

North Lanarkshire Council Report

Enterprise and Growth Committee

approval noting

Ref KH/CM/KS

Date 7 February 2019

North Lanarkshire Properties LLP – 2018/19 Performance Indicators: 21st July – 12th October 2018 and Financial Performance as at 12th October (Period 7)

From Katrina Hassell, Head of Business Solutions

Email hassellk@northlan.gov.uk

Telephone 01698 302235

Executive Summary

This report provides details of North Lanarkshire Properties LLP's performance from 21st July 2018 – 12th October 2018 and provides an update on achievements the organisation has delivered in 2018/19.

Financial performance is considered within the context of the company's approved activities and budget for financial year 2018/19.

Recommendations

Members are asked to:

1. Note NLP LLP's operational performance against its 2018/19 targets for the period 21st July to 12th October 2018;
2. Note NLP LLP's financial performance as at Period 7 ending on 12th October 2018;
3. Identify areas of activity for further detailed reporting and consideration by the Council; and
4. Otherwise note the contents of this report.

Supporting Documents

Council Plan	NLP LLP primarily supports the "Improving economic opportunities and outcomes" and "Improving the Council's resource base" priorities within the Council's Business Plan.
Appendix 1	2018/19 Performance Update – Quarter 2, 21 st July to 12 th October 2018
Appendix 2	Financial Performance as at Period 7 covering the period 21 st July to 12 October 2018
Appendix 3	Overall Financial Standing – Balance Sheet as 12 th October 2018
Appendix 4	NLP LLP Cash Flow Forecast to October 2019

1. Background

- 1.1 NLP LLP undertakes the marketing, leasing and management of the Council's commercial property portfolio and also manages, on behalf of the Council, the legacy properties which remain within the Council's investment property portfolio and were not sold to NLP LLP. NLP LLP also delivers services in relation to externally owned properties that the Council leases for its own operational use and provides general advice on lease transactions.
 - 1.2 NLP LLP is a limited liability partnership as set up by North Lanarkshire Council (NLC) in 2013 with two members – NLC, which holds 99.999% membership, and NL Property (Investments) Ltd, which holds a residual 0.001% membership. NL Property (Investments) Ltd is a company whose shares are 100% owned by NLC. The Council transferred its investment property portfolio to NLP LLP in return for a capital receipt of £45 million, which NLP LLP generated through a 25 year loan agreement with Barclays Bank.
 - 1.3 NLP LLP's property portfolio includes shop units, office accommodation, business centres, industrial yards and storage units. Lease agreements are negotiated on an individual basis and tailored to suit the tenant's requirements. Properties are available to let on a short to long term basis and the company is active in supporting and encouraging business start-ups, expansion of existing companies seeking larger or additional premises and inward investment by companies seeking to locate in North Lanarkshire. Income from rents is used to finance the original loan and interest repayments and any surpluses are re-invested in the portfolio to ensure that the NLP LLP maintains its market position and is able to provide a range of high quality business rental properties.
 - 1.4 Governance, strategic direction and oversight of the Limited Liability Partnership is provided by the Management Committee which comprises four elected members and one senior Council officer (Executive Director of Enterprise and Communities) appointed by North Lanarkshire Council and one member appointed by the limited company, NL Property Investments Ltd. The Management Committee is responsible for ensuring that NLP LLP's services are delivered in accordance with the approved Service Level Agreement and company objectives. The Management Committee meets quarterly 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.
 - 1.5 Members to the Board of Directors of the limited company, NL Property Investments Ltd, are also appointed by the Council with five elected members and one senior officer appointed. The General Manager of the LLP is also a Director of NL Property Investments Ltd for the purposes of fulfilling an authorised signatory function on behalf of the LLP. This permits the General Manager to sign lease and other day to day agreements under delegated authority and within limits specified by the LLP Management Committee.
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2. Report

Performance Indicators

- 2.1 NLP LLP's performance was previously reported to the former ALEO and External Bodies' Monitoring Sub Committee and will now be reported to this

committee on a quarterly basis. At the ALEO and External Bodies Sub Committee meeting on 29th August 2018 members agreed a suite of performance indicators and associated targets for 2018/19 which fulfil the reporting requirements agreed between the organisation and the Council and further demonstrate where NLP LLP is contributing to the Council's strategic priorities.

