

Business and Property Committee

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| Report title: | Finance monitoring |
| Date of meeting: | 15 January 2019 |
| Responsible Chief Officer: | Tom McCabe – Executive Director, Community and Environmental Services, Simon George – Executive Director, Finance and Commercial Services |
| Strategic impact This report provides the Committee with information on the revenue budget position for services reporting to Business & Property Committee for 2018 -19. It also provides information on the use of reserves and details of the capital programme. | |

Executive summary

The services reporting to this Committee are delivered by Community & Environmental Services, and Finance & Commercial Services.

The 2018-19 net revenue budget for this Committee is unchanged at £7.942m. Details of the 2018 – 19 revenue position are shown in Table 1 of this report.

The total capital programme budget relating to this Committee for the years 2018 – 19 to 2020 – 21 is £34.749m. Details are shown in Table 2 of this report.

The balance of reserves and provisions relating to this Committee as of 1 April 2018 is £2.991m. Details are shown in Table 3 of this report.

Recommendations:

Members are recommended to note:

- a) **The 2018 – 19 revenue position for this Committee**
- b) **The 2018 – 19 to 2020 - 21 capital programme for this Committee**
- c) **The 2018 - 19 reserves position for this Committee**

1. Proposal

1.1. Members have a key role in overseeing the financial position for the services under the direction of this committee, including reviewing the revenue and capital position and reserves held by the service.

Although budgets are set and monitored on an annual basis it is important that the ongoing position is understood and the previous year's position, current and future

plans and performance are considered.

1.2. This report reflects the financial position relating to this Committee as at the end of November 2018.

2. Evidence

Revenue budget 2018 – 19

2.1. The services reporting to this Committee are delivered by Community & Environmental Services, and Finance & Commercial Services.

2.2. This report reflects the forecast outturn position for the Services that are relevant to this Committee, which are:

- Economic Development Programmes
- Strategy & Commissioning
- Employment and Skills
- Scottow Enterprise Park

- Hethel Engineering Centre – operated as Hethel Innovation Ltd

- Client Property Management

2.3. The current 2018-19 net revenue budget for this Committee is £7.942m, unchanged since the previous report. The current forecast variance is a £0.102m underspend, (previous report £0.148m overspend), after use of reserves. Variances are explained in paragraphs 2.5 to 2.7 below. The use of reserves to support this position is shown in Table 3.

Table 1: Business & Property Committee: Net revenue budget and forecast outturn position 2018 – 19

| | Outturn 2017 - 18 | Budget 2018 - 19 | Year to date 2018 - 19 | Outturn Forecast 2018 - 19 | Variance 2018 -19 |
|-----------------------------------|------------------------------|-----------------------------|---------------------------------------|---|------------------------------|
| | £m | £m | £m | £m | £m |
| Client Property Management | | | | | |
| Corporate Offices | 5.216 | 4.440 | 4.001 | 4.951 | 0.511 |
| Estates Management | 0.874 | 0.531 | 0.488 | 0.784 | 0.253 |
| Building Maintenance | 1.857 | 2.007 | 0.985 | 1.897 | (0.110) |
| County Farms | (0.666) | (0.555) | (0.343) | (1.107) | (0.552) |
| Corporate Property Team | 0.838 | 0.710 | 0.375 | 0.614 | (0.096) |
| | 8.119 | 7.133 | 5.506 | 7.139 | 0.006 |
| Economic Development | | | | | |
| Ec Dev Programmes | (0.086) | (0.084) | 0.551 | (0.084) | 0.000 |

| | | | | | |
|--------------------------|--------------|--------------|--------------|--------------|----------------|
| Strategy & Commissioning | 0.852 | 0.894 | 0.430 | 0.859 | (0.035) |
| Employment & Skills | 0.363 | 0.373 | 0.123 | 0.350 | (0.023) |
| Scottow Enterprise Park | (0.274) | (0.374) | (0.347) | (0.424) | (0.050) |
| | 0.855 | 0.809 | 0.757 | 0.701 | (0.108) |
| | 8.974 | 7.942 | 6.263 | 7.840 | (0.102) |

2.4. Other legal entities –

Client Property Management – Repton Property Developments Ltd is subject to separate reports to this Committee. The next Board Meeting will include a detailed finance report.

Economic Development - the forecast pre tax profit for Hethel Innovation Ltd (HIL) for 2018 – 19 is £0.408m.

2.5. Client Property Management (CPM)

The CPM budget was reduced by £1.027m in 2018 – 19, continuing to reflect planned savings to be met principally by reduced costs of corporate offices, including fewer properties via property disposals. CPM plan to smooth the impact of this significant reduction by the planned use of reserves as shown in Table 3 later in this report.

