

**Commercial and Investment****Finance Monitoring Report – September 2019****1. KEY INDICATORS**

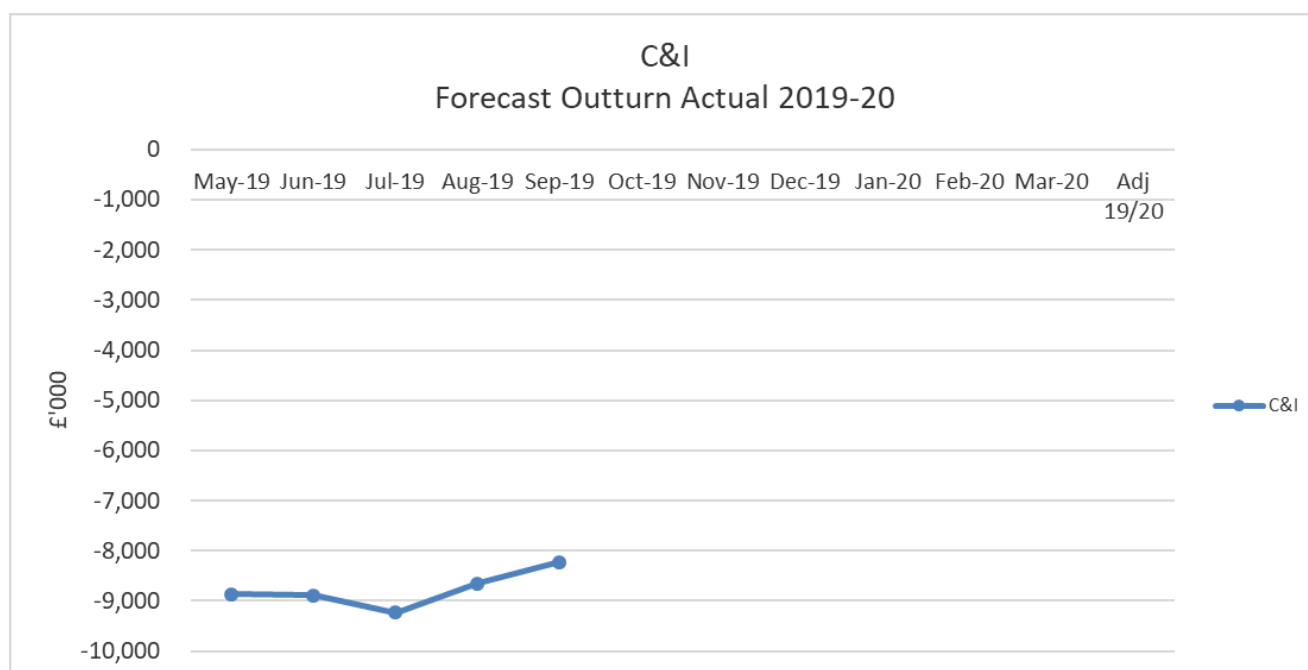
<b>Previous Status</b>	<b>Category</b>	<b>Target</b>	<b>Current Status</b>	<b>Section Ref.</b>
<b>Amber</b>	Income and Expenditure	Balanced year end position	<b>Amber</b>	2.1 – 2.4
<b>Green</b>	Capital Programme	Remain within overall resources	<b>Green</b>	3.2

**2. REVENUE EXECUTIVE SUMMARY****2.1 Overall Position**

- 2.1.1 To ensure financial information is presented in a consistent way to all Committees a standardised format has now been applied to the summary tables and service level budgetary control reports included in each FMR. The same format is also applied to the Integrated Finance Monitoring Report (IFMR) presented to General Purposes Committee (GPC). The data shown provides the key information required to assess the financial position of the service and provide comparison to the previous month.