- 2.2 2018/19 performance indicators are listed in Appendix 1, along with actual performance during the period 21st July –12th October 2018.

ALEO Service Review

- 2.3 As Members will be aware NLP LLP was subject to a service review in 2017/18 which recommended retaining the organisation whilst also addressing identified operational, resource and performance issues through a three year improvement plan and examining the potential for additional resources. Work to support these recommendations is well underway with the ALEO Partnership Unit co-ordinating activity. An improvement plan has been developed in support of the review's recommendations including a number of short-life working groups to pursue specific actions including development of a customer charter, updating of business plan and implementation of a marketing strategy.
- 2.4 The review recommended that the Council should also investigate the feasibility of establishing a further Property, Business and Regeneration / Inward Investment group structure which would incorporate both NLP LLP and Fusion Assets, providing a "one door" approach to commercial property letting and economic regeneration. Work on this is being taken forward as part of the Economic Regeneration Delivery Plan with the ALEO Unit supporting this activity.

Complaints, Comments and Compliments

- 2.5 NLP LLP complaints process is based on the system operated by the Council with complaints being logged on the Council's "Laggan" system. Complaints were reported to the ALEO and External Bodies' Monitoring Sub Committee on the 7th November 2018 for the period 1st April – 9th October 2018. NLP have joined NLC's complaints network to continue to improve its quality assurance procedures for complaints handling.

Service Delivery Highlights

- 2.6 NLP is currently working on re-structuring its establishment to better reflect and support the vision, ambitions and objectives of the Council while also improving operational efficiency. NLP also trades in a challenging business environment and has to be able to adapt to remain competitive. The restructure of the team will enable NLP to refocus on its business needs and as part of this process NLP is undertaking in depth staff consultation on its business needs.
- 2.7 NLP is actively engaging in work to support implementation of the recent Service Review findings to enable the organisation to promote itself more effectively, better serve its customers and increase overall business efficiency and effectiveness.
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3. Equality and Diversity

3.1 Fairer Scotland

There are no considerations which require to be addressed at this time.

3.2 Equality Impact Assessment

There is no requirement for an Equality Impact Assessment at this time.

4. Implications

4.1 Financial Impact

Public Accountability Obligations – Financial year 2018/19

- 4.1.1 To satisfy the Council's duty to ensure the organisation delivering property management services on its behalf is financially sound, the Council's Section 95 Officer maintains appropriate and proportionate processes and procedures for scrutinising NLP LLP's financial performance.
- 4.1.2 The Council's Legal Agreements with NLP LLP specify the financial information which NLP must submit to the Council including an annual business plan, quarterly management accounts, audited financial statements etc., to enable Financial Solutions to assess and report any financial risk likely to arise as a result of the Council using NLP LLP to deliver these services.
- 4.1.3 The Council expends limited revenue resources annually with NLP LLP to deliver services which assist the Council in achieving its priority outcomes. For financial year 2018-19, the Council's approved revenue spend is £0.445m equating to property management services (£0.198m) and rental charges for properties utilised by the Council (£0.247m). The Council has a duty to continue to ensure this money is being properly used to deliver both the Council's and NLP LLP's key objectives.
- 4.1.4 Members will wish to note the Council's 2018-19 contributions represent 6.70% of the organisation's budgeted income of £6.642m, with the balance of income of £6.197m being generated through external rental income and interest on investments.

