

6 December 2017

<b>Report of</b>	<b>Assistant Director Policy and Corporate</b>	<b>Author</b>	<b>Fiona Duhamel</b> ☎ 282976 <b>Steve Heath</b> ☎ 282389
<b>Title</b>	<b>Revolving Investment Fund – Financial Update</b>		
<b>Wards affected</b>	All		

## 1. Executive Summary

- 1.1. This report provides an update on projected revenue income generated by the Revolving Investment Fund (RIF), its capital expenditure, and projected capital receipts.
- 1.2. Projected annual revenue income is currently projected to increase to over £900k by 2021/22.
- 1.3. The overall RIF capital programme currently stands at £41m. Whilst it is ‘broadly balanced’ over the medium-term, there remain a number of risks attached to the capital receipts.
- 1.4. Funding for any new projects or commercial opportunities is limited, and there are no further capital receipts forecast. Whilst progress continues to be made regarding the projected capital receipts, the timing of these means that there is an expected short term borrowing exposure.
- 1.5. The report provides details of the implications of longer term borrowing to support the RIF as part of the wider capital programme and budget proposals.

## 2. Recommended Decision

- 2.1. To note the latest financial position for the Revolving Investment Fund (RIF).
- 2.2. To agree the reallocation of £1.15m of existing resources to meet the proposed detailed funding allocations in **Appendix D**.

## 3. Reasons for Recommended Decision

- 3.1 Cabinet agreed to create the RIF as a way to recycle capital receipts into profitable high income producing development schemes and regeneration / economic growth projects. This paper sets out the updated financial position of the RIF and proposes allocations of funding to specific projects.

## 4. Alternative Options

- 4.1 It would be possible to consider different allocations to projects. However, the proposals in this report represent a considered view of the cost to deliver a number of projects and income budget targets.

## 5. Supporting Information

### *Revenue income*

- 5.1 The Council's budget and Medium Term Financial Forecast (MTFF) include assumptions in respect of revenue income from activities within the RIF. The table below sets out the total income forecast that specifically relates to the RIF. This is set out in more detail in the confidential **Appendix A**, which also shows how the forecast has changed since it was last reported to the Committee in June 2017. It should be remembered that the figures below represent current targets and will be revised on a regular basis. It should also be noted that, subject to the nature of the lease arrangements, an element of the above figures may need to be classified as capital receipts. Furthermore, the returns for some of the investments in this report may start or increase after the period shown.

	2017/18	2018/19	2019/20	2020/21	2021/22	Ongoing
	£'000	£'000	£'000	£'000	£'000	£'000
Forecast	(328)	(668)	(669)	(819)	(911)	(911)

### *Expenditure forecast*

- 5.2 The financial update that was reported to this Committee in November 2015 proposed an initial allocation of £16.8m to RIF schemes that was funded from existing capital schemes, capital receipts and revenue funding. After taking account of 2015/16 and 2016/17 expenditure and additional funding allocated to the RIF, the programme now stands at £41m. This is detailed in **Appendix B** alongside expenditure forecasts to 2019/20. These forecasts show a projected overspend of £174k against the Creative Business Centre. It is proposed that this is met by allocating resources from elsewhere in the RIF budget as detailed below.
- 5.3 **Appendix B** includes a RAG (Red, Amber, Green) status of overall project performance against capital schemes. The following schemes are currently shown as Amber within the capital programme:
- Northern Gateway – Sports Hub.
  - Northern Gateway South.
  - Surface Water Flooding – Distillery Lane/Haven Road.
  - Creative Business Centre.
- 5.4 The following table provides a summary of the RIF account, which is detailed in the confidential **Appendix C**. The latest forecast of expenditure, capital receipts and revenue contributions shows a deficit of £495k by the end of 2021/22, with a larger short-term borrowing requirement in the intervening period.

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Shortfall / (Surplus) B/Fwd	2,010	(91)	6,320	2,033	764
Total Schemes	6,941	17,148	17,456	0	0
Total Funding	(9,043)	(10,737)	(21,743)	(1,269)	(269)
<b>Shortfall / (Surplus) C/Fwd</b>	<b>(91)</b>	<b>6,320</b>	<b>2,033</b>	<b>764</b>	<b>495</b>

- 5.5 It should be noted that in addition to the potential short-term borrowing impact referred to above, the capital programme assumes new indicative long-term borrowing for the Northern Gateway Sports Hub and Heat Network and Sheepen Road, based on decisions made by Cabinet. In addition, further borrowing will be required in respect of the Council's financial investment in the new Housing and Energy companies. This will be updated based on the business plans being produced for the new commercial companies so that the overall revenue impact and risks can be considered by a future meeting of Cabinet.