<b>Outturn Variance (Aug) £000</b>	<b>Directorate</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Outturn Variance (Sep) £000</b>	<b>Outturn Variance (Sep) %</b>
16	Commercial Activity	-11,354	-1,711	155	1.4%
63	Property Services	6,229	3,465	224	3.6%
-66	Strategic Assets	-3,301	256	-66	2.0%
102	Traded Services	-343	-424	229	66.8%
<b>115</b>	<b>Total</b>	<b>-8,768</b>	<b>1,585</b>	<b>542</b>	<b>6.2%</b>

- 2.1.2 Commercial and Investment (C&I) has a negative budget as it has an income target for 2019/20 of -£8,768k. As such, the forecast outturn variance of £542k means that C&I is expecting to achieve a net income position of -£8,226k by year-end as demonstrated in the following chart:



2.1.3 The service level budgetary control report for Commercial and Investment for September 2019 can be found in [C&I Annex 1](#).

## 2.2 Significant Issues

2.2.1 At the end of September 2019, Commercial and Investment is forecasting an underachievement of income of £542k in 2019/20, which is an increase of £427k from the previous forecast. The change in forecast is mainly due to changes within Commercial Activity, Property Services and Traded Services, and is offset by some additional income in Commercial Activity.

### 2.2.2 Commercial Activity

The Contract Efficiencies & Other Income budget is forecast to underachieve by £350k in 2019/20, which is an increase of £150k from the previous forecast. This is due to the targets for savings and additional income not being expected to be met in the year. However, work is underway to achieve this target in future years, and is expected to be taken forward by the Commercial Team once the team is in place. In addition, it has been concluded that whilst there may be some financial benefit for charities of creating a CCC lottery, this could be outweighed by the possibility of losing support through direct contributions and anxieties about control and financial burden. Resources will therefore be refocused to support other commercial initiatives.

### 2.2.3 Property Services

The Facilities Management budget is forecast to overspend by £241k in 2019/20, which is an increase of £178k from the previous forecast. This is due to additional works following service in operational buildings, which are necessary for those buildings to meet required standards.

#### 2.2.4 Traded Services

The Outdoor Education budget is expected to overspend by £229k in 2019/20, which is an increase of £127k from the previous forecast. This is due to a one-off cost relating to backdated pay for staff at Grafham Water Centre as a result of National Minimum Wage requirements.

- 2.2.3 A detailed explanation of the position for Commercial and Investment Committee can be found the commentary on the forecast outturn position in [C&I Annex 2](#).