Financial Performance 1 April 2018 to 12 October 2018

- 4.1.5 Based on their financial statements to 12 October 2018, a projected year end accounting profit of £1.286m is anticipated. After accounting for £1.227m loan principal repayments there will be a £0.059m profit transfer to reserves, which is an under recovery of £0.180m against budget. This is primarily due to reduced rental income in conjunction with increased property costs. Further details regarding the operating budget are provided at Appendix 2.
- 4.1.6 To ensure the company remains profitable in a challenging market, management action continues to strengthen the long term financial sustainability of the company. This includes a review of property investment or retention strategy including selling properties where there has been extensive void periods and/ or

significant capital investment is required to make them lettable. Robust financial modelling will demonstrate the most cost effective options for the company enabling best value decision-making by the Management Committee. Ongoing updates on these matters will be provided in a future report to this Committee.

Overall Financial Standing – Balance Sheet as at 12 October 2018

4.1.7 Appendix 3 provides key balances to give members an update on the overall financial standing of the company, as at 12 October 2018, along with the previous year's comparator figures and some commentary on key balances and indicators worthy of note.

Cash Flow Forecast to October 2019

4.1.8 A cash flow forecast for 12 months to October 2019 is provided at Appendix 4, which shows the balance projected to total between £5.791m and £6.768m throughout the next 12 months. This indicates the company has sufficient cash to meet its commitments over the forecast period.

4.2 HR/Policy/Legislative Impact

4.2.1 There are no policy, legislative impacts or Human Resource impacts arising from this report.

4.3 Environmental Impact

4.3.1 There are no environmental implications to the report at this point.

4.4 Risk Impact

4.4.1 NLP LLP's risks were considered at its Management Committee meeting on 6th September 2018 – strategic risks identified included:

- Financial performance;
- Impact of legislative changes;
- Non-compliance with the Health and Safety legislation;
- Failure of key business systems;
- Business continuity; and
- ALEO review.

4.4.2 NLP LLP have been actively seeking to utilise the Council's Fig Tree risk management system and, with the assistance of the ALEO Unit, undertook an annual review of their risk register on 16th November 2018 when it was also reconfigured in preparation for upload onto the Council's Fig Tree Risk Management system (due early 2019).

5. Measures of success

5.1 The percentage of rental overdue has reduced as NLP continues to encourage tenants to sign up to direct debit and also due to the work of the debt recovery and wider NLP team to ensure debt is kept as low as possible.

5.2 NLP continues to operate in a challenging and competitive market and while year to date terminations overall are higher than the same period last year, the number

of new leases, renewals and assignments in the period has again exceeded the same period last year. There is also a slight reduction at the end of Period 7 in the percentage of vacant properties across the full portfolio.

- 5.3 The number of jobs maintained or created by companies leasing from NLP LLP has, for the first two periods of 2018/19, exceeded that for the same period last year – so far in 2018/19 138 jobs have been maintained or created by companies leasing from NLP LLP compared to 82 in the same period last year.



