of both bodies.

RESOLVED

That

1. the proposed governance arrangements for Rail North Ltd (RNL) and the Association of Rail North Partner Authorities (“The Association”) be noted and Cheshire East Council become a member of both bodies;

2. the Head of Paid Service (in consultation with the Portfolio Holder for Rail North) be authorised to enter into the RNL Members Agreement on

behalf of Cheshire East Council to enable the Council to be admitted to membership of both the Association and RNL;

3. Councillor Michael Jones be nominated to the Leaders' Committee of the Association and a substitute member be appointed; and

4. it be noted that a further report will be produced when the Heads of Terms for the DfT / RNL Partnership have been finalised.

41 **NOTICE OF MOTION - DEMENTIA**

Cabinet considered the following motion which had been moved by Councillor Janet Clowes and seconded by Councillor Stewart Gardiner at the Council meeting on 17th July 2014 and referred to Cabinet for consideration:

> "This Council will pro-actively maintain the momentum to ensure that the Borough becomes increasingly Dementia Friendly. The Council is proud to be leading the way nationally to ensure those living with Dementia and their carers have the support they need. The new plans for Dementia support are innovative and wide-ranging and will make a real difference by ensuring earlier diagnosis, support and reablement. The Council recently held a hugely successful event at Tatton Park which brought over 100 businesses and community leaders together to pledge to make Cheshire East Dementia Friendly; this is a landmark that sets the course for the call to action from the Council to help those with this debilitating illness and their carers."

The motion referred to the need to continue the work started in June 2014 to make the Borough Dementia friendly.

At the Cheshire East Council event held at Tatton Park on 13th June 2014 Councillor Michael Jones had issued a challenge to all businesses and organisations in Cheshire East to do all they could to become Dementia-friendly. He had also announced the creation of a new Dementia Action Alliance Co-ordinator at the Council to support local businesses and organisations in becoming more Dementia friendly. The event had resulted in 61 pledges from different organisations and companies, detailing what they would do to become more dementia friendly.

Jill Greenwood and her team in Adult Social Care Commissioning would be keeping the momentum from the event going and were sending a report to all 150 attendees with the next steps. A group had been set up to ensure that progress continued; further follow-up actions would take place later in the year.

RESOLVED

That Cabinet supports the actions taken so far to raise Dementia awareness in Cheshire East and agrees on the need for further action to maintain the momentum to ensure that the Borough becomes increasingly Dementia Friendly.

42 **NOTICE OF MOTION - COMMONWEALTH GAMES BATON RELAY**

Cabinet considered the following motion which had been moved by Councillor
David Brown and seconded by Councillor Janet Clowes at the Council meeting on 17th July 2014 and referred to Cabinet for consideration:

> "Cheshire East Council recognises all the hard work undertaken to make the recent visit to Congleton of the Queen's Commonwealth Baton Relay such a resounding success and congratulates all those involved in making the bid for the Relay to come to Congleton. Over ten thousand local residents enjoyed a day in Congleton Park that resulted from the fantastic working together of officers from this Council, Congleton Town Council, Team Congleton, local sports groups, Everybody Sports & Recreation Trust, local businesses, schools and volunteers who together further raised the profile of both the Town and the Borough in such a positive way".

In January 2014, it had been confirmed that Cheshire East would be hosting the Commonwealth Baton Relay. The Baton event took place on Saturday, 31st May 2014 in Congleton Park. During a two month lead-in time, over a hundred volunteers had been trained in event stewarding. There was also considerable partnership collaboration with the Cheshire Fire and Rescue Service and the Police and Ambulance services. Congleton Town Council and a local sporting group "Team Congleton" had both involved in early discussions and had been integral to the success of the event with promotion and messages being delivered by their networks. There had also been significant involvement by all thirteen local primary schools and the town's two secondary schools.

Although the event had been a considerable success in itself, it had also helped to cement a number of longer terms positives, including support from the blue light services and highway partners; the large number of voluntary sports clubs which had been involved and which had recorded an increased interest in their activity followed up with increased memberships; and the volunteers who would continue to support events in Congleton and the wider Cheshire East area throughout the year. A strong community sector within Congleton and the provision of new links into schools and sports groups would further strengthen community engagement in Congleton.

RESOLVED

That the success of the visit by the Queen's Baton Relay in raising the profile of both the Council and the area of Cheshire East be noted.

43 **NOTICE OF MOTION - REVIEW OF CABINET SYSTEM**

Cabinet considered the following motion which had been moved by Councillor Brendan Murphy and seconded by Councillor David Brickhill at the Council meeting on 17th July 2014 and referred to Cabinet for consideration:

> "That the Cabinet system be reviewed so that the next administration will have the option of a more democratic and inclusive alternative."

The Portfolio Holder for Governance indicated that he was not opposed to a further review of the Cabinet system in due course but that it was too close to the May 2015 elections to begin what would be a significant and complex piece of work, and such a review was properly a matter for the next Council. In the meantime, the current arrangements appeared to be working quite well.

Councillor B Murphy attended and spoke on the motion.

RESOLVED

That no further action be taken in response to the motion.

44 **NOTICE OF MOTION - EMERGENCY POWERS**

Cabinet considered the following motion which had been moved by Councillor Arthur Moran and seconded by Councillor David Brickhill at the Council meeting on 17th July 2014 and referred to Cabinet for consideration:

> "That the Constitution Committee carefully define 'emergency' so that emergency powers are used only in a real emergency."

Councillor A Moran had been asked to clarify the reasoning behind the motion and had commented that his Group was concerned that officers were using emergency powers when there was no emergency. The objective of the motion was to ensure that decisions which had been made by members were not reversed without their consent, and also to prevent officers from making decisions which should have been made by Council or the appropriate Committee.

The term 'emergency powers' in the motion was assumed to refer to urgent decisions taken by officers.

In some circumstances, officers were empowered to take urgent action without the need to seek authority from a committee or other decision-making body in order to ensure that there were no delays in action being taken.

Council had only recently agreed the current officer scheme of delegation at its meeting on 14th May, having received an appropriate recommendation from the Constitution Committee. The scheme set the limits of powers delegated to Council officers, and other Council arrangements were sufficient to ensure that these powers were properly exercised.

Councillor A Moran attended the meeting and spoke on the motion.

RESOLVED

That no further action be taken in response to the motion.

45 **NOTICE OF MOTION - CHANGES TO MEETING VENUES**

Cabinet considered the following motion which had been moved by Councillor S McGrory and seconded by Councillor Penny Butterill at the Council meeting on 17th July 2014 and referred to Cabinet for consideration:

> "The Council expresses dissatisfaction that the Southern Planning Committee, not for the first time, was displaced from its established meeting room which had been booked a year in advance. Instead it had to use the Library with no sound system and delayed IT. This was to make way for an appeal hearing which could and should have been accommodated elsewhere.
>
> If a Council committee is booked for a specific venue, under no circumstances should it be relocated elsewhere unless the room is made unavailable by an emergency such as a fire".

Details of the venues for all of the Council's public meetings were posted on the Council's website and are included on a notice displayed on various Council notice boards.

Rule 26.1 of the Committee and Sub-Committee Procedural Rules provided that there would be a presumption against alterations to the date, time and venue for meetings. However, there would be occasions when it would be necessary to relocate venues, for example where rooms were required for elections preparation or to accommodate the current Local Plan examination hearing. In such circumstances, the Democratic Services Officers would inform Members as soon as possible, giving the reasons for the change.

In the example referred to in the motion, the reason for the change in the venue of the Southern Planning Committee meeting was that a Planning Inquiry had been scheduled to take place over a number of days and the room would not have been available in time for the Committee meeting to take place there.

It was felt that the wording of the motion, if accepted, would create inflexibility from an operational perspective and that the existing arrangements were sufficient to address the matters referred to in the motion. However, it was important for officers to provide members with an explanation for any changes to meeting arrangements and the Chief Executive was asked to reinforce this message to officers.

Councillor B Murphy spoke on the motion in the absence of Councillor McGrory.

RESOLVED

That no further action be taken in response to the motion.

46 **NOTICE OF MOTION - MEMBERS' HANDBOOK**

Cabinet considered the following motion which had been moved by Councillor Penny Butterill and seconded by Councillor Andy Barratt at the Council meeting on 17th July 2014 and referred to Cabinet for consideration:

> “That the Members’ Handbook be published in hard copy to all Members.”

The Handbook was maintained by Governance and Democratic Services and was made available to Members via the intranet. It was updated, on average, about 30 times a year, with the updated information being immediately available via the Intranet.

Upon election to the Council, all Members were provided with a hard copy of the Handbook. It was recommended that this be discontinued and that the Council move to a position where the handbook is issued in electronic (PDF) form and via the Intranet. The practice of issuing paper updates ceased some time ago, reflecting both the cost of their production and the fact that all Members had a Council provided / funded computer, printer and a Broadband connection.

During consideration of this matter, the Deputy Leader announced that he intended to produce an A-Z for Members which would be available online.

Councillor A Moran spoke on the motion in the absence of Councillor Butterill.

RESOLVED

That when elected to the Council, Members be provided with an electronic (PDF) copy of the Handbook which they can store on their Council provided computer and that updates be issued in the same way. In addition, a paper reference copy be maintained in the Members' Room at Westfields and a copy be made available via the Intranet.

47 NOTICE OF MOTION - USE OF IPADS AND TABLET COMPUTERS

Cabinet considered the following motion which had been moved by Councillor Simon McGrory and seconded by Councillor Michelle Sherratt at the Council meeting on 17^{th} July 2014 and referred to Cabinet for consideration:

> "That iPads or suitable alternative tablets should be made available to Members at the earliest opportunity."

Any rollout of tablet computers would need to be phased to meet budget constraints and ensure that the necessary infrastructure and support was in place at the appropriate time. A rollout timetable would also need to recognise that there would be newly-elected Members following the Council elections in May 2015.

The Members' IT Panel, chaired by the Deputy Leader, Councillor D Brown, was well placed to oversee the rollout of tablet computers to Members.

Councillor B Murphy spoke on the motion in the absence of Councillor McGrory.

RESOLVED

That Cabinet agrees in principle to the rollout of tablet computers to all Members as soon as is feasible.

48 STRATEGIC LAND ACQUISITIONS IN SUPPORT OF THE COUNCIL WASTE STRATEGY

Cabinet considered a report seeking approval to acquire strategic land assets to support the Council's Waste Strategy.

The matter was a key decision which had not been published for at least 28 clear days. The Chairman of the relevant scrutiny committee had therefore been consulted and had agreed that the matter may be considered at this meeting.

The acquisition of strategic land assets would have the benefit of minimising landfill and supporting energy from waste initiatives and carbon reduction plans. A strategic approach to asset management for the

Council's environmental operations would also enable the Council to bring forward new employment opportunities to stimulate the local economy.

The acquisitions would be fully funded from the approved Capital Programme and overall Medium Term Financial Strategy, with funding being drawn down from the combined £9.5m North and South Depot Infrastructure project budgets approved by Council in February 2014.

Members received assurances that any proposals in relation to sites acquired would be subject to the relevant planning processes.

RESOLVED

That

1. delegated approval be given to the Director of Economic Growth and Prosperity and the Chief Operating Officer, in consultation with the Executive Director of Strategic Commissioning and Finance Portfolio Holder, to acquire strategic land assets at a price that does not exceed the open market value;

2. the value of a site be determined by the externally appointed Valuer and approved by the Asset Management Service via formal report, making allowances for any benefits or disbenefits and associated ancillary costs of acquisition;

3. delegated approval be given to Director of Economic Growth and Prosperity to authorise any necessary initial feasibility works and related activities, including site clearance, subject to an offer on a site being accepted by the Vendor; and

4. delegated approval be given to the Director of Economic Growth and Prosperity to draw down funding from the combined £9.5m budget of the North and South depot projects to acquire strategic sites to support the existing and future operational needs of the Council's waste delivery programme.

The meeting commenced at 2.00 pm and concluded at 3.35 pm

M Jones (Chairman)

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Principal Planning Manager
Subject/Title:	Notice of Motion – Planning Inspectorate Decisions
Portfolio Holder:	Cllr Don Stockton, Housing and Jobs

1.0 Report Summary

1.1. Council resolved at its meeting on 17 July 2014 that a motion made in relation to Planning Inspectorate decisions be referred to Cabinet. The motion is set out in paragraph 10.2. This report addresses the motion.

1.2. Cheshire East has been under significant and unprecedented pressure from developers seeking to obtain planning permissions for housing developments due to the Council's housing land supply position. Despite rigorous and robust defence of the position at appeal Inspectors have approved the applications. Throughout this period the Leader and senior Officers have been in regular dialogue with local MP's and Government Minister's to highlight the concerns regarding unplanned development.

Recommendations

2.1. That Cabinet consider the merits of the motion set out in paragraph 10.2.

2.2. That Cabinet note the report and the on-going dialogue taking place.

3. Reasons for Recommendations

3.1 To enable Cabinet to consider the matter raised in the motion and to propose any further actions that Cabinet may feel is appropriate.

4. Wards Affected

4.1 All wards

5.0 Local Ward Members

5.1 All Ward Members

6.0 Policy Implications

6.1 There are no direct policy implications

7.0 Financial Implications

7.1 There are no direct financial implications.

8.0 Legal Implications

8.1 There are no direct legal implications.

9.0 Risk Management

9.1 There are no associated risks.

10. Background and Options

10.1 A motion titled "Planning Inspectorate Decisions" was proposed to Council at its meeting on 17 July 2014, by Councillor B Burkhill and seconded by Cllr D Brickhill

10.2 The content of the motion was as follows:

"In a time when we are trying to secure public trust and restore confidence in a system of democracy and priorities of acceptable locations, this Council deplores the planning inspectorate making decisions in the face of the wishes of our local committees and our parish councils. It therefore condemns the Government at Westminster for its policy on granting planning permission for sites not within the submitted local plan. It strongly recommends and requests that the Chief Executive and the Leader contact all local MPs to press them to urge withdrawal of the policy which causes this excess pressure on some Cheshire East communities."

10.3. In accordance with the Council Procedure Rules within the Constitution, Council resolved that the matter stand referred to Cabinet.

10.4. The Council has effectively been 'under siege' from developers over the last two years as they seek opportunities to obtain permissions for housing developments across the Borough due to the Councils housing land supply position. This is not unique as many other Local Authorities are similarly fighting against unplanned development but the attractiveness of Cheshire East as a place to live has compounded our difficulties.

10.5. The Council has refused permission for many applications since it adopted the latest Housing Position Statement in February this year which demonstrated a five year supply. That position has been robustly defended using the best planning QC's in the country at the numerous Public Inquiries that have been contested over the last 6-12 months. Disappointingly however the Council has now received a number of decisions that have granted permission citing that the supply position has not been demonstrated.

10.6. The Council has already sought to challenge some of the earlier appeal decisions and is considering its position on more recent decisions.

10.7. It should be noted that there is no specific 'policy' to be withdrawn. The planning policies within the National Planning Policy Framework (NPPF) provide a presumption in favour of development particularly where the Council cannot demonstrate a five year supply of housing land. It is this element of national policy that has been contested at appeal.

10.8. The Leader and senior officers have been in regular dialogue with the Planning Minister and local MP's to highlight the issues in Cheshire East. The most recent focus has been on the inconsistencies of the appeal decisions. While most have been allowed, the logic and technical reasoning to support each outcome by the different Inspectors has been significantly different. This is why the Council have sought to have the decisions referred to the Secretary of State to enable a holistic view to be given. This has been rejected. However, the Council has also highlighted this by letter to Central Government and the Inspectorate which resulted in the Planning Minister sending a subsequent response directly to the Inspector. In the letter the Planning Minister noted that "differing conclusions" had been reached on the issue and requested that the Inspector in the Gresty Road appeal (Inquiry commenced 22 July) pay "especial attention" to all the evidence and provide his "considered view" on the matter.

10.9. It is therefore evident that Minister's and Local MPs are well aware of the issue of unplanned development in Cheshire East and the implications that it has for its residents.

10.10. While these inconsistencies remain the Leader and senior Officers will continue to highlight these matters and keep the profile of Cheshire East at the highest level.

11.0 Access to Information

The background papers are available by contacting the report writer:

Name: David Malcolm
Designation: Principal Planning Manager
Tel No: 01270 686744
Email: david.malcolm@cheshireeast.gov.uk

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Agenda Item 7

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Principal Planning Manager
Subject/Title:	Notice of Motion – Definition of Sustainable Development
Portfolio Holder:	Cllr David Brown, Strategic Outcomes

1.0 Report Summary

1.1. Council resolved at its meeting on 17 July 2014 that a motion made in relation to the defining of sustainable development to enable planning officers to objectively assess applications be referred to Cabinet. The motion is set out in paragraph 10.2. This report addresses the motion.

1.2. The concept of sustainable development is wide ranging with many interwoven factors. Planning Officers already consider sustainable development in assessing applications while the emerging Cheshire East Local Plan contains specific policies on sustainable development.

Recommendations

2.1. That Cabinet consider the merits of the motion set out in paragraph 10.2.

2.2. That Cabinet note the report and the current and emerging policies that exist for assessing sustainability in planning applications.

3. Reasons for Recommendations

3.1 To enable Cabinet to consider the matter raised in the motion and to propose any further actions that Cabinet may feel is appropriate.

4. Wards Affected

4.1 All wards

5.0 Local Ward Members

5.1 All Ward Members

6.0 Policy Implications

6.1 Planning policies are formed through the Development Plan which is set nationally within the NPPF and via the formation of local plans which must go through a set legislative procedure. The Submission Version of the Cheshire East Local Plan Strategy was agreed by Council on 28 February 2014.

7.0 Financial Implications

7.1 There are no direct financial implications.

8.0 Legal Implications

8.1 The Council has a statutory duty to consider appropriate Development Plan policies and material considerations within all planning applications. To adopt policies that do not conform to national policies principles could leave the Council exposed to legal challenge.

9.0 Risk Management

9.1 There are no associated risks.

10. Background and Options

10.1 A motion titled “Definition of Sustainable Development” was proposed to Council at its meeting on 17 July 2014, by Councillor S Corcoran.

10.2 The content of the motion was as follows:

“This Council should provide a working definition of sustainable development in Cheshire that our planning officers could use and justify objectively when assessing planning applications.”

10.3. In accordance with the Council Procedure Rules within the Constitution, Council resolved that the matter stand referred to Cabinet.

10.4. The concept of sustainability is an extremely complicated one with many interwoven factors needing to be addressed to ensure a successful approach. The UK Sustainable Development Strategy Securing the Future sets out five guiding principles of sustainable development: living within the planet's environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly

10.5. Planning Officers are guided by the Development Plan which encompasses the existing Local Plan policies, the National Planning Policy Framework (NPPF) and the emerging Cheshire East Local Plan. The NPPF itself is built around supporting sustainable development and therefore Officers will refer to sustainable development within reports as necessary. This often includes such things as how the development performs against the NW Sustainability Toolkit which provides objective guidance on locational sustainability. However, as highlighted within the NPPF there are three tranches of sustainable development - environmental, social and economic which should not be viewed in isolation because they are mutually dependent.

10.6. There are now also two specific policies within the Submission Version of the Cheshire East Local Plan Strategy which build on the advice within the NPPF:

Policy SD1 – Sustainable Development in Cheshire East
Policy SD2 – Sustainable Development Principles.

10.7. All of these matters in respect of sustainability are balanced when planning officers consider planning applications. The weight that is attached to the individual and cumulative aspects of sustainability is a matter for the decision maker on a case by case basis.

11.0 Access to Information

The background papers from the NPPF, current and emerging plans are available on the Council's website or by contacting the report writer:

Name: David Malcolm
Designation: Principal Planning Manager
Tel No: 01270 686744
Email: david.malcolm@cheshireeast.gov.uk

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CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Director for Economic Growth and Prosperity
Subject/Title:	Alderley Park Investment Fund (Ref CE 14/15-6)
Portfolio Holder:	Councillor Peter Raynes, Finance / Councillor Don Stockton, Housing and Jobs

1.0 Report Summary

1.1 Alderley Park, now under the ownership of Alderley Park Ltd (a company formed by Bruntwood, Manchester Science Parks and the Council), is a major asset of international quality and reputation. Cheshire East Council has played a pivotal role in transforming the site into a flourishing and diverse science park since the announcement by AstraZeneca in early 2013.

1.2 As a major strategic employment site within Cheshire East, the site is of paramount importance to the local economy and the site also plays a pivotal role in the wider North West science ecosystem. Indeed, its comprehensive infrastructure offering are strong differentiators from competitor science parks, and much of the facilities and assets on site are unique in Europe. This makes it a cornerstone of the attractiveness of the North West science landscape.

1.3 As a member of the Alderley Park Taskforce and an investor in the site alongside Manchester Science Parks (MSP), Cheshire East Council is at the vanguard of promoting a strong and sustainable future for the site. Through its continued close collaboration with partners, a clear need has been identified for collective action to ensure that new start-ups and growing SMEs on site are fully supported and nurtured. In addition to the business support services already available, there is growing demand for early-stage investment funding.

1.4 As such, there is a will amongst partners to establish investment fund arrangements which will specifically address the current market failure in the provision of comprehensive investment funding for life science SMEs, and the imbalance between the funding available to companies in the North West, and those in the South East of the UK. It is proposed that investment funds target the following:

- Spin outs from AstraZeneca and academic institutions wishing to establish at Alderley Park

- SMEs in the UK looking to relocate to Alderley Park in order to grow and expand
- Inward investors

1.5 In addition to this, it is evident that the success of the world class science assets on the site can only retain their quality if there continues to be world class science R&D being carried out at Alderley Park. The provision of such investment funding has the potential, alongside other interventions, to increase the number of jobs on site from the 5000 estimated to be created through the existing MSP investment programme to c.7000. This would move the level of site occupancy beyond the peak level of occupancy under AstraZeneca.

1.6 The purpose of this report is to seek Cabinet approval for an investment in a fund by Cheshire East Council of £5million. To date, partners have allocated £10m (AstraZeneca £5m; Bruntwood £5m) to investment funding and it is intended that this be used to attract further high net worth investors. Such an investment would be a proactive intervention by the Council and is a further demonstration of its position at the vanguard of innovation and growth in the UK. No other local authority has so far invested in equity funding for life science companies at this scale, and the Council is, therefore, in an unrivalled position at the forefront of local authority action to support and grow the life science industry in the UK.

2.0 Recommendations

1. That Cabinet delegate to the Portfolio Holder for Finance, subject to the findings of the independent advisor's final report and the determination of detailed investment policies and appropriate fund structure, the authority to make the investment.

2. That subject to the decision of the Portfolio Holder for Finance, budget be provided and officers be authorised to take all necessary actions to set up the Fund and undertake the proposed investment, including the procurement and appointment of a Fund Manager, and in line with the findings of the independent advisor's final report and the determination of detailed investment policies and appropriate fund structure.

3.0 Reasons for Recommendations

3.1 The project relates directly to the Council's key priority: *A growing and resilient local economy.* It is also prioritised in the Council's Three Year Plan:
- Outcome 2: *Cheshire East has a strong and resilient economy*
- Priority 1: *Local Economic Development*
- Change Project 1.3 (*Investment to support business growth).*

3.2 Alderley Park is of significant importance to both the Cheshire East and wider North West economies, and the Council's involvement in a targeted investment fund for SMEs located on site is a key intervention for ensuring the future sustainability of both the science park on site, and subsequent job creation and business growth.

3.3 The Council's involvement in an investment fund would also provide a formalised and robust mechanism to deal with requests for investment from life science SMEs either already located at Alderley Park or considering relocating there. Once the Investment Strategy has been set up and agreed by the Council, it will be up to the appointed Fund Manager to determine where the funds are invested, in line with this Strategy.

4.0 Wards Affected

4.1 The site is located part within Chelford ward, and part within Prestbury ward. However, the positive impacts of supporting the growth of SMEs will be applicable over a wider area.

5.0 Local Ward Members

5.1 Councillor George Walton (Chelford), Councillor Paul Findlow (Prestbury), and Councillor Frank Keegan (Alderley Edge).

6.0 Policy Implications

6.1 The proposals put forward in this report are considered to be aligned to the Government's stated intention that the UK becomes a global hub for life sciences, capable of attracting and nurturing world-leading talent.

6.2 This proposal also accords with, and is complementary to the following:

<u>*Ambition for All: Sustainable Communities Strategy 2010-2025: Priority 2 Create conditions for business growth*</u>
- Harness emerging growth opportunities;
- Create a climate attractive to business investment.

<u>*Cheshire East Corporate Plan 2011-2013*</u>
Objective 2 *Grow and develop a sustainable Cheshire East:*
- Foster economic growth and regeneration through providing the right environment for businesses to grow.

<u>*Cheshire East Economic Development Strategy*</u>
- Ensure that Cheshire East maintains and enhances its role as a 'knowledge economy';
- Facilitate economic growth through progressing schemes that will create jobs and improve the attractiveness of the area as a place to invest, live and visit;

- Macclesfield and its hinterland sustain their current position as one of the most successful parts of the regional economy.

7.0 Implications for Rural Communities

7.1 The location of Alderley Park within the Prestbury and Chelford wards means that a successful and sustainable future for the site is of benefit to the rural communities in the area in terms of job creation and retention.

8.0 Financial Implications

8.1 As stated in the report, the reasons for the Council's involvement in a targeted investment fund are to help ensure the future sustainability of the science park, supporting job creation and business growth for the benefit of the local economy, with related favourable effects on business rates income. The Council has set aside funds for increasing the longer term financial independence and stability of the Council; it is proposed that this reserve be used to finance contributions to the Alderley Park investment fund.

8.2 Independent external advice has been obtained, from a company with significant skills and experience in this sector. Informed by that advice, the report describes the need and rationale for the Council's involvement in investment; sets out high level investment criteria reflecting appropriate risk management considerations; and recommends a particular fund structure that will support the investment and financial objectives of both the Council and its partner MSP.

8.3 In order to implement the proposals, it will be necessary to detail the investment policies formally, create the Fund structure with Bruntwood and appoint a Fund Manager, to deliver the objectives in accordance with the investment criteria, over the life of the Fund (recommended to be 15 years).

9.0 Legal Implications

9.1 The Council is undertaking this project under The General Power of Competence (Localism Act 2011). The Council needs to be mindful of the State Aid implications of investing in the Fund and how these can be addressed as set out in the Executive Summary report at Appendix 1.

9.2 The preferred option as identified is for the Council to become a limited partner in a limited partnership (LP). The LP will in turn appoint the fund manager, following a fully compliant procurement exercise.

9.3 An LP is a legal entity formed in accordance with the Limited Partnership Act 1907. An LP broadly resembles an ordinary partnership save that an LP has two categories of partner, a general partner and a limited partner.

Limited partners. An LP will have one or more limited partners who will invest capital in the LP, will not take an active role in the LP's operation, and will have limited liability up to the amount of the capital that they have contributed.

General partners. The LP will have general partners who have responsibility for managing the LP's business and have unlimited liability for the firm's debts and obligations.

9.4 Legal Services will be providing ongoing support to the Council as the project develops and external legal advice will be provided.

10.0 Risk Management

10.1 The risks of making equity investments, and investments in this sector, are acknowledged. The report reflects the external professional advice obtained. It summarises the recommended fund structure and importantly, sets out high level investment criteria that reflect the necessary risk management principles, including the focus of investments made by the Fund. Clearly, it is intended that investments are made in a number of companies in a range of sub-sectors, such that risks are spread and a reasonable return is achieved, over the 15-year lifetime of the Fund.

10.2 Failure to establish a sustainable and long term source of investment funding for SMEs at Alderley Park will severely undermine the efficacy of the site as a multi-occupier science park. This will significantly reduce the level of job creation on the site, and will undermine the delivery of the agreed vision for the Alderley Park to remain as a world-class science asset.

11.0 Background and Options

Context

11.1 Following AstraZeneca's announcement of their planned withdrawal of R&D activities from Alderley Park by 2016, a Taskforce was established to consider how best to secure sustainable high value employment and investment at this major employment site. Through the sale of the site by AstraZeneca, Cheshire East Council and its partners within the Taskforce ensured a clear vision for the site was developed and agreed by all partners to secure a vibrant and prosperous future through the transformation of the site to an independent, self sustaining, world-class hub for life sciences, acting as an anchor for the sector in the North West.

11.2 As set out in the Alderley Park Development Prospectus (endorsed by Cabinet on the 7th January 2014), the emerging vision for the future of the site is for it to become a life science park, transforming from a single occupier to a cluster of life science businesses which complement and support existing and planned science facilities across the wider region, as part of a North West science ecosystem.

11.3 At the heart of the site's transformation into a multi occupant site is the existing incubation space at the BioHub. Over twenty companies are currently located at the BioHub, employing over 200 people, with a growing pipeline of companies showing interest, including around 25 potential start-ups from former AstraZeneca staff.

11.4 Whilst the BioHub continues to offer a successful programme of mentoring and support to both existing and potential SMEs, there remains a number of significant barriers to their establishment and growth. A recent BIS report identified a significant decline in the availability of both debt and equity funding for SMEs since 2007, with no visible signs of recovery, and a recent NESTA report identified that venture capital activity has now seen an overall 40% reduction over the past two years, with a shift in funding towards larger deals and more established companies. In addition to the decline in traditional funding sources, the investment into early stage life science companies is heavily biased towards the South East of England, with 73% of investment going to the 43% of companies in that region. As a result of this market failure, good quality business opportunities are underfunded or fail to attract any funding at all.

11.5 The provision of finance specifically to spin outs from AstraZeneca and academic institutions wishing to establish at Alderley Park; SMEs in the UK looking to relocate to Alderley Park in order to grow and expand; and inward investors would contribute to the already strong supply of facilities and skills, and would help to cement the site's position as a global centre of excellence and innovation. Indeed, the world class assets and equipment on site will only retain their quality and efficacy if there continues to be world class science research and development on site.

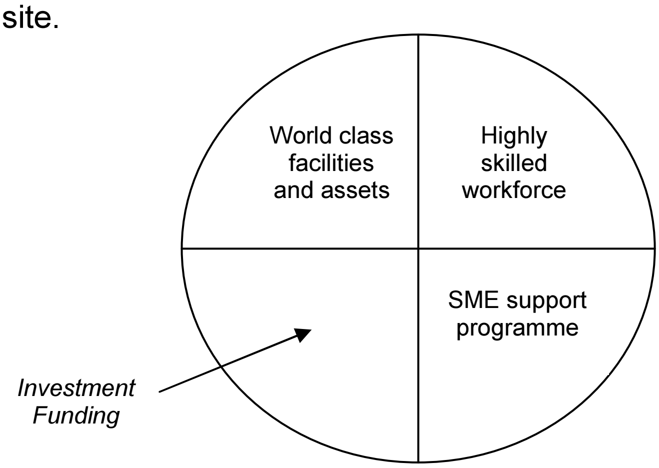

Figure 1 – Elements of a successful science ecosystem

11.6 In addition to this, the availability of investment funding could also help to secure the establishment and growth of a significant number of new start-up companies from former AstraZeneca staff who will not be re-locating to Cambridge. Without investment funding and the wider support available through the BioHub, it is likely that this immediate potential for business and job creation would be lost and would likely result in an outflow of highly skilled scientists from the local area. It is estimated that the provision of investment funding at Alderley Park alongside other interventions could increase the level of job creation from 5000 (as proposed under MSP's Investment Plan for the site) to c.7000. This would represent a level of employment on site in excess of that historically delivered at the peak of AstraZeneca's occupancy.

11.7 At the launch of MSP's vision for Alderley Park in May 2014, formal announcements were made by both Bruntwood and AstraZeneca that they would be providing investment funds of £5m each, as part of their commitment to the future growth of the site. By similarly contributing investment finance, the Council would be at the vanguard of local authority involvement in stimulating and supporting the growth of the life science sector in the UK, as no local authority has invested equity funding for life science companies at this proposed scale.

Investment Fund Objectives and Structure

11.8 The Council has sought independent external advice to help determine the most appropriate fund structure, operating arrangements and investment policies that will help to deliver its aims and objectives and also facilitate joint-working with partners. The advice can be found at Appendix 1.

11.9 As noted in the independent report, historically fund investment in biotech/ life sciences has generated relatively low returns (though better than risk-free cash deposits). The economic objectives for investing in a fund are related to jobs created, and GVA created; there are a range of economic and social benefits for the Council:

- Some mitigation of the loss to the local economy of AstraZeneca disinvestment in the site, through new SME formation and growth

- The growth of SMEs on site is likely to increase the provision of services to the site and lead to greater use of local businesses

- Company formation and growth will recover some of the business rates income for the Council which will be lost as AstraZeneca withdraws from the site

- Job creation and retention will have a positive impact on GVA for the Borough, particularly as the average value of highly skilled staff at Alderley Park is £52,500, compared to the Cheshire East average of £27,600

11.10 The Council's advisors have recommended the following investment criteria, in high level terms, reflecting appropriate consideration of risk management principles:

High Level Investment Criteria
1. Investments will be spread over all life science sectors, such as instrumentation and services and not just the antecedent drug development or pharmaceutical focus, so as to spread the level of risk
2. Preference will be given to those companies employing large numbers of former AstraZeneca staff, so as to deliver the wider economic benefits which come from retaining them in the region and avoiding their displacement elsewhere
3. Investments will be targeted at the lower risk, later development stage opportunities
4. Investments will be targeted at firms with protectable IP and/ or high barriers to entry
5. Investments will be targeted at firms with strong management teams, to try to reduce the risk of company failure often associated with unproven and weak management teams
6. Investments will be targeted at firms with products and services which are market driven rather than purely research-led, to reduce the risk of company failure

11.11 Whilst it is understood that AstraZeneca are likely to focus their investment on incubation phase businesses, the objectives and investment criteria of the Council and Bruntwood are more closely aligned and it is recommended that they invest together in a "follow on" fund, being a "limited partnership" structure with a lifetime of 15 years that will:

- Invest in selective spin-outs from AstraZeneca and existing companies in the BioHub

- Invests in businesses transferring onto the Alderley Park site from elsewhere

11.12 This particular structure has a number of benefits for the Council and Bruntwood:

- The COUNCIL/ Bruntwood Fund can choose to only invest in the more commercial projects already located at Alderley Park

- The COUNCIL/ Bruntwood Fund can invest in companies re-locating to Alderley Park (inward investment)

- The structure is tax transparent, boosting the net returns to the Council and avoiding unnecessary tax leakage

- The Fund can be set up at a more measured pace, without delaying AstraZeneca's investment in its spin-outs

11.13 Subject to a positive endorsement of the proposed investment, it will then be critical that the Council develops more detailed investment policies, develops the Fund structure, and that a suitably qualified and experienced fund manager is appointed to establish the Fund and ensure its successful delivery.

