

**NORTH LANARKSHIRE COUNCIL  
REPORT**

To: ALEOs and External Bodies Monitoring Committee		Subject: <b>Performance Monitoring Report: Fusion Assets Ltd</b>  <b><u>Outcomes Achieved 2015-2016:</u></b> <b><u>Targeted outcomes 2016-2017</u></b>
From: Head of Planning and Regeneration		
Date: 28 July 2016	Ref: KH/JL/ KS	

## **1. Purpose of Report**

- 1.1. This report outlines Fusion Assets Ltd's performance against its' identified performance measures and Council priorities for financial year 2015-2016. This report also advises members of financial performance to date in 2016/17 and strategic delivery targets proposed in respect of 2016/17.

## **2. Background**

- 2.1. The Council created Fusion Assets Ltd in March 2006 following the closure of Boots' manufacturing operation in Airdrie in 2004. The company, a special purpose vehicle, was initially set up as a joint venture (JV) between the Council and Scottish Enterprise using:
- £3.7m funding provided through the Boots Group;
  - £1m funding provided through Scottish Enterprise; and,
  - Provision of land by North Lanarkshire Council on the former sewage works at Luggie Glen, Coatbridge.
- 2.2. In 2008 Scottish Enterprise withdrew from the joint venture and Fusion Assets was restructured as a wholly owned subsidiary company of North Lanarkshire Council. The main objective of the company is to capitalise upon urban regeneration and economic development opportunities within North Lanarkshire. In particular, the company undertakes commercial development projects and land reclamation initiatives that tackle areas of market failure, working in partnership with the private sector through joint ventures. The current focus of activity is on industrial development but the company operates across all sectors including, office, residential, retail and mixed use development.
- 2.3. In creating the original company in 2006 the Council sought to improve access to external funding, strengthen collaborative working with private sector partners by providing freedom for the company to operate more commercially, and ultimately increase investment in physical regeneration and economic development activity in North Lanarkshire.
- 2.4. Over the years Fusion Assets has received significant funding through the Council's Vacant and Derelict Land Fund (VDLF) to carry out predevelopment and infrastructure works. The award of this grant to Fusion Assets Ltd enabled the Council to attract and spend resources which the Council, acting alone, may have required additional staff resources to deliver.
- 2.5. There is no ongoing or recurring funding provided by the Council, but minimal contributory capital funding has been previously provided in support of the development projects. VDLF funding awarded by the Council is monitored and managed through individual grant agreements for each approved development. The grant agreements are used to:
- Define eligible grant expenditure;
  - Stipulate the terms and conditions of the grant award; and,
  - Ensure effective financial procedures are in place for drawing down and evidencing/certifying grant expenditure.

- 2.6. The company has also been successful in securing external funding directly through the Scottish Government's Regeneration Capital Grant Fund (RCGF) during 2015/16 and 2016/17. This funding aids delivery of the Scottish Government's National Regeneration Strategy through supporting the development of large-scale physical regeneration projects, engaging and involving local communities and delivering sustainable economic and physical regeneration outcomes.
- 2.7. The Committee is asked to note that the most recent Regeneration Capital Grant Fund award for 2016/17 will allow Fusion Assets to manage and develop the project themselves (no JV). This has the advantage of creating an income producing asset which will be retained by Fusion Assets and assists with the company's overall cash flow. Fusion Assets have also submitted a funding application for a project which forms part of the new Enterprise Area centred on the BioCity campus at Chapelhall to the Scottish Government's RCGF Programme for 2017/18.
- 2.8. Though not currently trading, members may wish to note Fusion Assets Ltd also has a wholly owned private subsidiary - Fusion Assets Property Development Limited (FAPD) - established to act as a commercial arm of the main company.
- 2.9. As outlined in paragraph 2.2 above, following completion of enabling works, Fusion Assets delivers regeneration and development projects through Joint Venture (JV) Partnerships, thereby securing essential private sector investment whilst minimising the risk to Fusion Assets and the Council. To date, three Joint Ventures have been established and a fourth is currently in the process of being set up. Fusion Assets have also successfully secured SPRUCE (The Scottish Partnership for Regeneration in Urban Areas) loan finance for two of these joint venture projects. Members may wish to note North Lanarkshire Council currently acts as guarantor for Fusion Assets share (50%) of the SPRUCE funding to date which equates to some £2.215m
- 2.10. Fusion Assets was the first organisation in Scotland to secure SPRUCE funding and is the only organisation to have accessed all three of the Scottish Government's regeneration funding streams – VDLF, RCGF and SPRUCE. The financial business model of Fusion Assets anticipates that future receipts from the sale of the joint venture developments will generate a return on investment, which can then be reinvested in other future projects.
- 2.11. Previously, activity within Fusion Assets was reported to the Policy and Resources (Regeneration and infrastructure) Sub Committee. Such reporting was primarily project specific, and whilst informing members of progress on individual developments, investment, partnership working arrangements and matters relating to the application and award of external funding, was somewhat sporadic in nature. Following approval of the Council's corporate guidance for ALEOs, reporting of Fusion Assets Ltd activity was strengthened, through its inclusion in an overview report considered by Policy & Resources (Regeneration and Infrastructure) Sub Committee in November 2015.
- 2.12. As outlined within the Performance Monitoring Framework report approved by the ALEOs and External Bodies Monitoring Committee in May 2016, scope exists for the Policy and Resources (Regeneration and Infrastructure) Sub Committee to continue to review and approve project specific matters and funding, with the ALEOs and External Bodies Monitoring Committee therefore focussing on ensuring Fusion Assets is delivering services which improve economic outcomes and opportunities, assist the Council in improving its resource base and can be shown to represent the most effective mechanism for service delivery.