Katrina Hassell
Head of Business Solutions

Ref No.	Indicator and Frequency	Target Outcome/Purpose	2018/19 Target (where applicable)	2018/19 Actual	Comments	2017/18 YTD Comparison (where applicable)
Supporting all children to realise their full potential						
OBJECTIVE: Maximise employment opportunities through our education provision						
5	Engagement in Recruitment Fairs/ Careers Talks (Annual)	<ul style="list-style-type: none"> • Raise Awareness of existing career options within North Lanarkshire • "Grow Our Own" future generation of employees 	2 events per annum to be reported at year-end	Outcome(s) to be reported at year end	NLP will continue to engage, attend and support Braidhurst High School careers events and will consider supporting other high schools with regards to careers events on a case by case basis. NLP will also offer 2 work placements for school pupils.	NLP LLP participated in Braidhurst High School's careers' event held on 19/02/18
6	Provision of school Work Experience placements (Annual)	<ul style="list-style-type: none"> • Provide worthwhile and varied opportunities for S4 pupils to experience potential careers and work experience. 	2 Work Experience Placements to be provided	Outcome(s) to be reported at year end	Two placements available for Braidhurst High School and NLP LLP will continue to liaise with the school	NLP LLP offered two work experience placements
Improving the health and care of communities						
OBJECTIVE: Improve the quality and energy efficiency of commercial properties, contributing to climate change target						
7	Carbon efficiency measures installed to commercial properties (Six Monthly)	<ul style="list-style-type: none"> • Reduced energy costs for tenants • More attractive and market-leading commercial properties • Reduce Carbon Emissions 	<ul style="list-style-type: none"> • Development of energy efficiency strategy • Identification of potential funding streams 	NLP continue to liaise with the Council's maintenance team to consider how energy efficiency protocols can be built into standard refurbishments.	Energy audits have been commissioned for 7 multi-occupied buildings including Dalziel and Airdrie business Centres	5 Properties identified where energy efficiency installations would increase mark availability
Improving relationships with communities and the third sector						
OBJECTIVE: Support voluntary and community activity in North Lanarkshire						
8	Charitable income as a % of turnover (Quarterly per financial period end)	<ul style="list-style-type: none"> • Support voluntary and community organisations within Charity Lettings policy 	≤ 1% of annual turnover as per Management Committee policy	2018/19	NLP Continues to support charity and third sector organisations in line with its policy commitments	2017/18
				Period ending 20/07/18 (P4)		Period Ending 21/07/17 (P4)
				1.10%		1.10%
				Period Ending 12/10/18 (P7)		Period Ending 13/10/17 (P7)
				1.10%		1.13%
				Period Ending 04/01/19 (P10)		Period Ending 05/01/18 (P10)
				Period Ending 31/03/2019 (P13)		Period Ending 31/03/2018 (P13)