11.14 Importantly though, in light of the recent positive Local Growth Fund announcement around a potential £40m Greater Manchester and Cheshire Life Science Investment Fund, it will be mutually beneficial to consider developing a Limited Partner fund structure which has the flexibility to accommodate both the Alderley Park Fund and another fund(s), whereby the latter facilitates investment in companies elsewhere in the Greater Manchester and Cheshire sub-region. This will be considered in our next discussions with Bruntwood and our partners in the respective LEPs.

12.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

Name: Matt O'Neill
Designation: Major Projects Manager
Tel No: 01270 685629
Email: matt.o'neill@cheshireeast.gov.uk

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FiveLines

Appraisal of proposed Alderley Park Investment Fund

Cheshire East Council
29 August 2014

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1. Important Notice

In accordance with our contract dated 25 July 2014, we have carried out an appraisal of the proposed Alderley Park Investment Fund ("the Fund"). Our terms of reference were limited to the matters set out in our contract and, accordingly, there may be matters which you would consider material to your assessment of the proposed investment which we will not have identified because they are outside our terms of reference. You should note that our findings do not constitute recommendations as to whether or not you should proceed with the proposed investment.

We have prepared illustrative projections for the life of the Fund and the assumptions on which these are based. Since the projections and the assumptions on which they are based relate to the future and may be affected by unforeseen events, we express no opinion as to how closely the actual results achieved will correspond to those projected.

During the course of our review, we have held discussions with the following personnel:-

- Matt O'Neill, Amy Beasley, Peter Bates, Paul Goodwin, Anne Scheland, Caroline Simpson and Councillor Peter Raynes - Cheshire East Council ("Cheshire East").
- Chris Doherty - Vice-President, AstraZeneca plc ("AstraZeneca").
- Andy Allen - Development Finance Director, Bruntwood Limited ("Bruntwood").

This appraisal is based on the information supplied by and discussions with the individuals above. Our review has not constituted an audit in accordance with Auditing Standards of either the financial or non-financial information presented to us and will not necessarily have disclosed all matters of significance. Nor have we subjected the financial or other information contained in this report to checking or verification procedures, except where otherwise stated. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of this report, except as provided for in our contract.

A draft copy of the original report, excluding the Executive Summary was provided to the executives of Cheshire East for their comments, which have been incorporated as we consider appropriate in the final report.

This report has been prepared solely for the use of Cheshire East in connection with the proposed investment in the Fund. Information contained in this report is strictly private and confidential and should not be disclosed to any other party without our prior written consent and no other party should place any reliance upon the contents of this report.

This report is based on the latest information made available to us at the time of our visits during late July and early August 2014 and we accept no responsibility for events after the date of such visits, except where we have been expressly informed in writing of such events.

We do not, in preparing this report and giving the opinions stated herein, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come, save as expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

2. Executive Summary

Introduction

This document comprises an appraisal of a proposed £10m - £20m venture capital fund to provide financial assistance to companies seeking to occupy parts of the AstraZeneca research and development facility at Alderley Park, Cheshire. This follows a strategic decision by AstraZeneca to focus all its UK research and development function in Cambridge.

The cost to the local economy has been estimated at £245m per annum, most of which will affect the area covered by Cheshire East Council. As the facilities being vacated are considered by many to be world class, a Task Force has been created to lead the conversion of the site into a research and development facility for life sciences which will have international recognition.

Cheshire East, as an important contributor to the Task Force, is keen to encourage employment on the site, not only to absorb those AstraZeneca employees not willing to relocate to Cambridge (estimated at about 80% of the scientific-grade staff), but also to create fresh employment for high grade people in order to take advantage of the superior facilities being vacated, thereby enhancing the local economy. Without the transformation of Alderley Park, the local economy is likely to shrink and, accordingly, ensuring the success of the Task Force's mission is a high priority for Cheshire East.

An economic impact study undertaken by SQW in January and February 2014 recommended, inter alia, that financial assistance, preferably by way of investment rather than grant, be used to support life science start-ups, spin-outs from AstraZeneca and inward transfers of existing businesses wishing to expand. Funding is being considered for such a fund by AstraZeneca (£5m), Manchester Science Parks (majority owned by Bruntwood and the new owner of the Alderley Park site (£5m)) and Cheshire East (£5m).

Cheshire East has requested an independent appraisal of this opportunity to invest, which this document addresses under our contract with Cheshire East, dated 25 July 2014.

Main Findings and Recommendations

Set out below is a summary of our findings etc. This should be read in conjunction with the relevant section of the report, which sets such findings etc in context.

- Investing in life sciences is a long-term commitment – early stage life science businesses usually take longer to mature and create value than other technology businesses.
- Historically, technology investment in general has only generated single digit IRR's, which accordingly compare unfavourably with general stock exchange investment, especially when the higher risk attributable to early stage life science companies is taken into account.
- A consequence of the comparatively low returns is that the public sector has been required to intervene to deal with the market failure such low returns (although still greater than those generated by risk-free cash deposits) have caused.
- As AstraZeneca's proposed contribution (which has yet to receive its final approval) is more of a grant in its nature, and as AstraZeneca's wish is to support mainly spin-outs from itself and to deploy the funds quickly, it is recommended that its investment is placed into a separate

“Incubation Fund”, potentially managed by Bio City, Nottingham, which has run an incubation facility successfully for a number of years. It has already established an apparently successful incubation function at Alderley Park.

- It is recommended that the £5m investments being considered by Manchester Science Parks (“MSP”) and Cheshire East, form the cornerstone investors in an “Alderley Park Fund” (“Fund”), which is a later stage fund, to provide funding into AstraZeneca spin-outs on a selective basis but also to provide funding to those businesses not in the Bio City incubation process (either other start-ups or businesses transferring into the site in order to continue their expansion). In this way, MSP and Cheshire East are sheltered from the higher risk incubation-stage investments and can provide a wider level of financial support to enhance the site’s general economic objectives.

- At £10m, the proposed Fund is likely to deliver some, but not all, of the financial support likely to be required. Hence strenuous efforts should be made to bring in other private sector investors, in order to create a fund of between £15m - £20m. If none can be found, it is clearly still preferable to have a £10m Fund rather than none at all, but the investment guidelines would need to be established to encourage investment at the investee level (“co-investment”), in order to ensure the commitments of the two cornerstone investors create as much economic gain as is possible.

- Of the 2,650 jobs to be created by the end of 2019 (per SQW’s Economic Impact assessment referred to earlier), less than half are likely to be generated by spin-outs from AstraZeneca, highlighting the need to target strongly inward-bound businesses.

- The economic benefits such a Fund would assist in delivering include:-

    - Retention of a highly paid workforce (£52,500 p.a. average, compared with £27,600 p.a. average in Cheshire East).
    - Greater “induced” benefits to the local economy than under AstraZeneca’s ownership.
    - Recovery of rents and business rates lost on the vacation of properties by AstraZeneca.
    - Short-term economic boost caused by construction/conversion work.
    - Consolidating the North West’s aspiration to become a major life science “hub” in the UK, which is a world leader in life science research.

- These economic benefits should be targeted and actual performance monitored against targets for both jobs created and GVA created.

- Cheshire East’s investment is likely to be treated as State Aid and hence the EU’s State Aid Regulations will need to be complied with. New rules came in on 1 July 2014.

- An experienced, competent and fully regulated fund manager should be appointed to run the Fund, such manager to have full investment, monitoring and realisation responsibility and accountability. The fund manager would need to be procured using a full OJEU process.

Conclusion

The establishment of this Fund is likely to have a significant and positive effect on both the regeneration of Alderley Park and the aspiration to create a life science centre of international renown. Other measures are, of course, also necessary and these should seek to enhance the investment return to Cheshire East.

3. Structure of Equity Investment in the Life Science Sector

A variety of financing methodologies are used in the sector, which is differentiated from most other economic sectors generally by the long-term nature of investment.

The SQW Impact Assessment Report categorises the life science sector into four broad domains, each with a subset of segments. For ease of reference, this categorisation is used in this report. The key domains and segments are set out below, along with a commentary on the implications for their financing.

Medical Technologies – consisting of:-

- Medical technology companies.
- Development, manufacture of medical devices.
- Supply of specialist services to the above.

The sub-segments are:-

- Radiotherapy equipment.
- Neurology.
- In vitro diagnostics.

Such businesses have typically a relatively modest development phase (some including clinical trials) and then a lengthy marketing phase, as market knowledge and acceptability grows, in parallel with the establishment and growth of a manufacturing capability. In the UK, SME's dominate this sector – 99% of firms employ less than 250 people.

Hence, early stage finance is usually in the form of non-yielding equity. As revenues grow and the capacity to meet interest and capital payments increases, "quasi-equity" investments are then used (these are effectively loans with an equity element to compensate for the risk the lender is taking). Later stage venture capital investments often feature both a loan and an equity element. Finally, once a business is profitable and, more importantly, cash positive, then pure loan finance (bank debt, bonds etc) can be considered.

Medical Biotechnology – consisting of:-

- New therapeutics acting on or in the human body by pharmacological, immunological or metabolic means.
- Specialist sector-specific services, including in vitro diagnostics.

This sector is also dominated in the UK by SME's, with 98% of companies having less than 250 employees and 53% less than five employees.

The development phase of these companies can be quite extended, again potentially including clinical trials, whereas their growth can be quick once market acceptability has been achieved, as often production is sub-contracted to specialist manufacturers.

In financing terms, these businesses tend to be heavier users of equity or quasi-equity funds. Service companies, including specialist manufacturers, can access debt finance if they have a good customer spread and are cash positive.

Industrial Biotechnology – consisting of:-

- Biological catalysts, materials or feedstock for use in the manufacture of industrial products.
- Support services.

This is a relatively small sector (only 80 or so businesses in the UK with a combined turnover of £438 million). Their products are typically used in the chemical, waste treatment, energy production and plastic industries.

Their fundraising profile (use of equity or debt instruments) is often more driven by the needs of the sector their products support and hence it is difficult to generalise.

Pharmaceutical – consisting of:-

- Drug development ("small molecules").
- Specialist supplies and services.
- Therapeutic protein development.
- Contract manufacturing.

These have widely ranging financing requirements and form a major contributor to the UK economy. Alderley Park's heritage has been heavily involved in this sector.

Drug development businesses require large amounts of equity finance over a long period. Gaining EMEA and/or FDA approval can take up to 10 years from the start of the first trials; consequently a start-up may not be revenue generating for 10-15 years. A typical funding profile is set out below:-

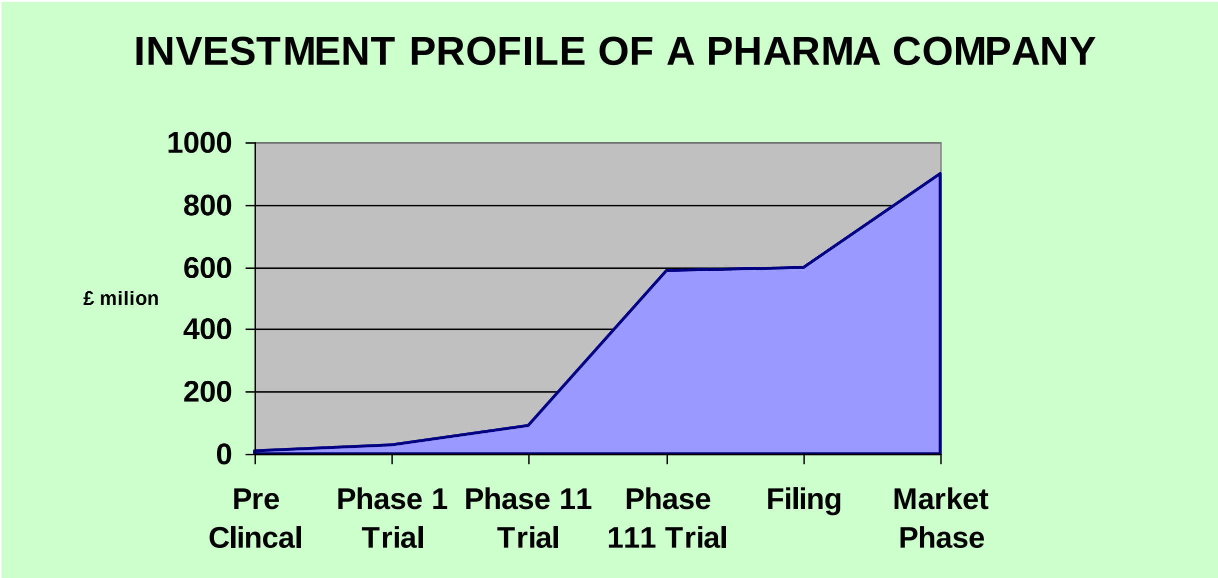


Figure 1 - Investment profile of a Pharma Co

From the diagram, it is easy to see why drug development has been almost exclusively the territory of the major multi-national pharmaceutical companies until relatively recently.

However, "open innovation" allows innovative, entrepreneurial SME's to participate with venture capital support, in the earlier phases of drug development. Invariably, the major pharmaceutical companies have to step in, usually before the commencement of the Phase III trials, either on a joint venture or a licensing basis. On occasions, this process has allowed the entrepreneur/early stage venture capitalist to exit, but in most cases the exit comes once the filings have been made and regulatory approval obtained.

The financing requirements of the other components of this sector largely depend upon the cost and time taken to reach cash generation, after which debt finance becomes an option and before which funding has to be in equity or quasi equity.

Sources Of Finance For The Life Science Sector

These vary, depending on the amount of finance being provided and the risk appetite of the funder.

The risk profile of a typical (non-pharmaceutical) start-up business and its funding sources are set out in the following diagram:-

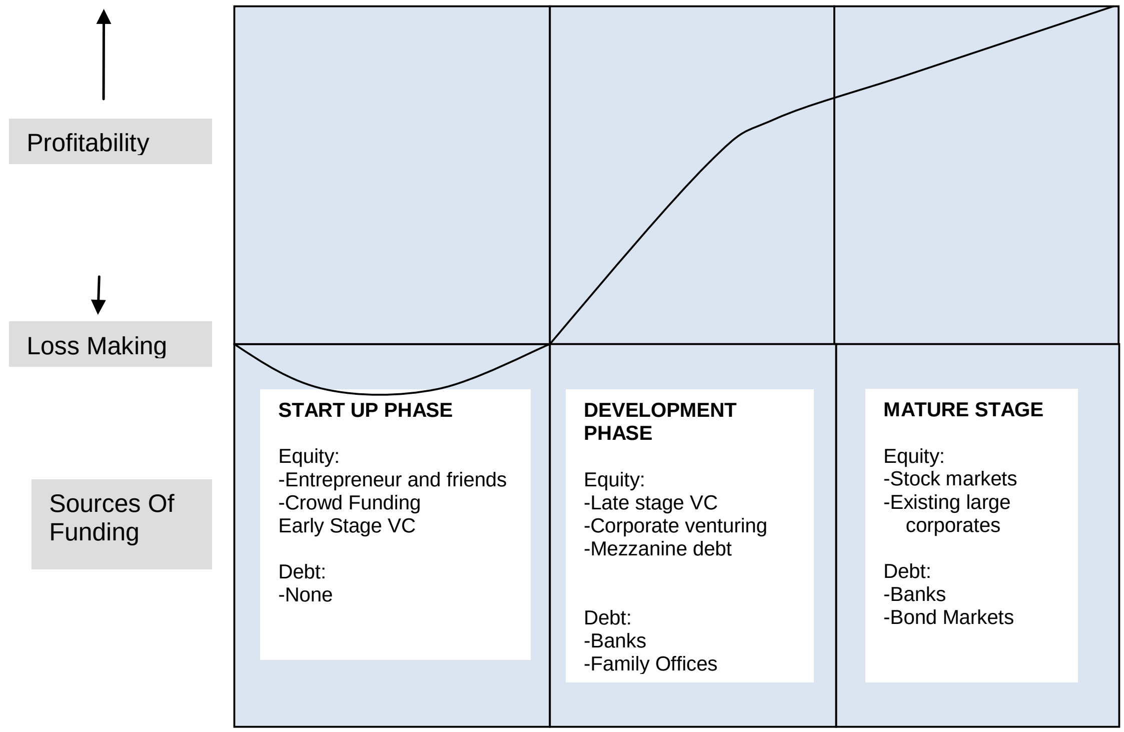


Figure 2 - Company life cycle - 'J Curve'

Clearly, each company's "J" curve will vary but virtually all businesses follow this pattern. Rarely does a start-up not have a loss-making phase.

In the Alderley Park scenario, there may well be businesses which can be spun out of AstraZeneca (which would enter into a long-term supply contract with such businesses) which could be profitable from Day 1. Such businesses are more akin to Management Buy Outs and are usually funded, at least initially, by Private Equity and bank debt.

A private equity funder has a radically different skill set and access to much larger amounts of funding, compared with their venture capital counterparts. Hence it is important to determine the nature of the funding opportunities of spin-out activities from AstraZeneca before Cheshire East commits to a particular form of investment. As will be seen later, both the risk and reward profiles (and the wider economic benefits) vary considerably between venture capital and private equity.

4. Historic Venture Capital Performance in this Sector

As mentioned in Section 3, the risk profile of private equity and venture capital varies considerably. Early stage transactions usually contain the following risk attributes:-

- **Untested Management Teams** – individually, they may be strong, but can they work as a team and are all the disciplines covered? Is there a strong experienced business person leading the team?
- **Undeveloped Product/Services** – can it be made as a prototype and does it work? Can it then be re-engineered to be produced at an economic price? Does it meet legal, ethical and regulatory requirements?
- **Unproven Market** – is there an existing market for the product/service? If so, can it economically displace the current market offering? What will be the reaction of competitors? If no market currently exists can a market be created economically?

Consequently, most early stage equity investment opportunities are at the highest levels of possible risk. To justify taking this risk, there needs to be a significant potential for a sizeable gain to be make. This is unlikely to be the case for businesses where the main purpose is to provide a livelihood for the entrepreneur and family. Hence venture capitalists need to be very selective and to carry out a high level of "due diligence".

As a result, the costs of running a venture capital fund are often disproportionately high in relation to the amount of money it can invest. This further swings the risk/reward ratio towards the higher risk end of the spectrum.

The private equity investor has a totally different risk profile. Most investments have the following attributes:-

- **Proven management team.** Not only has the team worked together successfully in the past, the members of the team already have a deep knowledge and understanding of the business. Any gaps (e.g. created by a team member wanting to retire) are more easily filled.
- **Developed product.** Existing product/service risk is very low and attention can be focussed on new product development at an economic price.
- **There is a proven market for the product/service.** It is already being sold profitably. Attention can be focussed on expected changes in the market and having products/services ready in time to meet changing market needs.
- **The acquisition price of the business is critical.** If too high a price is paid, the business will struggle to service the cost of finance used in its acquisition.
- **Provision of working capital.** This is to fund further growth, and is also a critical factor.

It can be seen that, in general, the risk profile is much lower and the investor's skill sets need to encompass financial modelling and negotiation skills. A general commercial skill and the ability to communicate effectively are skills common to both sets of investors.

From this analysis, a different type of investor is required for the Alderley Park start-up and early stage investments compared with the private equity-type investor required for some or all of the AstraZeneca spin-out investment opportunities.

The early stage venture capital investor has to maintain total objectivity at all times. Having made an investment, albeit against a convincing business plan, in every case reality will deviate from that plan and experience shows that, in the vast majority of cases, the start-up will be slower than planned and absorb more capital than originally envisaged. The venture capitalist then has a key “judgement call” to make, namely whether to provide more finance or not.

Objectivity in this decision is an absolute requirement. Often, especially in an “incubator” environment, it is very tempting to give the business the benefit of the doubt. To do so, in the majority of cases, will only lead to an even more agonising decision on a further investment in a few months time. It is important therefore, that the venture capitalist “keeps his distance” from the management of the investee company, and hence is usually <u>not</u> part of the incubation services provider.

In early stage investment, the requirement is to identify those opportunities which provide the best risk/reward profile AND the highest probability of success. This is illustrated in the following diagram:-

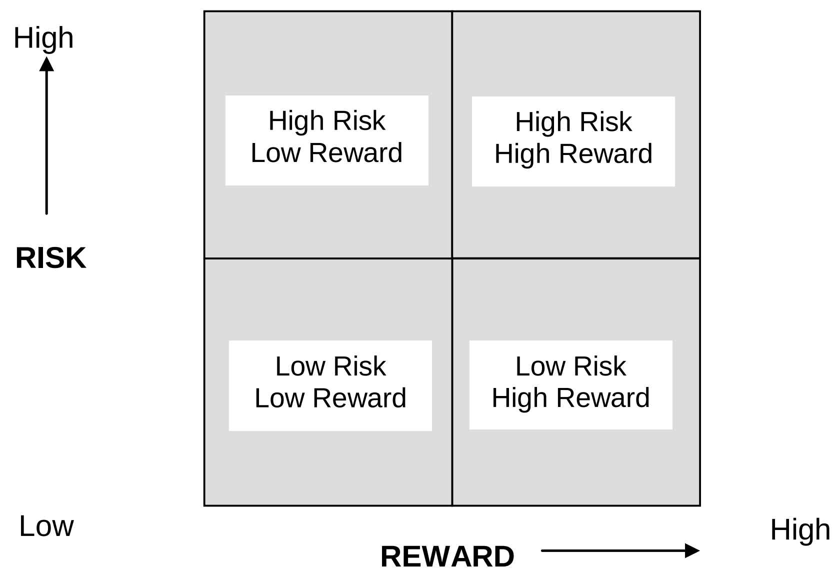


Figure 3 - Risk / Reward Profile

Investors will want to aim for those investments which can be classified in the lower right quadrant. However, in some circumstances they will look at the upper right quadrant (i.e. drug development), but only if the risk/reward ratio is sufficiently attractive. This is a highly selective process with heavy attrition rates. It is necessary, however, if the venture capital fund is to deliver a return to its investors (see later in this Section).

As previously mentioned, the cost of writing small venture capital investments is disproportionate to their size. If the cost of writing a £100,000 investment was £10,000 then the cost of writing a £1 million investment would be considerably less than £100,000. In addition there are fixed costs in running a fund (e.g. regulatory costs) which do not vary with the size of the fund. Add to this the need to have a good "spread" of investments, preferably across the various life science sectors discussed in Section 3 and it can be seen that if a fund has too small a pool of capital to invest, then the returns due to its participating investors will be disproportionately affected by the level of the fund's running cost. It is generally accepted within the venture capital industry that a fund size of less than £20 million is considered sub-optimal.

These comments need to be born in mind when considering the type and return of the public sector intervention Cheshire East is considering in relation to Alderley Park.

The British Private Equity & Venture Capital Association ("BVCA") produces performance statistics covering both the private equity and venture capital sectors. As might be expected from the differing risk profiles of these two sectors, the returns to investors (i.e. after taking into account fund management costs) from private equity funds are substantially greater than from venture capital funds.

In order to cope with the distortion caused by the "dot com" bubble at the turn of the century, the BVCA analysis is divided into three categories – funds commencing before 1996, those commencing 1997-2002 and post 2002 launched funds. Set out below is a summary, extracted from the 2013 BVCA/PWC Measurement Survey.

		Pre 1996 %IRR	**1997-02 %IRR**	**Post 02 %IRR**
Early Stage	}	9.2 }		
Development	} Venture	10.2 }	-1.3	5.9
Small Private Equity	}			16.2
Medium Private Equity	} Combined pre 1997	15.6	n/a	12.6
Large Private Equity		18.2	n/a	14.9

Figure 4 - PE and VC sector performance statistics

Some of the Post 02 funds are still "open" and hence there is likely to be some future volatility in these numbers as their remaining portfolios are sold. The numbers for the earlier periods are now "firm" numbers.

The BVCA statistics only refer to funds which are managed commercially and excludes those where investors are tax sheltered (e.g. EIS and Venture Capital Trusts). Also excluded are investors using their own balance sheet to make the investment (e.g. Banks and Corporate Venturers). These are excluded firstly to prevent double counting (they often use fund managers to run some or all of their investment portfolios) and secondly because they often have objectives which are not purely financial (e.g. a corporate venturer might want a right of first access on an exit). There are likely to be sizeable variations between the best performing and the worst performing funds, and figures quoted are the volume adjusted average returns.

The returns generated from private equity are comparable with the returns that can be generated from the London Stock Market, as can be seen from the following table:-

	2013 1 year % pa	3 years % pa	5 years % pa	10 years % pa
Total VC and Private Equity	19.2	10.0	11.1	15.7
FTSE All Share Index	20.8	9.4	14.3	8.8
Total Pension Fund Assets	11.0	7.6	16.1	7.8

Figure 5 - PE returns compared to FTSE

It is important to note that the above figures are for the investment return in just the period stated (i.e. the first column is just for the calendar year 2013). The 10 year figures therefore “smooth out” to some extent the stock market cycles.

Overall therefore, if Cheshire East was evaluating an investment in the Alderley Park Investment Fund solely on financial grounds, better investment returns are likely to be found elsewhere, given that the Fund’s focus is on venture capital rather than private equity, but the return is better than would be achieved if the money was left in a bank deposit account. It is for this reason that most financial institutions shun venture capital, but are still willing to invest in private equity.

Once 3i pulled back from venture capital investing, the British Government and the European Union were forced to intervene to fill the “equity gap” created by the withdrawal of commercial funds from the market. Various initiatives have been tried since the mid 1990’s with varying degrees of success. Some of these are tax driven and some require the public sector investor to take the “first loss”, thereby bolstering the returns available to the private sector co-investors. This led to the establishment of State Aid Rules (see Section 8) in order to provide a sensible investment framework and to provide a degree of protection for the public purse.

In conclusion, the Alderley Park Investment Fund presents an investment opportunity which is towards the high risk end of the spectrum and an investment purely on financial returns would be hard to justify based on the historic performance of both Life Science funds in particular and venture capital in general.

The investment returns, expressed as an IRR, are considerably lower than those which have been available historically from companies listed on the Stock Market, but are still ahead of those which could have been achieved on risk-free cash deposits.

Hence it is essential to also consider the socio-economic benefits of this Fund. These are discussed in Section 5.

5. Investment Criteria and Economic Objectives

As discussed in Section 4, there would be less risky investment opportunities open to Cheshire East if its participation were to be judged on purely financial considerations.

AstraZeneca's withdrawal, however, provides a unique opportunity to utilise the world class facilities they are leaving behind to create a Life Science "hub" of international importance and significance, ultimately creating far more highly skilled jobs than are being lost as a result of AstraZeneca's decision.

The withdrawal of the R&D function of AstraZeneca's activities on the Alderley Park gives rise to a specific market failure, with "knock on" effects to the local economy. These are fully evaluated in SQW's Economic Impact Assessment Report dated 29 January 2014 and, accordingly, are not repeated here. In purely quantitive terms, the pre-disinvestment economic impact of the site is assessed at £315 million pa and post-disinvestment the economic impact of the remaining 700 AstraZeneca employees is assessed at £70 million, both figures including the indirect and induced effects. Accordingly the loss to the local economy (most keenly felt in the Cheshire East local authority area – the "host" authority) is £245 million pa.

The most appropriate way of mitigating this loss, the SQW report suggests, is the creation of a Life Sciences "hub" at the Alderley Park site to take advantage of its superb facilities and highly trained workforce, 80% of whom are now not expected to transfer to AstraZeneca's new R&D facility in Cambridge.

SQW's report, in its second volume, makes certain recommendations in order to stimulate future market demand. SQW has quantified future demand mainly in relation to the space requirements of potential tenants, rather than in a more general economic and financial appraisal.

Their recommendation is that the target companies and organisations should extend to health charities and academic organisations as well as commercially driven businesses. However, it concludes that there are limited opportunities available in the health charity and academic sectors and that the main focus should be commercial organisations which can benefit from the high standard of specialist facilities and trained staff. These are likely to be:-

- Start up and spin-out businesses involving AstraZeneca staff as well as from local universities and NHS Trusts.
- SME's in Human Health Science currently located in the UK but seeking to relocate to assist in their growth paths.
- Inward investors seeking to access the UK and European markets.

As part of the infrastructure required to attract such businesses, SQW recommends the establishment of a risk finance fund, to support current incubation services provided by Bio City, and to assist with the spin out activity from AstraZeneca, as well as the provision of start-up/development capital for businesses attracted to Alderley Park.

In addition, SQW highlights the need to access large-scale venture capital to support large businesses moving into the Park. The proposed Alderley Park Investment Fund is unlikely to be of sufficient size to provide all of this funding, but the appointment of a suitably experienced and well connected fund manager (see Section 9) should provide both expertise and access to such funding.

Such a fund manager would also, through its connections, be able to assist in addressing SQW's perceived lack of highly skilled and experienced management teams currently operating within the North West Region.

Accordingly, the Alderley Park Investment Fund has a key role to play in the creation of a Life Science hub, far beyond purely the financial return. A full site will, to a large extent, mitigate the net £245 million pa loss to the local economy by:-

- Retaining highly paid staff (mean salary level £52,500 currently, compared with £27,600 in the Cheshire East area) and, if successful, creating further high quality jobs leading to more "induced" benefits to the local economy by higher than average net income.
- Provision of services to the site.
- Recovery of lost rental income and business rates following AstraZeneca's exit from most of the space currently occupied.
- Short term economic boost as a result of construction/conversion work and capital expenditure projects.
- Greater use of other locally based businesses than was the case under AstraZeneca's occupancy.
- Maintenance of a high level of Life Science skills in the North West Region to support life science operations in other locations in the region.

Taking the above analysis, and that contained in the previous sections, appropriate investment criteria can be formulated. It is considered that this should include:-

- A wide spread of activities of investee companies – whilst the historic focus has been on drug discovery, a much wider cross-section of the life science sector should be covered, in order to reduce the level of investment risk involved.
- Preference should be given (always assuming that commercial viability is not compromised) to those businesses capable of employing large numbers of ex AstraZeneca staff.
- Whilst funding start-ups is important, later stage companies should also be considered, as these represent lower risk opportunities in general.
- Businesses where IP is protectable, or which have high barriers to entry were they not able to exploit the advanced facilities available at Alderley Park.
- Strong management teams, with proven experience.
- Products/services which are market driven, not research led.

In terms of economic objectives, it is often the case with public sector-backed funds, that multiple objectives are set which invariably lead to a conflict between objectives (e.g. are jobs created more or less important than jobs safeguarded?). It is suggested that only two objectives be set:-

- Jobs created (jobs safeguarded, in addition to being difficult to measure accurately, is irrelevant in this case in view of AstraZeneca's decision to reduce its headcount on site from 3,000 down to 700).

- GVA created (these will provide a focus on growth opportunities, rather than providing financial support to "lifestyle" businesses).

These economic objectives are obviously separate from the financial objectives. As detailed earlier, it would be unrealistic, based upon past performance, to expect an IRR of in excess of 5%. In reality, achieving a full return of Cheshire East's investment monies, after fund management costs would, in our view, be an acceptable outcome, so long as the economic objectives set out above are achieved.

6. Structure of Proposed Fund

There are two primary structures used in the venture capital and private equity industries, which have evolved and been refined over the last thirty years. The objective is to be able to interpose a fund manager between the investor and the investee company in order to allow for professional expertise (which may not exist within the investor) to be utilised cost-effectively and for risk to be reduced by having a portfolio "spread" of investments, rather than a "rifle shot" approach. This can be illustrated diagrammatically as follows:-

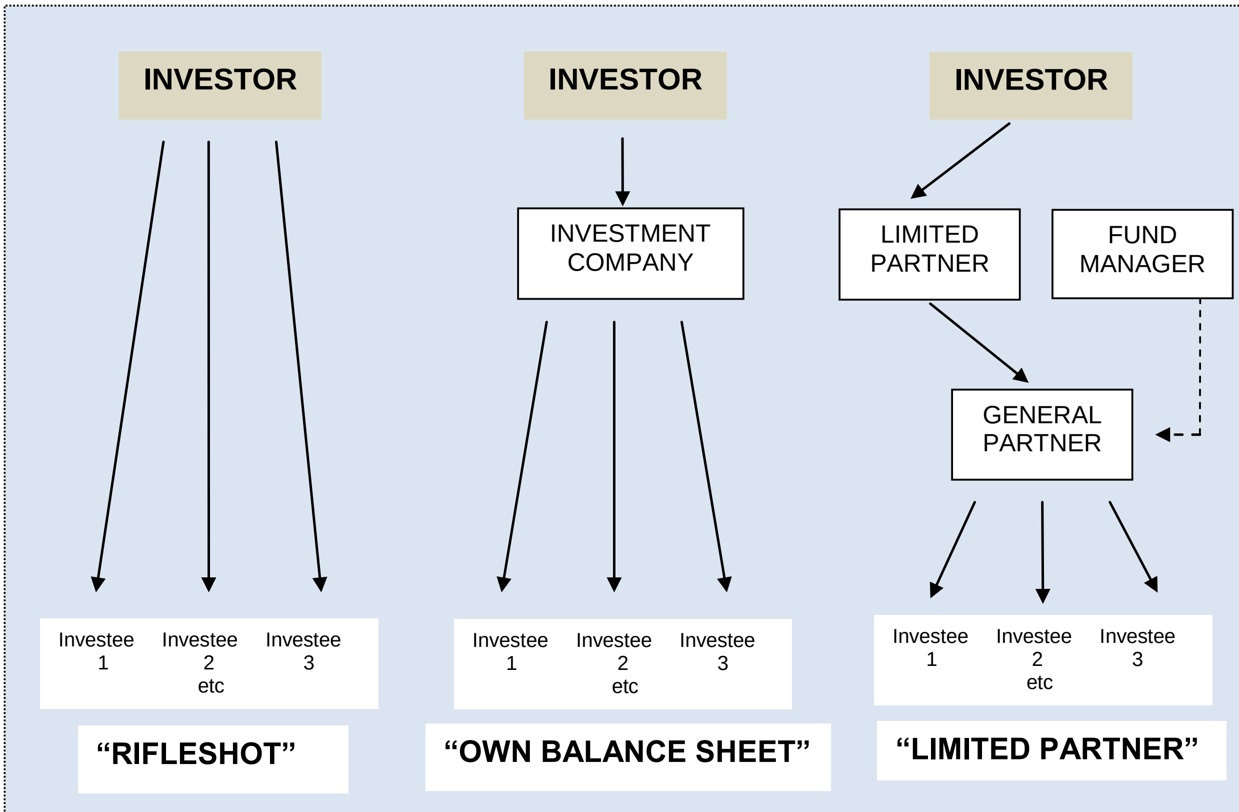


Figure 6 - Investment Structures

Each of these will be considered in turn:-

"Rifleshot"

When applied to the Alderley Park Investment project, this would entail each of AstraZeneca, Bruntwood and Cheshire East (and any other potential investors) making their own investment appraisals and investment decisions on a "case by case" basis. As it is understood that Cheshire East is exempt from capital gains tax, the whole of the proceeds from the realisation (less realisation costs) would be available on a tax free basis to be returned to Cheshire East.