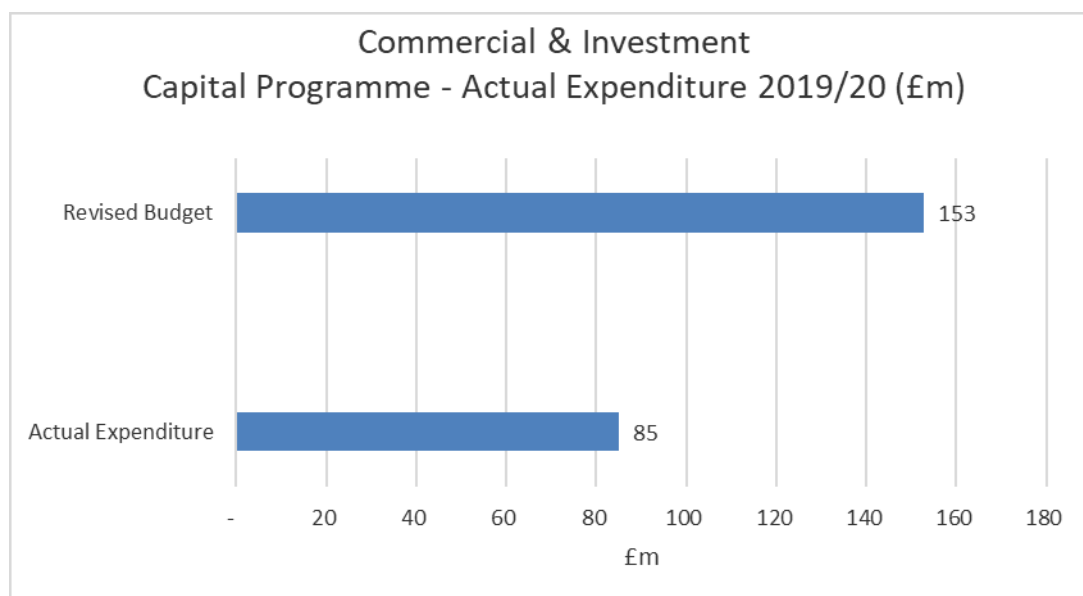
### 3. **SAVINGS TRACKER SUMMARY**

- 3.1.1 The savings tracker is produced quarterly; the next update will be in the October report.

## 4. CAPITAL EXECUTIVE SUMMARY

### 4.1 Expenditure

- 4.1.1 Commercial and Investment Committee has expenditure of £85.0m to date on the Capital Programme, against a revised budget of £152.6m:



In-year, an underspend of £4,995k is forecast. The total scheme forecast is on budget.

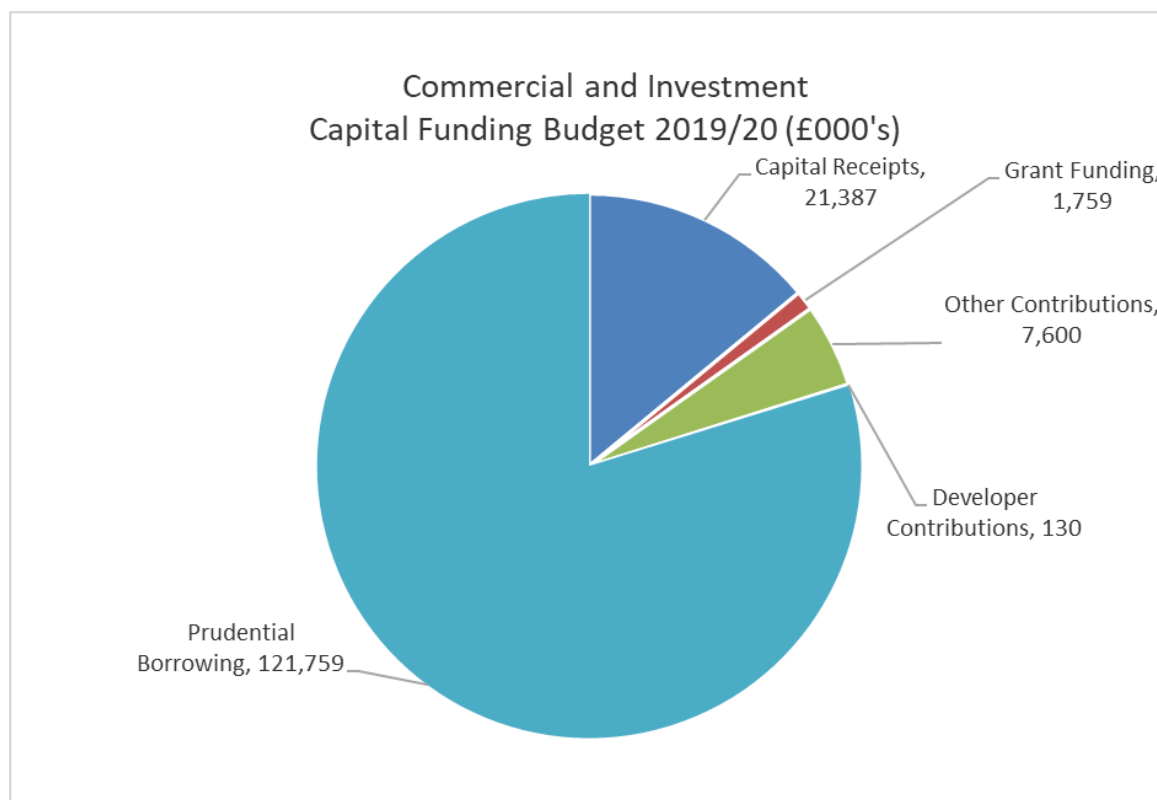
#### 4.1.2 Commercial Activity

The Council has spent, or has committed to spend, £105m on commercial property investments in 2019/20 – please see [Annex 6](#) for further details. This is to be funded from a combination of Capital Receipts and Prudential Borrowing, as detailed below. **Commercial & Investment Committee is requested to recommend to GPC the approval of an additional £52m budget for Commercial Investments.**

The Housing Schemes budget is forecast to underspend by £26m in 2019/20, which is an increase of £24m from the previous forecast. This follows reprofiling of expected loans in relation to both overage and construction.