### **3. Priority Outcomes**

- 3.1. The Council's strategic outcomes and priorities are outlined within the Community Plan and Single Outcome Agreement 2013-2018 (the Plan), approved by Policy and Resources Committee on 4<sup>th</sup> June 2015, and designed to reflect the Scottish Government's National Performance Framework.

- 3.2. Outcomes are categorised within the Plan as either: Health & Wellbeing, Lifelong Learning, Regeneration, Community Safety or Developing the Partnership, all of which continue to be reflected in the revised Council priorities outlined within the Chief Executive's *Future Priorities* report to Policy and Resources Committee in December 2015.
- 3.3. Fusion Assets clearly has a contribution to make in supporting improvements in the Regeneration theme of the existing Community Plan and the Council's strategic priorities of improving economic outcomes and opportunities and increasing the Council's resource base.
- 3.4. Whilst the company routinely includes Community Benefits clauses in all building contracts awarded, Appendix One details activities specifically undertaken by Fusion Assets during 2015/16 to meet the Scottish Government's national outcome, "*We live in a Scotland that is the most attractive place for doing business in Europe*", providing 2014/15 comparison figures.
- 3.5. During 2015/16 Fusion Assets began construction of two new developments at Drumpellier Business Park in Coatbridge and Western Campus in Bellshill. The first of these involved the construction of an 8,000 sqft office pavilion at Drumpellier Business Park in a joint venture with Ogilvie Group. The building was funded through a mixture of capital contributions from the joint venture company and grant funding from the Scottish Government's RCGF. Due to the grant conditions, the building will be retained rather than sold on as an investment.
- 3.6. Western Campus is a 44,000 sqft industrial development at the rear of Strathclyde Business Park in Bellshill. The development was undertaken by a joint venture between Fusion Assets and CBC with loan finance provided by SPRUCE. Once the scheme is fully let the investment will be sold and the SPRUCE loan repaid, in a similar manner to that illustrated within the Dundyvan Enterprise Park case study outlined within Appendix 2.
- 3.7. Based upon performance achieved in 2015-2016 and the company's approved business activities, Appendix 3 proposes targeted economic development, community and resource outcomes for financial year 2016-2017. Members should note the North Lanarkshire Partnership Locality Plans will be operational from 2017-2018, with Fusion Assets' activities and targets expected to support delivery of these Plans where appropriate.
- 3.8. Target outcomes in respect of 2016/17 will be reported to committee quarterly in line with the previously approved Performance Monitoring Framework.

#### **4. Financial Performance**

- 4.1. During 2015-16 the company approved an annual net operating expenditure budget of £140,000, which is funded through the company's existing capital resources. Appendix 4 attached details the recurring revenue costs, with £117,000 of expenditure incurred as at 31<sup>st</sup> March 2016, £23,000 less than budget as a result of reduced spending on development fees and other advice.
- 4.2. The proposed operating budget for 2016-17 is also outlined in Appendix Four indicating net expenditure for the year of £201,000. The material increase on the 2015-16 budget reflects the requirement to contract an additional part time project manager to assist the Managing Director in delivering the increased company projects and activity. At this stage in the financial year there is minimal net expenditure incurred however, the performance against this budget will be included within future monitoring reports to this committee.
- 4.3. As previously outlined within paragraph 2.5 above, the Council provides limited financial contributions to Fusion Assets Ltd. In financial year 2015-16, the Council awarded £1.865m of VDLF grant to Fusion Assets projects, of which £1.164m of expenditure was incurred. The underspend of £0.701m was primarily due to delays in connection with Newhouse Plot 1A and the residential development at Bellshill. Scottish Government approval has been granted to carry forward this grant to 2016-17