The "Pro's" are:-

- Simple to set up – no start-up costs of note.

- Investment decision rests with Cheshire East – it can "cherry pick" the investments which give the best economic benefits as well as the best hope of a financial return.
- Tax neutral.

The "Cons" are:-

- Cheshire East would need to ensure it has sufficient investment and due diligence expertise to be able to select the most appropriate investment opportunities.
- Cheshire East might be the only investor in certain companies.
- Post investment, Cheshire East would need investment monitoring and exit expertise.
- Cheshire East would be responsible for all accounting matters relating to its investments.

Overall therefore, this would be an attractive option if Cheshire East was prepared to adopt a "hands on" approach, with its associated costs.

"Own Balance Sheet"

The investors would subscribe for share capital (a small amount) and provide loans to a separate investment company, whose equity would be allocated in proportion to the total commitments made by each shareholder (e.g. if each of Cheshire East, AstraZeneca and Bruntwood were to invest the same amount, they would each own 33.33% of the company). This would avoid any party having to consolidate the investment company results into its own financial statements.

The investment company would hire a professional, experienced management team who would invest the money provided by its shareholders in investee companies, monitor their performance, provide reports back to the shareholders and deal with all accounting matters and, eventually, exit the investment and repay the investor's loan.

The "Pro's" are:-

- The costs of running the investment portfolio are shared by the three investors.
- A professional, experienced management team can be assembled.
- Each investor is a "passive" investor, merely receiving reports and providing an overall monitoring and oversight function.
- The company does not fall to be regulated by the Financial Conduct Authority ("FCA") as it is investing its' own funds (i.e. out of its' own balance sheet).
- All investors would participate in each investee company (indirectly) and so benefit from the spread of risk over a portfolio of investments.

The "Cons" are:-

- There are costs involved in setting up the investment company.

- All investors would face a reduced return because of the costs of running the company and its management team.

- All investors would face a further reduced return because the company would be subject to Corporation Tax (current small companies rate: 20%).

“Limited Partner”

This apparently complex structure has become established as the “norm” for venture capital and private equity funds alike.

In a limited partnership, the exposure of the investors is limited to the amount they commit to invest by way of partnership capital and loans, unlike in a normal partnership where each partner is jointly and severally liable for all the liabilities of the partnership. A small amount of fixed capital is invested at the beginning, and the overwhelming amount of money is then advanced by way of loans to the Limited Partnership on an “as needed” basis. Since AstraZeneca wishes to invest its £5 million on commencement of the fund, it would provide all its loans at the beginning, but 33% of each investment into an investee company would be drawn from that loan, the remaining 66% being drawn down from the Cheshire East and Bruntwood as required.

The only partner with unlimited liability is the General Partner. In line with the taxation treatment of ordinary partnerships any tax liability of the partners falls on those partners directly. Accordingly, if Cheshire East has a tax exempt status, then it would not be taxed on any possible returns generated by the limited partnership.

Typically, the General Partner is a company with no assets other than its investments in investee companies and no liabilities other than the loans mentioned above from its investors.

Fund management is undertaken by an FCA regulated fund management company, which charges the General Partner a fee for its services. As that fee attracts VAT (currently at the 20% rate), this VAT would negate some of the attractiveness of the transparent partnership for other tax purposes. In order that VAT is not chargeable on the management fee, the General Partner is usually owned by a company which is within the same VAT group as the fund manager. Hence the fee is an “intra group charge” within the VAT group and no VAT is due to be paid over.

The “Pro’s” are:-

- Well used and understood within the industry and a well established structure.

- Limited Partners exposure is limited to their Commitment.

- Differing requirements of investors can be accommodated.

- The fund has a defined lifespan after which it can be wound up.

- Completely tax transparent, thereby boosting net investment returns to investors.

The “Cons” are:-

- Fund manager has to be FCA regulated.

- Relatively costly to establish.

Position of Potential Alderley Park Investors

AstraZeneca has already contracted with the Bio City Nottingham Group to provide an "incubation" service on the Alderley Park site, and the "Bio Hub" project is well established and appears successful. By March 2014, 24 companies, employing around 200 scientific posts, had been attracted to the Bio Hub (press release dated 6 March 2014). Apparently, 5 spin-outs and start-ups are already established and Bio City is working on 10 more. Overall, AstraZeneca estimates that there could be 25-30 such spin-outs.

The incubation function is in this case, crucial, as none of the spin-outs are likely to have complete management teams. They will be strong on the technical skills but sales, marketing and finance skills will be in short supply as these were provided centrally by AstraZeneca. Similarly, establishing whether the team has enough of the entrepreneurial skills and general leadership qualities is often difficult to assess. Hence the incubator's function is to address these issues, establish whether the proposition's product/service would have a market outside of AstraZeneca, prepare a business plan (including realistic projections) and generally ensure that the proposition is "investor ready".

Separately, Bio City has proposed an "incubation fund", which it would manage, to invest in businesses going through the incubation process. The criteria for the fund are stated to be:-

- All proceeds of sales of investments to be recycled.
- No return to potential investors.
- Willing to accept higher degrees of risk than venture capitalists would consider.
- Investment to be in the range of £50,000-£250,000 with no more than 10% of the fund in any one investment.
- Initial investment (not yet finally approved) of £5 million from AstraZeneca, to be fully invested within 5 years – future investments then being financed thereafter through exit proceeds.

AstraZeneca believes that the combination of a proven incubation services provider and a dedicated source of finance for early stage businesses undergoing the incubation process greatly enhances the chances of success, thereby mitigating the perceived "high risk" nature of such investments.

A company limited by guarantee is suggested. As the company would be investing off its own balance sheet, it would not need to be FCA regulated.

It has been suggested that Manchester Science Park (or its parent company, Bruntwood Limited) and Cheshire East co-invest in this fund, each investing £5 million and that a further private sector investor provide a further £5 million, to make a £20 million fund overall.

Bio City Nottingham Limited is a company limited to guarantee, whose members were not disclosed at 22 September 2013 (the date of the last Annual Return) but, in the audited accounts for the year to 31 December 2013, are stated to include Nottingham Trent University and the University of Nottingham. It has a number of subsidiaries:-

- Mobius Technology Ventures Limited, a BVCA member and which invests in early stage life science companies off its own balance sheet and provides facilities and business support.

- Bio City Scotland Limited, which runs the former MSD Research facility in Scotland.

- Bio Ascent Discovery Limited, which runs a key component logistics service to the European Lead Factory project and is based in Scotland.

The Alderley Park site activities are run through Bio City Nottingham Limited, although there is a dormant subsidiary, Bio City Alderley Limited, which is owned by Bio City Group Limited, another dormant company which is owned by Bio City Nottingham Limited.

The audited accounts for Bio City Nottingham Limited for the year ended 31 December 2013 show a turnover of £3.95 million and an operating loss of £1.27 million, due apparently to the set-up costs in Scotland and at Alderley Park. It's net loss attributable to its members was £768,000. It's members' funds were £7.87 million.

AstraZeneca is keen to progress rapidly with its "investment" in this proposed Incubation Fund.

Discussions held with both Manchester Science Parks/Bruntwood and with Cheshire East reveal a different position from that taken by AstraZeneca. Both parties aspire to receive a return on their investment. In view of the relatively low return historically generated by life science venture capital funds (see Section 4), investing in an even earlier stage incubation fund with its inherent higher risk profile, looks unattractive.

Other concerns include:-

- A company limited by guarantee is not exempt from tax if it were to make profits. AstraZeneca is not concerned about this.

- AstraZeneca wish to "grant" the money, rather than make an investment. There are no plans for it to monitor the performance of the fund and the evergreen nature of the fund means that it will continue while it still has funds to invest. This is a very different approach from that required by Manchester Science Parks/Bruntwood and Cheshire East.

- AstraZeneca wishes to complete this transaction within the next few weeks.

AstraZeneca's approach to spin-outs, whilst prima facie appearing to be benign, also raises issues:-

- The timescales are uncertain, as staff appear to be being made redundant well ahead of replacement (and much smaller) facilities coming on stream in Cambridge – the interim period being covered by supply contracts to the spin-out businesses, although AstraZeneca is not contractually undertaking to provide such supply contracts in every case. However, there is no certainty over the timing of when such contracts would end, by which time each spin-out must have sourced and converted non-AstraZeneca businesses in order to survive the contract suddenly terminating.

- Of the larger, non plant, equipment, only a small percentage will remain at Alderley Park (presumably the oldest of each type). Clean-room infrastructure will of course remain. Those remaining items have been pre-sold to Manchester Science Parks and each spin-out will have to lease them back.

- There has been little or no focus by AZ historically in sourcing and securing businesses currently located elsewhere, both in the UK and internationally, willing to move onto the Alderley Park site to facilitate their growth by taking advantage of its facilities. If the site is to realise its potential as an internationally significant life science facility, this is a very important consideration – a point that is recognised by the MSP team.

Our Proposals

Taking all these factors into consideration, our proposals are as follows:-

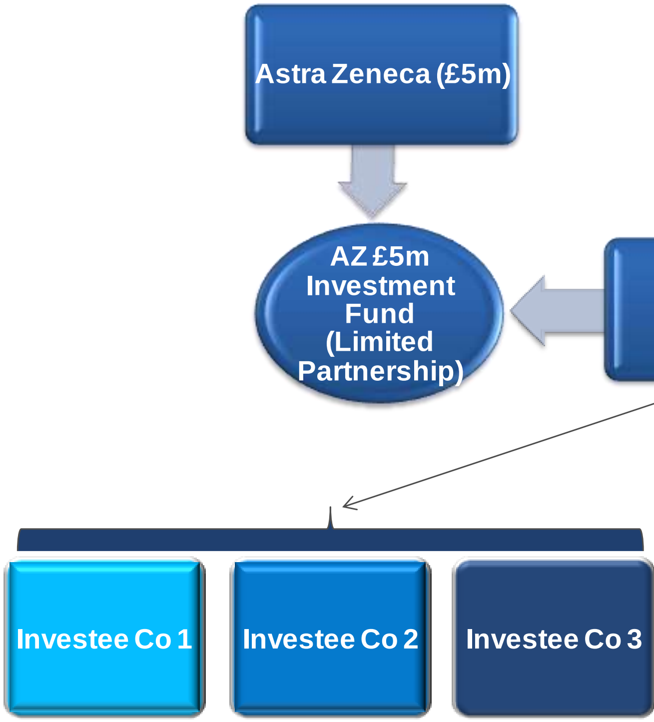
- An Incubation Stage Fund is established utilising solely AstraZeneca's £5 million (plus any third party money Bio City is able to attract) and run by Bio City. The advantages are:-

    - It protects Manchester Science Park/Bruntwood and Cheshire East from an investment of high risk.

    - It "uncouples" the investment from that of Manchester Science Park/Bruntwood and Cheshire East, allowing the AstraZeneca investment to proceed at a speed which is more sensible.

    - It removes the State Aid requirement for the fund manager to be appointed through a competitive process.

The structure of this fund is set out diagrammatically below:-



Notes

(1) Initial £5m fund with AZ as sole investor
(2) Operated on behalf of AZ by an appointed Fund Manager – potentially BioCity
(3) Site specific regeneration fund – focussed on AZ employees

Figure 7 - Step 1 £5m Incubation Stage Fund

- A Venture Capital fund is set up initially utilising the £5 million each from Manchester Science Park/Bruntwood and Cheshire East and, preferably, securing up to £10 million of private sector funding, to bring the Fund up to an optimal size. A £20 million fund would greatly enhance the likelihood of achieving a commercial return because the level of fund management costs, as a percentage of the amount invested, becomes more realistic, a wider "spread" of investment/risk is possible and finally, successful investee companies can be supported for longer (in terms of later rounds of funding), thereby enhancing the fund's overall returns.

- Other advantages of this "later stage" fund are:-

    - It can invest in businesses which do not need to go through the incubation process – e.g. businesses moving onto the site from elsewhere.

    - The fund can choose the more attractive opportunities coming out of the Bio City incubator – there would be no automatic presumption of follow-on funding.

    - If the proposed limited partner structure is utilised, the fund will be completely tax transparent, enhancing returns to Cheshire East as a tax-exempt body.

    - EIS and SEIS investment could be attracted, not into the fund, but at the investee level, to allow greater leverage of Cheshire East's investment (See Section 11).

    - The fund can be established at a timescale which would allow for "due process" to be followed (e.g. OJEU-compliant fund manager recruitment process), as it is "uncoupled" from the proposed AstraZeneca investment.

Assuming that the recommended limited partner structure is adopted, the structure of the fund is set out diagrammatically below:-

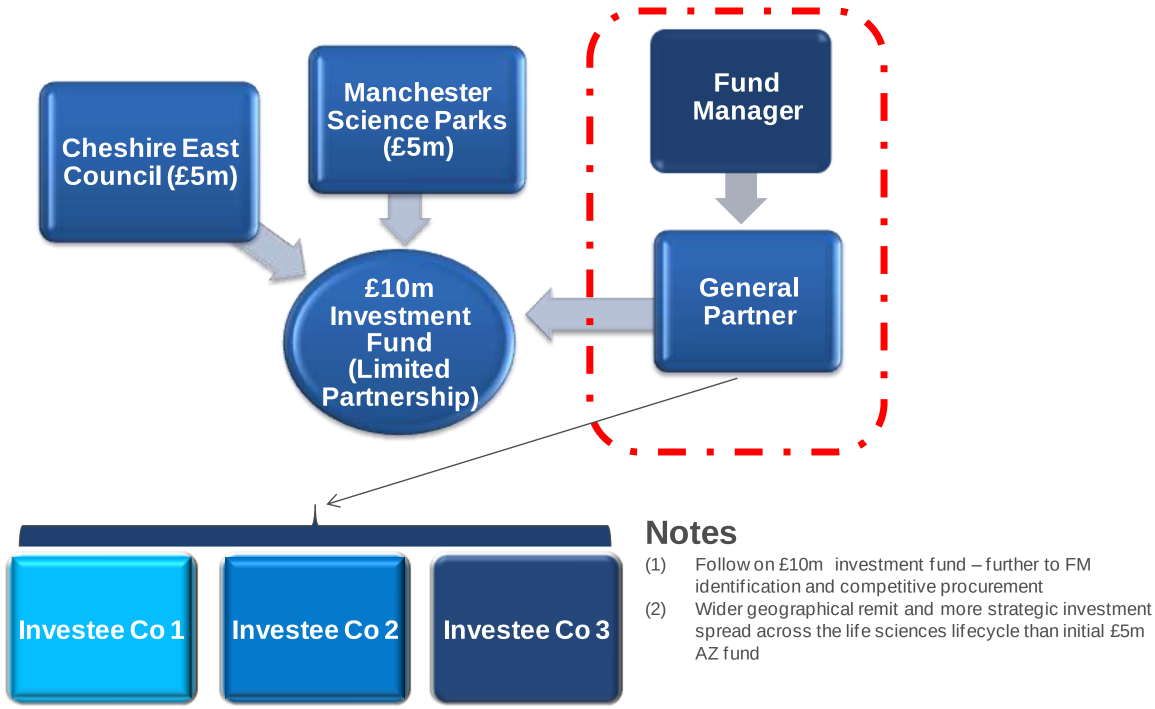


Figure 8 - Follow-on Venture Capital Fund

The main issues associated with these recommendations are:-

- As Cheshire East's investment is likely to constitute State Aid, the State Aid Rules need to be followed (see Section 8).
- The size of the fund will, to a significant degree, dictate both the likelihood and the quantum of a commercial return. Hence, strenuous efforts should be made to secure third party investment alongside the Manchester Science Park/Bruntwood and Cheshire East's investment.
- Finally, it is recommended that the length of life of the limited partnership be 15 years, rather than the more usual 10 years. The investment phase would still be 5 years (as in a 10 year fund), as this would cover the AstraZeneca withdrawal from the site, including a reasonable allowance for slippage. The period in which the Fund is actually invested in a portfolio company (the "hold period") is the key driver behind the 10 year realisation phase.

The principal reasons are as follows:-

- In general, partly due to the prolonged recent recession, the hold period has been elongated throughout the VC sector, but especially amongst publicly-funded VC funds. This reflects the difficulty in arranging exits at times and valuations advantageous to the investors.
- In life sciences, the time required to achieve increasing profitability (the most advantageous timing of an exit) is longer than in most other industries. In other words, the length of time a

business spends in the early loss-making phase of the "J" curve as illustrated in the diagram in Figure 2 can be many years.

- In life science investments and especially in drug development, the valuations only start to rise dramatically in the later years, and hence being forced to exit early, because the fund is nearing the end of its life, is detrimental to achieving a commercial return which fairly reflects the risk taken.

It is recognised that the additional fund management fees (see Section 9) involved in an extended realisation phase would have to be offset by the additional realisation proceeds but, on balance, it is expected that the potential uplift in value would more than compensate for this additional cost.

7. Potential Investment Returns and Underlying Assumptions

In order to assess these, 3 different fund sizes have been modelled. The detailed worksheets are attached in Appendix 1.

The 3 sizes are:-

- £10 million, which assumes the only investors are Cheshire East and Bruntwood/Manchester Science Parks, each contributing £5 million.
- £15 million, as above, but with an additional private sector investor, again at £5 million.
- £20 million, as above, but with additional private sector funding of £10 million.

Supply Side Constraints

In SQW's document "The impact of the disinvestment by AstraZeneca at Alderley Park, Cheshire", Volume 2, issued on 11 February 2014, SQW estimates that the site could support 3,460 non AstraZeneca jobs over the next decade, of which 2,640 would be created by the end of 2019, the proposed 5 year investment period for the Fund. Over a 15 year time frame (to 2030) the space demand is for 22k square metres of "office space" and 45k square metres of "Laboratory and Office" space. This compares with 90k square metres of office and laboratory currently. Not all of this will become available as AstraZeneca intends to retain 700 staff, mainly in office space.

Prima facie there appears to be a reasonable balance in SQW's view of supply and demand for space at the Alderley Park facility. However, the broadening of the range of life sciences likely to be provided by the incoming businesses will mean some reconfiguring of the available space, which historically has been focused on drug discovery and development.

The Fund's Target Investee Companies

The number of jobs "created" at Alderley Park per company can be highly variable. Most start-ups usually employ less than 5 people in their first year post investment, with the successful ones rising to between 20-50 people within a 5 year period, and the unsuccessful ones either not growing or, at worst, reducing to nil, following closure. The spin out companies, AstraZeneca believes, will commence with between 5-35 employees, with the capacity to grow if they are successful in diversifying their customer base away from AstraZeneca. Finally, businesses transferring from elsewhere to Alderley Park are likely to vary in size from 5-100 employees, depending on their stage of development upon transfer. Some of the key personnel will need to relocate with those businesses, so not all these posts will be available to ex AstraZeneca staff. It has been assumed that only 80% of these businesses' personnel will be recruited locally, to allow for 20% to move in with the businesses.

Consequently, calculating the number of companies which could potentially benefit from an investment by the Fund is difficult to forecast accurately. Not all inward-bound businesses will require the Fund's money, whilst the Fund might choose not to provide financial support for all of the AstraZeneca spin outs, if they appear to have a limited growth potential. Later increases in numbers employed are often self-funded, so for the purposes of these calculations, SQW's estimate of jobs created by the end of 2019, of 2,640 is used (rounded up to 2,650).

Set out below is a table showing the likely "minimum" and "maximum" employment numbers per potential investee company, and these then compared with the number of companies potentially supportable by a £10m fund, a £15m fund and a £20m fund:-

	Minimum Employment			**Maximum Employment**		
	Jobs per Co	**No. of Co's**	**Total Jobs**	**Jobs per Co**	**No. of Co's**	**Total Jobs**
Start-ups	5	40	200	20	20	400
AstraZeneca Spin Outs	10	25	250	30	25	750
Inward Transfers (nett)	20	110	2,200	60	25	1,500
		175	2,650		70	2,650

Figure 9 - Estimated Minimum and Maximum Employment Profiles

- % supported by a £10m Fund – 27 Co's, 15.4% Min, 38.6% Max
- % supported by a £15m Fund – 45 Co's, 25.7% Min, 64.3% Max
- % supported by a £20m Fund – 62 Co's, 35.4% Min, 88.6% Max

There are, of course, infinite permutations on the number of companies needed to generate 2,650 net jobs, depending not only on their position in their individual life cycle but also whether they are in labour-intensive sectors of the life sciences industry. The examples used are intended to demonstrate the possible extremities of these permutations.

The table demonstrates the importance of attracting existing businesses to Alderley Park, since the number of jobs created by the combination of start-ups and AstraZeneca-sourced spin outs accounts for 17% of the number of jobs needed on the "Minimum" Employment" scenario, and only rising to 43% on the "Maximum Employment" scenario. Since the lead-time on businesses relocating tends to be long, it emphasises the need for rapid acceleration of marketing activities for the Alderley Park site.

Scale of Fund

From the table above, at the "Minimum Employment" extremes, the £10m fund size would only be capable of providing support to 15% of the companies on the site, rising to 39% of the "Maximum Employment" extreme is used. Whilst it is accepted that not all companies will need (or accept) venture capital funding from the Fund, it is likely that most of the spin outs and start-ups will require its' support, along with a reasonable proportion of those transferring on to the site. This reinforces the comments made in "Our Proposals" sub-section of Section 6 of the Appraisal about the need for a larger fund size.

The likely level of demand from incoming life science businesses is very hard to predict, as it will vary on a company-by-company basis. As start-ups will have very few alternative sources of funds available to them, as will the AstraZeneca spin outs once the Incubation Fund money has been exhausted, demand from these two types of applicants is clearer to establish.

At an average investment size of £269,037 in the £10m fund, on the "Minimum Employment" extreme, only 42% of these two categories could be funded, with no funds available to support the inward transfer category. At the "Maximum Employment" extreme this percentage rises to 60%, again with no funding available for inward transfers.

Using the £20m fund size, 95% of start-ups and AstraZeneca spin outs could be funded at the "Minimum Employment" extreme (still with no funds available for inward transfer), and at the "Maximum Employment" extreme, these two categories could again be fully funded, with £5.06m available to support inward transfers (17 companies – 68% of total).

This analysis seeks to define the extremes of the levels of funding support required. Not all start-ups or spin outs will require finance from the Fund and it is to be hoped that a reasonably large percentage of inward transfer companies would not need finance from the Fund either. Hence, a £20m fund should provide no "supply side" constraints in achieving SQW's jobs created 5 year target for the site. A £10 million size fund clearly would provide a supply side constraint, but the extent of the constraint is difficult to determine, given the variation in "mix" between the 3 types of applicant, the wide variation in the numbers employed per company and the amount of finance each applicant would require from the Fund.

Investor Returns

Attached in Appendix 1 are three illustrative projections for a £10 million fund, a £15 million fund and a £20 million fund. The costs of running each fund over the 15 year proposed life of the fund, assuming there is no alternative source from which to pay for the running of the fund, have to be met out of the funds invested, resulting in a much lower figure actually being available for investment purposes, as set out below:-

"Gross" Fund £m	Fund Management Fees £m	Available for Investment £m
10.0	2.7	7.3
15.0	3.4	11.6
20.0	3.6	16.4

Figure 10 - Estimated Fund Management fees by Fund Size

It can be seen that the size of the management fee does not increase proportionately with the size of the fund, for the reasons set out in Section 9.

The three models use the following key assumptions consistently:-

Initial investment size

	£	%
- small	50,000	70%
- medium	200,000	15%
- large	400,000	15%

25% of the available fund size is used in making initial investments.

"Follow on" investment size

	£	%
- small	50,000	-
- medium	200,000	50%
- large	400,000	50%

n.b. not all investments have a "follow on" requirement. 75% of the available fund size is used in making follow on investments. This is a much larger percentage than is the case across the whole venture capital industry and highlights the long term nature of investment in this sector.

Fund Term

All investment monies are utilised in the first 5 years of the fund. The remaining 10 years are to allow the investee companies to mature and to achieve an exit for the fund.

Success/failure rates out of every 10 investments

- Number which fail	4
- Number where only the original investment is recovered	4
- Number exited at a 7 times cost of investment multiple	2
	10

Fund Management Fees

The 3 models use the differing assumptions set out below:-

	£10m Fund	£15m Fund	£20m Fund
Fund management fee (investment phase) (as a % of the funds raised)	4.00%	3.25%	2.50%
Fund management fee (realisation phase) (as a % of the net book value of remaining investments, subject to a "floor" fee in the last 3 years)	2.75%	2.25%	1.75%
Total fund management fee	£2.736m	£3.397m	3.558m
- % of funds raised	27.4%	22.6%	17.8%

Figure 11 - Fund Management Fee Assumptions

Utilising these fixed and variable assumptions, the illustrative financial models show the following IRR's:

	£10m Fund	£15m Fund	£20m Fund
Net IRR to investor (over 15 years)	3.0%	3.9%	4.7%

Figure 12 - Estimated IRR by Fund Size

These illustrative IRR's are somewhat lower than the historic life science fund performance detailed in Section 4. Those funds have, in general, a 10 year life, compared with the 15 years life proposed here, and hence have benefited from the shorter periods that historic investments have typically been held in the fund. As the IRR is a function of the time cost of money, maintaining a high IRR over a longer fund life is more challenging, but there is little practical alternative unless it proves possible to achieve exits in a shorter time scale in the future.

As mentioned earlier, these models are purely for illustrative purposes. Actual performance will differ from these projections, which could also be used for "benchmarking" purposes to compare against those projections prepared by prospective fund managers during the tendering process.

These illustrative projections will, it is hoped, prove to be conservative when compared with the eventual outcome. The success of the fund will largely be a result of the experience and judgement of the fund manager appointed, together with the degree of success achieved in attracting existing life science businesses to the Alderley Park site.

8. State Aid Considerations

Introduction

New State Aid Rules came into force on 1 July 2014. These are contained in Commission Regulation (EU) No. 651/2014, which was issued on 17 June 2014. This has re-written the rules considerably and, accordingly, it is not considered to be useful to examine how government and other public sector bodies have historically dealt with State Aid.

Impact on SME Risk Capital Interventions

State Aid has the propensity to interact with venture capital investments at three different levels:

Investor Level

The Fund will include both private sector and public sector investors. So long as the public sector investors (principally Cheshire East) invest on terms no WORSE than private sector investors, then they are investing using the "Market Economy Investor Principle" (see later in this section) and hence no State Aid issues should arise.

There is potentially a need to adopt a fully open, transparent and fair procurement process, although this would appear to conflict with FSMA and subsequent regulations. This will need to be resolved in the next stage of the process, should Cheshire East decide to continue with its investment.

Fund Manager Level

A fully open, transparent and fair recruitment/procurement process would provide sufficient evidence of a lack of State Aid at this level as set out later in this section. In effect, a full OJEU-compliant procurement will be required. The timing implications of this are considered elsewhere in this Appraisal.

Investee Level

In order to prevent the EU being inundated with thousands of State Aid Notifications in respect of relatively small investments, so long as these investments comply with the terms of the General Block Exemptions Regulations – GBER (as amended by the regulation 651/2014 referred to above) under Article 21, then no State Aid Notification is required for investments made by the Fund into qualifying SME's. The limits relating to the applications of GBER are considered below.

GBER Limits on SME Investments

Size of SME

A Small or Medium Enterprise ("SME") is defined as follows (all three criteria need to be met):-

- Less than 250 employees or full time equivalent (FTE).
- Less than €50 million turnover.
- Less than €43 million balance sheet total (i.e. Capital and Liabilities).

It is quite possible, therefore, for an investee company to cease to be an SME either through natural organic growth or through growth by acquisition. The investee company has to meet the criteria of the time of EACH investment. It can also cease to be an SME through movements in the £:€ exchange rate.

Location

Alderley Park does NOT fall within an Assisted Area as defined for the period 2014-2020. Several other forms of State Aid are accordingly not available, but Risk Finance Aid (Article 21) is not restricted to the re-defined Assisted Areas.

Type of Investment into SME

This covers equity, quasi-equity ("mezzanine" type investments, designed to deliver a return between those required of equity and debt), loans or guarantees and mixes thereof. In venture capital, guarantees are rarely used in the UK.

Eligible SMEs

These are ones which:

- are not listed on a stock market, and:
- have not yet operated in any market (i.e. before the first commercial product/services sale), or:
- have been operating for less than seven years after the business's first commercial sale (for drug discovery/development companies, this could be up to seventeen years, unless "incidental" sales are made during that time), or:
- must have a sensible business plan which demonstrates an increase of 50% in turnover compared with the preceding five years as a result of selling a new product/entering a new market, and:
- at least 50% of the finance required is to stay in the business to support growth (i.e. up to 50% can be used a "replacement" capital – the purchase of existing shares in a business from an earlier investor or shareholder).

Investment Limits

Up to €15 million may be invested per investee company during the company's lifetime. This limit, however, applies across ALL risk finance measures, not just those covered by Article 21. So, if an investee company has received other forms of State-Aided support (not just investment) this has to be included in calculating whether the €15 million limit is to be breached. If it is, then an individual State Aid Notification will be required.

Follow on Investments

These are permitted, on the same basis as initial investments, so long as the combined investments do not breach any of the State Aid limits.

Private Sector Leverage

The minimum levels of private sector co-investment depends upon the stage of the SME's evolution:-

- Pre first commercial sale of its product/service : 10%
- For those within seven years following their first commercial sale : 40%
- For those launching a new product or entering a new market and can demonstrate an income of at least 50% in turnover : 60%

Very importantly, the private sector leverage can be measured either at the individual investee level (i.e. co-investors invest alongside the Fund into the investee company – see later) or at the Fund Level. In the latter case, it is the aggregate (on a weighted average basis) of the volume of investments under the three percentage categories set out above, which applies.

In the case of a Fund of £15 million, the private sector investment into the Fund of £10 million compares with the public sector investment of £5 million (assuming one other private sector investor is brought in alongside Manchester Science Parks/Bruntwood) – i.e. the private sector leverage inherent in the Fund itself is 66.67% and hence all three categories are met. If the public sector funding were to increase to 50% of the total Fund, (e.g. if there is no private sector investor other than the Manchester Science Parks/Bruntwood) the first two categories (likely to be by far the largest elements in the "mix" of investments) would still be covered and, in the case of the third category, the additional 10% could be accommodated from private sector investors co-investing alongside the Fund.

In any case, in order to ensure maximum economic value for the public sector contribution, fund managers are usually given a "matched funding" target to encourage them to access and attract private sector funding (often using EIS or, where appropriate, SEIS tax-sheltered investment) at the investee level. However, EIS and SEIS money is State-Aided and hence would NOT count towards the private sector co-investment levels set out above.

Risk Sharing

In general, it is expected that public and private sector investors within the Fund would share the risk of losses pro rata to their commitments to the Fund (known as the "Market Economy Investor Principle"). Whilst GBER allows for the possibility of the public sector investor assuming a "first loss" position of up to 25% of its total investment, it is not recommended that Cheshire East Council offer this, in this instance.

Profit Driven Decisions

GBER makes an overriding assumption that all funds operating under its remit, operate on a fully commercial basis. This has to be demonstrated by:-

- The Fund being established according to the applicable English laws.
- A commercially sound investment strategy being specified, to include economic viability, sufficient scale in terms of size and spread of portfolio investments.
- Each applicant producing a detailed, viable business plan, demonstrating product sales and profitability development.
- A clear and realistic exit strategy for the Fund's investment from each successful applicant.

Fund Management

State Aid Rules state that the Fund must be managed on a commercial basis. The Fund manager must act in a professional manner, in good faith, avoiding conflicts of interest, using best practice and complying with all FSMA 2000 (and subsequent) regulatory requirements. Their remuneration should be in line with market practice and they are to be selected through an open, transparent and non-discriminatory process, with criteria linked to experience, expertise, operational and financial capacity.

The fund manager's remuneration also has to include remuneration linked to performance (usually through a "carry" device, or occasionally by co-investing – there are potential conflicts with the latter however), in order to ensure that their interests are aligned to those of Cheshire East.

Details of the fund manager's investment strategy, criteria and proposed timing of investments need to be set out and agreed before the Fund starts investing. These are usually set out as part of the tender process and are detailed in the fund management agreement. Investors are allowed to be represented in the governance structure of the Fund, usually by being a member of its supervisory board or advisory committee, but not to participate in fund investment decisions.