### 4.2 Funding

- 4.2.1 Commercial and Investment Committee has a capital budget of £152.6m in 2019/20, which is funded by the following capital resources:



#### 4.2.1 Commercial Activity

As reported above, C&I is requested to recommend to GPC the approval of an additional £52m budget for Commercial Investments. This also requires an amendment to the capital funding for Commercial Investments. This will reduce funding from Capital Receipts by £21m and increase the Prudential Borrowing requirement by £73m. The reduction in available capital receipts is due to rephasing of the timing of expected overage payments from This Land. **Commercial & Investment Committee is requested to recommend to GPC the approval of an additional £73m of prudential borrowing for Commercial Investments.**

#### 4.3 Variations Budget

4.3.1 A summary of the use of capital programme variations budget is shown below. As forecast underspends are reported, these are offset with a forecast outturn for the variation budget, leading to a balanced outturn overall up to the point when slippage exceeds this budget.

Service	Capital Programme Variations Budget £000	Forecast Variance - Outturn (Sep) £000	Capital Programme Variations Budget Used £000	Capital Programme Variations Budget Used %	Revised Forecast Variance - Outturn (Sep) £000
C&I	-26,312	-31,307	-26,312	100%	-4,995

4.3.2 A detailed explanation of the capital programme position for Commercial and Investment Committee can be found in [C&I Annex 4](#).

## **5. TECHNICAL NOTE**

5.1.1 Technical financial information for C&I covering grants, reserves and budget virements is included in [C&I Annex 5](#).

## C&I ANNEX 1 – Budgetary Control Report

The variances to the end of September 2019 for Commercial and Investment are as follows:

Forecast Outturn Variance (Aug)		Budget 2019/20	Actual September 2019	Forecast Outturn Variance	
£000's		£000's	£000's	£000's	%
<b>Commercial Activity</b>					
0	Property Investments	-4,700	-956	0	0%
-250	Shareholder Company Dividends	-206	0	-250	-121%
401	Housing Investment (This Land Company)	-5,728	74	401	7%
200	Contract Efficiencies & Other Income	-449	0	350	78%
-335	CCLA Managed Investment	0	-117	-335	0%
0	Renewable Energy Investments	-271	-711	-11	-4%
<b>16</b>	<b>Commercial Activity Total</b>	<b>-11,354</b>	<b>-1,711</b>	<b>155</b>	<b>1%</b>
<b>Property Services</b>					
63	Facilities Management	5,369	3,019	241	4%
0	Property Services	655	380	0	0%
0	Property Compliance	205	65	-17	-8%
<b>63</b>	<b>Property Services Total</b>	<b>6,229</b>	<b>3,465</b>	<b>224</b>	<b>4%</b>
<b>Strategic Assets</b>					
-66	County Farms	-4,114	-179	-66	-2%
0	Strategic Assets	813	434	0	0%
<b>-66</b>	<b>Strategic Assets Total</b>	<b>-3,301</b>	<b>256</b>	<b>-66</b>	<b>2%</b>
<b>Traded Services</b>					
0	Traded Services - Central	0	37	0	0%
-6	ICT Service (Education)	-200	-794	0	0%
0	Professional Development Centres	-71	-63	0	0%
0	Cambridgeshire Music	5	184	0	0%
108	Outdoor Education (includes Grafham Water)	-77	212	229	297%
<b>102</b>	<b>Traded Services Total</b>	<b>-343</b>	<b>-424</b>	<b>229</b>	<b>67%</b>
<b>115</b>	<b>Total</b>	<b>-8,768</b>	<b>1,585</b>	<b>542</b>	<b>6%</b>

## C&I ANNEX 2 – Commentary on Forecast Outturn Position

Number of budgets measured at service level that have an adverse/positive variance greater than 2% of annual budget or £100,000, whichever is greater.

