

18 October 2016

Report of	Assistant Chief Executive	Author	Fiona Duhamel ☎ 282976 Steve Heath ☎ 282389
Title	RIF – Financial Update		
Wards affected	All		

**This report concerns a review of the financial position on the RIF.**

## 1. Decisions Required

- 1.1. To note the latest financial position for the Revolving Investment Fund (RIF).

## 2. Reasons for Decisions

- 2.1 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.

## 3. Alternative Options

- 3.1 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.

## 4. Supporting Information

### *Revenue income*

- 4.1. 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 March 2016. 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.

	2016/17	2017/18	2018/19	2019/20	Ongoing
	£'000	£'000	£'000	£'000	£'000
Forecast	(205)	(359)	(754)	(954)	(1,004)

### *Expenditure forecast*

- 4.2. The financial update that was reported to this Committee in November 2015 proposed a total allocation of £16.8m to RIF schemes, to be funded from existing capital schemes,

capital receipts and revenue funding. After taking account of 2015/16 expenditure totalling £1.9m and additional funding, the programme now stands at £15.9m. Expenditure to September 2016 against RIF schemes totals £3.3m. This is detailed in **Appendix B** alongside forecasts to 2018/19.

4.3. The forecasts in Appendix B take into account a projected overspend of up to £200k against the Creative Business Hub. This has been funded from resources that had been allocated for land acquisitions. The paper on the redevelopment of 5-6 St Nicholas Street (Jacks) that is being reported elsewhere on this agenda proposes that an additional £126.6k is agreed to meet cost increases. This is not reflected in the forecasts, but it is proposed that £30k of this amount should be funded from Town Centre enabling monies, with the remainder being funded from resources allocated for land acquisitions. These transfers from the land acquisitions budget will still leave sufficient resources to complete the purchase of Seven Saints Farm.

4.4. The following table provides a summary of the RIF account, which is detailed in the confidential **Appendix C**. The March report to the Committee showed a shortfall of £135k as at the end of 2018/19. The latest forecast of expenditure, capital receipts and revenue contributions shows a deficit of £3.6m in 2018/19, which will fall to a manageable shortfall of £81k by the end of 2020/21. This may give rise to a short-term borrowing requirement in the intervening period.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000	£'000
Shortfall / (Surplus) B/Fwd	(2,401)	2,336	1,742	3,618	350
Total Schemes	8,523	2,424	5,145	0	0
Total Funding	(3,786)	(3,018)	(3,268)	(3,269)	(269)
<b>Shortfall / (Surplus) C/Fwd</b>	<b>2,336</b>	<b>1,742</b>	<b>3,618</b>	<b>350</b>	<b>81</b>

- 4.5. The reason for the movement in the forecast position is largely due to a combination of expenditure being brought forward in relation to the purchase of land and property, and delays in the expected timing of capital receipts. These are mitigated by the extension of the annual contribution of £250k from the New Homes Bonus from 2017/18. However, these contributions are dependent on the level of New Homes Bonus in later years and budget decisions on how this will be used.
- 4.6. It was reported to the RIF Committee on 10 August 2016 that the purchase of the properties in the Vineyard Street area would create a short-term funding shortfall within the RIF medium-term forecast and that this could be mitigated by 'internally borrowing' funds from the Council's Capital Expenditure Reserve that have been committed to other Capital Schemes, but are unlikely to be utilised this financial year.
- 4.7. It should be noted that the above forecast currently excludes expenditure and income relating to the business case for the Sports facility proposed for Northern Gateway which will be reported to Cabinet later this year and will then be reported within the RIF.
- 4.8. 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.

- 4.9. Future monitoring reports will review progress against funding targets, level of spending, changes to existing allocations and income projections.

*Summary*

- 4.10. As set out in this report there is forecast spend this year of £10m, which includes areas brought forward from later years. Whilst progress continues to be made to capital receipts, the timing of these means that there is an expected short term borrowing exposure.
- 4.11. The RIF provides a framework to manage funding gaps, however, it is still necessary to ensure that future capital receipt projections are monitored and remain realistic and achievable. Furthermore, the current RIF position shows that funding for any new projects or commercial opportunities is limited. Consideration will therefore be given to future longer term borrowing to support the RIF as part of the wider capital programme and budget proposals.

**5. Strategic Plan References**

- 5.1. 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.

**6. Consultation and Publicity Considerations**

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

**7. Financial implications**

- 7.1 These are set out within the report.

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

- 8.1 None identified at this stage.

**9. Risk Management Implications**

- 9.1 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.

## RIF – Capital Programme 2016/17

				Forecast				
		Total Programme £'000	Accrued spend to Q2 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	(Surplus) / Shortfall £'000	RAG Status Q2
Service / Scheme								
REVOLVING INVESTMENT FUND								
	Northern Gateway North	445.2	113.6	445.2	0.0	0.0	0.0	G
	Northern Gateway South	493.2	76.1	118.2	375.0	0.0	0.0	G
	Town Centre	6,551.6	1,324.4	1,466.6	240.0	4,845.0	0.0	G
	Creative Business Hub	1,286.5	1,070.9	1,286.5	0.0	0.0	0.0	A
	Jacks - St Nicholas St	915.0	14.9	100.0	815.0	0.0	0.0	G
	Sheepen Road	3,492.3	686.9	3,292.3	200.0	0.0	0.0	G
	District Heating Project North	26.8	0.0	26.8	0.0	0.0	0.0	G
	District Heating Project East	10.0	0.0	10.0	0.0	0.0	0.0	G
	East Colchester Enabling Fund	285.0	0.0	50.0	235.0	0.0	0.0	G
	Breakers Park	75.0	1.7	25.0	50.0	0.0	0.0	G
	Surface Water Flooding - Distillery Lane/Haven Road	77.4	0.0	10.0	67.4	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	0.0	0.0	40.7	0.0	0.0	G
	CMP Phase 3 - PV Systems	95.4	0.0	0.0	95.4	0.0	0.0	G
	Business Broadband	337.8	103.5	337.8	0.0	0.0	0.0	G
	Land Acquisition	1,800.0	1.7	1,350.0	150.0	300.0	0.0	G
TOTAL - RIF		15,936.7	3,393.7	8,523.2	2,268.5	5,145.0	0.0	