Undertakings in Difficulty

The Fund must NOT invest in "undertakings in difficulty". This is meant to prevent "lame ducks" being kept alive with State Aided investment, but the terms of the definition of "undertakings in difficulty" are very widely drawn and encompass situations, especially in start-up and early stage investments, where losses are budgeted to occur, but are a natural part of the process of establishing the business. This predicates that an investment structure be adopted in order to ensure that the investee company does not fall into any of the prohibited categories.

An SME undertaking is defined as being in difficulty:-

- Where accumulated losses exceed 50% of the company's issued share capital and premium account. The test is not applied in the first three years from the date of its formation.
- Where the company is subject to formal or informal insolvency proceedings.
- Where it has been in receipt of a rescue loan or guarantee and has yet to pay off the loan or remove the guarantee.

9. Fund Manager Procurement

The process will vary depending on which of the three structures set out in Section 6 is adopted. There are some common themes, however.

Firstly, there are only eight full members of the BVCA with a life sciences focus. Additionally, research has identified between 25-50 fund management businesses with a life science sector involvement in the UK. It is believed, however, that very few of these potential fund managers would be interested in running the Fund, due to its location and relatively small size.

Hence the available pool of fund managers, with the relevant experience and track record to either run a fund or to invest off the Fund's own balance sheet, is not large. The relatively small proposed size of the fund would make it unattractive for an overseas-based fund manager to get involved.

If Cheshire East invests, then in order to comply with State Aid requirements, as mentioned in Section 8 above, a full open and transparent procurement process is required.

In view of the relatively small number of possibly interested partners (most of whom are heavily London/Cambridge centric) the procurement process can be accelerated, by combining the PQQ and ITT stages into one stage. However the process, including the Alcatel "standstill" period, will still take a number of months to complete. Consequently, it is recommended that the process is commenced at the earliest possible date.

Fund management fees (which are usually quoted as a %age of the fund size during the investment phase and a percentage of the "book value" (i.e. cost of investment, less write-offs and write-downs) during the realisation phase) will vary depending upon the size of the fund.

For a £20 million fund, the management fee would be expected to be around 2.5% (£500,000 p.a.) during the investment phase, reducing to between 1.5% and 2.0% of book value during the realisation phase. Whilst this level of fees might appear to be expensive, the team would consist of a full time investment director and 2 full time investment executives.

In addition, a "back office" and compliance capabilities (preferably shared with the fund managers' other funds) have to be included. Given that salary levels for people with a proven track record are not low, and the need to budget for a marketing activity (principally focussed on in-bound companies) it is easy to conclude that this level of fees is realistic. The fund manager should be able to make a modest profit from its activities, whilst its participation in the capital growth value of the fund is usually through a "carried interest" mechanism which has the objective of aligning the manager's interest as closely as possible with those of the investor.

The level of fees chargeable for a £10 million fund are likely to be in the order of 4% p.a. (£400,000 p.a.) and 2.5%-3.0% of the book value during the investment and realisation phases respectively. The costs of running the fund are not directly proportionate to the size of the fund as, for example, the back office and compliance functions are required whatever the size of the fund. This level of fees would allow for an investment director and one investment executive to work full time on the fund.

10. Structure of Investee Company Investments

As discussed in Section 3.5, the form an investment takes varies during a company's journey along the "J" curve. Hence its position in its life cycle will be a major determining factor in deciding on the most appropriate form of investment.

With early stage investments (typically when the company is pre-revenue and loss making) there is no point in providing debt finance. The company at that stage is not cash generating, and hence has no means of servicing its debt, either for the payment of interest or repayment of capital.

Equity can be provided in permanent form by a subscription for ordinary shares or in redeemable form by a subscription for preference shares. Dividends on either ordinary or preference shares can only be paid if all the company's trading losses have been extinguished, regardless of whether the company is cash generative at an earlier stage.

Debt is provided usually in the form of a loan, but can also be in the form of a bank overdraft or asset backed finance (e.g. hire purchase, invoice discounting stock or letters of credit finance). Interest is expected to be paid regularly and capital repaid by an agreed schedule of dates. Hence this form of finance is only suitable for those businesses which are either cash generative already or where there is a strong likelihood that they will be so in the very near future. A further advantage, from the lender's perspective is that the lender can take a charge over the company's assets and/or take personal guarantees from the controlling shareholders of the company by way of security.

The third category of funding is "quasi equity". Quasi equity is defined in the State Aid Regulations as:-

- "a type of financing that ranks between equity and debt, having a higher risk than senior debt and a lower risk than common equity and whose return for the holder is predominantly based on the profit or losses of the underlying target undertaking and which are unsecured in the event of default."

As its name implies, it is in effect a "middle ground" between pure equity and loan finance and is often called mezzanine. It usually takes the form of a loan and, in order to recognise the possibility/probability that the borrower will not be able to meet its contractual obligations to pay interest and make capital repayments on the prescribed dates, the finance provider takes a small equity position, so as to provide sufficient of a reward to justify taking the risk.

This equity position is usually in the form of either conversion rights (to convert some or all of its loan into equity at some time in the future at a pre-determined price), or an option to subscribe for new equity, again at some time in the future and usually at a pre-determined price. The loan element can be secured by a charge over the borrowing company's assets and, if the borrower survives but does not grow sufficiently to make exercising the option or conversion of some or all of the loan into equity (such businesses are often referred to as "zombie" companies or the "living dead"), then the loan and interest payments can still be made in full.

The "blended" return, expressed as an IRR (Internal Rate of Return) per annum, is a composite of the yield (interest/dividend) and the equity return (growth in value above the conversion/subscription price).

Typical returns sought by venture capitalists and loan providers to the SME market are:-

- Equity 17%-30% p.a. depending upon degree of risk accepted.
- Quasi equity 10%-15% p.a.
- Debt Bank base + 3-6% p.a.

Despite the loan element being unsecured at the time of issue, if a charge over the investee company's assets is taken and it grows even modestly, the underlying assets of the investee company may well grow sufficiently to ensure that the debt is fully secured by its maturity date. Nevertheless, the equity "upside" is still required to reflect the initial unsecured nature of the loan and also the risk that growth may be insufficient (or non-existent) to enable the loan to become secured.

Finally, taking a charge over the investee company's assets enables the investor to gain security over any Intellectual Property ("IP") involved, which, in the event of the failure of the business might still have a realisable value, since the business may have failed because of poor management rather than any problems with its IP.

11. Potential for European and Private Sector Funding

As discussed in Section 6, and illustrated by the financial models reviewed in Section 7, the larger the size of the fund overall, the better the likely return to investors. Hence it is important to assess the potential to attract additional funding.

This broadly falls into three categories:-

- Private investors, utilising UK government tax shelters.
- Funding from Europe.
- Other institutional/high net worth investors.

Private Investors Utilising UK Government Tax Shelters

The most widely used and appropriate for the needs of the Alderley Park Fund are EIS and SEIS schemes. Under the Enterprise Investment Scheme (EIS), the investor receives income tax relief at 30% of the amount invested in the year of investment, and can invest up to £1m in any one tax year. The shares in the investee company need to be held for a period of three years from the later of the date of investment or when a qualifying trade commences. Additionally, the investment is generally free from any Capital Gains Tax liability on realisation. Any loss on a sale of an investment (often taking into account any income tax relief already claimed), can be set off against the investor's income in the year of disposal/liquidation. There are other, less important, tax benefits as well.

The Seed Enterprise Investment Scheme goes further in terms of the income tax relief offered. Relief is given at 50% of the cost of the shares, up to a maximum of £100,000. Again, the tax relief applies in the tax year in which the investment is made, and the investor benefits from Capital Gains relief and other less significant tax breaks.

Both Schemes require the investment to be made into a qualifying trade. Financial activities do not constitute a qualifying trade and hence EIS and SEIS tax relief would <u>not</u> be available if invested in an Investment Company (as described in Section 6). There are a number of EIS "Funds", with appropriately regulated fund managers, but each tax year is a separate fund (in order for investors to claim the tax relief in the year of the investment). Hence this structure is incompatible with the 15 year-life limited partner structure discussed in Section 6. The other non-qualifying trades set out in the legislation generally have no relevance for a life science fund, except that a company whose main source of revenue was royalty receipts or licence fees is not considered to be a qualifying trade.

Investors willing to subscribe under the EIS and/or SEIS schemes should not be discounted however. Their investment would need to be made directly into an investee company (co-investment), alongside the Fund's investment. This potentially reduces the amount of finance required from the Fund, enabling a larger number of businesses to be supported and generating a larger overall "private sector match" for Cheshire East's investment. Please note, however, that EIS and SEIS are both deemed to be "State Aided" funding and so do <u>not</u> constitute private sector funding for State Aid purposes (see Section 8).

Funding from Europe

This is delivered mainly under the auspices of the European Union 7th Framework Programme, which provides financial support for a wide variety of research sectors, including biotechnology. It operates in the UK through the British Bioscience Scientific Research Council (BBSRC). Its main focus is on "blue sky" research, rather than the "applied science" research which might give rise to commercially viable opportunities. Its work in the commercialisation field encompasses collaborative research, business skills training and start-ups.

These are delivered through Industrial Partnership Awards ("IPA's"), the LINK programme for stand-alone research funded 50:50 with industrial partners, the Technology Strategy Board ("TSB"), Research & Technology clubs focused on strategic priority areas (one of which is the Bioprocessing Research Industry Club – including research underpinning the manufacture of biopharmaceuticals) and collaborative programmes of research in strategically important areas of research which include chemical biology networks.

The important point to note is that these are all grant programmes, rather than investment programmes.

The only investment programme of relevance that we are aware of is that operated by the European Regional Development Fund ("ERDF"). This is one of two relevant EU Structural Funds (the other being the European Social Fund ("ESF")). The EU is seen as having an increasing focus on investment (through Financially Engineered Instruments ("FEI's")) rather than grants. If an investment can eventually be sold at cost or at a profit, then the "cost" to the public sector is NIL, whereas the cost of a grant is the full value of the grant. Hence in the long term, FEI's are seen as delivering a greater benefit economically than grants, based upon the amount invested/granted.

The North West of England has in the past benefited from ERDF funding, especially in "Assisted Areas". Alderley Park is not located in any of the current or proposed Assisted Areas. In the current programme (2007-13), ERDF funding (matched by European Investment Bank money which is deemed to be private sector funding for the purposes of this programme) is made available across the North West via the Biomedical Fund of the North West Fund. This Biomedical Fund is likely to invest between £27.5m and £30m in a 5 year period ending on 31 December 2015, 40% of that sum needing to be invested in the Merseyside area. As most of its non-Merseyside allocation is now committed (both for first applications and for follow-on funding), its impact on assisting Alderley Park's regeneration is likely to be minimal, especially as its investment period runs out before most of the current Astra Zeneca activity is due to transfer to Cambridge.

There is to be a further ERDF programme in which the UK will benefit. This will run from 2014-2020 and, for investment purposes, it will need to be fully invested by 31 December 2022. Whilst the UK government (via DCLG) organised the distribution of ERDF money via regional bodies in the 2007-2013 programme, it has been decided that for the next programme, funds are to be distributed via Local Enterprise Partnerships. If each LEP (there are 5 in the North West) were to set up its own FEI investment vehicle, each vehicle would be sub-optimal and also below the level at which the EIB would consider investing. Accordingly, efforts are currently being made to delegate each LEP's FEI allocation to a regionally based body which would bring the advantage of scale and the possibility of attracting EIB matched funding. Discussions on this subject are on-going and no firm agreement is yet in place. It is believed that some LEP's were considering having a Biotech fund as part of the deployment of their ERDF FEI allocation.

Other Institutional/High Net Worth Investors

As noted in Section 4, the historic performance levels of life science funds is considerably below the levels achieved by investment funds focussing on quoted securities. Whilst Cheshire East and Manchester Science Parks both have other non-financial objectives to help justify their investment case, other institutions and high net worth individuals will be usually be looking solely at the financial return. As these historically have not been great (and past performance is not necessarily a reliable guide to future performance) a way would need to be found to provide other non-financial benefits to an incoming investor (e.g. sponsorship, building naming rights, “first refusal” rights on exit etc). These would need to be evaluated carefully, in order to ensure that they would not impact adversely upon the returns available to Cheshire East and Manchester Science Parks.

The importance of enlarging the Fund to an economically optimal size is clearly demonstrated by the illustrative models discussed in Section 7. Additionally however, a large fund should be able to deliver larger social-economic benefits for the region, since it is considered important that the lack of supply of suitable risk finance should not provide an impediment to the full utilisation of the Alderley Park site’s facilities. Accordingly, we strongly recommend that serious consideration be given to establishing how potential co-investors could be compensated for the comparatively low returns the Fund (based on the historical record) might achieve.

If the proposed Incubation Fund and Later Stage Fund are adopted, as set out in Section 6, then the time pressure caused by the need for AstraZeneca to provide the funding quickly is removed. This then allows more time to elapse during which to attract other funding to the Later Stage Fund, as this could be undertaken contemporaneously with the OJEU process to recruit the fund manager.

Appendix 1 – Financial Illustrations

Illustration A - £10m Fund

Illustration B - £15m Fund

Illustration C - £20m Fund

FiveLines

A - Fund balance sheet, cash flow and profit and loss (£10M) — Alderley Investment Fund

Year (dated)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
BALANCE SHEET																
Fixed Assets																
Investments (net of provisions)	544,796	1,598,067	2,723,978	3,432,212	5,338,996	4,325,676	4,216,717	3,993,351	3,650,130	3,094,439	2,459,752	1,735,174	1,078,695	523,004	147,095	
Current Assets																
Cash at Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Assets	544,796	1,598,067	2,723,978	3,432,212	5,338,996	4,325,676	4,216,717	3,993,351	3,650,130	3,094,439	2,459,752	1,735,174	1,078,695	523,004	147,095	
Profit and loss account	(400,000)	(1,017,918)	(1,926,394)	(2,980,149)	(3,924,944)	(4,959,157)	(4,858,696)	(4,521,781)	(3,935,718)	(2,909,432)	(1,707,701)	(306,262)	977,031	2,058,749	2,780,903	
Holding fund loan account - mgt charge	400,000	800,000	1,200,000	1,600,000	2,000,000	2,118,956	2,236,414	2,346,231	2,446,610	2,531,707	2,599,350	2,647,067	2,676,731	2,706,396	2,736,060	
Holding fund investment	544,796	1,815,985	3,450,372	4,812,361	7,263,940	7,165,877	6,839,000	6,168,901	5,139,238	3,472,164	1,568,103	(605,631)	(2,575,067)	(4,242,141)	(5,369,868)	
Total	544,796	1,598,067	2,723,978	3,432,212	5,338,996	4,325,676	4,216,717	3,993,351	3,650,130	3,094,439	2,459,752	1,735,174	1,078,695	523,004	147,095	

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
CASH FLOW																
Capital receipts from Investment Partners	544,796	1,271,190	1,634,387	1,361,989	2,451,580	-	-	-	-	-	-	-	-	-	-	7,263,940
Project loan account	400,000	400,000	400,000	400,000	400,000	118,956	117,458	109,817	100,379	85,097	67,643	47,717	29,664	29,664	29,664	2,736,060
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Realisation proceeds	-	-	-	-	-	98,063	326,877	670,099	1,029,664	1,667,074	1,904,060	2,173,734	1,969,436	1,667,074	1,127,727	12,633,808
Loan repayments (net of write offs) - capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan repayments (net of write offs) - interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total inflow	944,796	1,671,190	2,034,387	1,761,989	2,851,580	217,019	444,335	779,916	1,130,042	1,752,171	1,971,704	2,221,451	1,999,100	1,696,738	1,157,391	22,633,808
Management charge (priority profit share)	400,000	400,000	400,000	400,000	400,000	118,956	117,458	109,817	100,379	85,097	67,643	47,717	29,664	29,664	29,664	2,736,060
Investments	544,796	1,271,190	1,634,387	1,361,989	2,451,580	-	-	-	-	-	-	-	-	-	-	7,263,940
Distributions to investors	-	-	-	-	-	98,063	326,877	670,099	1,029,664	1,667,074	1,904,060	2,173,734	1,969,436	1,667,074	1,127,727	12,633,808
Total outflow	944,796	1,671,190	2,034,387	1,761,989	2,851,580	217,019	444,335	779,916	1,130,042	1,752,171	1,971,704	2,221,451	1,999,100	1,696,738	1,157,391	22,633,808
Opening balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net flow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
PROFIT & LOSS ACCOUNT																
Income																
Profit on realisations (Before write-offs)	-	-	-	-	-	65,375	217,918	446,732	686,442	1,111,383	1,269,374	1,449,156	1,312,957	1,111,383	751,818	8,422,539
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest received on loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Income	-	-	-	-	-	65,375	217,918	446,732	686,442	1,111,383	1,269,374	1,449,156	1,312,957	1,111,383	751,818	8,422,539
Expenditure																
Provisions/failures	-	217,918	508,476	653,755	544,796	980,632	-	-	-	-	-	-	-	-	-	2,905,576
Management charge	400,000	400,000	400,000	400,000	400,000	118,956	117,458	109,817	100,379	85,097	67,643	47,717	29,664	29,664	29,664	2,736,060
Total Expenditure	400,000	617,918	908,476	1,053,755	944,796	1,099,588	117,458	109,817	100,379	85,097	67,643	47,717	29,664	29,664	29,664	5,641,636
Profit/ (Loss)	(400,000)	(617,918)	(908,476)	(1,053,755)	(944,796)	(1,034,213)	100,460	336,915	586,064	1,026,286	1,201,730	1,401,439	1,283,293	1,081,719	722,154	2,780,903
Net income pre carry	(944,796)	(1,671,190)	(2,034,387)	(1,761,989)	(2,851,580)	(20,893)	209,419	560,281	929,285	1,581,977	1,836,417	2,126,017	1,939,772	1,637,410	1,098,063	2,633,808
Hurdle net income	(944,796)	(1,671,190)	(2,034,387)	(1,761,989)	(2,851,580)	(20,893)	209,419	560,281	929,285	1,581,977	1,836,417	2,126,017	1,939,772	1,637,410	1,098,063	2,633,808
Carry																-
Net income post carry	(944,796)	(1,671,190)	(2,034,387)	(1,761,989)	(2,851,580)	(20,893)	209,419	560,281	929,285	1,581,977	1,836,417	2,126,017	1,939,772	1,637,410	1,098,063	2,633,808

Calculate Carry

IRR 3.0%

B - Fund balance sheet, cash flow and profit and loss (£15m)

Alderley Investment Fund

Year (dated)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
BALANCE SHEET																
Fixed Assets																
Investments (net of provisions)	870,190	2,552,556	4,350,948	5,482,195	8,527,858	6,909,306	6,735,268	6,378,490	5,830,271	4,942,677	3,928,906	2,771,554	1,722,975	835,382	234,951	
Current Assets																
Cash at Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Assets	870,190	2,552,556	4,350,948	5,482,195	8,527,858	6,909,306	6,735,268	6,378,490	5,830,271	4,942,677	3,928,906	2,771,554	1,722,975	835,382	234,951	
Profit and loss account	(487,500)	(1,323,076)	(2,622,753)	(4,154,480)	(5,512,170)	(7,129,548)	(6,933,016)	(6,362,976)	(5,397,718)	(3,733,742)	(1,794,600)	457,744	2,516,134	4,252,554	5,414,649	
Holding fund loan account - mgt charge	487,500	975,000	1,462,500	1,950,000	2,437,500	2,592,959	2,744,503	2,888,019	3,019,200	3,130,410	3,218,811	3,281,171	3,319,938	3,358,705	3,397,471	
Holding fund investment	870,190	2,900,632	5,511,201	7,686,675	11,602,529	11,445,894	10,923,781	9,853,447	8,208,789	5,546,009	2,504,696	(967,361)	(4,113,096)	(6,775,877)	(8,577,169)	
Total	870,190	2,552,556	4,350,948	5,482,195	8,527,858	6,909,306	6,735,268	6,378,490	5,830,271	4,942,677	3,928,906	2,771,554	1,722,975	835,382	234,951	
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	
CASH FLOW																
Capital receipts from Investment Partners	870,190	2,030,442	2,610,569	2,175,474	3,915,853	-	-	-	-	-	-	-	-	-	-	11,602,529
Project loan account	487,500	487,500	487,500	487,500	487,500	155,459	151,544	143,516	131,181	111,210	88,400	62,360	38,767	38,767	38,767	3,397,471
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Realisation proceeds	-	-	-	-	-	156,634	522,114	1,070,333	1,644,658	2,662,780	3,041,313	3,472,057	3,145,736	2,662,780	1,801,293	20,179,698
Loan repayments (net of write offs) - capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan repayments (net of write offs) - interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total inflow	1,357,690	2,517,942	3,098,069	2,662,974	4,403,353	312,094	673,657	1,213,849	1,775,840	2,773,991	3,129,713	3,534,417	3,184,502	2,701,547	1,840,060	35,179,698
Management charge (priority profit share)	487,500	487,500	487,500	487,500	487,500	155,459	151,544	143,516	131,181	111,210	88,400	62,360	38,767	38,767	38,767	3,397,471
Investments	870,190	2,030,442	2,610,569	2,175,474	3,915,853	-	-	-	-	-	-	-	-	-	-	11,602,529
Distributions to investors	-	-	-	-	-	156,634	522,114	1,070,333	1,644,658	2,662,780	3,041,313	3,472,057	3,145,736	2,662,780	1,801,293	20,179,698
Total outflow	1,357,690	2,517,942	3,098,069	2,662,974	4,403,353	312,094	673,657	1,213,849	1,775,840	2,773,991	3,129,713	3,534,417	3,184,502	2,701,547	1,840,060	35,179,698
Opening balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net flow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	
PROFIT & LOSS ACCOUNT																
Income																
Profit on realisations (Before write-offs)	-	-	-	-	-	104,423	348,076	713,556	1,096,439	1,775,187	2,027,542	2,314,704	2,097,157	1,775,187	1,200,862	13,453,132
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest received on loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Income	-	-	-	-	-	104,423	348,076	713,556	1,096,439	1,775,187	2,027,542	2,314,704	2,097,157	1,775,187	1,200,862	13,453,132
Expenditure																
Provisions/failures	-	348,076	812,177	1,044,228	870,190	1,566,341	-	-	-	-	-	-	-	-	-	4,641,011
Management charge	487,500	487,500	487,500	487,500	487,500	155,459	151,544	143,516	131,181	111,210	88,400	62,360	38,767	38,767	38,767	3,397,471
Total Expenditure	487,500	835,576	1,299,677	1,531,728	1,357,690	1,721,801	151,544	143,516	131,181	111,210	88,400	62,360	38,767	38,767	38,767	8,038,483
Profit/ (Loss)	(487,500)	(835,576)	(1,299,677)	(1,531,728)	(1,357,690)	(1,617,378)	196,532	570,039	965,258	1,663,977	1,939,141	2,252,344	2,058,390	1,736,420	1,162,095	5,414,649
Net income pre carry	(1,357,690)	(2,517,942)	(3,098,069)	(2,662,974)	(4,403,353)	1,175	370,570	926,817	1,513,477	2,551,570	2,952,912	3,409,697	3,106,969	2,624,013	1,762,526	5,179,698
Hurdle net income	(1,357,690)	(2,517,942)	(3,098,069)	(2,662,974)	(4,403,353)	1,175	370,570	926,817	1,513,477	2,551,570	2,952,912	3,409,697	3,106,969	2,624,013	1,762,526	5,179,698
Carry																-
Net income post carry	(1,357,690)	(2,517,942)	(3,098,069)	(2,662,974)	(4,403,353)	1,175	370,570	926,817	1,513,477	2,551,570	2,952,912	3,409,697	3,106,969	2,624,013	1,762,526	5,179,698
											Calculate Carry					
IRR													3.9%			

FiveLines

C - Fund balance sheet, cash flow and profit and loss (£20m)

Alderley Investment Fund

Year (dated)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
BALANCE SHEET																
Fixed Assets																
Investments (net of provisions)	1,233,145	3,617,225	6,165,724	7,768,812	12,084,819	9,791,170	9,544,541	9,038,952	8,262,070	7,004,263	5,567,649	3,927,566	2,441,627	1,183,819	332,949	
Current Assets																
Cash at Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Current Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Assets	1,233,145	3,617,225	6,165,724	7,768,812	12,084,819	9,791,170	9,544,541	9,038,952	8,262,070	7,004,263	5,567,649	3,927,566	2,441,627	1,183,819	332,949	
Profit and loss account	(500,000)	(1,493,258)	(3,144,193)	(5,123,967)	(6,857,112)	(9,100,140)	(8,773,912)	(7,920,915)	(6,511,739)	(4,118,698)	(1,342,904)	1,868,529	4,797,679	7,270,566	8,929,577	
Holding fund loan account - mgt charge	500,000	1,000,000	1,500,000	2,000,000	2,500,000	2,671,345	2,838,375	2,996,557	3,141,143	3,263,717	3,361,151	3,429,884	3,472,612	3,515,341	3,558,069	
Holding fund investment	1,233,145	4,110,483	7,809,917	10,892,779	16,441,931	16,219,965	15,480,078	13,963,310	11,632,666	7,859,243	3,549,402	(1,370,846)	(5,828,665)	(9,602,088)	(12,154,697)	
Total	1,233,145	3,617,225	6,165,724	7,768,812	12,084,819	9,791,170	9,544,541	9,038,952	8,262,070	7,004,263	5,567,649	3,927,566	2,441,627	1,183,819	332,949	

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
CASH FLOW																
Capital receipts from Investment Partners	1,233,145	2,877,338	3,699,434	3,082,862	5,549,152	-	-	-	-	-	-	-	-	-	-	16,441,931
Project loan account	500,000	500,000	500,000	500,000	500,000	171,345	167,029	158,182	144,586	122,575	97,434	68,732	42,728	42,728	42,728	3,558,069
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Realisation proceeds	-	-	-	-	-	221,966	739,887	1,516,768	2,330,644	3,773,423	4,309,841	4,920,248	4,457,819	3,773,423	2,552,610	28,596,628
Loan repayments (net of write offs) - capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan repayments (net of write offs) - interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total inflow	1,733,145	3,377,338	4,199,434	3,582,862	6,049,152	393,312	906,916	1,674,950	2,475,230	3,895,998	4,407,275	4,988,980	4,500,547	3,816,152	2,595,338	48,596,628
Management charge (priority profit share)	500,000	500,000	500,000	500,000	500,000	171,345	167,029	158,182	144,586	122,575	97,434	68,732	42,728	42,728	42,728	3,558,069
Investments	1,233,145	2,877,338	3,699,434	3,082,862	5,549,152	-	-	-	-	-	-	-	-	-	-	16,441,931
Distributions to investors	-	-	-	-	-	221,966	739,887	1,516,768	2,330,644	3,773,423	4,309,841	4,920,248	4,457,819	3,773,423	2,552,610	28,596,628
Total outflow	1,733,145	3,377,338	4,199,434	3,582,862	6,049,152	393,312	906,916	1,674,950	2,475,230	3,895,998	4,407,275	4,988,980	4,500,547	3,816,152	2,595,338	48,596,628
Opening balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net flow	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
PROFIT & LOSS ACCOUNT																
Income																
Profit on realisations (Before write-offs)	-	-	-	-	-	147,977	493,258	1,011,179	1,553,762	2,515,615	2,873,227	3,280,165	2,971,879	2,515,615	1,701,740	19,064,419
Dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest received on loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Income	-	-	-	-	-	147,977	493,258	1,011,179	1,553,762	2,515,615	2,873,227	3,280,165	2,971,879	2,515,615	1,701,740	19,064,419
Expenditure																
Provisions/failures	-	493,258	1,150,935	1,479,774	1,233,145	2,219,661	-	-	-	-	-	-	-	-	-	6,576,772
Management charge	500,000	500,000	500,000	500,000	500,000	171,345	167,029	158,182	144,586	122,575	97,434	68,732	42,728	42,728	42,728	3,558,069
Total Expenditure	500,000	993,258	1,650,935	1,979,774	1,733,145	2,391,006	167,029	158,182	144,586	122,575	97,434	68,732	42,728	42,728	42,728	10,134,841
Profit/ (Loss)	(500,000)	(993,258)	(1,650,935)	(1,979,774)	(1,733,145)	(2,243,029)	326,228	852,997	1,409,176	2,393,041	2,775,794	3,211,433	2,929,151	2,472,887	1,659,011	8,929,577
Net income pre carry	(1,733,145)	(3,377,338)	(4,199,434)	(3,582,862)	(6,049,152)	50,621	572,857	1,358,586	2,186,057	3,650,849	4,212,407	4,851,515	4,415,090	3,730,695	2,509,881	8,596,628
Hurdle net income	(1,733,145)	(3,377,338)	(4,199,434)	(3,582,862)	(6,049,152)	50,621	572,857	1,358,586	2,186,057	3,650,849	4,212,407	4,851,515	4,415,090	3,730,695	2,509,881	8,596,628
Carry																-
Net income post carry	(1,733,145)	(3,377,338)	(4,199,434)	(3,582,862)	(6,049,152)	50,621	572,857	1,358,586	2,186,057	3,650,849	4,212,407	4,851,515	4,415,090	3,730,695	2,509,881	8,596,628

Calculate Carry

IRR 4.7%

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 Agenda Item 9

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting: 16th September 2014
Report of: Strategic Housing Manager
Subject/Title: Brownfield Development (Ref CE 14/15-20)
Portfolio Holder: Councillor Don Stockton, Portfolio Holder for Housing and Jobs

1. Report Summary

1.1 Cheshire East's Local Plan creates a vision for the future which is to deliver jobs-led growth and sustainable vibrant communities. The Plan coupled with our five year housing supply, protects residents against unwanted, unsustainable and unplanned development, whilst also protecting our countryside.

1.2 Within Cheshire East we still have a number of **town centre brownfield sites** that are suitably located for housing and commercial development which if delivered would reduce the need for development on green land, however many of these have failed to be delivered. We are constantly defending against applications for development on green land whilst resident groups are voicing their concern and dismay about the lack of development on brownfield sites.

1.3 An excellent recent publication by Peter J.K.Haslehurst in the May 2014, the Civitas report titled "ideas for economic growth - restoring brownfield sites in our inner towns and cities", provides an insight into the problem in Macclesfield and researches the causes and potential solutions to brownfield regeneration.

1.4 Additional research into best practice and policy has also been undertaken to establish what the barriers to development are and what initiatives and policy changes, if implemented, could help deliver these types of sites.

1.5 Cheshire East Council has clearly adopted a "brownfield first" development policy with over 77% of housing development being delivered on brownfield sites over the last 5 years. However the NPPF has established a new policy environment, particularly in relation to how and when such land should be used. Beyond merely encouraging the effective re-use of previously developed land, national policy no longer holds any quantifiable requirements to meet development targets on brownfield land and instead promotes an agenda of growth to meet identified housing needs in the most sustainable locations.

1.6 In short, housing restraint in Cheshire is no longer supported by national and regional policy and can therefore no longer be justified as an aim in itself by local policy.

1.7 Following discussions with Peter Haslehurst, and our own local focus on ‘brownfield first’ the Council is engaged with Government through the Treasury and CLG to raise the profile on the work the Council is doing, but also engage in policy development to encourage Government to take a more direct approach which may lead to availability of grant funding/and or tax incentives.

1.8 Interestingly, the Chancellor made a speech on this very issue recently when he stated that “through a combination of planning reforms and government investment it would boost house building in the UK, Billed as an ‘urban planning revolution’, the proposed shake-up hinges on plans to release more brownfield land for the delivery of 200,000 new homes.

The Chancellor demanded that councils establish local development orders (LDO) on brownfield land – providing sites with outline planning permission to speed up development. Council’s will be required to put LDO’s on more than 90 per cent of the brownfield sites suitable for housing by 2020. The Treasury has now created a £5million fund to help create the first 100 LDOs.

Cheshire East is in a prime position to work with Government on this issue to establish LDOs and the Leader has written to the Chancellor expressing our support and commitment.

1.9 In order to proceed more fully with this agenda it is proposed the following actions take place:

- Cheshire East Council to be at the forefront in the development of Local Development Orders. We will do this by establishing a cross departmental Task Group to develop a pilot within Macclesfield, identifying and working with the owners of the brownfield sites.

- Work with Government to explore the creation of a fund to build capacity to develop knowledge and understanding of smaller sites likely to be beneficiaries of Local Development Orders. This could include landowner engagement, site evaluation and assessment, and potentially a private public delivery model where applicable.

- Explore the potential for the development of an Equity share or grant schemes, delivered through a public / private partnership approach, targeted at clearly evidenced negative equity sites. (State aid implications will have to be considered when developing such a scheme).

- Work with the Government on the development of tax incentives targeted at brownfield sites that are identified within the Local Development Order sites or in existing town centre boundaries.

2. Recommendations

2.1 It is recommended that Cabinet endorse the approach set out in this report with a focus on Macclesfield as a pilot area for research and bid development.

3. Reasons for Recommendations

3.1 The Local Plan sets out the Borough's ambition to develop 27,000 homes. 3500 homes is the expected delivery level for Macclesfield and of that figure 500 homes are expected to be brought forward on brownfield sites.

3.2 The Plan promotes the efficient use of land, protecting the best and most versatile agricultural land and make best use of previously developed land where possible and support the achievement of vibrant and prosperous town and village centres. The development of Brownfield sites supports this approach.

4. Wards Affected

4.1 All Wards

5. Local Ward Members

5.1 All Members

6 Policy Implications

6.1 Cheshire East's Local Plan promotes Sustainable Development , the concept of which is "meeting the needs of the present without compromising the ability of future generations to meet their own needs"

6.2 To achieve sustainable development the Local Plan gives consideration to a number of factors including, the prioritisation of investment and growth within the Principal Towns and Key Service Centres, make efficient use of land, protecting the best and most versatile agricultural land and make best use of previously developed land where possible and support the achievement of vibrant and prosperous town and village centres. These and more support the concept of brownfield development.