- 5.6 A number of new detailed areas of spend have been identified. These total £1.15m, and are shown in **Appendix D**. It is proposed that these are funded from existing funding allocations, which includes Jacks, Sheepen Road Phase 1, East Colchester enabling monies and land acquisition. It also takes into account the overspend relating to the Creative Business Centre.
- 5.7 Delivering capital investment and generating capital receipts requires incurring costs such as pre-development, master planning, marketing, communications / public engagement and technical studies. It should be noted that in the early stages of projects a lot of the projected costs may need to be classed as revenue expenditure, and as such will need to be funded from the revenue reserve. Providing revenue funding **into** the ring fence is therefore essential to provide some flexibility. As detailed above and in **Appendix C**, the Council has agreed revenue contributions towards the RIF, which have been transferred into an earmarked reserve.
- 5.8 Taking all of the above into account, the revenue impact of the temporary and long-term borrowing is estimated to be as shown below based on prevailing PWLB borrowing rates. These figures include the statutory provision for the repayment of the principal amounts of long term debt.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Shortfall / (Surplus) C/Fwd	(91)	6,320	2,033	764	495
Cumulative LT Borrowing	0	4,282	5,662	5,662	5,662
Av. short-term borrowing cost (1.2%)	(1)	37	50	17	8
Av. long-term borrowing cost (2.5%)	0	54	124	142	142
MRP (40 year life)	0	0	107	142	142
<b>Revenue cost</b>	<b>(1)</b>	<b>91</b>	<b>281</b>	<b>301</b>	<b>292</b>

- 5.9 The draft proposal to allocate New Homes Bonus funding to support these borrowing costs will be considered by Cabinet in January as part of the budget report. This will help manage the cash flow implications, but will not provide funding to cover further new borrowing.
- 5.10 It is still necessary to ensure that future capital receipt projections are monitored and remain realistic and achievable. Future monitoring reports will review progress against funding targets, level of spending, changes to existing allocations and income projections.

## 6. Strategic Plan References

- 6.1. The proposal contributes to the Council's aim to be more financially sustainable and also delivers against the following areas in the Strategic Plan of Regenerating our borough through buildings, employment, leisure and infrastructure and bringing investment to the borough.

## 7. Consultation and Publicity Considerations

- 7.1 No specific issues in respect of this report, however, publicity and consultation will be considered for specific projects as appropriate.

## 8. Financial implications

- 8.1 These are set out within the report.

**9. Equality, Diversity and Human Rights, Community Safety and Health and Safety implications**

9.1 None identified at this stage.

**10. Risk Management Implications**

10.1 The main area of risk identified concerns the financial risk attached to delivery of income targets (capital and revenue) and management of costs within allocations. This will be managed through regular monitoring and reporting on the RIF position.

**Appendices**

Appendix A: Revenue Income Projections (Not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (financial / business affairs of a particular person, including the authority holding information)).

Appendix B: RIF – Capital Programme 2017/18

Appendix C: RIF – Medium Term Forecast (Not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (financial / business affairs of a particular person, including the authority holding information)).

Appendix D: Proposed Expenditure (Not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (financial / business affairs of a particular person, including the authority holding information)).

**Background Papers**

None

Service / Scheme	Total Programme	Spend to Q2	2017/18	2018/19	2019/20	(Surplus) / Shortfall	RAG Status
	£'000	£'000	£'000	£'000	£'000	£'000	Q2
<b>REVOLVING INVESTMENT FUND</b>							
Northern Gateway North	218.9	7.5	218.9	0.0	0.0	0.0	G
CNGN - Mile End Cricket	200.0	0.0	200.0	0.0	0.0	0.0	G
CNGN - Sports Hub	24,100.0	82.0	1,182.0	7,762.0	15,156.0	0.0	A
Northern Gateway South	410.9	253.3	410.9	0.0	0.0	0.0	A
Town Centre	5,157.7	345.7	366.7	4,791.0	0.0	0.0	G
Creative Business Centre	(169.5)	4.6	4.6	0.0	0.0	174.1	A
Jacks - St Nicholas St	969.3	96.5	969.3	0.0	0.0	0.0	G
Sheepen Road Phase 1	890.9	512.4	890.9	0.0	0.0	0.0	G
Sheepen Road Phase 2	2,200.0	0.0	200.0	2,000.0	0.0	0.0	G
District Heating Project North	208.2	39.5	208.2	0.0	0.0	0.0	G
Colchester Northern Gateway Heat Network	5,900.0	0.0	1,200.0	2,400.0	2,300.0	0.0	G
East Colchester Enabling Fund	271.0	0.0	271.0	0.0	0.0	0.0	G
Breakers Park	69.0	0.0	69.0	0.0	0.0	0.0	G
Surface Water Flooding - Distillery Lane/Haven Road	73.4	0.0	73.4	0.0	0.0	0.0	A
Site Disposal Costs	4.8	0.0	4.8	0.0	0.0	0.0	G
Moler Works Site	40.7	37.6	40.7	0.0	0.0	0.0	G
CMP Phase 3 - PV Systems	95.4	0.0	95.4	0.0	0.0	0.0	G
Business Broadband	20.6	0.5	20.6	0.0	0.0	0.0	G
Land Acquisition	345.3	0.0	150.0	195.3	0.0	0.0	G
<b>TOTAL - RIF</b>	<b>41,006.6</b>	<b>1,379.6</b>	<b>6,576.4</b>	<b>17,148.3</b>	<b>17,456.0</b>	<b>174.1</b>	