- 4.4. The Council, through consideration at the Policy and Resources (Regeneration and Infrastructure ) Sub Committee meeting of 19 May 2016, considered its 2016-17 VDLF grant (£1.982m), and awarded £1.030m (52%) to Fusion Assets projects, including £0.550m to undertake a 2<sup>nd</sup> phase of infrastructure works at Dunalistair Industrial Site Chapelhall, which now forms part of the newly designated Enterprise Area.
- 4.5. Reflecting the regeneration and project-based nature of Fusion Assets, the company's project development expenditure is monitored cumulatively; with spend on all projects fully tracked back to each project's inception. Since its creation in 2006, Fusion Assets has approved cumulative expenditure of circa. £15.37m, with £11.31m incurred to date.
- 4.6. Members will wish to note however that the total development cost of the current portfolio is in the order of £40m, which excludes some £8.8m of predevelopment works funded through VDLF grants. Fusion Assets share of total development costs will be in the order of £7 - £8m and will consist of a mixture of land, cash contributions and recycled receipts. The balance of the development expenditure is anticipated to be funded by a mixture of private sector equity from joint venture partners and loan finance.
- 4.7. To date, there are no onward sales of Fusion Assets' development projects as investments, although Dundyvan Enterprise Park, which is outlined within appendix 2 to highlight the types of milestones, funding and timelines which typically arise in Fusion Assets Ltd development projects, is currently forecast to be sold in early 2017. Fusion Assets estimated share of the investment sale proceeds is £0.684m, generating an anticipated surplus from this development of £0.154m
- 4.8. The company requires positive cash balances to support its development programme; its cash position is closely monitored by both Board and Council, with cash as at 31<sup>st</sup> March 2016 totalling £1.793m. The cash flow forecast in respect of the next two years is illustrated graphically within Appendix Five, and demonstrates the company anticipates having sufficient funding available to carry out its proposed development programme and infrastructure works. This forecast, which was presented to the most recent Board meeting, is based on an assumed level of project expenditure and the receipt of related VDLF grant funding and other income. Key points worthy of highlight to members regarding closing cash balances are: June 2016 when cash is projected to fall to a low of £0.963m; September 2016 when receipt of VDLF and Regeneration Capital Grant funding results in cash increasing to £1.984m; and January 2017 when the expected sale of Dundyvan Enterprise Park further increases cash balances to a projected £2.117m.

## **5. Governance Arrangements**

- 5.1. Fusion Assets is a limited company managed by a Board of 8 Directors. Following the decision to reactivate the company in January 2010, the Board agreed to fill the three vacant posts for independent directors and invited individuals from the private sector with appropriate skills and expertise to join the Board and support the management, operation and development of the company, along with providing investment guidance. To this end, membership of the Board now comprises:
  - 3 elected member appointments by North Lanarkshire Council;
  - 2 Council officers; and,
  - 3 private sector representatives
- 5.2. Fusion Assets employs one member of staff – a full time Managing Director responsible for managing the company's development portfolio. The Company Secretary role is contracted through an external provider. A Service Level Agreement is in place with the Council's Financial Solutions to provide financial management services.
- 5.3. The Board of Directors is responsible for ensuring that Fusion Assets' services are delivered in accordance with the relevant individual funding agreements. The Board meets on a quarterly basis to fulfil its governance responsibilities which include: operational delivery and management, staffing, financial control and reporting, health and safety, performance monitoring and reporting and risk management.

- 5.4. Whilst the Council places reliance on Fusion Assets' governance arrangements, established monitoring and reporting arrangements in place with the company also require Fusion Assets to submit the information noted below to the Council, so that officers can include relevant extracts within performance reports to this Committee:
- a. An annual draft operating or business plan which separately identifies costs and receipts associated with the company activity;
  - b. Monthly management accounts which highlight the company's financial position, cash/bank balances;
  - c. Six monthly and annual performance monitoring reports;
  - d. Bi-annual reports on activities which contribute to the Council's objectives, priorities and Best Value obligations
  - e. Copies of the unaudited and audited annual financial statements.
- 5.5. The Council, through its nominated Directors, also retains the right to inspect Fusion Assets' records and premises and requires the company to adopt financial regulations, contract standing orders, scheme of delegation and risk management arrangements which satisfy the Council's assurance requirements.
- 5.6. Fusion Assets currently comply with the monitoring and reporting arrangements outlined within paragraph 5.4 above. In addition to commenting on the status and effectiveness of the company's governance arrangements, future reports to committee will also briefly highlight Fusion Assets' top risks, and the plans in place to minimise the impact of these from both Fusion Assets and the Council's perspective.