7 Implications for Rural Communities

7.1 The proposal focus's around a pilot scheme within Macclesfield and therefore will not impact on the surrounding rural communities, the proposal will however protect the Green field, preserving our rural communities by developing on Brownfield sites.

8 Financial Implications

8.1 At this stage of the process, there are currently no identified financial implications for the authority, however in order to carry out feasibility reports on proposed sites there will be financial resources required which will have to be funded via the Local Authority or owner.

8.2 These costs will be evaluated as part of the project and if resources cannot be identified within our existing budgets a business case will need to be put forward.

9 Legal Implications

9.1 The recommendation sought by this report does not in itself have any legal implications, however, as the work evolves officers will need to ensure that they take legal advice to ensure that any final recommendations and/or bids are sound.

10 Risk Management

10.1 The approach could lead to uncertainty in Macclesfield resulting in Builders delaying development sites in order to ascertain if there any advantages to being within the Housing Zone.

10.2 Owners of sites outside of the zone may feel that they being treated unfairly and that they are disadvantaged. This could lead to negative publicity.

10.3 Both risks need and can be mitigated through a clear communications plan.

11. Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting: 16th September 2014
Report of: Strategic Housing Manager
Subject/Title: Key Worker Accommodation (Ref CE 14/15-22)
Portfolio Holder: Councillor Don Stockton, Portfolio Holder for Housing and Jobs

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1. Report Summary

1.1 The Local Plan creates a vision for the future which is to deliver jobs-led growth and sustainable vibrant communities. The detailed policies, which need to be clearly linked to the Plan, will be provided through the development of Supplementary Planning Documents (SPD). The SPD will be informed by research and evidence and will enable us to have sound, defensible policies including a Policy for the provision of Key Worker Accommodation.

1.2 The strategic approach is to make sure that that there is an appropriate mix of house types, sizes and tenures to meet the current and future needs of the authority. Affordable housing in Cheshire East plays a fundamental role in realising this ambition along with the Council's commitment to provide a mix of accommodation to meet identified needs. If we are to attract and retain a vibrant workforce then we have to provide adequate housing provision including accommodation for Key Workers. Key Workers have a fundamental role to play within our communities, nurses, police, teachers and the fire service may struggle in some of our higher value and rural areas to access affordable housing.

1.3 The Local Plan also seeks to address the issue of affordability within some of our rural communities. Policy SC6 – Rural Exceptions Housing for Local Needs outlines the proposed approach to the development of rural affordable housing. This policy will help address the housing needs of key workers in urban and rural communities and help put Key Workers such as the police back into rural as well as urban communities

1.4 As the process of compiling a robust evidence base and developing a defensible policy will take in the region of 12 months it is proposed to have an interim approach. This report outlines a suggested interim approach to secure key worker accommodation on new development sites whilst a formal Supplementary Planning Document is developed.

1.5 The Strategic Housing Market Assessment does not provide any information on the needs for Key Worker accommodation and therefore we are currently undertaking primary research with the Police Service who are circulating a housing needs questionnaire as part of their recruitment drive. The

questionnaire will provide valuable data in relation to not only need but the locations where affordable homes are in high demand.

1.6 This approach can be replicated within other employment settings including hospital, schools and within the fire service, giving us a greater understanding and enable us to formulate a defensible sound policy.

1.7 The formal policies which are developed through the planning process will only specify the type and tenure, it will not outline to whom the properties are to be allocated, this is determined via Cheshire East Common Allocations Policy or through Planning Committee resolutions.

1.8 The Cheshire East Common Allocations Policy is now going through a period of review and it is a good opportunity to explore the allocation of Key Worker accommodation within the review for those properties which are provided for rent.

1.9 The interim approach would be to pilot the requirement for Key Worker accommodation on new development sites. The Development Officers as part of their negotiations for affordable homes will specify the requirement for a Key Worker property for rent (affordable). This will form part of the Section 106 agreement and it will specify that the identified affordable properties will be allocated in accordance with Cheshire East's allocation policy. The revised Allocation policy will incorporate the requirement for Key Worker accommodation and that at the first let priority will be given to those professions which come under the definition of a Key Worker:

The definition of a Key Worker within Cheshire East is as follows and has been derived from the Government's Key Worker scheme taking into account the local position:

Staff employed within the following public sector roles on a permanent basis.

1. NHS workers (eg nurses and junior doctors)
2. Teachers
3. Police
4. Prison Officers
5. Probation Service
6. Local Authority (eg social workers)
7. Fire Fighters
8. Ministry of Defence

1.10 Staff will not qualify for Key Worker accommodation if they have a household income of more than £50,000 per annum.

2. Recommendation

2.1 It is recommended that the approach outlined in the report be approved, including:

- The approval of an interim approach including the definition of a Key Worker.
- That Officers carry out the primary research to establish the need for Key Worker provision.
- The need for Key Worker provision once established to be incorporated into the development of the Affordable Housing Supplementary Planning Document.

3. Reasons for Recommendation

3.1 The Local Plan is the statutory Development Plan for Cheshire East and is the basis for determining planning applications. The Local Plan which has been approved by Cheshire East Cabinet and is currently going through the Examination process, sets out the overall vision for the authority. The detailed policies will be provided through the development of the Development Policies Document, which will have to be considered for all new developments. The Development Policies Document will be informed by research and evidence and will enable us to have a sound, defensible policy for the provision of Key Worker Accommodation.

3.2 The Local Plan Strategy specifies under Policy SC4 – Residential Mix that the mix of housing will be expected to include properties for key workers and for those who wish to self build. The Strategy states that how this will be taken forward will be set out in a Supplementary Planning Document and the Site Allocations and Development Policies Document.

3.3 Policy SC5 seeks to address high levels of housing need through an affordable housing requirement, which specifies that the affordable housing provided must be of a tenure, size and type to help meet identified housing needs and contribute to the creation of mixed, balanced and inclusive communities.

3.4 The formal policies which are developed through the planning process will only specify the type and tenure, it will not outline to whom the properties are to be allocated, this is determined via Cheshire East Common Allocations Policy or through Planning Committee resolutions.

3.5 The Cheshire East Common Allocations Policy is now going through a period of review and it is a good opportunity to explore the allocation of Key Worker accommodation within the review for those properties which are provided for rent.

4. Wards Affected

4.1 All Wards

5. Local Ward Members

5.1 All Members

6 Policy Implications

6.1 The provision of appropriate housing forms part of Cheshire East's Three Year Plan:-

Outcome 5: *People Live Well and for Longer*

> Priority 5: *Securing housing that is locally-led, community-based, and meets local needs.*

6.2 The Local Plan was approved by Full Council in 2014 and is currently progressing through to Public Examination. It is important that any policies which are developed link clearly into the Local Plan. In the defined approach articulated through the Plan there is link to the provision of Key Worker accommodation and these are found within Policies SC4 (Residential Mix), Policy SC5 (Affordable Homes) and Policy SC6 (Rural Exceptions Housing for Local Needs) and therefore this approach can be progressed through to the development of a sound policy.

6.3 The Housing Strategy adopted in 2011 sets out a clear vision to support the creation of balanced and sustainable communities. It supports the development of a mix of property types and tenures which will support economic growth and meet the needs of current and future generations. The strategy also recognises the needs of our rural communities and the requirement for affordable homes.

7 Implications for Rural Communities

7.1 In some of our rural communities there is a lack of affordable homes for local residents. With limited housing stock and constraints on new development resulting to an imbalance in the type, size and cost of housing, some residents have to migrate out of the communities in search of cheaper alternatives. This threatens the sustainability of some of our rural villages, putting local services including schools at risk of closure.

7.2 The Local Plan seeks to address the issue of affordability within some of our rural communities. Policy SC6 – Rural Exceptions Housing for Local Needs outlines the proposed approach to the development of rural affordable housing. The outlined approach also recognises that this could include Key Worker accommodation, making sure that some of the professions required within our rural communities for example school teachers and police officers have access to affordable housing.

8 Financial Implications

8.1 There are no financial implications in relation to the proposed approach. The affordable housing requirement is negotiated on a site by site basis and forms part of the planning requirements. It is subsidized by the developer at no cost to the authority.

9 Legal Implications

9.1 The development of a Local Plan is a statutory requirement under the Town and Country Planning (Local Planning) (England) Regulation 2012. The legislation sets out the requirement for the production of the Plan including Local Development documents and Supplementary Planning documents. Regulation 8 states that any policies contained in a supplementary planning document must contain a reasoned justification of the policies contained in it and cannot conflict with the adopted development plan. It is therefore imperative that any policy is founded on a robust defensible evidence base.

9.2 Under the Housing Act 1996 (the “Act”), Housing authorities are required by s.166A(1) to have an allocation scheme for determining priorities, and for defining the procedures to be followed in allocating housing accommodation; and they must allocate in accordance with that scheme (s.166A(14))

9.3 Subject to some defined exceptions in the Act, a local housing authority may decide what classes of persons are, or are not, qualifying persons (S160ZA (7)).

9.4 Section 166A(13) requires authorities, before adopting an allocation scheme, or altering a scheme to reflect a major change of policy, to:

- send a copy of the draft scheme, or proposed alteration, to every Private Registered Provider19 with which they have nomination arrangements, and
- ensure they have a reasonable opportunity to comment on the proposals

10 Risk Management

10.1 There is a risk of challenge to the interim approach due to the lack of evidence to support the policy. This will be mitigated by primary research and the development of a formal policy through the planning process.

11 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Director of Adult Social Care and Independent Living, Brenda Smith
Subject/Title:	The Independent Living Fund
Portfolio Holder:	Cllr Janet Clowes, Care and Health in the Community

1.0 Report Summary

1.1 The Independent Living Fund (ILF) is a fund which is made available to customers of Adult Social Care Services as additional funding when they have met certain criteria linked to their level of disability and care requirements. This fund is managed independently of Local Authorities and has been paid to people living in the community who have complex care needs requiring significant levels of care and support.

1.2 Following the Government's consultation on the future of the ILF, the Minister for Disabled People has announced that the ILF will close on 30 June 2015. From this date local authorities will have responsibility for meeting all of the eligible care and support needs of current ILF users. This means that on 30 June 2015 ILF payments currently paid directly to service users will cease.

1.3 There will be a transfer of funds from the ILF scheme into the Local Authority baseline budget to allow the Authority to meet the service users' needs previously met by the ILF fund, subject to their meeting the current eligibility criteria of the Council.

1.4 The ILF is funded by Central Government. It operates in partnership with Local Authorities to jointly fund tailored care packages for disabled people aged 16 - 64 to help them live more independent lives. Customers make a contribution to the ILF according to the ILF's own charging formula. There are currently two groups receiving ILF payments:

1.4.1 **Group 1 – awards made pre April 1993**. A service user does not have to be receiving care from the Council to be eligible for funding and in some cases do not have to pay any contribution from their benefits. The maximum weekly award amount is £815 p/w. The Council holds no information on these users, however the ILF have written to these individuals asking that they consent for the ILF to contact the Local Authority and permit data sharing. It is likely that people from this group with have eligible care needs.

1.4.2 **Group 2 – awards made post April 1993**. The user has to be receiving a minimum amount from the Council to be eligible for care (weekly amounts range from £200 - £340 p/w depending on when the user applied). The user will pay a weekly contribution from their benefits ranging from £40.65 - £101.75 p/w according to the ILF formula.

1.5 All service users are expected to have an ILF transfer review by March 2015. This will involve a visit from the ILF to review the needs with the service user. The ILF are collecting and sharing information on their service users to try and assist Local Authorities in understanding the ILF assessment of the service user outcomes and required care packages.

1.6 The current known number of ILF customers in the Cheshire East area is 80.

2.0 Recommendation

2.1 That the transfer of the Independent Living Fund funding into the Council budget in 2015 be ring-fenced to the Adult Social Care commissioning budget to ensure that the Council continues to meet eligible need for those individuals previously in receipt of ILF.

3.0 Reasons for Recommendation

3.1 The expectation from Central Government is that ILF users will be supported through one single mainstream system. When the ILF budget transfers to Cheshire East Council it is considered to be most appropriate for it to be ring fenced to the Adult Social Care commissioning budget as all ex ILF users will be required to follow our usual care and financial assessment processes.

By ring fencing the ILF transfer to Adults Social Care Services the Council will be in a position to best meet the eligible social care needs of the service users involved following a full reassessment of current ILF recipients.

4.0 Wards Affected

4.1 All wards are affected as ILF recipients are dispersed across the Borough.

5.0 Local Ward Members

5.1 All

6.0 Policy Implications

6.1 There are no specific policy implications as normal Adult Social Care policy and procedure is applied at the point of transfer of users from ILF to Council assessment and care management processes.

7.0 Financial Implications

7.1 Details regarding funding transfer are yet to be determined.

8.0 Legal Implications

8.1 Following an appeal by 5 ILF service users to the proposed closure of the ILF, the High Court ruled in April 2013 that the closure decision was lawful, but this was overturned by the Court of Appeal. Central Government said it was considering whether to contest the judgement. During the Court of Appeal Hearing, the five argued the High Court had misinterpreted the law and there had been a lack of proper consultation by Ministers over the changes. They had argued that, without ILF funding and support, they would be forced into residential care or lose their ability to participate in work and everyday activities.

8.2 Cheshire East Council will ensure all users are supported to receive support to meet their eligible unmet social care needs but there is likely to be some elements of their current funding which will not be available to the individual following transfer. The Council may experience challenge in this area. The Adult Social Care service will support individuals to access other types of support which may be required to meet non eligible needs.

9.0 Implications for Rural Communities

9.1 There are no particular additional implications for Rural Communities.

10.0 Risk Management

10.1 It is recognised that the transition from ILF needs to be well managed in order to support individuals to manage within a revised allocated budget from the Council. In some cases this budget will be less than they have had previously received through the ILF.

10.2 A project plan has been prepared to plan for and implement the transfer. This plan will require all current ILF service users to have a reassessment of their care needs to determine the level of eligible unmet need. The assessment will determine the allocated personal budget for that individual. Each service user will require a financial assessment to determine their contribution towards their care in accordance with the Fairer Charging Policy.

- All current ILF users will receive a social care assessment or reassessment prior to May 2015 to prepare service users and care providers for the transition and possible reduction in allocated budget.
- Adult Social Care services are preparing a communication plan for ILF service users and care providers to ensure full understanding of the reassessment process, the timescales and the potential impact on their funding for social care services.
- As part of the reassessment process the service will engage with and consult care providers to assist them with the transfer process.

11.0 Access to Information

Full details of the ILF transfer decision and transfer process can be made available by the report author.

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CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Executive Director of Strategic Commissioning
Subject/Title:	Award of Contracts for Supported Local Bus Services
Portfolio Holder:	Cllr David Topping, Service Commissioning

1.0 **Report Summary**

1.1 This report seeks approval to award the contract for bus services as shown.

Service	Start Date	End Date	Contract Value £
39 Nantwich-Wybunbury-Crewe	27.10.14	23.10.21	546,000
42 Crewe-Middlewich-Holmes Chapel-Congleton	27.10.14	23.10.21	1,043,000
51/52/72/73 Nantwich Area Services	27.10.14	23.10.21	1,365,000
90/91/92 Congleton Local Services	27.10.14	23.10.21	1,246,000

2.0 Recommendations

2.1 That Cabinet approve the award of seven year contracts for local bus services to GHA Coaches as shown in paragraph 1.1.

3.0 Reasons for Recommendations

3.1 This is for the continuation of bus services, with minor variations, currently in operation and with high patronage. The fully compliant procurement and tender evaluation has identified GHA Coaches as the preferred bidder for all four contracts

4.0 Wards Affected

4.1 Service 39 – Nantwich North & West, Nantwich South & Stapeley, Wybunbury, Willaston & Rope, Shavington and Crewe South.

4.2 Service 42 – Crewe Central, Crewe East, Crewe North, Crewe South, Crewe St Barnabas, Crewe West, Brereton Rural, Middlewich, Dane Valley, Congleton East and Congleton West.

4.3 Nantwich area services – Nantwich North & West, Nantwich South & Stapeley, Wrenbury and Audlem.

4.4 Congleton local services – Congleton East and Congleton West.

5.0 Local Ward Members

5.1 Service 39 – Cllr Butterill, Cllr Moran, Cllr Groves, Cllr Martin, Cllr Clowes, Cllr Silvester, Cllr Brickhill, Cllr Flude and Cllr Hogben.

5.2 Service 42 – Cllr Faseyi, Cllr Martin, Cllr Newton, Cllr Thorley, Cllr Grant, Cllr Flude, Cllr Hogben, Cllr Cartlidge, Cllr Hickson, Cllr Sherratt, Cllr Wray, Cllr Edwards, Cllr McGrory, Cllr Parsons, Cllr Gilbert, Cllr Kolker, Cllr Brown, Cllr Mason, Cllr Thwaite, Cllr Baxendale, Cllr Domleo and Cllr Topping.

5.3 Nantwich area services – Cllr Butterill, Cllr Moran, Cllr Groves, Cllr Martin, Cllr Davies and Cllr Bailey.

5.4 Congleton local services – Cllr Brown, Cllr Mason, Cllr Thwaite, Cllr Baxendale, Cllr Domleo and Cllr Topping.

6.0 Policy Implications

6.1 The award of the contracts falls within the Councils Public Transport Support criteria.

7.0 Implications for Rural Communities

Award of these contracts will ensure continued service provision to a number of rural areas in the south of the borough, areas which otherwise would have no public transport provision.

8.0 Financial Implications

8.1 The financial support for these bus services will be met from the Public Transport Budget but will provide savings as outlined below.

8.2 For service 39 the current annual cost is £114,000 (£570,000 for the five year period). The total cost of the new contract will be £546,000 for a seven year period, a saving of £36,000 and an additional two years contract period.

8.3 For service 42 the current annual cost is £198,000 (£990,000 for the five year period). The total cost of the new contract will be £1,043,000 for a seven year period, a saving of £49,000 on the annual price and with the additional two years contract period.

8.4 For the Nantwich area services the current annual cost is £287,000 (£1,435,000 for the five year period). The total cost of the new contract will be £1,365,000 for a seven year period, a saving of £92,000 and an additional two years contract period.

8.5 Since August 2012 the Congleton local area services have operated commercially although a subsidy was agreed latterly. This avoided early de-registration, a gap in the bus service network and allowed time for the required procurement exercise. Prior to August 2012 the annual cost was £127,000. The annual cost of the new contract will be £178,000 however this is a Minimum Cost Contract (revenue is credited to the Council) and the annual revenue is estimated to be £60,000, net cost £118,000.

9.0 Legal Implications

9.1 The Transport Unit has undertaken a procurement exercise that complies with the Public Contracts Regulations 2006 to select a service provider. The contract will operate on the Council's standard terms and conditions for passenger transport services.

10.0 Risk Management

10.1 The Council's standard terms and conditions for passenger services allows for termination of contracts by either side with notice of 84 days, therefore should finances cease to be available there is a relatively short notice period required

10.2 The Council's standard terms and conditions for passenger services lays down service delivery standards and procedures to be applied should these standards not be met.

11.0 Background and Options

11.1 Service 39 has approximately 14,200 passenger journeys per year.
Service 42 has approximately 90,000 passenger journeys per year
The Nantwich area services have approximately 92,600 passenger journeys per year.
The Congleton local services have 45,000 passenger journeys per year (estimate).

11.2 At any time a licensed bus operator can register a commercial bus service with the Traffic Commissioner to operate without financial support from the Council, however no such registration has been received for these services.

12.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Chief Operating Officer
Subject/Title:	Treasury Management Annual Report 2013/14
Portfolio Holder:	Councillor Peter Raynes, Finance

1.0 Report Summary

1.1 The Treasury Management Policy requires an annual report on the performance of the Council's treasury management operation. This report contains details of the activities in 2013/14 for Cheshire East Borough Council.

2.0 Recommendation

2.1 To receive the Treasury Management Annual Report for 2013/14 as detailed in Appendix A.

3.0 Reason for Recommendation

3.1 To meet the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

4.0 Wards Affected

4.1 Not applicable

5.0 Local Ward Members

5.1 Not applicable

6.0 Policy Implications

6.1 None

7.0 Financial Implications

7.1 Contained within the report.

8.0 Legal Implications

8.1 As noted in paragraph C47 of the Finance and Contract Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. C47 to C52 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report is presented to Cabinet under rule C52.

9.0 Risk Management

9.1 The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

9.2 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.

9.3 To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.

9.4 The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

10.0 Background and Options

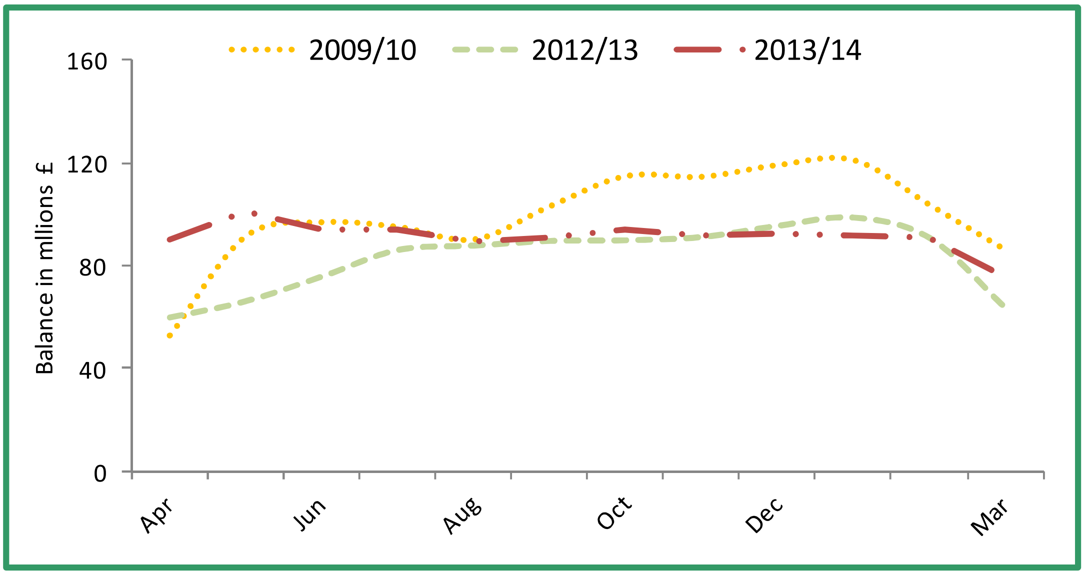
10.1 The Treasury Management Strategy for 2013/14 was approved by Council on 28th February 2013. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial and Performance Update Reports.

10.2 The Council complied with its legislative and regulatory requirements and remained within all of its Prudential Indicators during the year, further details are provided in Annex 1.

10.3 The financial year 2013/14 continued the trend of previous years with a challenging treasury management environment of low investment returns and high levels of counterparty risk.

10.4 Cash balances remained stable throughout the year. The average cash balance for 2013/14 was £89.6m, (£83.6m in 2012/13).

Chart 1: Actual Cash balances available for investment have remained consistently high since 2009.



Source: Cheshire East Finance

10.5 The working capital requirement of the Alternative Service Delivery Vehicles (ASDV's) may have an impact on the Council's cash balance position in 2014/15, this will be closely monitored and regularly reported throughout the year.

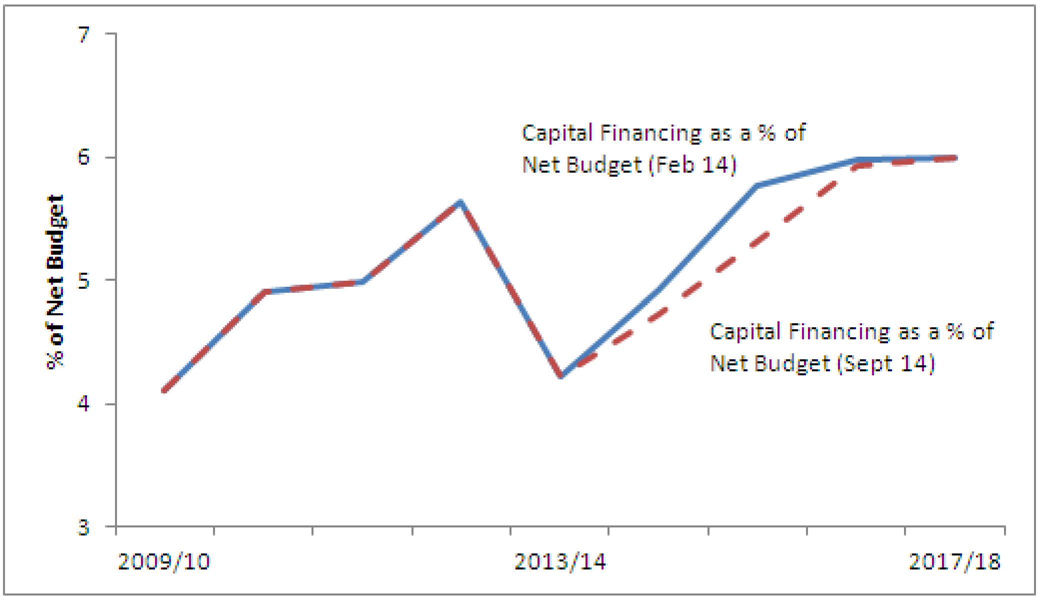
10.6 With current interest rates offering low investment returns relative to the cost of raising new long term loans the Council has maintained its overall strategy of using existing cash balances to fund the 2013/14 capital programme.

10.7 Actual capital expenditure totalled £65.6m compared to the revised budget of £78.7m. Some of the planned spending for 2013/14 has been re-profiled into 2014/15 and future years to ensure the Council maximises external investment and capital receipts opportunities; thereby reducing the level of the borrowing requirement in the future and the impact on the revenue budget.

10.8 The capital programme for 2014/17 is intentionally aspirational, reflecting the Council's ambition to pursue additional external funding. The priority is to ensure expenditure plans are affordable over the medium term; the programme is designed to allow flexibility so that cash flows i.e., the timing of capital receipts and payments, can be monitored and managed to minimise the risks to the Council of forward funding capital expenditure in advance of realising grant income, developer contributions and proceeds of planned asset sales and disposals. Where temporary borrowing is required this will be funded from internal resources and repaid as soon as receipts allow.

10.9 The Council has set itself a limit of c£14m in relation to capital financing charges. This relates to the revenue charges associated with the amount of borrowing taken out. For example, for every additional £10m of borrowing the authority enters into, the capital financing charges increase by £0.800m. The forecast for capital financing costs as a % of the net revenue budget is demonstrated in the chart below.

Chart 2: The impact of capital financing on the revenue budget is being reduced compared to forecasts in February 2014



Source: Cheshire East Finance

10.10 The Council continues to reduce its overall level of external debt as no new external borrowing was undertaken and a PWLB loan of £6m was repaid in year.

10.11 Other key points to note for 2013/14 are:

- The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels
- The Council received a repayment of £335,000 from the administrators of Heritable Bank.
- Following a retendering exercise, the Council's banking services are now provided by Barclays Bank from 1 April 2014. The banking switch-over was managed very effectively between Council staff and Barclays Bank personnel and the working relationship has commenced on very solid ground.

10.12 This annual treasury report, detailed in Appendix A covers the:

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying Capital Financing Requirement (CFR);

- Treasury position at 31st March 2014 identifying how the Council has borrowed in relation to the CFR and the impact on investment balances;
- Economic factors;
- Detailed investment and debt activity;
- Reporting of the required prudential and treasury indicators.

11.0 ***Access to Information***

The background papers relating to this report can be inspected by contacting the report writer:

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Appendix A

Treasury Management Annual Report 2013/14

Introduction

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1. Treasury Year End Position

The amount of investments outstanding at 31st March 2014 was £61.1m (compared to £68.5m as at 31 March 2013) as follows:

	31/03/13	**31/03/14**
	£m	**£m**
BANKS (Fixed and Certificates of Deposit)		
Barclays Bank	-	5.0
Lloyds TSB	6.0	3.0
Close Bros	-	3.0
Standard Chartered Bank	2.0	2.0
Nationwide Building Society	-	2.0
MONEY MARKET FUNDS		
IGNIS	8.5	7.6
Federated Investors	6.5	5.9
Morgan Stanley	-	4.5
Deutsche	3.0	0.9
Scottish Widows	3.9	1.5
INSTANT ACCESS ACCOUNTS		
Santander (UK)	8.5	5.3
Royal Bank of Scotland	5.5	-
Co-op Reserve	1.5	-
NOTICE ACCOUNTS		
Royal Bank of Scotland	3.0	-
MANAGED FUNDS		
Investec – Pooled Funds	20.1	20.4
TOTAL	**68.5**	**61.1**

The net investment income received in 2013/2014 after allowing for fees and interest due to the Growing Places fund was £753,000. This is favourable compared to the budget of £320,000. The investment income includes £335,000 relating to deposits made by the former Cheshire County Council with the Icelandic Heritable Bank which were received in 2013/14.

The overall average rate of interest on all investments in 2013/14 was 0.50% compared to the benchmark 7 day LIBID return of 0.41%. The base rate remained at 0.50% for the full year.

Investment income forms part of the capital financing budget, which also includes the amount charged in respect of the repayment of outstanding debt and the amount of interest payable on the Council's portfolio of long term loans. The capital financing budget for 2013/14 was £11.9m which accounts for 4.6% of the Council's total revenue budget. Overall the budget was under spent by £0.9m. As cash balances remained stable throughout the year no additional external borrowing was undertaken, resulting in lower external interest charges than budgeted.

We will continue to monitor performance during 2014/15 through the benchmarking service provided by the Council's Treasury Management Advisors, Arlingclose.

2. Icelandic Bank Deposits

Repayment of monies due from Heritable Bank has continued. In August 2011 the administrators announced that we are likely to receive around 88% of the original claim. However, further receipts in 2013/14 have brought the total amount repaid to date to 94% enabling part of the original impairment to be reversed. There is still the possibility of a further receipt dependent on the outcome of legal proceedings currently affecting the entitlement of other parties.

From the total claim of £4.62m we have now received £4.35m (94%).

3. Interest Rates and Prospects for 2013/14

The Councils' treasury advisors, as part of their service assisted in formulating a view on interest rates. However, there has been no change to the bank base rate since March 2009.

4. Compliance with Treasury Limits

During the financial year the Councils' operated within the treasury limits and Prudential Indicators set out in the Councils' Treasury Policy Statement and annual Treasury Strategy Statement (see section 8).

5. Investment Strategy for 2013/14

The Council had regard to the DCLG Guidance on Local Government Investments ("the Guidance") issued in March 2004 (revised in 2010) and the revised CIPFA Treasury Management Code and the revised Prudential Code ("the CIPFA TM Code").

Investment instruments identified for use in the financial year are set through the Councils' Treasury Management Strategy Statement and Investment

Strategy. Different limits apply to counterparties based on a range of credit criteria which governs the maximum amount and the maximum maturity periods of any investments. This is kept under continual review with institutions added or removed from our list of counterparties during the year dependent on their qualification according to the credit criteria measures.

Investment Objectives

All investments were in sterling. The general policy objective of the Council was the prudent investment of its treasury balances. The Councils' investment priorities are the security of capital and liquidity of its investments.

The Council aimed to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. The DCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Credit Risk

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2013/14 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's although unrated Building Societies are now included based on other credit criteria benchmarked to other rated organisations.

In July Moody's placed the A3 long-term ratings of Royal Bank of Scotland and NatWest Bank and the D+ standalone financial strength rating of RBS on review for downgrade amid concerns about the impact of any potential breakup of the bank on creditors. As a precautionary measure the Authority reduced its duration to overnight for new investments with the bank(s). In March Moody's downgraded the long-term ratings of both banks to Baa1. As this rating is below the Authority's minimum credit criterion of A-, the banks were withdrawn from the counterparty list for further investment.

During 2013/14 the Councils banking services were provided by Co-operative Bank. Due to their low credit worthiness and their on-going financial difficulties the Council carefully managed its individual account exposure and did not make any investments with Co-operative Bank. As from 1st April 2014 the Council has transferred its operational bank accounts to Barclays Bank and has subsequently closed all accounts at the Co-operative Bank.

The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors. The impact of this on the Treasury Strategy was to reduce the maximum amounts that could be invested in any one counterparty and to diversify the types of investment which will impact on 2014/15 investment activity.

Liquidity

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds / overnight deposits/ the use of call accounts.

Yield

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates also remained at very low levels which continues to have an impact on investment income.

Use of External Fund Managers

In May 2011 the Council placed £20m with Investec in pooled funds, for which the aim is to generate higher returns in a low interest rate environment through investment in a diverse range of instruments. The return on these funds after fees in 2013/14 was 0.19% with an average rate of return since May 2011 of 0.51%.

Whilst volatility is expected, the performance of the fund since we joined is not as good as we originally hoped and has not provided the additional income originally anticipated, As a result, the Council is considering withdrawal of these funds and finding alternative types of investment.

6. Borrowing strategy

At the end of the year 2013/14 the Council had debt outstanding of £125.6m. Of this £17m represented loans raised from commercial banks whilst £108.6m represented loans from the PWLB.

The Council's capital financing requirement (CFR) currently exceeds the amounts actually borrowed with the shortfall being funded from cash balances.

In accordance with the Treasury Management Strategy the Council sought to finance its capital expenditure through the use of its own existing cash balances rather than through the raising of long term loans. The benefits of this are twofold; firstly by reducing the amount of cash balances held by the Council it reduces the credit risk and secondly, the interest foregone on the cash balances use to finance capital expenditure payments was less than the amount of interest payable on any new loans that would have been raised.

7. Economic events of 2013/14

At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

The Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the ILO unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a ***threshold*** for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the 'low for longer' interest rate outlook despite the momentum in the economy.

The Office of Budget Responsibility's 2.7% forecast for economic growth in 2014 forecast a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition's austerity measures remained on track.