We are currently reporting a small overspend of £0.006m, (previous report overspend £0.247m), after use of reserves. Progress has been made against the delivery of the savings targets for 2018 – 19 with planned exits from a number of key buildings including Vantage House.

Significant progress has also been made in identifying areas of additional income generation and capitalisation, particularly in relation to County Farms, offsetting a forecast increase in costs of Corporate Offices. Some of these costs are one off exit costs and will be subject to further review to ensure all possible savings are realised before year end, which could reduce the use of reserves needed to achieve a balanced budget.

County Farms includes the business transferred from Norfolk Energy Futures Ltd. The forecast surplus is £1.107m, an increase of £0.458m since the previous report entirely due to the identification of capitalisation opportunities.

Economic Development

2.6. The main element of spend within Economic Development is staff related expenditure, with most spend related to planned programme activity. A number of staff are engaged in the delivery of externally funded projects where the spend profile does not always match a financial year, where this is the case project funding will be carried forward in reserves as an unspent grant.

Both Strategy & Commissioning and Employment & Skills are continuing to forecast small staff cost underspends this year.

Economic Development Programmes budget represents cost recovery of a number of managed programmes, including France Channel England and Leader.

An underspend of £0.108m (previous report £0.099m underspend) is forecast for this budget, including Scottow Enterprise Park.

2.7. Scottow Enterprise Park (SEP) – the 2018 – 19 forecast is an unchanged surplus of £0.424m excluding financing costs. This forecast is being kept under constant review to identify opportunities to reduce overheads expenditure.

The forecast comprises revenues of £1.350m (2017 – 18 £1.253m), £0.893m is derived from buildings rental and service charges, £0.457m from the solar farm on site. Costs are £0.926m (2017 – 18 £0.979m), of which £0.185m relates to staff salaries and £0.741m relates to other labour and general premises costs.

Additional Enterprise Zone and grant funding opportunities continue to be identified and pursued to support the financing of site development costs.

SEP is not accounted for as a separate legal entity, and is managed via HIL.

Hethel Engineering Centre (HEC) - is accounted for via the separate legal entity of Hethel Innovation Ltd (HIL).

For 2018 – 19 HIL's pre tax forecast profit is £0.408m (previous report £0.349m). Revenues from tenancy and funded programmes are forecast at £1.550m, (2017 – 18 £1.467m), and costs of £1.142m, (2017 – 18 £1.132m), comprising salary and overhead costs of £0.915m, (2017 – 18 £0.905m) and financing costs of £0.227m, (2017 – 18 £0.227m).

HEC is currently 100% let through to the end of this financial year, and there is demand from tenants within HEC and elsewhere, for the provision of 'grow on' space next to HEC Phases 1,2 and 3. HEC has created over the past 12 years 80,000 sq ft of offices and workshops space, and there is demand to create an additional 80,000 sq ft of space. Hethel Innovation Ltd (HIL), the entity that runs HEC and SEP, continues to consider the potential development of the Hethel Technology Park on the site.

3. Capital Programme

3.1. The capital programme for the services reported to this Committee is currently profiled to be delivered as detailed below. The total budget for the 3 years 2018 to 2021 has increased by £0.452m since the previous report, of all which relates to County Farms.

Table 2: Business & Property Committee: Capital Programme

| | Actual spend 2017 - 18 £m | Budget 2018 - 19 £m | Spend to date 2018 - 19 £m | Budget 2019 - 20 £m | Budget 2020-211 £m |
|---------------------------------------|---------------------------------|------------------------------|-------------------------------------|---------------------------|--------------------------|
| Scottow Enterprise Park | 0.787 | 3.638 | 0.201 | 0.000 | 0.000 |
| Infrastructure | 0.546 | 0.181 | 0.095 | | |
| Buildings refurbishment | 0.241 | 3.457 | 0.106 | | |
| Client Property Management | 1.348 | 5.731 | 3.531 | 20.576 | 0.743 |
| Space 2019 | 0.333 | 0.300 | 0.736 | 8.292 | |
| Asbestos | 0.538 | 0.978 | 0.256 | | |
| Other works | 0.477 | 4.453 | 2.539 | 12.284 | 0.743 |
| County Farms | 4.317 | 3.388 | 3.007 | 0.673 | 0.000 |
| Purchase of Farms | 3.161 | 1.696 | 1.696 | | |
| Other capital | 1.156 | 1.692 | 1.311 | 0.673 | |
| | 6.452 | 12.757 | 6.739 | 21.249 | 0.743 |

3.2. **SEP** - the budget and expenditure to date figures are unchanged from the previous report. For clarity Table 2 shows only the actual expenditure in 2017 – 18 in the appropriate column, expenditure prior to this period totals £5.275m. The total expenditure to date is £6.263m and is unchanged from previous reports. These figures relate only to capital improvements to the site and exclude the original site purchase cost.