Ref No.	Indicator and Frequency	Target Outcome/Purpose	2018/19 Target (where applicable)	2018/19 Actual	Comments	2017/18 YTD Comparison (where applicable)																																				
Improving the Council's resource base																																										
9	70% of all properties are let in no more than 30 working days. Propose that indicator is changed to ; "70% of lettings completed, from date at which property is in a lettable condition and an expression of interest has been received, to conclusion within 60 days."	<ul style="list-style-type: none"> •Minimise number of vacant properties •Maintain income and occupancy levels •Maintain quality and availability of properties and turnaround time of re-lettings 		2017 Pilot exercise = 55.56% 2018 Pilot (to 09/10/18) = 53.22%	Revised indicator as agreed at meeting on 7th November 2018.	Not Applicable																																				
10	Net rental movement generated in period	•Maximise income to the LLP	N/A	<table border="1"> <tr> <td>Period Ending 31/03/2018 (P13 - 2017/18)</td> <td></td> </tr> <tr> <td>Opening balance</td> <td>£0</td> </tr> <tr> <td>Period Ending 20/07/18 (P4)</td> <td>YTD</td> </tr> <tr> <td>£40,275</td> <td>£40,275</td> </tr> <tr> <td>Period ending 12/10/18 (P7)</td> <td>YTD</td> </tr> <tr> <td>£8,249</td> <td>£48,524</td> </tr> <tr> <td>Period ending 04/01/19 (P10)</td> <td>YTD</td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td>Period ending 31/03/19 (P13)</td> <td>YTD</td> </tr> <tr> <td></td> <td></td> </tr> </table>	Period Ending 31/03/2018 (P13 - 2017/18)		Opening balance	£0	Period Ending 20/07/18 (P4)	YTD	£40,275	£40,275	Period ending 12/10/18 (P7)	YTD	£8,249	£48,524	Period ending 04/01/19 (P10)	YTD			Period ending 31/03/19 (P13)	YTD			Budgets are realigned each year to match expected rent due. Therefore opening balance each year is £0	<table border="1"> <tr> <td>Period Ending 31/03/2017 (P13 16/17)</td> <td>0</td> </tr> <tr> <td>Period Ending 21/07/2017 (P4)</td> <td>£10,924</td> </tr> <tr> <td>Period Ending 13/10/17 (P7)</td> <td>£7,660</td> </tr> <tr> <td>Period Ending 05/01/18 (P10)</td> <td></td> </tr> <tr> <td>Period Ending 31/03/18 (P13)</td> <td></td> </tr> </table>	Period Ending 31/03/2017 (P13 16/17)	0	Period Ending 21/07/2017 (P4)	£10,924	Period Ending 13/10/17 (P7)	£7,660	Period Ending 05/01/18 (P10)		Period Ending 31/03/18 (P13)							
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11	% of rental income due that was paid within 30 days	•Maintain income levels	Monthly payment reports to be provided	<table border="1"> <tr> <td>28/03 to 27/04/18</td> <td>87.00%</td> </tr> <tr> <td>28/04 to 27/05/18</td> <td>89.50%</td> </tr> <tr> <td>28/05 to 27/06/18</td> <td>84.80%</td> </tr> <tr> <td>28/06 to 27/07/18</td> <td>90.00%</td> </tr> <tr> <td>28/07 to 27/08/18</td> <td>85.90%</td> </tr> <tr> <td>28/08 to 27/09/18</td> <td>89.50%</td> </tr> <tr> <td>28/09 to 27/10/18</td> <td>89.20%</td> </tr> <tr> <td>28/10 to 27/11/18</td> <td></td> </tr> <tr> <td>28/11 to 27/12/18</td> <td></td> </tr> <tr> <td>28/12 to 27/01/19</td> <td></td> </tr> <tr> <td>28/01 to 27/02/19</td> <td></td> </tr> <tr> <td>28/02 to 27/03/19</td> <td></td> </tr> </table>	28/03 to 27/04/18	87.00%	28/04 to 27/05/18	89.50%	28/05 to 27/06/18	84.80%	28/06 to 27/07/18	90.00%	28/07 to 27/08/18	85.90%	28/08 to 27/09/18	89.50%	28/09 to 27/10/18	89.20%	28/10 to 27/11/18		28/11 to 27/12/18		28/12 to 27/01/19		28/01 to 27/02/19		28/02 to 27/03/19		Continued high performance in Quarter 2 of 2018/19.	<table border="1"> <tr> <td>79.40%</td> </tr> <tr> <td>87.10%</td> </tr> <tr> <td>83.70%</td> </tr> <tr> <td>71.80%</td> </tr> <tr> <td>88.50%</td> </tr> <tr> <td>87.60%</td> </tr> <tr> <td>90.70%</td> </tr> <tr> <td>89.80%</td> </tr> <tr> <td>85.50%</td> </tr> <tr> <td>85.20%</td> </tr> <tr> <td>88.90%</td> </tr> <tr> <td>87.60%</td> </tr> </table>	79.40%	87.10%	83.70%	71.80%	88.50%	87.60%	90.70%	89.80%	85.50%	85.20%	88.90%	87.60%
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Improving the Council's resource base								
12	Total outstanding rent due as a % of turnover	•Maintain income levels and recover outstanding rents due.	Quarterly period end reports to be provided	Period Ending 20/07/18 (P4)	NLP LLP are continuing to undertake actions to reduce all debt including historic debt		Period Ending 21/10/17 (P4)	
				18.88%			24.33%	
				Period Ending 12/10/18 (P7)			Period Ending 13/10/17 (P7)	
				13.56%			19,21%	
				Period Ending 04/01/19 (P10)			Period Ending 05/01/18 (P10)	
				Period Ending 31/03/19 (P13)			Period Ending 31/03/18 (P13)	
13	% of total outstanding rent due that is historic (6+ months)	•Maintain income levels and recover outstanding rents due	Quarterly period end reports to be provided	Period ending 20/07/18 (P4)	NLP LLP are continuing to undertake actions to reduce all debt including historic debt		Period Ending 21/10/17 (P4)	
				45.85%			70.40%	
				Period ending 12/10/18 (P7)			Period Ending 13/10/17 (P7)	
				34.32%			54.40%	
				Period Ending 04/01/19 (P10)			Period Ending 05/01/18 (P10)	
				Period ending 31/03/19 (P13)			Period Ending 31/03/18 (P13)	
14	% of vacant Properties across the full portfolio as at 12 October 2018	•Minimise number of vacant properties • Maintain income levels	Vacancy Rate ≤ 10% = Green (G) Vacancy Rate > 10% = and ≤ 20% = Amber (A) Vacancy Rate > 20% = Red (R)	2018/19	%	NLP LLP Continues to trade in a challenging market and is reviewing its processes to accelerate bringing void properties to the market	2017/18	
				Period 4	11.25%		Period 4	10.74% A
				Period 7	10.93%		Period 7	10.43% A
				Period 10			Period 10	
				Period 13			Period 13	