Gilt Yields and Money Market Rates: Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.
3-month, 6-month and 12-month Libid rates remained at levels below 1% through the year.

8. Prudential Indicators 2013/14

The Council can confirm that it has complied with its Prudential Indicators for 2013/14, which were approved on 28th February 2013 as part of the Council's Treasury Management Strategy Statement. Details can be found in Annex 1.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2013/14. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

Annex 1

Prudential Indicators 2013/14 and revisions to 2014/15 – 2016/17

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with **gross** external debt.

The Chief Operating Officer reports that the Authority had no difficulty meeting this requirement in 2013/14, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2013/2014	2014/2015	2015/2016	2016/2017	Future years
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Total	**65.6**	**147.8**	**102.6**	**77.7**	**120.9**

Source: Cheshire East Finance

3.2 Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2013/2014 Actual £m	2014/2015 Estimate £m	2015/2016 Estimate £m	2016/2017 Estimate £m	Future years Estimate £m
Capital receipts	5.5	32.9	22.4	31.4	23.7
Government Grants	34.9	76.8	18.6	31.6	85.3
External Contributions	2.5	14.0	14.8	6.6	11.9
Revenue Contributions	0.9	4.2	1.2	0.2	0
Total Financing	**43.8**	**127.9**	**57.0**	**69.8**	**120.9**
Prudential Borrowing	21.8	19.9	45.6	7.9	0
Total Funding	**21.8**	**19.9**	**45.6**	**7.9**	**0.0**
Total Financing and Funding	**65.6**	**147.8**	**102.6**	**77.7**	**120.9**

Source: Cheshire East Finance

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/2014 Actual %	2014/2015 Estimate %	2015/2016 Estimate %	2016/2017 Estimate %
Total	**4.23**	**4.93**	**5.76**	**5.98**

Source: Cheshire East Finance

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2013/2014 Actual £m	2014/2015 Estimate £m	2015/2016 Estimate £m	2016/2017 Estimate £m
Total	**205**	**234**	**242**	**222**

Source: Cheshire East Finance

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	£m
Borrowing	126
Other Long-term Liabilities	39
Total	**165**

Source: Cheshire East Finance

7. Incremental Impact of Capital Investment Decisions:

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2014/2015 Estimate £	2015/2016 Estimate £	2016/2017 Estimate £
Band D Council Tax	**4.38**	**10.94**	**0**

Source: Cheshire East Finance

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

8.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

8.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2013/2014 Actual £m	2014/2015 Estimate £m	2015/2016 Estimate £m	2016/2017 Estimate £m
Authorised Limit for Borrowing	212	245	255	265
Authorised Limit for Other Long-Term Liabilities	26	24	23	22
Authorised Limit for External Debt	**238**	**269**	**278**	**287**
Operational Boundary for Borrowing	202	235	245	255
Operational Boundary for Other Long-Term Liabilities	26	24	23	22
Operational Boundary for External Debt	**228**	**259**	**268**	**277**

Source: Cheshire East Finance

9. Adoption of the CIPFA Treasury Management Code:

9.1 This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 23rd February 2012

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

10.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	(or Benchmark level) at 31/03/14 %	Estimate %	Estimate %	Estimate %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	100%	100%	100%	100%

Source: Cheshire East Finance

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Authority's treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing:

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

11.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment. As all LOBOs are can be called within 12 months the upper limit for borrowing maturing within 12 months is relatively high to allow for the value of LOBOs and any potential short term borrowing that could be undertaken in 2014/15.

Maturity structure of fixed rate borrowing	Level as at 31st March 2014 %	Lower Limit for 2014/2015 %	Upper Limit for 2014/2015 %
under 12 months	22%	0%	35%
12 months and within 24 months	7%	0%	25%
24 months and within 5 years	14%	0%	35%
5 years and within 10 years	9%	0%	50%
10 years and within 20 years	19%	0%	100%
20 years and within 30 years	8%	0%	100%
30 years and within 40 years	13%	0%	100%
40 years and within 50 years	8%	0%	100%
50 years and above	0%	0%	100%

12. Credit Risk:

12.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

12.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk.

12.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

12.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

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 Agenda Item 14

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	16th September 2014
Report of:	Chief Operating Officer (Section 151 Officer)
Subject/Title:	2014/15 First Quarter Review of Performance
Portfolio Holders:	Cllr. Peter Raynes, Finance; Cllr. Barry Moran, Performance

1.0 Report Summary

1.1. This report sets out the Council's financial and non-financial performance at the first quarter stage of 2014/15. It follows on from the final outturn report for 2013/14 which demonstrated that the overall financial health, performance and resilience of Cheshire East Council is strong despite taking £50m out of its cost base from 2011/12, and freezing Council Tax for the fourth consecutive year. The Council's strong financial position reflects its enhanced governance, innovative delivery arrangements and effective stewardship of public money.

1.2. Following the first quarter review the Council's reserves strategy remains effective, although a small overspend of £1.7m is projected, which represents only 0.7% against a budget of £253.8m. This is the lowest figure ever reported for the Council at this early stage in the financial year.

1.3. Cheshire East is the third largest Council in the Northwest of England, responsible for over 500 services, supporting over 370,000 local people. Annual spending is more than £750m, with a balanced net budget for 2014/15 of £253.8m. The complexity of customer demands and the size of the organisation make it very important to manage performance and control expenditure to ensure the best outcomes for residents and businesses.

1.4. The Council's journey to becoming a strategic commissioning council is now well developed and 2013/14 was the first year of the Council's 3 year plan. The 3 year plan sets out the purpose of the Council, and the main outcomes it wants to achieve – putting residents and businesses first. The plan is shown on page 30.

1.5. The Council's focus is to deliver a high level of sustainable, quality, and cost effective services that are needed by Cheshire East residents and businesses.

1.6. The attached report, **Annex 1**, sets out further details of how the Council is performing in 2014/15. It is structured into three sections:

Section 1 Summary of Council Performance - brings together the positive impact that service performance, the change management programme and financial performance have had on the 5 Residents First Outcomes in Quarter One.

Section 2 Financial Stability - provides an update on the Council's overall financial position. It demonstrates how spending in 2014/15 has been funded, including the positions on overall service budgets, grants, council tax and business rates, treasury management, centrally held budgets and the management of the Council's reserves.

Section 3 Workforce Development provides a summary of the key issues relating to the Council's workforce development plan.

2.0 Recommendations

2.1 Cabinet is asked to consider and comment on the first quarter review of 2014/15 performance, in relation to the following issues:

- the summary of performance against the Council's 5 Residents First outcomes **(Section 1)**;
- the projected service revenue and capital outturn positions, overall financial stability of the Council, and the impact on the Council's reserves position **(Section 2)**;
- the delivery of the overall capital programme **(Section 2, paragraphs 152 to 161 and Appendix 4)**;
- fully funded supplementary capital estimates and virements up to £250,000 in accordance with Finance Procedure Rules (**Appendix 5);**
- reductions to Capital Budgets **(Appendix 8)**;
- treasury management investments and performance (**Appendix 9**);
- the Council's invoiced debt position **(Appendix 11)**;
- the workforce development and staffing update **(Section 3)**.

2.2 Cabinet is asked to approve:

- supplementary capital estimates and virements over £250,000, in accordance with Finance Procedure Rules, (**Appendix 6);**
- supplementary revenue estimates to be funded by additional specific grant (**Appendix 10);**

2.3 Cabinet is asked to request Council approval for:

- supplementary capital estimates and virements over £1,000,000, in accordance with Finance Procedure Rules, (**Appendix 7).**

3.0 Reasons for Recommendations

3.1 The overall process for managing the Council's budget, promoting value for money and complying with its Finance Procedure Rules, ensure that any changes that become necessary during the year are properly authorised. This report sets out those areas where any further approvals are now required.

4.0 Wards Affected

4.1 All

5.0 Local Ward Members

5.1 All

6.0 Policy Implications

6.1 Performance management supports delivery of all Council policies. The projected outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2015/18 medium term financial strategy.

7.0 Financial Implications

7.1 The Council's financial resources are aligned to the achievement of stated outcomes for local residents and communities. Monitoring and managing performance helps to ensure that resources are used effectively and that business planning and financial decision making are made in the right context of performance – to achieve better outcomes from an appropriate cost base.

8.0 Legal Implications

8.1 Although the Council is no longer required to report to Government on its performance against measures in the National Indicator Set, monitoring and reporting on performance is essential if decision-makers and the public are to be assured of adequate progress against declared plans and targets.

9.0 Risk Management

9.1 Performance and risk management are part of the management processes of the Authority. Risks are captured both in terms of the risk of underperforming and risks to the Council in not delivering its objectives for its residents, businesses, partners and other stakeholders. Risks identified in this report will be used to inform the Corporate Risk Register.

9.2 Financial risks are assessed and reported on a regular basis, and remedial action taken if and when required. Risks associated with the achievement of the 2014/15 budget - and the level of general reserves –

will be factored into the 2015/16 financial scenario, budget and reserves strategy.

10.0 Background

10.1 The Council's quarterly reporting structure provides forecasts of a potential year-end outturn. The forecasts in this report highlight achievements against outcomes and provide an indication of potential risks at this stage of the year.

10.2 At the First Quarter stage, the Council's reserves strategy remains effective despite the current risk of a small overspend of £1.7m (0.7%) against a budget of £253.8m. Portfolio Holders and the Corporate Leadership Board will continue to focus on these forecasts to avoid any impact on the Council's general reserves.

11.0 Access to Information

11.1 The background papers relating to this report can be inspected by contacting:

Name: Peter Bates
Designation: Chief Operating Officer, (Section 151 Officer)
Tel No: 01270 686013
Email: peter.bates@cheshireeast.gov.uk

ANNEX 1

Cheshire East Council

First Quarter Review of Performance 2014/15

September 2014

Introduction

This report demonstrates that the overall performance, financial health and resilience of Cheshire East Council is strong. It is the third largest Council in the Northwest of England, supporting over 370,000 local people with annual spending of more than £750m. The Council continues to strive for further improvements across all aspects of the 500+ services that it is responsible for - delivering more for less.

Central Government's commitment to reduce the high levels of national debt has contributed to local government going through a period of unprecedented change and financial challenge. Cheshire East Council's response continues to be based on innovation and creativity. The Council also continues to be relentless in its pursuit of greater efficiency and productivity to enable it to deliver a high level of sustainable, quality services for a lower overall cost.

Our commissioning intentions to develop better ways to achieve the Council's five stated outcomes by using a mix of delivery mechanisms is continuing to gain momentum. The Council's philosophy is about much more than simply reducing costs through arranging cheaper provision or about traditional outsourcing. Our new approaches and range of service delivery mechanisms will all have a more commercial and 'Residents First' outlook.

At first quarter review the Council's reserves strategy remains effective, despite the current risk of a small overspend of £1.7m (0.7%) being highlighted in the report against a budget of £253.8m. This is the lowest figure ever reported for the Council at this early stage in the financial year.

To support openness and transparency the report has three main sections, to provide background and context, and then eleven supporting annexes with detailed information about allocation and management of public money during 2014/15:

Section 1 provides a summary of Council performance and brings together service achievement highlights against the 5 Outcomes in the Council's three year plan.

Section 2 provides information on the overall financial stability and resilience of the Council. It demonstrates how spending in 2014/15 is being funded, including the positions on overall service budgets, grants, council tax, and business rates, treasury management, centrally held budgets and the management of the Council's reserves.

Section 3 provides a summary of the issues relating to the Council's workforce development plan.

- **Appendix 1** shows the Three Year Council Plan.
- **Appendix 2** explains changes since Original Budget.
- **Appendix 3** shows the latest position for Corporate Grants.
- **Appendix 4** shows the revised Capital Programme expenditure.
- **Appendix 5** lists approved Supplementary Capital Estimates and Virements up to £250,000.
- **Appendix 6** lists Supplementary Capital Estimates and Virements over £250,000 for Cabinet approval.
- **Appendix 7** lists Supplementary Capital Estimates and Virements required to be approved by Council.
- **Appendix 8** lists Capital Budget Reductions.
- **Appendix 9** provides details of Treasury Management investments.
- **Appendix 10** lists requests for Allocation of Additional Grant Funding
- **Appendix 11** analyses the position on Outstanding Debt.

PJ Bates

Peter Bates CPFA CIPD MBA

Chief Operating Officer (Section 151 Officer)

This report receives scrutiny and approval from members of Cheshire East Council. As a public report, anyone can provide feedback to the information contained here.

Anyone wanting to comment can contact the Council at:
shapingourservices@cheshireeast.gov.uk

Contents

2014/15 Outturn Forecast at First Quarter Review
Financial Position

2014/15 First Quarter Review (GROSS Revenue Budget £638.3m)	Revised Budget (NET) £m	Emerging Pressures £m	Remedial Actions Identified to Date £m	Current Forecast Over / (Underspend) £m	For further information please see the following sections
Children & Families	54.3	0.3	-0.3	0.0	Section 1 - Paragraphs 59 - 66
Adult Social Care	94.8	1.5	-1.2	0.3	Section 1 - Paragraphs 109 - 115
Public Health and Wellbeing	1.6	0.1	0.0	0.1	Section 1 - Paragraphs 116 - 120
Environmental	28.5	0.4	0.0	0.4	Section 1 - Paragraphs 87 - 89
Highways	10.5	0.1	0.0	0.1	Section 1 - Paragraphs 46 - 49
Communities	10.5	1.2	-0.6	0.6	Section 1 - Paragraphs 18 - 20
Economic Growth & Prosperity	14.8	0.2	0.0	0.2	Section 1 - Paragraphs 42 - 45, 122
Chief Operating Officer	42.0	0.0	0.0	0.0	Section 1 - Paragraph 126
Total Services Net Budget	257.0	3.8	-2.1	1.7	
CENTRAL BUDGETS					
Specific Grants	-17.8			0.0	Section 2 - Paragraphs 133 - 137
Capital Financing	12.5			0.0	Section 2 - Paragraphs 164 - 165
Contingencies	2.1			0.0	Section 2 - Paragraph 169 - 170
Total Central Budgets	-3.2	0.0	0.0	0.0	
TOTAL NET BUDGET	**253.8**	**3.8**	**-2.1**	**1.7**	

	Planned Contribution 2014/15 £m	Forecast Variance Quarter 1 £m	Impact on reserves Quarter 1 Forecast £m
Impact on Reserves	-5.8 *	-1.7	-7.5

*Increased from -£5.3m by Council approved in-year transfers to earmarked reserves

General Reserves Balance	2014/15 Budget £m		Quarter 1 Forecast £m	
	Estimated			
Opening Balance April 2014	19.3	Actual	19.8	Section 2 - Paragraphs 175 - 179
2014/15 Impact on Reserves (see above)	-5.3	Forecast	-7.5	
Closing Balance March 2015	14.0	Forecast	12.3	

Overview of Performance ~ Putting Residents First

ACHIEVING THE COUNCIL'S FIVE OUTCOMES
Cheshire East Council provides more than 500 services, supporting over 370,000 residents, and over 17,500 businesses.

The Council's 3 Year Plan 2013 to 2016 contains 5 Residents First Outcomes. Achievements against these outcomes are measured to provide an indication of progress. In the first quarter of 2014/15 there have been some significant areas of success. These are summarised by outcome below:

1 ~ Our local communities are strong and supportive
- Survey results show an increase in people feeling safe walking in our borough (over 90%)
- Entrants in to the youth justice system have reduced, exceeding target by 16%
- School attendance has increased and is 17% better than average
- More people are volunteering, almost 500 more hours being given in leisure services for example
- More people are engaging with the Council via social media and the website, with 2,000 more twitter followers and almost 400,000 more website hits

2 ~ Cheshire East has a strong and resilient economy
- Business survival rates have increased, to over 90%
- The value of the visitor economy has increased in value by 7%
- More adults are achieving NVQ3, now nearly 60%
- The Council's bid for a new University Technical College has been approved
- High speed broadband coverage is up to 86.7%, which is ahead of target
- Numbers of business births are ahead of forecast at nearly 2,000 in the year

3 ~ People have the life skills and education they need in order to thrive
- 56% of learners are achieving a good level of development
- Pupils achieving Level 4+ in reading, writing and maths are 5% above national averages
- 86% of schools are ranked 'Good' or 'Outstanding'
- Number of young people not in education, employment or training are at lowest ever levels of 3.5%

4 ~ Cheshire East is a green and sustainable place
- Targets to complete the Local Plan are on track
- Companies have been set-up for waste and bereavement services
- CO_2 emissions are 400 tonnes lower than the original forecast
- All air quality action plan targets are being met
- Satisfaction with country parks is now over 97%
- Green flags have been awarded to 7 locations
- Targets are being achieved to help residents through collective switching of energy suppliers

5 ~ People live well and for longer
- Numbers of home adaptations are above target by 18%
- Empty homes in Cheshire East is down to 1.18%, which is ahead of the targeted reduction
- 80.9% of community based service users are able to stay in their homes, the highest performance to date
- The number of preventative actions that reduce homelessness has increased in line with the target
- 18.86% of people are using outdoor space for exercise which improves the rank for Cheshire East compared to other areas
- Satisfaction with countryside events has increased to 85%
- Adoptions have exceeded targets
- Numbers of children participating in their protection plans is positive with performance at 16% above target

FINANCIAL STABILITY

Cheshire East Council is achieving outcomes based on sound financial management. In 2014/15 the Council will operate on an annual budget of more than £750m.

- At First Quarter the risk of a total forecast **overspend of £1.7m** is being reported compared to budget.
- The potential overspend represents only 0.7% of the Council's **net revenue budget of £253.8m.** This is considerably lower than previous years' forecasts at the Quarter 1 stage, which have tended to be reduced as the year progresses, from robust management action to mitigate the pressures before year end.
- **Service Budgets –** a forecast overspend of £1.7m is reported.
- **Central Budgets –** are currently forecast to be balanced at year end.
- The Council is among the top third of Unitary Councils in terms of **Council Tax collection.** Over 99% of Council Tax and Business Rates are collected within three years.
- **Investment income** is £28,000 higher than budget for Quarter 1. The average rate earned on investments (0.5%) is higher than the London Inter Bank 3 month rate.
- **General Reserves** The robust reserves strategy assesses risk at the beginning of the year, and protects the Council against potential overspending. At this time of year the potential overspend of £1.7m is less than the original forecast risks. Further mitigation of the forecast outturn overspend is still expected to be achieved.
- The original total **capital budget** of £161.2m for 2014/15 has been reduced to £147.8m to reflect revised forecasts and slippage following the 2013/14 outturn.
- For monitoring purposes, the in-year capital budget for schemes committed or in progress is £124.3m and is in line with the current expenditure forecast.
- Outstanding **Debt** (excluding local taxation) is £5.8m. Only £2.3m (around 5% of total debt raised annually) of debt is over 6 months old and this is completely covered by provisions to meet potential write-offs.

1. Summary of Council Performance

Introduction

1. Cheshire East Council is responsible for delivering more than 500 local public services across an area of over 1,100km^2 for over 370,000 residents. The budget to deliver these services in the period April 2014 to March 2015 is over £750m, which is raised from a combination of local taxes, national taxes (in the form of Government Grants) and payments direct from service users. In terms of spending power per head, Government figures highlight the impact of different levels and sources of funding on total Council spending:

2.

Spending Power per Head Comparisons 2014/15			
		Rural	Urban
	Cheshire East	East Riding of Yorkshire	Liverpool
	£	£	£
Grants	316	389	896
Council Tax	450	386	251
Total	766	775	1,147

3. The Council's Three Year plan, which was agreed by Council on 28th February 2013, has five Residents First Outcomes that will focus service delivery in the medium term. This section of the report highlights progress towards achieving each of the five outcomes, in addition to inward-facing work undertaken during 2014/15 to support the delivery of a responsible, effective and efficient organisation.

4. This report reflects activity that has taken place mostly in the period April 2014 to June 2014 including progress against the Council's change programme. Commentary is also provided on the financial impacts (both revenue and capital) of this activity.

1 ~ Our local communities are strong and supportive

Mutual Respect & Personal Responsibility

5. Work around reducing first time entrants to the youth justice system continues to be successful; Cheshire East's Youth Engagement Service was shortlisted for a Howard League Reform Award in the first quarter for its programme of work to combat harmful sexual behaviour. The work of the Preventing Offending Panel (POP) has contributed to the reduction, through the use of preventative interventions. The Navigate Scheme brings together key partners, all of whom are focused on reducing re-offending by changing behaviour and lifestyle for the good. 87 prolific offenders are currently on the Navigate Scheme, only two of whom are on the priority and pursue strand of the scheme (actively targeted by police).

6. Two multi-agency 'Streetsafe Scheme' initiatives took place in the first quarter, engaging with residents to take preventative action and reduce their concerns regarding home safety, and work is now underway to implement resulting action plans.

7. Our early intervention work with young people means that 86% of young people receiving their first written warning do not come to the attention of the Anti-Social Behaviour (ASB) team again. ASB log books identify local problems early, enabling residents to take action themselves with the assistance of Safer Cheshire East Partnership. Referrals to the Council's "no secrets" high risk/self-neglect panel has resulted in positive outcomes, addressing complex issues earlier and avoiding the need for ASBO's.

8. A £5m Complex Dependency bid has been submitted by Cheshire for support to develop better ways of supporting victims

of domestic abuse and Troubled Families; results of the bid are anticipated during the next quarter.

9. Community Hub pilots were launched in 5 areas and community-led working groups are now progressing local initiatives.

10. There has been an increase in Community Grant funding to local groups, increasing added value from match funding. In the first quarter £39,078 was awarded to 31 community, voluntary and faith organisations which contributed towards total project costs of £664,024.

Communities

11. The Queen's Commonwealth Baton Relay provided an excellent opportunity for increased volunteer involvement in support of the day's activities at Congleton Park in May. It was attended by over 10,000 local residents.

12. Community Hub working groups in five pilot areas recruited over 70 volunteers.

13. 267 claims for Emergency Assistance have been agreed and £177,000 awarded. This has largely supported people in crisis to obtain furniture and white goods and provide rent deposits.

14. The Joint Cheshire Emergency Planning Team are working with partners from the Cheshire Resilience Forum (CRF) to increase public awareness in this important area. A key element of this year's Action Plan (linked to the CRF Public Awareness Raising Strategy 2014-17) is the deployment of Emergency Pocket Leaflets and display banners at major events such as the Cheshire Show as well as all 14 Fire Station Open Days across the wider Cheshire area. So far in Cheshire East these have taken place in Crewe and Middlewich, with Congleton, Macclesfield and Knutsford still to come. These events so far have seen several hundred leaflets handed out to residents, helping them to prepare for, and respond safely to, major incidents such as severe weather and flooding.

Civic Pride

15. Cheshire East turnout for the European Elections in May 2014 stood at 32.6%, slightly below the North West figure of 33.48%.

16. Our target to increase number of Council website visits is ahead of target (1.39 million visits during the first quarter, ahead of our target of 1 million) and the ambition to make the customer experience better continues. The service has completed the National Customer Contact Association Global Standard Assessment and awaits the results.

17. At the end of the first quarter, @CheshireEast had over 7,600 Twitter followers, a 42% increase since our baseline in September 2013.

18. Overall, Communities are forecasting an overspend of £551,000 for the year.

19. There is a pressure of £938,000 on car parking services, of which £362,000 is for the Car Park Enforcement team. A review of enforcement is ongoing and is expected to deliver recommendations to address the pressure in the medium to long term. Subject to further analysis, there is a potential pressure of £545,000 for car parking pay and display income. A consultation on a pricing policy that reflects the needs of different areas is planned with local residents and businesses. It may be difficult to balance this pressure by the end of the year, especially if the consultation on parking leads to lower prices.

20. This pressure is partially mitigated by underspends in Local Community Services and Local Area Working of £396,000 due to delays in filling staffing vacancies and successfully recovering incorrectly overpaid benefit.

2 ~ Cheshire East has a strong and resilient economy

Business and Visitor Economy

21. Economic growth in Cheshire East is beginning to stabilise in line with the rest of the UK as the country starts to recover from the fiscal crisis. Projections remain as forecasted that Cheshire East economy will grow by £0.6bn from 2013/14 to 2015/16.

22. Infrastructure and regeneration investment plans are beginning to support economic growth and create new jobs, particularly high-skilled jobs, and build new homes. Major investment projects including Congleton Link Road, Poynton Bypass and Alderley Park investment fund have been approved and submitted by the Cheshire and Warrington Local Enterprise Partnership (LEP) to go forwards as priority projects for Local Growth Funding (LGF) from Government.

23. Masterplanning work for Crewe and Macclesfield is well underway, as is proactive work with our key service towns to support growth. This activity will help unlock the prosperity of our towns and reduce the number of vacant shops.

24. Our visitor economy continues to go from strength to strength with the team attracting a major new TV drama to film and be based in Cheshire East. A new visitor information point has opened at Crewe Station and Tatton Park won a 'Gold Award' in the Visit England National Tourism Awards for excellence as best large visitor attraction in England (May 2014). We also celebrated the launch of the Cheshire East Reflects website, commemorating the many lives lost from the Cheshire regiments throughout World War 1.

25. The Tatton Park Vision programme broadly remains on course to achieve its outcomes. Bewilderwood has been approved by the Secretary of State to continue and now moves into the next phase of the development process.

26. The Council's wholly owned development company, Cheshire East - Engine of the North, continues to make progress to maximise the Council's land assets for housing and employment opportunities. The sale of Parkgate and Remenham sites has been agreed, the marketing of Earl Road is taking place, and the development of the South Macclesfield Development Area and Handforth East schemes are underway.

27. The Crewe Lifestyle Centre passed a key milestone in the quarter with the achievement of formal planning permission. Work is programmed to start on site on 18th August 2014.

Workforce

28. The Council's revised bid for a new University Technical College was submitted to the Department for Education and interviews were held. The bid has recently been approved.

29. The Council has received a good Ofsted report for its Lifelong Learning team, highlighting the fantastic work the team is doing to further the 14+ skills agenda.

Infrastructure

30. In May the Secretary of State for Transport visited Crewe Station, giving the Council the opportunity to discuss and promote a station stop in Crewe as part of the new high-speed rail line 'HS2' proposals.

31. The Middlewich bypass now has the green light to move to the next stage of development, securing £4.1m from the Regional Growth Fund, with the Council contributing £2.5m towards the scheme. This investment will unlock growth around Middlewich, ease traffic congestion and support the joint scheme between Cheshire East Council and Cheshire West and Chester Council to develop a rural business hub called 'Cheshire Fresh'.

32. A much anticipated new car park and entrance for Crewe Station was unveiled in May providing extra capacity and better access to Crewe Station.

33. Work began on an £11.2m joint scheme between Cheshire East Council and the Highways Agency to improve the A500 near Crewe, with further good news that the Council has secured a £16m funding boost for the Crewe link road.

34. A consultation about the Poynton link road has commenced seeking the views of our local residents and businesses about the proposed route.

35. The ‘Connecting Cheshire’ broadband project has connected 30,000 homes and businesses with fibre broadband and is on course to achieve 96% coverage by March 2015. A number of ‘switch on’ events where held around the borough with Alderley Edge being one of the first major events.

36. Connecting Cheshire builds on the success of the iESE (Improvement and Efficiency Social Enterprise) Transforming Local Services Award received in March 2014 by becoming a finalist in the much-acclaimed Community Investor category of the Municipal Journal awards. Funding was approved by Cabinet in April 2014 to continue the project for a second phase to reach 99% of homes and businesses by April 2017. Preparation for the second phase of the project is underway, with the intention to procure a delivery partner later in the year.

Inward Investment

37. An independent evaluation of Connecting Cheshire Business Support Programme indicates the quality of the services to businesses is high, and is set to leave a positive lasting legacy when it concludes in 2015. There remains a challenge to attract eligible businesses to join the programme and every effort is being made to promote the opportunity of 12 hours paid for support to ensure targets are achieved.

38. In April a new Investment team was formed bringing together Major Projects, Regeneration, Skills, Housing, Business Engagement and Investment functions. The new team will support the growth of our businesses, delivery of major investment, infrastructure and regeneration, and develop our workforce. The team hosted a very successful business and investment event at the Cheshire Show as part of the Cheshire East stand.

39. A Business Science event held at Alderley Park, attended by over 200 Businesses, was heralded as a great success; promoting Alderley Park and Cheshire East. The Council has had further good coverage promoting the borough as a place to do business in a feature of Cheshire Business Life Magazine.

Responsible Business

40. 100% of businesses surveyed were satisfied with local authority regulation services during the first quarter.

41. 92% (201 out of 218) programmed inspections of A-C risk premises for food safety were completed in quarter one; shortfalls have been captured in the quarter two inspection programme. The service has changed its inspection programme to focus on those premises that are failing to meet the standard of 'broadly compliant'. The Service also achieved 78% (76 out of 98) of inspections programmed for low risk premises. 100% of all high risk inspections for food standards were completed.

42. At First Quarter Review the Economic Growth and Prosperity Directorate are reporting overall a potential budget pressure of £0.2m against a net budget of £14.8m. This is a relatively small variance against budget and at the next quarterly report it will be clearer if this pressure can be absorbed within the Directorate.

43. Strategic and Economic Planning Service are in the middle of an intense period of activity. This encompasses a strong push

towards improved performance across the Service, strengthening capacity in a number of key areas, including Planning Inquiries, and crucially for the Council, preparing to run examination in public of the Local Plan. The cost of additional capacity in 2014/15 (over and above Cost of Investment in the base budget) is estimated to be in the region of £0.5m, with a further £0.2m anticipated in 2015/16. Therefore the Service is anticipating a risk of overspending by £0.5m in 2014/15.

44. The Investment Service is projecting a favourable outturn in the region of £0.2m, principally as a result of vacancy management and delays in filling posts. However this resource may, in part if not all, be needed later in the financial year within the Directorate to support other project development costs.

45. Strategic Infrastructure has an estimated in-year budget pressure of £0.1m in respect of the Crewe High Growth business case, for which external funding is being sought but at this stage of reporting this is unconfirmed.

46. At First Quarter Review the Highways Service are reporting a small budget pressure of £64,000 against a net budget of £10.5m.

47. Cheshire East Highways in conjunction with the Highways Client Team are in the process of developing a new permit scheme under the New Roads & Street Works Act. The scheme was planned to go live in October 2014 and a part year funding from a new income stream is included in the 2014/15 budget. However, the scheme has still to be approved by the Department for Transport following amended scheme rules they have only recently announced. As a consequence it is unlikely to go-live until Feb 2015 at the earliest, deeming the new income target un-achievable in year, and producing a £0.2m pressure.

48. Whilst the organisational shift towards a commissioning model is completed there is a potential £40,000 pay pressure whilst funding for the new Highways Commissioning Manager post is identified from September 2014.

49. A forecast improvement against other Highways Fees & Charges of £87,000 combined with further underspends totalling £89,000 against the Cheshire Safe Roads Group Contributions and Speed Awareness Course income share and other small variances are reducing the impact of the above pressures to £64,000.

3 ~ People have the life skills & education they need in order to thrive

Securing the Best Start in Life

50. Work to ensure that pupils achieve a good level of development at the end of the Early Years Foundation Stage continues. The headlines from the initial unvalidated results for 2013/14 suggest that the percentage of children achieving a good level of development has increased by 6% from last year to 62%. The national picture at present is 60%. Furthermore, the picture of the percentage of more vulnerable children achieving a good level of development has improved; those accessing Free School Meals is at 42% (35.4% last year), cared for children results have increased to 40% (from 0%) and 56% of children living in the Borough's most deprived areas. A detailed analysis of all education performance data will be reported in quarter two.

Highest Achievements for All Learners

51. Priorities to achieve the highest achievement for all learners are being progressed through an Education Board. The Board undertook a full evaluation of its work in the first quarter and this will be reported in quarter two as part of the wider examination analysis for 2013/14.

52. During the first quarter, a detailed Peer to Peer Challenge took place to assess the local authority's progress in terms of a

potential Ofsted Inspection of its school improvement service. The outcomes from this process were very positive and highlighted the commitment to closing gaps in achievement for Cheshire East's most vulnerable learners. Early indications of achievement at primary and secondary level suggest an all-round improving picture.

53. During the first quarter, the overall Ofsted profile for Cheshire East schools has improved in terms of the number of schools judged Good or Outstanding. As of the end of June, the overall judgement for all schools was 87.9% Good or Outstanding.

Achieve Aspirations

54. The number of care leavers in education, employment and training is an improving picture. First quarter data shows that this remains at the lowest levels ever seen in Cheshire East and reflects the continued proactive approach to ensuring the best outcomes for our young people.

Inclusion

55. In terms of supporting our disadvantaged pupils who are eligible for Pupil Premium funding, significant work has taken place over the last 12 months to work with our secondary schools where the biggest gaps are seen. Predicted data supplied by schools shows that the gap for 2013/14 has the potential to reduce by close to 10% compared to last year. Full analysis will occur during quarter two when data from the Department for Education will be available on all secondary school performance.

56. The Council is continuing to review the range of special school provision available. A needs analysis has been developed and work is currently underway on an options appraisal for the type and number of specialist provision to be developed.

57. Significant work has been undertaken to ensure that the new arrangements for children and young people with Special Educational Needs (SEN), set out in the Children & Families Act, are implemented in September 2014.

58. The Life Course Review Programme Board is well underway. This aims to redesign health and social care services to people with a Learning Disability from birth to old age. In quarter 1 the programme was extended to include access to universal health and social care provision, in order that the needs of people with a Learning Disability are fully included in the redesign of generic community health and social care services within the Connecting Care and Caring Together whole system change programmes.

59. The Children's Service is anticipating to deliver a balanced budget during 2014/15 and this is a reflection of the accelerated delivery of policy proposals in 2013/14 and also the effective planning of the service to prepare and deliver 2014/15 policy options. The service have completed an annual needs led budget exercise to ensure that resources are allocated within the service to reflect business requirements.