## **6. Recommendations**

- 6.1. Members are asked to note Fusion Assets' performance against:
- a. its objectives and the Scottish Government's National Performance outcomes in 2015-2016;
  - b. its approved revenue budget and Council capital contribution (through the VDLF) for financial year 2015-2016;
- 6.2. Members are also asked to:
- a. Approve the 2016-2017 performance targets outlined in Appendix 3;
  - b. Note the company's 2016-2017 budget outlined in appendix 4; and
  - c. Identify areas of activity for further detailed reporting and consideration to future meetings of the ALEOs and External Bodies Monitoring Committee.

*Shirley Linton*

**Head of Planning & Regeneration Services**

*Members seeking further information on this report should contact Mrs Katrina Hassell on telephone number 01698 302235 or Mrs Shirley Linton on telephone number 01236 632650*

## Fusion Assets

## Target Outcomes and Performance – 2015-2016

Performance Measure	Local Outcome	2014/15 Actual	2015/16 Target	2015/16 Actual	Variance Threshold	Comments
<b>SCOTTISH GOVERNMENT NATIONAL OUTCOME - We live in a Scotland that is the most attractive place for doing business in Europe</b>						
Derelict and contaminated land remediated	Grow the business sector with high levels of survival and entrepreneurship and in infrastructure that attracts investment	15.86 acres	9.1 acres	9.1 acres	+/- 5%	8 acres at Plot A1 Newhouse and 1.1 acres at Main Street, Bellshill
New Business floorspace completed		44,000 sqft	52,000sqft	52,000sqft	+/- 5%	44,000sqft developed at Western Campus and 8,000sqft developed at Enterprise House, Coatbridge
Number of jobs created		30	54	70	+/-10%	Exceeded target due to one tenant with high % office content therefore above average staff numbers
Number of businesses assisted		5	7	7	+/-10%	7 units let to businesses at Dundyvan Enterprise Park

## Fusion Assets Ltd

### Development Projects – Case Study

Dundyvan Enterprise Park in Coatbridge was the first development project undertaken by Fusion Assets and was the first project in Scotland to be financed through SPRUCE - a £50m urban regeneration loan fund set up by the Scottish Government and the European Investment Bank.

#### Strategic Rational

The construction of new industrial units supports local economic development and inward investment activity and there is clear evidence of market failure, with little or no new speculative development by the private sector. Furthermore the industrial market plays to North Lanarkshire's locational strengths – with the M8 upgrade due for completion in 2017, the area will never have been better connected and the provision of a range of sites and premises is a key requisite for economic growth.

#### Background

The site at Dundyvan was a long term derelict site which was formerly part of the British Tube Works and suffered from being both contaminated and undermined as well as having buried foundations present. While the surrounding area had been redeveloped for a mixture of housing and industrial use, the Dundyvan site remained vacant. It was eventually purchased by CBC who obtained planning permission for the development but was unable to secure funding as a result of the recession.

The development opportunity was identified by Fusion Assets as a potential early project in line with its new investment strategy prepared in 2010. Fusion Assets subsequently acquired a 50% interest in the Dundyvan site through the creation of a new joint venture company with CBC and discussions were initiated with Amber Infrastructure – the SPRUCE fund managers with a view to securing financing for the development.

Fusion Assets and CBC agreed to put in 35% of the overall development costs and a loan for £1.827m from SPRUCE was obtained for the remainder. In addition a VDLF contribution of £163,000 (£78,000 under the Land Remediation Scheme and £85,000 under De Minimis) was made to Dundyvan LLP towards the cost of ground remediation works.

Dundyvan Enterprise Park consists of three blocks capable of being split into sixteen units totalling 45,000sqft. The development was completed in October 2013 and the units have been marketed for sale or lease. At the current time twelve of the units have been let or purchased with a further two under offer and two units remaining. Once the remaining units are let the development will be sold on as an investment – anticipated to be early in 2017, and the loan repaid and sale proceeds reinvested.

#### Project Outcomes

A range of businesses have chosen to locate within Dundyvan Enterprise Park including new start up companies, inward investors from outwith Scotland and local companies looking for new premises to grow and expand into. These companies are involved in a broad spectrum of business sectors including manufacturing, telecommunications, IT and utilities as well as storage and distribution. Some of the occupiers have also received support from NLC's Business Growth Fund which is co-ordinated through Regeneration Services. Once fully let it is expected that there will be around 140 people working out of Dundyvan Enterprise Park.