Service	Current Budget £000	Forecast Outturn Actual £000	Forecast Outturn Variance	
			£000	%
<b>Shareholder Company Dividends</b>	<b>-206</b>	<b>-456</b>	<b>-250</b>	<b>-121</b>
The Shareholder Company Dividends budget is forecast to overachieve by £250k in 2019/20. This is due to the estimate for the dividend to be received from ESPO, which is higher than the budget.				
<b>Housing Investment (This Land Company)</b>	<b>-5,728</b>	<b>-5,327</b>	<b>401</b>	<b>7</b>
An underachievement of income of £401k is forecast on Housing Investment. This relates to interest received on loans made to This Land, and the underachievement is a result of delays in making those loans.				
<b>Contract Efficiencies &amp; Other Income</b>	<b>-449</b>	<b>-99</b>	<b>350</b>	<b>78</b>
The Contract Efficiencies & Other Income budget is forecast to underachieve by £350k in 2019/20, which is an increase of £150k from the previous forecast. This is due to the targets for savings and additional income not being expected to be met in the year. However, work is underway to achieve this target in future years, and is expected to be taken forward by the Commercial Team once the team is in place. In addition, it has been concluded that whilst there may be some financial benefit for charities of creating a CCC lottery, this could be outweighed by the possibility of losing support through direct contributions and anxieties about control and financial burden. Resources will therefore be refocused to support other commercial initiatives.				
<b>CCLA Managed Investment</b>	<b>-</b>	<b>-335</b>	<b>-335</b>	<b>-</b>
An investment in the CCLA Managed Investment Fund was approved by Commercial & Investment Committee in February 2019. The investment in this fund is expected to make a return of £335k in 2019/20.				
<b>Facilities Management</b>	<b>5,369</b>	<b>5,610</b>	<b>241</b>	<b>4</b>
The Facilities Management budget is forecast to overspend by £241k in 2019/20. This is due to additional works following service in operational buildings, which are required for those buildings to meet required standards.				



Service	Current Budget £000	Forecast Outturn Actual £000	Forecast Outturn Variance	
			£000	%
<b>Outdoor Education</b>	<b>-77</b>	<b>152</b>	<b>229</b>	<b>297%</b>
<p>A structural pressure of £113k has been identified at Grafham Water Centre during budget preparation and has been reported from the beginning of 2019/20. This has been partially offset by underspends elsewhere in the service. A Business Development Plan is underway to address the financial sustainability of the service.</p> <p>In addition to this, there is a one-off cost in this year which is estimated at £114k, which relates to backdated pay for staff at Grafham Water Centre as a result of National Minimum Wage requirements.</p>				

### **C&I ANNEX 3 – Savings Tracker**

The savings tracker is produced quarterly; the next update will be in the October report.