Total available corporate and Enterprise Zone supported capital funding for the redevelopment (excluding site purchase costs) of SEP is £9.700m, of which £6.263m is the amount spent on redevelopment and refurbishment to date.

Essential infrastructure work includes water supply facilities, asbestos removal, security fencing, fire alarms, heating systems and utility metering to facilitate recharges back to tenants.

Buildings refurbishment expenditure enables specific buildings to be brought into a lettable condition. It should be noted that expenditure is only made against a business case from specific enquiries leading to lettings income.

A total of £7.900m is expected to be spent by summer 2019, the remaining capital budget at that point to be available for the final hangar refurbishment.

3.3. **Client Property Management** – the capital funding is in support of further refurbishment to allow rationalisation and facilitate cost reductions within the corporate property portfolio, in addition to routine general maintenance and minor

works funded via capital. The principal identifiable expenditure relates to the Space 2019 programme. The significant reprofiling of the capital budgets should be noted, principally due to the Space 2019 programme.

- 3.4. **County Farms** – the capital funding represents the agreed refurbishment programme, including land drainage schemes, which maintains the value of the Farms estate. The budget for the purchase of Avenue Farm, Halvergate is included.

4. Reserves 2018 - 19

- 4.1. The Council holds both provisions and reserves.
- 4.2. Provisions are made for liabilities or losses that are likely or certain to be incurred, but where it is uncertain as to the amounts or the dates which they will arise. The Council complies with the definition of provisions contained within CIPFA's Accounting Code of Practice.
- 4.3. Reserves (or Earmarked Reserves) are held in one of three main categories:
- 4.4. Reserves for special purposes or to fund expenditure that has been delayed, and in many cases relate to external Grants and Contributions - reserves can be held for a specific purpose, for example where money is set aside to replace equipment or undertake repairs on a rolling cycle, which can help smooth the impact of funding.
- 4.5. Local Management of Schools (LMS) reserves that are held on behalf of schools – the LMS reserve is only for schools and reflects balances held by individual schools. The balances are not available to support other County Council expenditure.
- 4.6. General Balances – reserves that are not earmarked for a specific purpose. The General Balances reserve is held to enable the County Council to manage unplanned or unforeseen events. The Executive Director of Finance is required to form a judgement on the level of the reserve and to advise Policy and Resources Committee accordingly.
- 4.7. The reserves falling under this Committee would fall into the first category. Additionally, balances may relate specific grant income where we have received the income but are yet to incur the expenditure, or the grant was planned to be used over a period of time, not related to a specific financial year.
- 4.8. We will continue to review the reserve balances to ensure that their original objectives are still valid and would identify any reserves that could be considered available for re-allocation.
- 4.9. The committees' unspent reserves and provisions as at 1st April 2018 totalled £2.991m, and is forecast to be £1.419m at 31st March 2019, previous forecast £1.621m. The additional consumption of reserves relates to Economic Development covering planned and funded project costs.
- 4.10. The table below shows the balances of reserves and provisions and the actual

usage for 2018 - 19.

| Table 3: Business & Property Committee: Reserves & Provisions | | | |
|--|------------------------------------|--|--|
| Reserves & Provisions 2018-19 | Balance at 1 April 2018 | Forecast Balance at 31 March 2019 | Change during 2018 - 19 |
| | £m | £m | £m |
| Corporate Property Management | 1.102 | 0.000 | 1.102 |
| Economic Development (including Scottow Enterprise Park) | 1.889 | 1.419 | 0.470 |
| Committee Total | 2.991 | 1.419 | 1.572 |

The use of £1.102m of CPM reserves continues to smooth the effect of a reduced corporate offices budget.

The Economic Development reserves relate to specific project and grant funding, drawn down and carried forward as applicable to each project. Only currently known specific drawdowns have been shown above, the final use of reserves in 2018 – 19 is anticipated to be higher than currently shown.

Scottow Enterprise Park has reserves of £0.257k included in the total above.

5. Financial Implications

5.1. There are no decisions arising from this report. The financial position for Communities Committee services is set out within the paper and appendices.

6. Issues, risks and innovation

6.1. This report provides financial performance information on a wide range of services responsible to the committee.

Officer Contact

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