#### Project Evaluation

Fusion Assets amended its business model following completion of the scheme at Dundyvan Enterprise Park. Sites are now purchased directly by Fusion Assets and any enabling infrastructure work which is VDLF grant funded is undertaken first, prior to establishing a joint venture with a private developer. In this way any potential state aid issues are avoided since the Property Support Scheme and Land Remediation Scheme were not included within the current European funding programme.

The initial focus of Fusion Assets activity was on developing multi let industrial estates similar to Dundyvan Enterprise Park – with the second such development completed at Western Campus, Bellshill. However in response to market demand and a continued lack of supply, the most recent developments being progressed by Fusion Assets at Gartcosh and Newhouse involve larger stand alone units of 10,000- 30,000 sqft.

## Fusion Assets Ltd

## Target Outcomes – 2016-2017

2013-18 SOA Local Outcome	Area of Activity	Performance Indicator	2016/17 Target Outcome	2016/17 Actual Outcome	Comments
<b>Improved economic opportunities and outcomes</b>					
<i>Grow the business sector with high levels of survival and entrepreneurship and an infrastructure that attracts investment</i>	Create new business space	Business floorspace completed	20,000 sqft		Relates to Building 1, Link Park, Newhouse
	Support development of strategic investment sites, Enterprise Areas and industrial parks	Number of infrastructure works to support strategic industrial sites	4 infrastructure projects		Relates to Lanarkshire Enterprise Park and viability studies to 3 other sites
	Enhance the number of direct, indirect and induced jobs	Number of jobs created	76 FTE jobs created		Assumes 41 jobs at Dundyvan, 9 at Drumpellier and 26 at Western Campus
	Support businesses in expansion and development	Number of businesses Assisted	8 businesses assisted		Assumes 4 units at Dundyvan, 1 at Drumpellier and 3 at Western Campus
<b>Improving the health, wellbeing and care of communities</b>					
Create strong sustainable town centres and communities that are attractive places to live in, work in and visit	Reduce Brownfield sites/vacant & derelict land	Derelict and contaminated land remediated	1.255 hectares of land improved for business use		£550k -VDLF
	Reduce number of town centre gap sites and derelict buildings				Feasibility work scheduled for 2016/17 – outcomes likely 17/18
<b>Improving the Council's resource base</b>					
	Maximise use of European Union and Government (UK and Scottish) funding and income streams	Levels of grant funding secured	£990,000 (RCGF) £200,000 (VDLF) - 86% contribution to total development costs		Relates to Building 1, Link Park, Newhouse



**Fusion Assets Ltd**  
**Target Outcomes – 2016-2017**

2013-18 SOA Local Outcome	Area of Activity	Performance Indicator	2016/17 Target Outcome	2016/17 Actual Outcome	Comments
	Maximise the return from existing or new Joint Venture Partnerships	Levels of inward investment	£3.742m private sector investment / borrowing		Relates to Ph1 Gartcosh (£793,717 equity and £2,948,100 loan)

**Fusion Assets Ltd**  
**Operating Budget 2015-2016 to 2016-2017**

	Budget 2015-16	Actual 2015-16	Variance	Budget 2016-17	Budget Movemen t
	£000	£000	£000	£000	£000
Staff Costs	79	79	0	96	17
Board Costs	15	15	0	15	0
Operating Costs	55	30	25	95	40
Running Cost	6	2	4	4	(2)
<b>Total Expenditure</b>	<b>155</b>	<b>126</b>	<b>29</b>	<b>210</b>	<b>55</b>
Grant Income	0	0	0	0	0
Miscellaneous Income	0	0	0	0	0
Bank Interest	15	9	6	9	(6)
<b>Total Income</b>	<b>15</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>(6)</b>
<b>Net Surplus / (Deficit)</b>	<b>(140)</b>	<b>(117)</b>	<b>(23)</b>	<b>(201)</b>	<b>(61)</b>
Detailed Breakdown:					
<b>Operating Costs</b>					
PR & Marketing	8	6	2	8	0
Development Fees	22	8	14	15	(7)
Project Management	0	0	0	52	52
Other advice e.g. Legal, Financial, Tax	25	15	10	20	(5)
<b>Total Operating Costs</b>	<b>55</b>	<b>30</b>	<b>25</b>	<b>95</b>	<b>40</b>
<b>Running Costs</b>					
Equipment	1	1	0	1	0
Expenses	5	1	4	3	(2)
<b>Total Running Costs</b>	<b>6</b>	<b>2</b>	<b>4</b>	<b>4</b>	<b>(2)</b>

Fusion Assets Ltd  
 Cash Flow forecast  
 2016-2017 to 2017-2018