60. The service are tasked with delivering over £3m of savings at a time when they are also implementing the Children's Social Care Act (including a care assessment system) and senior managers are reviewing the ability to deliver savings against performance. Senior managers will continue to review the budget position and will alert the Director of Children's Services of any significant performance and budget pressures or of any issues with delivering services.

61. An intensive recruitment exercise to attract social workers has recently been completed and it is anticipated that this will reduce the reliance on agency social workers and this should improve the continuity of support for vulnerable children. Until staff are in post there continues to be a risk of budget pressures due to the reliance on agency staff to deliver statutory services.

62. There is an emerging budget pressure of £0.3m linked to the transport related savings.

63. The service is continuing to make positive progress with reviewing Children's Social Care Packages, in particular reviewing contributions from health partners.

64. A review is currently underway of Children's commissioning support to ensure that commissioning activity is targeted to the priority areas.

65. The service is also working with Public Health colleagues to understand the opportunities for collectively commissioning services, to improve the delivery of services to customers and also to maximise value for money for the Council.

66. Temporary funding of £0.15m has been made available to invest in new Domestic Abuse support services and this reflects the Council's commitment to improving community life.

Dedicated Schools Grant

67. The Individual Schools Budget (ISB) is assumed to balance as actual spend has to equal budget, with schools retaining in full any carry forward of either an over or under spend, up to the de minimis level (8% in primary, 5% in secondary). Any balances held over those thresholds are carried forward and added to the Schools block in the following year. During 2013/14 schools generally under spent their budgets by approximately £8m, decreased from approximately £12m in the previous year. The latest estimate is that schools will continue to underspend their available allocations for 2014/15, but at a reduced level, as pressure continues to be felt in schools budgets from the funding reforms implemented nationally in 2013/14.

68. Centrally retained DSG was not fully spent in 2013/14, allowing budget of £5.9m to be carried forward, due in part to pro active management of SEN placements both in Cheshire East schools, and in out of borough placements, but mainly due to the late allocation from the Education Funding agency of £3.6m to correct previous underfunding of post 16 SEN. This carry forward has meant that the service has been able to earmark budget for the Autism Spectrum Condition special school due to open this financial year; further investment has been made in Resource Provision; and investment in Narrowing the Gap activity across the borough. Any underspend at year end will be carried forward to 2015/16 to continue investing in and improving education across Cheshire East.

4 ~ Cheshire East is a green and sustainable place

Development Management

69. With thanks to a huge effort from our Strategic and Economic Planning Team, Cheshire East's Local Plan was submitted to the Secretary of State marking a signification milestone to secure an approved Local Plan. The Examination is scheduled for September 2014.

70. The number of planning applications and level of appeals remains at an all time high and the planning team are making every effort to complete normal day to day operations, whilst at the same time supporting the development of the Local Plan securing the future of the borough. The number of major applications determined (50) is one of the highest nationwide. Minor applications decided were 244; with 565 'other' applications decided.

71. Our Building Control team were commended by their industry for the excellent work over the last 12 months, receiving several awards at the Building Control Excellence Awards in April 2014.

Waste Management

72. The Waste Strategy is ahead of schedule working to a revised timetable for agreement by Cabinet in October 2014. The service is currently out to public consultation in which initial results indicate a positive endorsement of the Council's high level

strategy objectives. The consultation will conclude with two public focus groups and a session with Scrutiny on the 4th September prior to the Strategy going to Cabinet on the 14th October 2014.

73. Citizens' Panel survey results indicate that overall customer satisfaction with the waste collection service stands at 75%.

74. The Waste Service Efficiency Review is on track to deliver required savings through Ansa Environmental Services Alternative Service Delivery Vehicle (ASDV).

Carbon Management

75. New Carbon Index research, issued by Eunomia Research & Consulting for 2012/13, ranks the Council 2nd (out of 11) authorities in the North West in a Carbon Index, and classified Cheshire East as a 'Good Performer' in the English Recycling Carbon Index.

76. Cheshire East Highways continue to work towards delivering a 25% reduction in CO_2 emissions from street lighting and unmetered supplies by March 2016. Although savings have fallen behind what was anticipated by this stage, Highways are working on further proposals that, subject to funding being made available, will still deliver the target by 2016.

Environmental Management

77. Seven Green Flag Awards have been achieved in 2014 (Tatton Park, Congleton Park, Bollington Recreation Ground, The Moor at Knutsford, Tegg's Nose Country Park, Brereton Heath Country Park and Sandbach Cemetery).

78. Orbitas ASDV has been operational from 1st April 2014. The company provides a dignified bereavement service and is responsible for two crematoria sited at Macclesfield and Crewe, and eleven cemeteries (135 acres) located across Cheshire East. There were a total of 767 burials and cremations undertaken during the first quarter, compared to 799 in the same period last year, a decrease of 4%. This decrease is matched by national trends with information from the Office of National Statistics showing that, for the months of April and May, the number of deaths registered in England and Wales was 80,757, representing a decrease of 11,052 (12%) deaths in comparison to the same months in 2013.

79. The number of fly tips stood at 577 at the end of the first quarter. This has increased year-on-year principally because we have introduced a new Customer Relationship Management (CRM) system which better captures the number of incidents. Ansa will continue to carry out Waste Prevention work which will seek to educate people to improve behaviours, however it has limited control over public behaviour. It will continue to respond to fly tipping reports promptly to reduce risk of the problem escalating.

80. 100% of scheduled pollution control inspections to protect the Cheshire East environment were completed during the first quarter. A further inspection has been deferred due to its seasonal requirements. We have also undertaken 8 Petrol Vapour Recovery inspections as part of routine Petroleum Premises Inspections.

Sustainable Energy

81. Early indications are positive with regard to the Council's work on Geothermal energy. An open day was attended by 57 people from across the industry, seeking to consult and develop a dialogue to move the initiative forwards.

82. Significant progress has been made with delivering viability studies assessing the heat network, site investigations and risk modelling all these studies will de-risk the delivery of the Geothermal project.

83. A grant application has been submitted for further feasibility money from the Heat Network Delivery Unit with the outcome known in Summer 2014.

84. The Council has formed an energy advisory board to provide expert advice on a range of topics to secure a better energy deal for our local residents. We are progressing the appointment of an energy supply partner to tackle fuel poverty within the Borough and are currently out to the market.

85. Work to increase the total waste sent for energy recovery by 2016 is on track. An interim collaborative agreement with Staffordshire County Council will deliver 40% to energy recovery 2014/15 and 2015/16. Further increases will require additional procurement from 2016.

86. Latest data on the percentage of households in fuel poverty indicate an improved position. Data is lagged, but a reduction from 11.6% in 2011 to 9.5% in 2012 has resulted in an improved national ranking (from 99 to 59), moving Cheshire East from 'significantly worse' than the England average to 'significantly better' than the England average.

87. At First Quarter Review the Environment Service are reporting overall a potential budget pressure of £0.4m against a net budget of £27.7m. This is a relatively small variance against budget and at the next quarterly report it will be clearer if this pressure can be absorbed within the Service.

88. Environmental Operations are projecting an adverse overall variance of £375,000 against net budget of £27.8m. £252,000 of this relates to potential expenditure in the Client Team while the organisational shift towards a commissioning council continues. £163,000 relates to one off costs for staff displaced through the management review and have since left CEC in the first quarter to 30 June. £108,000 of this relates to voluntary redundancy costs, and the £52,000 remaining budget shortfall (permanent) relates to further currently unfunded client posts.

89. Bereavement Services are projecting an adverse variance of £58,000 against a net income budget of (£1.3m), although further analysis of spending in the service provider will not be reported until the second quarter of operations.

5 ~ People live well and for longer

Facilitating people to live independent, healthier and more fulfilled lives

90. The Council continues to increase the support to people who need adaptations to their home. We have actioned this by improving our performance of the allocation of Disabled Facilities Grant and being able to respond to requests for minor adaptations. We have achieved 503 adaptations in quarter 1 against a target of 425.

91. The Council continues to develop new ways of working to support people to remain in their own homes or return there after admission to hospital. The planned changes are:

- Improved access to information and advice at an early stage to detail what help is available.
- Development of integrated health and social care community services within the Caring Together and Connecting Care programmes.
- Development of integrated urgent care and rapid response services for people to receive care at home in a crisis where this is possible.

All these three areas of work are well underway and the design stages are almost complete with staged implementation to commence later this year.

92. The impact of seeking to make best use of prevention and early intervention services and to work with individuals to look at the support options available to them in their own communities is having positive results in long-term support for people to stay at home. In quarter 1 the performance result for community based services users able to stay in their own home was 80.9%; an increase in performance and the highest to date.

Early Intervention, Help and Prevention

93. Additional care and support services were commissioned in April 2014. These services are being provided by the voluntary sector and continue to add to the range of existing provision. Monitoring of these services will evidence delivery against key Council outcomes which focus on residents being able to access help at an early stage, and ensure the right help at the right time for them.

94. Mental Health Reablement services continue to support people through periods of mental ill health and crises. In the first quarter 493 service users completed a mental health reablement programme. 80% of these service users needed no ongoing help at the end of the six week reablement period.

95. Work is continuing on improving our Early Help offer. Whilst the number of multi-agency early help assessments is increasing, an exercise is being undertaken to audit the quality of these plans and to ensure that they result in a reduction of referrals to Children's Social Care.

Accessible Services**, **Information and Advice

96. Public health drug and alcohol services have been re-commissioned and the new service is expected to be operational by end of October 2014.

97. The new service will have a greater focus on supporting alcohol misuse and on early help, harm reduction and recovery support. Participation in the sub-regional alcohol harm reduction work programme continues. Health promotion talks took place in May with Police talking to vulnerable pupils in 2 schools in Crewe on the consumption of alcohol and the harmful effect on their health.

98. The Winter Wellbeing Group is continuing its preparations for winter 2014/15. A multi-organisation "Under the Weather" Event was held in July 2014 to plan new approaches covering winter, summer and flooding.

99. A Public Health Transformation Fund has been created to enable Cheshire East residents to access, and benefit from, innovative approaches to health and wellbeing not previously available to them. This includes an opportunity to develop sustainable initiatives which provide a greater focus around prevention and early intervention. Approval from Cabinet for the Fund was gained in July 2014.

100. The Council's Leisure facilities and leisure development team transferred to the new Everybody Sport & Recreation Trust on the 1st May. Excellent continuity of service for users has been maintained in the first few months of trading. The trust will now be looking to further develop and improve the leisure and health offer to local residents.

101. The Council is working to increase delivery of 'Bikeability' Level 2 or 3 cycle training to young people aged 8-18 years across the Borough, from 3,800 in 2013/14 to 4,000 in 2014/15. Performance is well on track and ahead of target at the end of the first quarter with 1,103 young people trained across 40 schools and bookings confirmed for the next academic year.

Public Protection and Safeguarding

102. Safeguarding children and young people is a key priority for the Council. The Council has continued to work with Ofsted on piloting its improvement framework. Monthly reports from Ofsted suggest significant improvements in safeguarding quality of

practice. Plans to increase the number of high quality Social Workers are supporting these improvements and the focus for quarter two is on implementing a number of strategies to reduce Social Worker caseloads to enable them to spend more time with children and families.

103. Ensuring that children and young people participate in decisions that affect their lives is an essential part of the Council's ambition to being a good and outstanding authority. It is particularly important for those most vulnerable children and young people. To this end, there continues to be an increase in the number of children and young people who are participating in their child protection plan. Efforts to find different approaches to make this participation more meaningful for these young people are ongoing.

104. The 'Have you Heard' Conference was a key success in celebrating the voice of children and young people during the first quarter. The conference was held in June by the Safeguarding Children in Education and Settings team. Planned, researched and organised by young people themselves, the conference for frontline practitioners focussed on issues that young people identified as important to them in relation to safeguarding, including domestic abuse, child sexual exploitation and e-safety. The high profile event was opened by the Leader of the Council, with a keynote speech from Edward Timpson MP and closing speech from the Portfolio Holder for Children and Families.

105. The annual Looked After Children Sufficiency Statement was revised in quarter one and will be published in the next quarter. This includes an action plan that sets out how the Council will continue to increase the number of children placed locally. A corporate parenting strategy will also be published in quarter two that will set out how the Council intends to improve outcomes for all children in care.

106. The Council's adoption recruitment strategy is proving very successful. 12 adopters have already been recruited against the annual target of 35.

107. Cheshire East Council has been chosen to be part of a national pilot scheme that will help find homes faster for vulnerable children who end up in care. The pilot will allow approved adopters to learn more about the children who are waiting for a loving, stable home. They will be able to find out about their hobbies, likes and dislikes and hear them speak and laugh in videos and pictures.

108. Cheshire East Council will also benefit from funding worth £1,900 per pupil, which will help to close the attainment gap between adopted children and their peers. The 'pupil premium' money will help schools provide tailored support to raise the attainment of all adopted children from this September, such as additional catch-up sessions or specialist training for staff working with children adopted from care.

109. The Adults Service is currently predicting a small overspend at First Quarter Review for 2014/15. This overspend of £300,000 on a net budget of £92.6m represents a variance of 0.3%. The service continues to operate in a very challenging climate financially with demand continuing to rise through the increasingly elderly (and frail) population and the complexity of service users coming through transition to adulthood from Children's Services. Negotiations are underway with health colleagues around the ongoing funding of these costs arising from very complex needs and this issue dominates financial forecasts at this time.

110. In addition, future financial risks continue to grow and are being recorded in outturn forecasting and future years Medium Term Financial Strategy (MTFS) plans as they become able to be quantified with confidence. These include risks around the Care Act where detailed financial modelling has commenced in order

to project whether the monies allocated by central government in future years will match the costs being locally on the ground.

111. Progress is being assessed against current years MTFS target savings and actions such as individual review / reassessments of service users using tools such as the Care Fund Calculator is underway. Papers have recently considered by Cabinet which will allow actions to be delivered to contribute towards these savings. Early projections, for example, around income levels remain buoyant and give cause for optimism at this point. In addition, new pressures such as the recent changes in respect of the approach around Deprivation of Liberties following the Court judgement in March 2014 are being managed and training / resources being targeted appropriately.

112. It should be noted that additional pressures may come forward as the year progresses, for example, those that arise in this sector during the winter period. Colleagues in Health are already gearing up for these potential pressures, which may in turn result in additional pressures on Adults Social Care.

113. The service has successfully recruited additional Social Workers to assist with both current pressures outlined above and also, those that will inevitably arise of the Care Bill in future years (such as further assessments to determine eligibility under the act and in turn, progress toward the care cap introduced under the act).

114. The service is also working with Public Health colleagues to understand the opportunities for collectively commissioning services, to improve the delivery of services to customers and also to maximise value for money for the Council.

115. At this point the overall projection is one of producing a balanced outturn (to follow on from the underspend position reported in 2013/14, which was first for the service during the existence of Cheshire East Council) against a backdrop of increased demand and therefore further pressure on every pound spent. Mid Year Review will contain an update around the funding of very complex cases which as stated at the outset is key to the overall financial position of the service.

116. The Public Health budget for 2014/15, fully funded directly by government grant, is £14.2m. This budget has and will continue to be subjected to ring fencing arrangements through to the end of 2015/16 at the earliest. At the end of 2013/14 £1.6m was placed into the Public Health Earmarked Reserve which is allowable under the regulations that transferred this service into the local authority.

117. This reserve and further funds from within the existing 2014/15 allocation are proposed to be utilised in improving Public Health / Council Outcomes, for example, Outcome 5 “People Live Well and for Longer”. Public Health have launched their Innovation Fund and it is envisaged that the first allocations from the fund will be agreed during August 2014.

118. It is possible that given the proportion of the year that has elapsed to date, and the potential time delay in setting up projects that the Earmarked Reserve will further increase at the end of 2014/15 (a range of £2.5m to £3.0m is flagged at this point) in order that projects are able to be supported for a sufficient period to evidence their success before being considered for mainstream recurrent funding.

119. The quarterly reviews will contain updates about the Innovation Fund and the potential impact on the Earmarked Reserve and the reserve itself will be fully backed by a detailed list of ongoing commitments at year end.

120. There is a risk of potential overspending in Leisure client services (of up to £85,000) while the structure of client services is reviewed across the Council. Additional costs may arise from the closure of the Leisure accounts as at end of April 2014 but these are still being finalised and will be fully reported at mid –year.

A Responsible, Effective and Efficient Organisation

Efficient Use of Assets

121. A property agent has been appointed to work with the Council to accelerate the disposal of surplus assets. This will generate capital receipts and achieve revenue savings targets. Business Improvement work has begun to review the operational performance of the Assets team to develop a fit for purpose team as part of the Commissioning Council model. A review and refresh of the Council's Strategic Asset Management Plan is underway to ensure operational activities remain aligned to the Council's outcomes.

122. The Assets Service at this stage in the financial year are assuming a balanced budget with the exception of the Farms Estate, which based on previous financial year-end outturns, is likely to achieve a favourable variance in the region of £0.2m.

Effective Processes

123. During the first quarter, the Council has continued to develop a suite of local performance indicators to help measure delivery of 'a responsible, effective and efficient organisation'. We are currently working to define, baseline and monitor these measures to track performance and identify areas for improvement throughout 2014/15 and beyond.

Engaging Our People

124. The Council has set a 2014/15 target to reduce the number of average working days per employee (full time equivalent) lost through sickness absence to 11 days (excluding schools). First quarter cumulative performance stood at 2.91 days.

Enhance Leadership and Governance

125. 82% of agreed internal audit report recommendations were implemented in 2013/14, and the Council has set a target of 90% for 2014/15. Work is underway define, baseline and monitor similar measures relating to external audit recommendations and agreed third party inspection report recommendations.

Effective Financial Control

126. No significant Chief Operating Officer budget pressures have been identified at this early stage of the year and a broadly balanced outturn is currently forecast.

2. Financial Stability

Introduction

127. Financial performance in terms of estimates at Quarter 1 of 2014/15 has continued to improve compared to previous financial years. Improvements in financial planning, governance and stewardship are having a clear impact on the Council's ability to manage its budget and create greater confidence in the medium term plans.

128. The best fit approach towards commissioning means the Council now wholly owns several supplier companies. The financial position of these companies, and how this affects the financial performance of the Council, will be analysed and reported in more detail at the mid-year point.

129. **Table 1** provides a service summary of financial performance at Quarter 1. For further details please see Section 1 and the notes below the table. Changes to service net budgets since Original Budget are analysed in **Appendix 2**.

Table 1 Service Revenue Outturn Forecasts

	Revised Net Budget £000	Emerging Pressures £000	Remedial Actions £000	Current Forecast Over / (Under spend) £000	Outcome Number 1-5
Children & Families	54,264	307	-250	57	*3,5*
Adult Social Care & Independent Living	94,780	1,500	-1,200	300	*5*
Public Health & Wellbeing	1,619	85	0	85	*5*
Environment	28,501	433	0	433	*4*
Highways	10,501	64	0	64	*4*
Communities	10,497	1,235	-684	551	*1,2*
Economic Growth & Prosperity	14,756	206	0	206	*2*
Chief Operating Officer	42,043	0	0	0	
TOTAL SERVICE OUTTURN	256,961	3,830	-2,134	1,696	

130. The impact of the projected service outturn position at this early stage of the financial year is to decrease balances by £1.7m. Further items impacting on the level of the Council's balances are detailed in the paragraphs below on centrally held budgets.

131. The Council has made considerable improvements in the way it manages its major change programmes. This has included extensive training, a refreshed methodology, the setting up of new monitoring and reporting arrangements and monthly reporting. In April 2013 the Council launched a corporate project and programme management framework to support achievement of the Three Year Plan. The framework focuses on capital or revenue projects or programmes where the total value exceeds £250,000, or poses significant risk to the Council. Progress is reviewed by a Member-led governance group, called the Executive Monitoring Board

(EMB), which is supported by a Technical Enabler Group (TEG) and the Programme Management Office (PMO).

132. Monitoring of the current projects and programmes focuses on whether projects are expected to achieve the benefits set out in each business case within the timescales and budget initially agreed. Where progress on a specific project or programme is impacting on the outcomes contained in the Council's Three Year Plan details will be provided in Section 1 of this report. Where projects are not meeting time, quality or cost standards these will be considered by Cabinet as part of a monthly summary report.

Government Grant Funding of Local Expenditure

133. Cheshire East Council receives two main types of Government grants; specific use grants and general purpose grants. The overall total of Government grant budgeted for in 2014/15 was £387.4m.

134. In 2014/15 Cheshire East Council's specific use grants held within the services was budgeted to be £283.6m based on Government announcements to February 2014. Further announcements have revised this figure to £279.3m. Spending in relation to specific use grants must be in line with the purpose for which it is provided. General purpose grants were budgeted to be £103.9m based on Government announcements to February 2014. Further announcements have revised this figure to £104.3m.

135. **Table 2** is a summary of the budgeted and updated position for all grants in 2014/15. A full list is provided at **Appendix 3.**

Table 2 – Summary of Grants to date

	Original Budget 2014/15 £m	Revised Forecast FQR 2014/15 £m	Change 2014/15 £m
SPECIFIC USE			
Held within Services	283.6	279.3	-4.3
GENERAL PURPOSE			
Central Funding	86.5	86.5	0.0
Service Funding			
Children & Families	1.0	1.1	0.1
Adult Social Care & Independent Living	0.3	0.4	0.1
Environment	0.1	0.2	0.1
Communities	3.2	3.2	0.0
Economic Growth & Prosperity	0.8	0.8	0.0
Chief Operating Officer	12.0	12.1	0.1
Total Service Funding	17.4	17.8	0.4
TOTAL GENERAL PURPOSE	103.9	104.3	0.4
TOTAL GRANT FUNDING	**387.4**	**383.5**	**-3.9**

136. Specific use grants have decreased by £4.3m. This is mainly due to a reduction in pupil numbers.

137. General purpose grants have increased by £0.4m. This includes various small grants received during the first quarter of 2014/15 that were not budgeted for, including £123,000 for Sustainable Drainage Systems Capability and Capacity Building, and £125,000 for Care Bill Implementation funding. Requests for the allocation of all the additional grants received are detailed in **Appendix 9**.

Collecting Local Taxes for Local Expenditure

138. Cheshire East Council collects Council Tax and National Non Domestic Rates for use locally and nationally.

Council Tax

139. Council Tax is set locally and retained for spending locally. Council Tax was frozen for 2014/15 at £1,216.34 for a Band D property. This is applied to the taxbase.

140. The taxbase for Cheshire East reflects the equivalent number of domestic properties in Band D that the Council is able to collect Council Tax from (after adjustments for relevant discounts, exemptions and an element of non collection). The taxbase for 2014/15 was agreed at 137,548.53 which, when multiplied by the Band D charge, means that the expected income for the year is £167.3m.

141. In addition to this, Cheshire East Council collects Council Tax on behalf of the Cheshire Police and Crime Commissioner, the Cheshire Fire Authority and Parish Councils. **Table 3** shows these amounts separately, giving a total budgeted collectable amount of £202.7m.

Table 3 – Cheshire East Council collects Council Tax on behalf of other precepting authorities

	£m
Cheshire East Council	167.3
Cheshire Police & Crime Commissioner	21.1
Cheshire Fire Authority	9.5
Town & Parish Councils	4.8
Total	**202.7**

142. This figure is based on the assumption that the Council will collect at least 99% of the amount billed. The Council will always pursue 100% collection, however, to allow for non-collection the actual amount billed will therefore be more than the budget.

143. This figure may also vary during the year to take account of changes to Council Tax Support payments, the granting of discounts and exemptions, and changes in numbers and value of properties. The amount billed to date is £206.2m.

144. **Table 4** shows collection rates for the last three years, and demonstrates that 99% collection is on target to be achieved within this period.

Table 4 – Over 99% of Council Tax is collected within three years

		CEC Cumulative	
Financial Year	2011/12 %	2012/13 %	2013/14 %
After 1 year	97.7	98.2	98.1
After 2 years	99.1	99.3	*
After 3 years	99.4	*	*

*data not yet available

145. The Council Tax in-year collection rate for 2014/15 is currently 30.1% compared to 30.0% for the same period in 2013/14. This represents an increase in collection rate of 0.1% on last year and equates to an increase in cash collection of £0.2m when set against the current net debit.

146. Council Tax support payments (incl. Police and Fire) were budgeted at £19.1m for 2014/15 and as at the end of the first quarter the total benefit awarded totalled £16.8m. The Council Tax Support caseload has reduced since April 2014 and there have been more reductions in the Council Tax Support awards in the first quarter than increased or new awards. The amount of negative adjustments will reduce later in the year as the current increased workload due to Welfare Reform changes is cleared.

147. Council Tax discounts awarded as at the end of the first quarter are £18.4m which is broadly in line with the same period in 2013/14.

148. Council Tax exemptions awarded at the end of the first quarter totalled £3m. This is lower than the same period in 2013/14 where the amount awarded totalled £3.4m.

National Non Domestic Rates (NNDR)

149. NNDR is collected from businesses in Cheshire East based on commercial rateable property values and a nationally set multiplier. The multiplier changes annually in line with inflation and takes account of the costs of small business rate relief. This year the multiplier was capped by the Government at 2%.

150. The small business multiplier applied to businesses which qualify for the small business relief has been set at 47.1p in 2014/15. The non-domestic multiplier has been set at 48.2p in the pound for 2014/15.

151. The amount of business rates set by Department for Communities and Local Government (DCLG), to be collected by Cheshire East at the start up of the business rates retention scheme, was £132.5m (including an allowance for valuation appeals). This baseline is subject to an inflationary increase each year (also capped at 2% for this year) therefore for 2014/15 this level will be £135.1m. Current estimates forecast that rates income should be in line with this baseline level.

152. **Table 5** demonstrates how collection continues to improve even after year end. The table shows how over 99% of non-domestic rates are collected within three years.

Table 5 – Over 99% of Business Rates are collected within three years

		CEC Cumulative	
Financial Year	2011/12 %	2012/13 %	2013/14 %
After 1 year	98.1	98.0	98.2
After 2 years	99.1	98.8	*
After 3 years	99.4	*	

*data not yet available

153. The business rates in-year collection rate for 2014/15 is currently 28.7% compared to 33.4% for the same period in 2013/14. This would equate to a shortfall of £6.6m if set against the current net debit, however, more than £5m of this relates to rate payments subsequently settled by Cheshire East Council in relation to schools and other properties. In addition, over 16% of ratepayers, including some larger business property owners have now taken the opportunity to pay over 12 instalments instead of 10. This has the effect of reducing cash collection in the first 10 months of the year compared to previous years.

Capital Programme 2014/18

154. Since reporting the Capital Programme for the Budget Report in February 2014 the overall forecast expenditure for the next three years has increased by £10.1m as shown in **Table 6.**

Table 6 – Summary Capital Programme

	Original Total Forecast Budget 2014/18 £m	Amendments to FQR Forecast Budget 2014/18 £m	Amended FQR Forecast Budget 2014/18 £m	Budget Reductions £m	SCE's £m	Revised Total Forecast Budget 2014/18 £m
Early Help & Protection	2.5	0.8	3.3	0.0	0.0	3.3
Education Strategy	32.4	-0.3	32.1	-0.7	0.8	32.3
Adult Social Care & Independent Living	3.5	-0.1	3.4	0.0	0.0	3.4
Public Health	0.0		0.0	0.0	0.0	0.0
Leisure	31.6	0.5	32.1	0.0	0.0	32.1
Environment	16.0	1.7	17.8	0.0	0.0	17.8
Highways	34.0	-0.9	33.1	0.0	3.1	36.2
Communities	1.0	0.2	1.2	0.0	0.0	1.2
Economic Growth & Prosperity	252.3	6.8	259.1	-8.0	0.0	251.1
Chief Operating Officer	65.6	5.8	71.4	0.0	0.3	71.7
	439.1	**14.5**	**453.6**	**-8.7**	**4.2**	**449.1**

155. The amendment since the budget was set at Council on 27th February 2014 is due to slippage from the 2013/14 capital programme and subsequently approved budget changes totalling £14.5m. Significant slippage was due to factors beyond the Council's control, and deliberate delays to maximise funding. The slippage has now been included in the forecasts for this financial year as well as future years.

156. The programme has also been revised to reflect Budget reductions of £8.7m and Supplementary Capital Estimates of £4.2m contained in **Appendices 5 to 7.**

157. The revised programme is funded from both direct income (grants, external contributions) and the Council's own resources (prudential borrowing, revenue contributions, capital reserve). A funding summary is shown in **Table 7.**

Table 7 – Capital Funding Sources

	Original Total Forecast Budget £m	FQR Total Forecast Budget £m	Change £m
Grants	196.6	201.2	4.6
External Contributions	43.3	41.6	-1.8
Cheshire East Resources	199.2	206.4	7.2
Total	**439.1**	**449.1**	**-10.0**

Capital Budget 2014/15

158. At the First Quarter review stage, the total in-year budget for 2014/15 has been revised from the original budget of £161.2m to £147.8m as shown in **Appendix 4.** This includes the net impact in 2014/15 of supplementary capital estimates, virements and budget reductions listed in **Appendices 5 to 8**.

159. The capital programme is now reported by the stages in the approval process. For in –year monitoring and reporting purposes, only schemes that are noted as committed and in progress will have slippage monitored against them during the year, as these schemes should have commenced prior to or during 2014/15 and a detailed forecast expenditure plan should be in place. Forecast expenditure on these schemes in 2014/15 is £124.3m, as analysed in **Table 8** below. Schemes will be monitored on their progress during the year and re-categorised quarterly.

Table 8 – Changes to the 2014/15 Capital Budget

	Original Budget £m	Revised FQR Budget £m	Forecast Exp £m	Current Forecast Over / Under Spend £m
Early Help & Protection	0.2	0.1	0.1	0.0
Education Strategy	7.8	10.5	10.5	0.0
Adult Social Care & Independent Living	1.2	0.9	0.9	0.0
Public health & Wellbeing	6.0	8.5	8.5	0.0
Environment	1.0	2.9	2.9	0.0
Highways	29.0	31.1	31.1	0.0
Communities	0.2	0.3	0.3	0.0
Economic Growth & Prosperity	30.5	25.5	25.5	0.0
Chief Operating Officer	41.1	44.3	44.3	0.0
Total	**117.0**	**124.3**	**124.3**	**0.0**

160. **Appendix 5** lists approved supplementary capital estimates and virements up to and including £250,000 approved by delegated decision which are included for noting purposes only.

161. **Appendix 6** lists requests for supplementary capital estimates and virements above £250,000 up to £1,000,000 to be approved by Cabinet.

162. **Appendix 7** lists a request for a supplementary estimate of £3.1m in respect of additional grants received from the Department of Transport to the Highways Improvement Programme for approval by Council. £1.9m has been received in respect of Pot Hole repairs and £1.2m to help repair the highways network due to the severe weather earlier this year.

163. **Appendix 8** lists details of reductions of £8.7m in Approved Budgets where schemes are completed, will not be monitored as part of the Council's capital programme and can now be removed. These are for noting purposes only.

Central Adjustments

Capital Financing Costs

164. The capital financing budget includes the amount charged in respect of the repayment of outstanding debt and the amount of interest payable on the Council's portfolio of long term loans. These budgeted costs are partly offset by the interest the Council anticipates earning from temporary investment of its cash balances during the year. The capital financing budget of £12.5m accounts for 5% of the Council's net revenue budget.

165. At First Quarter Review, the capital financing budget is forecast to be broadly balanced.

Treasury Management

166. Investment income for Quarter 1 is £108,000 which is higher than the budgeted income of £80,000 for the period. The level of cash balances have remained high and returns from the externally managed funds have improved in May although given their lack lustre performance over the previous 12 months and in June 2014, consideration is being given to withdrawing these funds:

- The average lend position (the 'cash balance') including fund manager up to the end of Quarter 1 was £89.8m.

- The average annualised interest rate received on in house investments up to the end of Quarter 1 was 0.51%.

- The average annualised interest rate received on the externally managed pooled funds up to the end of Quarter 1 was 0.66%.

167. The Council's total average interest rate up to the end of Quarter 1 in 2014/15 was 0.54%. This is on a par with Base Rates and higher than the London Inter-bank Bid Rate for 7 days at 0.39%. The base rate remained at 0.50% for the quarter.

Table 9 – Interest Rate Comparison

Comparator	Average Rate Q1
Cheshire East	0.54%
LIBID 7 Day Rate	0.39%
LIBID 3 Month Rate	0.48%
Base Rate	0.50%

168. All investments are made in accordance with the parameters set out in the Treasury Management Strategy Statement approved by Council on 27th February 2014. Further details of counterparty limits and current investments are given in **Appendix 9**.

Central Contingencies and Contributions

169. A provision of £1.1m was included in the 2014/15 budget to meet ongoing actuarial charges relating to Voluntary Redundancies. Spending in-year is forecast to be in line with the provision.

170. Following transfers from services, a budget of £1.0m is also held centrally to meet past service Employer Pension contributions relating to staff transferred to the new supplier companies. At First Quarter, it is forecast that spending will be in line with the budget.

Allocation of Additional Grant Funding

171. The Council's budget provides for the receipt of known specific grants. However where additional unbudgeted non-ringfenced grant funding is received, services wishing to increase their expenditure budgets are required by Finance Procedure Rules to seek approval to use this additional funding. This report seeks approval to services' requests to incur additional expenditure in 2014/15 fully funded by additional grant. Details of the allocations are contained in **Appendix 9**.

Debt

172. A summary of outstanding invoiced debt by Service is contained in **Appendix 10**.

Outturn Impact

173. The impact of the projected service outturn position could reduce balances by up to £1.7m as reported above **(para 130)**.

174. Taken into account with the central budget items detailed above, the financial impact described in this report could reduce balances by up to £7.5m as summarised in **Table 10**.

Table 10 – Impact on Balances

	£m
Service Net Budget Outturn	-1.7
Central Budgets Outturn	0.0
Use of Reserves reported to Council	-5.8
Total	-7.5

Management of Council Reserves

175. The Council's Reserves Strategy 2014/17 stated that the Council would maintain reserves to protect against risk and support investment. The Strategy forecast that the risk assessed level of reserves is likely to remain at £14.0m throughout the medium term.