## C&I ANNEX 4 – Capital Expenditure and Funding

### 1. Capital Expenditure Summary 2019/20

Commercial & Investment Capital Programme 2019/20						
Total Scheme Revised Budget £000	Original 2019/20 Budget as per BP £000	Scheme	Revised Budget for 2019/20 £000	Actual Spend 2019/20 £000	Forecast Spend - Outturn £000	Forecast Variance 2019/20 £000
164,068	51,907	<u>Commercial Activity</u>				
		Commercial Investments	104,605	73,213	104,605	-
153,009	43,067	Housing Schemes	56,847	10,042	30,372	(26,475)
3,645	3,280	St Ives Smart Energy Grid	3,378	-	202	(3,176)
11,399	383	Babraham Smart Energy Grid	452	-	350	(102)
6,969	292	Trumpington Smart Energy Grid	314	-	-	(314)
9,745	397	Stanground Closed Landfill Energy Project	454	-	291	(163)
2,526	246	Woodston Closed Landfill Energy Project	285	-	100	(185)
23,219	672	North Angle Solar Farm	695	-	908	213
374,580	100,244		167,030	83,255	136,828	(30,202)
		<u>Property Services</u>				
6,000	600	Building Maintenance	1,338	1,178	1,338	-
6,150	-	Shire Hall Campus	81	7	81	-
345	-	Office Portfolio Rationalisation	47	27	47	-
550	550	Investment in the CCC asset portfolio	550	0	550	-
13,045	1,150		2,016	1,212	2,016	-
		<u>Strategic Assets</u>				
1,000	100	Local Plans Representations	100	15	100	-
3,000	300	County Farms Investment	300	9	216	(84)
-	4,616	MAC Joint Highways Project	-	-	-	-
1,950	910	Community Hubs - East Barnwell	1,041	-	200	(841)
18,326	5,633	Shire Hall Relocation	7,971	467	7,971	-
113	-	Marwick Centre Roof Repairs	113	-	113	-
295	-	Meads Farm House Replacement	295	-	115	(180)
24,684	11,559		9,820	491	8,715	(1,105)
134	81	Capitalisation of Interest Budget	81	-	81	-
(40,969)	(22,591)	Capital Programme Variations Budget	(26,312)	-	-	26,312
<b>371,474</b>	<b>90,443</b>	<b>TOTAL</b>	<b>152,635</b>	<b>84,959</b>	<b>147,640</b>	<b>(4,995)</b>

## **2. Capital Funding Summary 2019/20**

Commercial and Investment Capital Programme 2019/20				
Original 2019/20 Funding Allocation as per BP £000	Source of Funding	Revised Funding for 2019/20 £000	Actual Spend £000	Actual Variance £000
42,077	Capital Receipts	21,387	23,409	2,022
2,309	Grant Funding	1,759	-	(1,759)
7,600	Other Contributions	7,600	7,600	-
130	Developer Contributions	130	-	(130)
38,327	Prudential Borrowing	121,759	116,631	(5,128)
<b>90,443</b>	<b>TOTAL</b>	<b>152,635</b>	<b>147,640</b>	<b>(4,995)</b>

### 3. Reported Exceptions – Capital Expenditure and Funding

[illegible]

[illegible]

Revised Budget for 2019/20	Forecast Spend - Outturn (Sep)	Forecast Variance (Sep)	Variance Last Month (Aug)	Movement	Breakdown of Variance	
					Underspend/ Overspend	Rephasing
£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Investment in the CCC Asset Portfolio</b>						
550	550	-	-	-	-	-
<p>This scheme was reported in the 2019/20 Business Plan as funded from Capital Maintenance Grant. The scheme will actually be funded from Prudential Borrowing, and the revised funding has been updated to reflect this.</p>						
<b>Meads Farm House Replacement</b>						
295	115	295	-	-	-	-
<p>Commercial and Investment Committee is requested to recommend to General Purposes Committee the approval of £295k capital budget for the demolition and rebuilding of the house at Meads Farm which has been deemed structurally beyond economic repair. This project will preserve the value of the asset and the rental income received from it, and will meet the Council's current obligation as a landlord but will not generate any additional income.</p>						

## C&I ANNEX 5 – Technical Note

### 1. Grant Income Analysis

There is no additional grant income recorded in 2019/20.