176. The opening balance at 1st April 2014 on the Council's General Reserves is expected to be confirmed at £19.8m. This reflects figures published in the draft statement of accounts for 2013/14.

177. Council have approved the use of £5.8m of general reserves in 2014/15, to support investment in sustainability and communities, at their meetings in February and July 2014.

178. The overall impact of service budgets, central budgets and Council decisions is identified in **Table 10** above. **Table 11** shows how this impacts on the forecast closing balance of general reserves.

Table 11 – Change in Reserves Position

	£m
Opening Balance at 1 April 2014	19.8
Quarter 1 Outturn Impacts	-7.5
Forecast Closing Balance at March 2015	12.3

179. The projected balance of £12.3m reflects the current forecast that risks associated with budget achievement in 2014/15 may actually materialise and this is within the range provided in the Reserves Strategy. Options to mitigate the current risk will continue to be explored in the remaining nine months of the financial year. Overall the Council remains in a strong financial position given the major challenges across the public sector.

3. Workforce Development

180. This section sets out the Council's activities in relation to HR, Organisational Development, Workforce Development plans and changes to staffing levels.

181. The Council has a number of key workforce projects underway to support the Council's continued transformation. In order to understand the levels of staff engagement and morale an employee survey was run earlier this year. The results highlighted some key strengths as well as some areas for improvement – providing a baseline from which to build. Managers are leading discussions within teams across the Council to explore the results in more detail and agree actions that can be taken at a local level or corporately to continually improve.

182. Recognising the very different organisation we are and will become, a comprehensive review of our core organisational values and associated behaviours has been completed to ensure our core values reflect what matters most and provide a strong and enduring foundation for future success. Our revised values start with "Putting Residents First". This is our promise to the residents and communities of Cheshire East, which we will deliver by consistently living our five core values. Work is now underway to align our values with other processes and embed them in all that we do.

183. In conjunction with the review of our core values we have also reviewed the Council's employee recognition scheme. Drawing on feedback from colleagues across the Council, the Cheshire East "Making a Difference" scheme was launched on 1st July. This revised approach includes:

- 'Made my Day' Instant Recognition
- 'Making a Difference' Employee / Team of the month
- 'Making a Difference' Employee / Manager / Team of the year

184. Recognising that the world of work is complex, constantly changing and placing increasingly tough demands on all employees, leaders and managers who need a broad portfolio of management and leadership tools and techniques to do their job effectively. Coaching is a particularly powerful tool that has proven to be a highly effective way of developing individual and organisational performance by unlocking capability, building confidence and increasing ownership. A "Coaching for innovation, change and performance" development programme has recently been piloted involving a mix of managers from senior managers through to team leaders. Feedback from the pilot has been very encouraging and early indications are showing that taking a coaching approach is having a positive impact in terms of increased ownership, making breakthroughs on issues and releasing potential.

Staffing Changes

185. **Table 12** below demonstrates that there has been a reduction in headcount of 10% between April and June 2014. The employee headcount in June 2014 was 3,960 – a reduction of 18% from March 2014, predominantly as a result of employees transferring to ANSA and Orbitas on 1st April 2014, and to ESAR and CoSocius on 1st May 2014.

Table 12: Headcount and FTE figures for April to June 2014

	April		May		June	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
Childrens & Families	1,100	751.0	1,102	752.7	1,105	752.0
Adults	1,289	984.1	1,285	981.2	1,299	995.3
Former Places	1,466	1,002.9	1,122	818.9	1,106	807.8
Finance	244	225.7	248	226.4	248	225.8
Legal & Democratic	121	79.5	121	79.5	122	80.5
HR & Organisational Development	42	36.0	40	35.1	40	35.1
Shared Services	113	105.4	15	13.9	16	14.7
Apprentices	49	49.1	46	44.2	42	41.4
Total	**4,424**	**3,233.7**	**3,979**	**2,951.9**	**3,978**	**2,952.6**

186. **Table 13** demonstrates that over the first quarter in 2014/15 the cumulative average days lost to sickness was slightly higher than the previous financial year. Management of sickness absence levels during this financial year will focus on developing greater resilience and addressing stress and a detailed action plan to address this has been developed.

Table 13: Comparison of average days lost to sickness in the First Quarter of 2014/15 to the same period in 2013/14

	Apr	May	Jun
Q1 2014/15	1.02	1.62	2.91
Q1 2013/14	0.93	1.80	2.59

Whole Council excluding Schools – year to date cumulative effect

Voluntary Redundancies

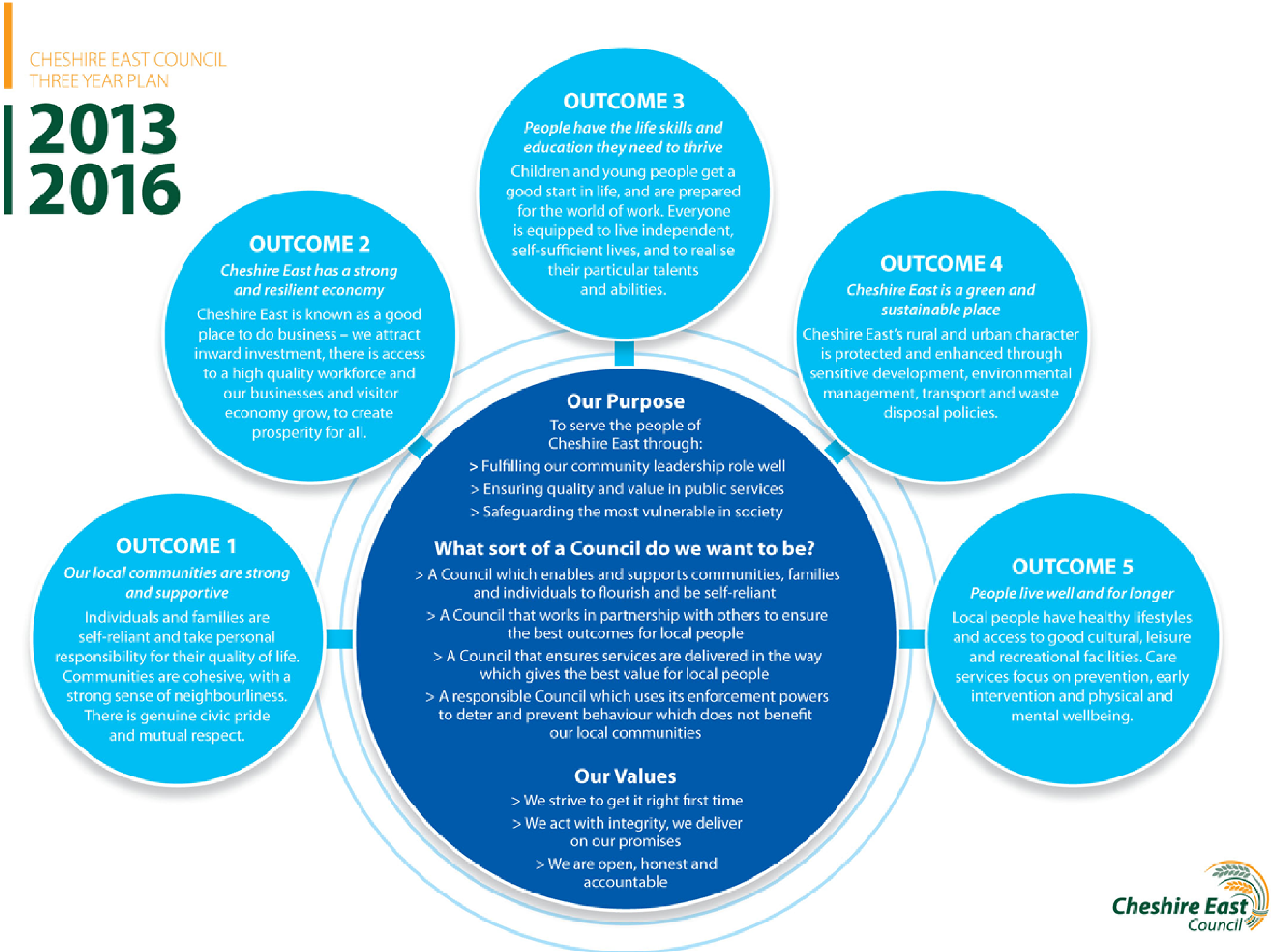
187. The Council's voluntary redundancy scheme continues to support organisational change and the delivery of the planned programme of change in the Council Plan. The effective use of voluntary redundancy in this way enables the Council to achieve its planned savings and efficiencies and also helps to maintain good employee relations within the Authority and minimises the prospect of compulsory redundancy.

188. Ten people have left the Council under voluntary redundancy terms in Quarter 1, five of whom held posts within the management grades (Grade 10 or above). The total severance costs, for all ten employees were £475,072, inclusive of redundancy and actuarial costs. Over the next five years, these reductions are estimated to save the Council over £495,500 (which is the combined accumulated costs of the deleted posts).

Appendices to First Quarter Review of Performance 2014/15

September 2014

Appendix 1 – The Three Year Council Plan



To assist with reading this page a PDF version is has been made available at: www.cheshireeast.gov.uk/budget

Appendix 2 – Changes to Revenue Budget 2014/15 since Original Budget

	Budget Book Net Budget £000	Additional Grant Funding £000	Restructuring & Realignments £000	Other Virements £000	FQR Net Budget £000
Childrens & Families	54,534	27	-297		54,264
Adult Social Care & Independent Living	94,655	125	0		94,780
Public Health & Wellbeing	1,619	0	0		1,619
Environment	28,475	123	-97		28,501
Highways	10,501	0	0		10,501
Communiites	10,207	57	233		10,497
Economic Growth & Prosperity	14,608	50	98		14,756
Chief Operating Officer	41,971	9	63		42,043
TOTAL SERVICE BUDGET	**256,570**	**391**	**0**	**0**	**256,961**
Central Budgets					
Specific Grants	-17,379	-391			-17,770
Capital Financing	12,500				12,500
Contingencies	1,143				1,143
Corporate Contributions	1,027				1,027
Contribution to/from Reserves	-40				-40
	-2,749	-391	0	0	-3,140
TOTAL BUDGET	**253,821**	**0**	**0**	**0**	**253,821**

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Appendix 3 – Corporate Grants Register

Corporate Grants Register 2014/15 First Quarter Review	Note	Original Budget 2014/15 £000	Revised Forecast 2014/15 £000	Change 2014/15 £000	SRE / Balances (Note 2)
SPECIFIC USE (Held within Services)					
Schools					
Dedicated Schools Grant	*1*	171,759	167,729	(4,030)	
Pupil Premium Grant	*1*	7,489	6,796	(693)	
Sixth Forms Grant	*1*	5,512	5,579	67	
Total Schools Grant		**184,760**	**180,104**	**(4,656)**	
Housing Benefit Subsidy		84,518	84,518	0	
Public Health Funding		14,274	14,274	0	
Restorative Justice Development Grant		8	8	0	
Bus Services Operators Grant		0	348	348	SRE
TOTAL SPECIFIC USE		**283,560**	**279,251**	**(4,308)**	
GENERAL PURPOSE (Held Corporately)					
Central Funding					
Revenue Support Grant		48,601	48,601	0	
Business Rates Retention Scheme		37,883	37,883	0	
Total Central Funding		**86,484**	**86,484**	**0**	

Corporate Grants Register 2014/15 First Quarter Review	Note	Original Budget 2014/15 £000	Revised Forecast 2014/15 £000	Change 2014/15 £000	SRE / Balances (Note 2)
GENERAL PURPOSE (Held Corporately)					
Children & Families					
Troubled Families		130	130	0	
Troubled Families - Co-ordinator		100	100	0	
Extended Rights to Free Transport		153	153	0	
Adoption Reform Grant (unringfenced element)		275	275	0	
Special Educational Needs Reform Grant		384	384	0	
Youth Detention - Looked After Children		0	27	27	SRE
Adult Social Care & Independent Living					
Local Reform and Community Voices Grant		262	262	0	
Care Bill Implementation Grant		0	125	125	SRE
Environment					
Lead Local Flood Authorities		52	52	0	
Sustainable Drainage Systems Capability and Capacity Building		0	123	123	SRE
Communities					
Housing Benefit and Council Tax Administration		1,760	1,760	0	
NNDR Administration Grant		562	562	0	
Social Fund - Programme funding		612	612	0	
Social Fund - Administration funding		119	119	0	
Council Tax - New Burden		135	135	0	
Implementing Welfare Reform Changes		0	57	57	SRE

Corporate Grants Register 2014/15 First Quarter Review	Note	Original Budget 2014/15 £000	Revised Forecast 2014/15 £000	Change 2014/15 £000	SRE / Balances (Note 2)
GENERAL PURPOSE (Held Corporately)					
Economic Growth & Prosperity					
Skills Funding Agency		785	830	45	SRE
Neighbourhood Planning Grant		0	5	5	SRE
Chief Operating Officer					
Education Services Grant		4,700	4,769	69	Balances
New Homes Bonus 2011/12		870	870	0	
New Homes Bonus 2012/13		1,844	1,844	0	
New Homes Bonus 2013/14		1,037	1,037	0	
New Homes Bonus 2014/15		1,358	1,358	0	
Affordable Homes 2012/13		85	85	0	
Affordable Homes 2013/14		82	82	0	
New Homes Bonus 2013/14 - return of topslice		132	129	(3)	Balances
Council Tax Freeze Grant 2014/15		1,816	1,807	(10)	Balances
Community Rights to Challenge		9	9	0	
Community Rights to Bid		8	8	0	
Individual Electoral Registration		108	117	9	SRE
NNDR software changes - Retail Relief		0	8	8	Balances
Local Government Transparency Code 2014		0	0	0	
Total Service Funding		**17,379**	**17,834**	**455**	
TOTAL GENERAL PURPOSE		**103,863**	**104,318**	**455**	
TOTAL GRANT FUNDING		**387,422**	**383,569**	**(3,853)**	

Notes

1 The Dedicated Schools Grant, Pupil Premium Grant and Sixth Form Grant from the Education Funding Agency (EFA) figures are based on actual anticipated allocations. Changes are for in-year increases to allocations by the DfE and conversions to academy status.

2 Supplementary Revenue Estimate (SRE) requested by relevant service or grant paid into general reserves

Appendix 4 – Summary Capital Programme and Funding

Commissioning Service	In-Year Budget FQR 2014/15 £000	SCE's Virements Reductions FQR 2014/15 £000	Budget Realignment FQR 2014/15 £000	Revised In-Year Budget FQR 2014/15 £000	Forecast Expenditure 2014/15 £000	Forecast Expenditure 2015/16 £000	Forecast Expenditure 2015/16 and Future Years £000
Early Help and Protection							
Committed Schemes - In Progress	175	0	-44	131	131	0	0
Committed Schemes at Gate 1 Stage	397	750	0	1,147	1,147	0	0
Medium Term and Rolling Programme	760	0	44	804	804	1,051	206
Education Strategy							
Committed Schemes - In Progress	7,762	-627	3,344	10,479	10,479	684	698
Committed Schemes at Gate 1 Stage	4,649	2,129	-3,350	3,428	3,428	1,001	393
Medium Term and Rolling Programme	5,900	-2,615	373	3,658	3,658	5,597	6,337
Adult Social Care and Independent Living							
Committed Schemes - In Progress	1,191	0	-253	938	938	155	0
Medium Term and Rolling Programme	750	0	0	750	750	800	800
Leisure							
Committed Schemes - In Progress	5,969	0	2,557	8,526	8,526	6,586	0
Longer Term Proposals	500	0	-200	300	300	8,700	8,000
Environment							
Committed Schemes - In Progress	995	0	1,947	2,942	2,942	26	0
Medium Term and Rolling Programme	6,015	0	-1,500	4,515	4,515	6,595	3,690
Highways							
Committed Schemes - In Progress	29,044	2,892	-804	31,132	31,132	2,340	2,710

Commissioning Service	In-Year Budget FQR 2014/15 £000	SCE's Virements Reductions FQR 2014/15 £000	Budget Realignment FQR 2014/15 £000	Revised In-Year Budget FQR 2014/15 £000	Forecast Expenditure 2014/15 £000	Forecast Expenditure 2015/16 £000	Forecast Expenditure 2015/16 and Future Years £000
Communities							
Committed Schemes - In Progress	180	0	144	324	324	170	0
Committed Schemes at Gate 1 Stage	500	0	-74	426	426	200	0
Medium Term and Rolling Programme	100	0	0	100	100	0	0
Economic Growth and Prosperity							
Committed Schemes - In Progress	30,529	-1,063	-3,943	25,523	25,523	17,089	1,397
Committed Schemes at Gate 1 Stage	1,235	23	760	2,018	2,018	643	0
Medium Term and Rolling Programme	20,908	-7,600	-9,913	3,395	3,395	24,243	21,459
Longer Term Proposals	850	0	50	900	900	11,000	143,400
Chief Operating Officer							
Committed Schemes - In Progress	41,137	778	2,354	44,269	44,269	13,175	8,180
Committed Schemes at Gate 1 Stage	1,650	0	400	2,050	2,050	2,600	1,450
Committed Schemes - In Progress	**116,982**	**1,980**	**5,302**	**124,264**	**124,264**	**40,225**	**12,985**
Committed Schemes at Gate 1 Stage	**8,431**	**2,902**	**-2,264**	**9,069**	**9,069**	**4,444**	**1,843**
Medium Term and Rolling Programme	**34,433**	**-10,215**	**-10,996**	**13,222**	**13,222**	**38,286**	**32,492**
Longer Term Proposals	**1,350**	**0**	**-150**	**1,200**	**1,200**	**19,700**	**151,400**
Total Net Position	**161,196**	**-5,333**	**-8,108**	**147,755**	**147,755**	**102,655**	**198,720**

Funding Sources	2014/15 £000	2015/16 £000	2015/16 and Future Years £000
Grants	76,817	18,675	105,678
External Contributions	14,073	14,869	12,642
Cheshire East Council Resources	56,865	69,111	80,400
Total	**147,755**	**102,655**	**198,720**

Appendix 5 – Approved Supplementary Capital Estimates and Virements up to £250,000

Capital Scheme	Amount Requested £	Reason and Funding Source
Summary of Supplementary Capital Estimates and Capital Virements that have been made up to £250,000 by delegated powers provided to Portfolio Holders		
Supplementary Capital Estimates		
Education Strategy		
Devolved Formula Capital	15,439	**Fully Funded by Grant** - The original budgets for these projects were based on estimated grant allocations. The Department for Education has now confirmed the actual grants for 2014/15 and these budgets have been matched to include the higher allocations.
Capital Maintenance Central Allocation	9,662	
Manor Park - Basic Needs	113,180	
Cap Maintenance Grant Block	60,000	
Re-organisation/Co-location of Services	100,000	
Economic Growth and Prosperity		
Tatton Vision	11,200	**Fully Funded by Budgeted Contribution** - Revenue contribution for continuous and ongoing development work on the facilities at the Gardener's Cottage to enhance both the Visitors and Operators ability to provide a first class catering establishment.
Total Supplementary Capital Estimates	**309,481**	

Capital Scheme	Amount Requested £	Reason and Funding Source
Summary of Supplementary Capital Estimates and Capital Virements that have been made up to £250,000 by delegated powers provided to Portfolio Holders		
Capital Budget Virements		
Education Strategy		
Capital Maintenance Grant Block Provision	20,013	Surplus grant from the completed scheme at Alsager High School, vired to the Capital Maintenance Block for re-allocation.
Highways		
Poynton Revitalisation	200,000	Virement of funds from Bridge Maintenance Minor Works programme budget for continuing remedial works on site.
Economic Growth and Prosperity		
Housing Innovation Fund	72,936	Fully Funded by Housing Grant - originally being used to fund the 2007/08 Affordable Housing Initiatives (S106 Holly Lodge) project. This project is no longer progressing. This amount has been transferred to the newly formed Housing Innovation Fund for affordable housing projects within the Borough.
Total Virements Approved	**292,949**	
Total Supplementary Capital Estimates and Virements	**602,430**	

Appendix 6 – Request for Supplementary Capital Estimates and Virements above £250,000

Capital Scheme	Amount Requested £	Reason and Funding Source
Cabinet are asked to approve the Supplementary Capital Estimates and Virements above £250,000 up to and including £1,000,000		
Supplementary Capital Estimates		
Education Strategy		
School Maintenance Projects	536,242	Fully funded by contributions from schools delegated budgets towards works being undertaken to improve sites.
Chief Operating Officer		
Electronic Vehicle rapid style chargepoints	278,000	Fully funded by grant of £222,000 from the Office for Low Emission Vehicles.and external contributions of £56,000.
Total Supplementary Capital Estimates Requested	**814,242**	
Capital Budget Virements		
Education Strategy		
School Maintenance Projects	371,949	Fully funded by contributions from schools Devolved Formula Capital Allocations towards works being undertaken to improve sites.
Free Early Years Education for 2 Year Olds	750,000	Fully funded by virements from Capital Maintenance central allocation to provide additional places to support the 2 year old offer within schools.
Disley Primary School – Replacement of Mobile Classroom and Suitability Improvements	380,000	Fully funded by virement from Block Allocation for Mobile Replacement and Maintenance projects as scheme now exceeds £250,000.

Capital Scheme	Amount Requested £	Reason and Funding Source
Cabinet are asked to approve the Supplementary Capital Estimates and Virements above £250,000 up to and including £1,000,000		
Economic Growth and Prosperity		
Crewe Transformation Phase 2	823,115	Fully funded by virement from Crewe Transformation Project (Phase 1) to rationalise the programme and roll up the budget to streamline the reporting of the project as a whole.
Chief Operating Officer		
Minor Works	403,703	Fully funded by virement from Office Accommodation Strategy to roll up the budgets for more streamlined reporting.
Assets	500,000	Fully funded by allocation of Capital Maintenance grant from Education Strategy to fund condition work on the schools portfolio.
Total Virements Requested	**3,228,767**	
Total Virements and Supplementary Capital Estimates	**4,043,009**	

Appendix 7 – Request for Council to approve Supplementary Capital Estimates and Virements above £1m

Capital Scheme	Amount Requested £	Reason and Funding Source
Council is asked to approve Supplementary Capital Estimates and Virements above £1m		
Highways		
Highway Investment Programme	1,862,407	**Fully Funded by Grant** - Additional Highways Maintenance Funding in 2014/15 for the fixing of Pot Holes within Cheshire East.
	1,249,785	**Fully Funded by Grant** - Additional Highways Maintenance Funding in 2014/15 to help repair the damage caused by the Severe Weather and flooding earlier in the year.
Total Supplementary Capital Estimates Requested	**3,112,192**	

Appendix 8 – Capital Budget Reductions

Capital Scheme	Approved Budget £	Revised Approval £	Reduction £	Reason and Funding Source
Cabinet are asked to note the reductions in Approved Budgets				
Education Strategy				
Basic Need Block	7,657,425	7,160,124	-497,301	Reduction in funding being provided, by the Department of Education, towards expanding the number of places within schools.
Capital Maintenance Grant	7,000,000	6,800,000	-200,000	Reduction in the anticipated funded from the Department of Education due to schools converting to Academies.
Highways				
Air Quality Action Plan	42,215	22,215	-20,000	£20,000 of the Local Transport Partnership funding against Air Quality is being used to fund the newly approved "Electronic Vehicle Recharge" project, which has been included in the £278,000 Supplementary Capital Estimate request on Appendix 6
Economic Growth and Prosperity				
Basford West Spine Road	7,600,000	0	-7,600,000	Take out of the programme as we will pay the money (£2.9m Pinch Point Funding) over to the developer or back to the DfT
Earl Road Handforth Feasibility	130,000	24,886	-105,114	Budget for this feasibility work no longer required, balance to go back into the feasibility pot so that it can be allocated elsewhere.
Tatton Cash Receipting System	250,000	200,000	-50,000	Contract price refined since the original proposals approved.
Affordable Housing Initiatives (Section 106 Holly Lodge)	869,733	637,468	-232,265	Migrated project from 2007/08 - scheme under review.
Total Capital Budget Reductions	**23,549,373**	**14,844,693**	**-8,704,680**	

Appendix 9 – Treasury Management

Counterparty Limits and Investment Strategy

1. The maximum amount that can be invested with any one organisation is set in the Treasury Management Strategy Report. For named UK banks and credit rated building societies this has been set at 10% of our total investments subject to a maximum value of £10m. These limits apply to the banking group that each bank belongs to. Limits for each Money Market fund have been set at 25% of total investments subject to a maximum value of £10m. There is also a maximum that can be invested in all Money Market Funds at any one time of 50% of the value of all investments. Due to their smaller size, unrated Building Societies have a limit of £1m each.

2. Our approved counterparties list also includes a number of foreign banks. As the limits applicable to all organisations have been reduced the Council is looking to invest in selected highly rated foreign institutions. On 5th June 2014 a 1 year Certificate of Deposit (CD) was purchased from Deutsche Bank and has since been followed with a further CD on 17th July.

3. In order to diversify investments over a broader range of counterparties, the Council is also looking at a range of unrated Building Societies on advice from our treasury advisors who are monitoring their financial standing in the absence of any formal credit rating. Although no investments were made in Quarter 1, the first investment was placed with Vernon Building Society in July.

4. Banks credit ratings are kept under continual review. There have not been any significant changes in Quarter 1 of 2014/15. In addition to ratings, other credit indicators, such as Swap rates are also monitored.

Table 1 shows the current investments and limits with each counterparty. A full analysis of the types of investment and current interest rates achieved is given in **Table 2.**

Table 1 – Current Investments and Limits

Counterparties	Limits		Investments as at 30th June 2014	
UK Banks				
Barclays Bank	10%	£10m	7%	£5.6m
Close Brothers	10%	£10m	6%	£5.0m
HSBC Bank	10%	£10m	-	-
Lloyds TSB	10%	£10m	10%	£8.0m
Santander (UK) plc	10%	£10m	6%	£4.5m
Standard Chartered Bank	10%	£10m	2%	£2.0m
Foreign Banks				
Deutsche Bank	10%	£10m	2%	£2.0m
Building Societies				
Leeds Building Society	10%	£1m	1%	£1.0m
Nationwide Building Society	10%	£10m	10%	£8.0m
Money Market Funds	**50%**		**31%**	
Deutsche	25%	£10m	4%	£3.3m
Ignis	25%	£10m	7%	£6.0m
Federated Prime Rate	25%	£10m	10%	£8.0m
Morgan Stanley	25%	£10m	6%	£4.2m
Scottish Widows	25%	£10m	4%	£3.5m
Pooled Funds – External Fund Manager	50%		25%	£20.4m
				£81.5m

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Table 2 – Types of Investments and Current Interest Rates

Instant Access Accounts	Avg rate %	£m
Instant Access Accounts	0.36%	5
Money Market Funds	0.40%	25

Fixed Term Deposits	Start	Maturity	Rate %	£m
Leeds Building Society	08/04/2014	17/07/2014	0.41	1
Nationwide BS	14/04/2014	18/07/2014	0.47	2
Close Bros	23/04/2014	31/07/2014	0.65	5
Lloyds TSB	05/02/2014	05/08/2014	0.70	3
Nationwide BS	09/04/2014	18/08/2014	0.50	2
Barclays	28/08/2013	28/08/2014	0.85	5
Nationwide BS	15/04/2014	18/09/2014	0.52	2
Lloyds TSB	15/04/2014	17/10/2014	0.70	2
Nationwide BS	15/01/2014	14/01/2015	0.81	2
Lloyds TSB	14/04/2014	14/01/2015	0.80	3
Standard Chartered CD	26/11/2013	26/11/2014	0.69	2
Deutsche CD	05/06/2014	04/06/2015	0.82	2

Externally Managed Funds	£m
Pooled Investments	20.4

Maturity Profile	£m
Instant Access	30.1
Maturing < 1 month	8.0
Maturing within 1 - 6 months	16.0
Maturing within 6 - 12 months	7.0
Externally Managed Funds	20.4
Total	**81.5**

Performance of Fund Manager

5. The table below shows the performance of the funds (net of fees) since the initial investment of £20m (£10m in each model) on 27th May 2011.

	STANDARD MODEL	DYNAMIC MODEL
April 2014	0.03%	0.02%
May 2014	0.13%	0.14%
June 2014	0.02%	-0.01%
Cumulative 2014/15	0.17%	0.15%
Value of Investment at 30/06/14	£10,254,846	£10,230,168
Fees (Total since start)	£78,472	£84,511
Average Annual Rate as at 30/06/14	0.59%	0.49%

6. Strong performance in May was overshadowed by poor results in April and June. Whilst the fund manager hedges investments to protect against sharp losses it also dampens down returns and the fund has suffered from this. Emerging market debt and foreign currency were the areas that added most value in May.

7. Although some volatility is expected the general trend in performance of the fund has been below expectations. The Council is considering withdrawing from this fund and looking at alternative options for longer term investments. Advice is being taken on the timing of any withdrawal.

Appendix 10 – Requests for Allocation of Additional Grant Funding

Service	Type of Grant	£000	Details
Economic Growth and Prosperity	Bus Services Operators Grant (Specific Use - Ringfenced)	348	Following a review of the payment of Bus Service Operator Grant (BSOG) the Department for Transport (DfT) has decided to devolve payment of BSOG for Council support bus services to Transport Authorities with effect from 1 January 2014. These revisions will lead to monies previously paid directly to transport operators by DfT being devolved to the Council and a reduction in the revenue received by transport operators. This change, initiated by the DfT to give more local control over public transport funding, is welcomed by Cheshire East Council. It is likely that over time, this will allow for greater investment in rural bus services as it will give the Council control over a greater pool of funding.
Children & Families	Youth Detention – Looked After Children (General Purpose)	27	The Legal Aid, Sentencing & Punishment of Offenders Act (LASPO) was issued in May 2012 with implementation from December 2012. The LASPO Act 2012 devolves greater financial responsibility for secure & custodial remands to Local Authorities and all Children and Young People who are remanded in youth detention accommodation will be given Looked After Children status. The grant is to cover the costs of this new responsibility and gives LA's incentives to reduce their secure remands and reinvest any savings achieved in Youth Justice.
Adult Social Care and Independent Living	Care Bill Implementation Grant (General Purpose)	125	The purpose of this grant is to provide Council with a contribution to the costs of creating the capacity needed to lead and manage this change programme. The Council is also expected to respond to three national stocktake exercises on the progress of implementation of the Social Care Act.
Environment	Sustainable Drainage Systems Capability and Capacity Building (General Purpose)	123	Lead Local Flood Authority New Duty following implementation of Flood and Water Management Act 2010 Schedule 3 - Defra grant to support setting up of Sustainable Urban Drainage Systems Approval Body grant to cover a range of activities such as new staffing and resource, training, new IT development and specialist software and systems for design, analysis and adoption of flood risk management drainage systems.

Service	Type of Grant	£000	Details
Economic Growth and Prosperity	Neighbourhood Planning Grant (General Purpose)	5	A grant of £5,000 is provided to the Council by the Department for Communities and Local Government for each Neighbourhood Area that is designated. This is to support these local communities to prepare a neighbourhood plan. This is the second designation this financial year. The grant is not ring fenced to Neighbourhood Planning so can be used to support the wider Spatial Planning function.
Economic Growth and Prosperity	Lifelong Learning (General Purpose)	45	£45,213 for learners attending Skills Funding Agency courses. The funding contributes towards the Council priority area of responding to the changing education and learning environment. The grant is in part awarded subject to achievement of performance measures stipulated in the grant conditions and therefore partial repayment of the grant may be required for underperformance.
Governance and Democratic	Individual Electoral Registration (General Purpose)	9	The Cabinet Office has provided an original grant of £108,000 for the implementation of Individual Electoral Registration (IER). A further top up has now been received from Central Government to cover the costs of the introduction of A3 forms to be used for IER. The total grant amount is £116,597 which includes the original grant.
Communities	Implementing Welfare Reform Changes (General Purpose)	57	The funding is intended to meet “New Burdens” incurred by local authorities as a result of the implementation of the following areas of welfare reform: • implementation of changes to Local Housing Allowance (including the move to an annual uprating cycle and changes to the Shared Accommodation Rate) • implementation of the Removal of the Spare Bedroom Subsidy (formerly Social Sector Size Criteria) • introduction of the overall benefit cap (phased introduction, starting in April 2013) • net impact of implementing Universal Credit.
TOTAL	Specific Use	348	
TOTAL	General Purpose	391	
TOTAL	**Total**	**739**	

Appendix 11 – Debt Management

1. In addition to the collection of Council Tax and National Non-Domestic Rates the Council also issues invoices to organisations or individuals for certain key services. Performance related to Council Tax and Non-Domestic Rates is contained in Section 2 of this report.

2. Annually, the Council raises invoices with a total value of around £50m. This includes around £25m in Adult Social Care relating to client contributions towards care packages and income from Health on pooled budget and partnership arrangements.

3. Total Invoiced Debt at the end of June 2014 was £10.6m. After allowing for £4.9m of debt still within the payment terms, outstanding debt stood at £5.8m. This is £1.6m lower than at 31st March, mainly due to settlement of debt relating to the Learning Disability Pooled Budget in Adults.

4. The total amount of service debt over 6 months old is £2.3m which is broadly in line with the older debt reported at the end of 2013/14.

5. Services have created debt provisions of £2.3m to cover this debt in the event that it needs to be written off.

6. The Council uses a combination of methods to ensure prompt payment of invoices. Recovery action against unpaid invoices may result in the use of debt collectors, court action or the securing of debts against property.

	Outstanding Debt £000	Over 6 months old £000	Debt Provision £000
Children & Families	125	37	183
Adult Social Care	3,277	1,532	1,406
Public Health & Wellbeing	88	15	15
Environmental	1,339	202	202
Highways	408	282	282
Communities	75	27	27
Economic Growth and Prosperity	310	131	131
Chief Operating Officer	139	88	89
	5,761	**2,315**	**2,335**