### 2. Virements and Budget Reconciliation

	£'000	Reported
<b>Budget as per Business Plan</b>	<b>-9,502</b>	
Movement of Contract Efficiency saving target from Corporate Services	-49	May 2019
Clear Traded Services Central income target from Central Services Risks budget	58	May 2019
Deployment of budget to Housing Investment to mitigate overspends, as agreed by GPC July 2019	122	June 2019
Transfer budget from Debt Charges and Interest for the debt charges relating to the Triangle solar farm	603	August 2019
<b>Revised Budget</b>	<b>-8,768</b>	

### 3. Reserve Schedule

Fund Description	Balance at 01 April 2019	Movements in 2018/19	Balance at 30 September 2019	Forecast Balance at 31 March 2020	Notes
	£'000		£'000	£'000	
<b><u>Equipment Reserves</u></b>					
The ICT Service (Education)	56	0	56	0	1
subtotal	56	0	56	0	
<b><u>Other Earmarked Funds</u></b>					
North Cambridge Academy site demolition costs	600	0	600	679	2
subtotal	600	0	600	679	
<b><u>Capital Reserves</u></b>					
General Capital Receipts	20,415	13,208	33,623	0	3
subtotal	20,415	13,208	33,623	0	
<b>TOTAL</b>	<b>21,070</b>	<b>13,208</b>	<b>34,278</b>	<b>679</b>	

#### Notes

- 1 ICT Equipment Reserve will to be used to replace critical equipment in 2019/20
- 2 Rental income from Bellerbys buildings on the North Cambridge Academy site is being held to offset demolition costs when the lease expires in 2021.
- 3 General Capital Receipts received during 2019/20 will be used to fund the capital programme at year-end, and This Land Capital Receipts will be used for Commercial Investment.

## **C&I ANNEX 6 – Financing Commercial Investments**

- A. This year the Council has pursued a number of commercial investments in accordance with its Commercial Strategy and the investment section of the Capital Strategy. Following this protocol, individual acquisitions have been assessed according to a standardised multi-measure evaluation process with governance overseen by GPC, the C&I Committee, or its Investment Working Group dependent on the value. Since last year £144m has been approved for investment assets, £105m of this in the current financial year.
- B. With growing certainty about the total anticipated spend on commercial acquisitions for the current year, proposals for further financial investments suggested by the appointed investment advisor, Reddington, and rising confidence about the level of capital receipts anticipated as the year progresses, it is now timely to consider the sum and balance of prudential borrowing required to contribute to financing this activity.
- C. In terms of budgeting, the financing mechanism for assets is consequential:
- Where investments are funded from capital receipts, there are no costs of capital.
  - Where investments are funded from borrowing, there are interest/cost of borrowing costs from the date of acquisition, and a Minimum Revenue Provision applied (effectively the cost of the principal) from the year after the acquisition.
- D. We anticipate there will be around £32m available by year-end in capital receipts. This would therefore require £73m of borrowing to fund the remaining portfolio. This approach will mean that the C&I Committee delivers its commercial investment targets on track for this year (subject to acquisition dates and performance of individual assets), alongside supporting local economic development through this major investment.
- E. To date, the investment evaluation/business case for individual investments assesses prospects without regard to financing, i.e. the yields for comparator purposes reflect the performance and risk associated with each property rather than the availability of funds or the individual balance of funding for each asset. However, within the investment appraisal all asset yields are compared to a hurdle rate, being the interest cost on a loan to finance the asset over 50 years.
- F. The impact of the additional 100 basis points added by Public Works Loans Board to lending rates will be significant for local authority capital programmes. The dust still needs to settle on this development. In the short term, the Council expects to be able to meet its currently planned costs of borrowing within existing budgets: £100m of borrowing was secured from PWLB prior to the rate rises, the Council is active in securing good value borrowing from other lenders (principally other local authorities) and overall remains 'internally borrowed' (utilising cash balances to mitigate the level of external borrowing). In the more medium term, the rate change does effectively increase the hurdle by which commercial schemes will need to be judged.
- G. The target net return from the investment properties is £4.7m.

Under the financing scenario proposed, this target is met in 2019/20 (subject to the performance of individual assets and achieving capital receipts to timescale). There is an additional cost of MRP applied to the debt financed assets in 2020/21, partly offset by the benefit of owning the assets for the full year. However, with potential opportunity for further investment funded by future capital receipts, it is anticipated that the target will also be met in 2020/21 and beyond.