North Lanarkshire Properties LLP
Financial Performance to 12 October 2018

Income & expenditure	2018/19 Annual Budget £m	2018/19 Year to date			2018/19 Projected Outturn £m	2018/19 Projected Variance £m	Commentary
		Budget £m	Actual £m	Variance £m			
Income from NLC	0.445	0.255	0.255	0.000	0.445	0.000	SLA & rental charges.
Trading operations	6.177	3.508	3.504	(0.004)	5.972	(0.205)	Underrecovery in operational income due to vacant properties.
Investments	0.020	0.003	0.003	0.000	0.020	0.000	Bank interest received
Other Income	0.000	0.000	0.017	0.017	0.041	0.041	Dillapidation of Woodside Street £24k, Sale of Land Netherlee Road £7k and other insurance/legal claims
Total Income	6.642	3.766	3.779	0.013	6.478	(0.164)	
Expenditure;							
Employee costs	(0.621)	(0.285)	(0.286)	(0.001)	(0.582)	0.039	Short term vacancies
Property Costs	(1.827)	(0.655)	(0.809)	(0.154)	(1.869)	(0.042)	Overspend in rates costs of £0.140m primarily due levels of current vacant properties largely offset by a reduction in repairs expenditure of £0.105m this year due to a reprioritisation of jobs to the 2019/20 budget
Supplies & Services	(0.515)	(0.258)	(0.270)	(0.013)	(0.509)	0.006	Small savings across a number of expenditure headings
Admin Costs	(0.168)	(0.021)	(0.040)	(0.019)	(0.187)	(0.019)	Additional legal costs in relation to the Flowerhill dispute and consultancy fees relating to the purchase of Orbiston Street.
Financing Costs	(2.045)	(1.014)	(1.014)	0.000	(2.045)	0.000	
Total Expenditure	(5.176)	(2.232)	(2.418)	(0.187)	(5.192)	(0.016)	
Accounting Profit	1.466	1.535	1.361	(0.174)	1.286	(0.180)	
Loan Principal Repayments	(1.227)	(0.318)	(0.318)	0	(1.227)	0	
Profit Transferred to Reserves	0.239	1.217	1.043	(0.174)	0.059	(0.180)	

North Lanarkshire Properties LLP

Overall Financial Standing - Balance Sheet as at 12 October 2018

Balances/ Indicator	2018/19 YTD actual £m	2017/18 Final Outturn £m	Commentary
Fixed Assets	66.613	66.613	Property portfolio held to generate operating income, largely funded from the loan from Barclay's Bank
Current Assets:			
Trade Debtors	0.580	0.697	Primarily debtors not yet due
Bank	4.493	4.968	
Short-Term Investments	2.000	2.005	12 month term investment
	7.073	7.670	
Current Liabilities:			
Trade Creditors	(0.502)	(1.143)	Predominantly reflects amounts not yet due
Other Creditors inc. VAT & other taxes	(0.473)	(1.165)	VAT due to HMRC, accrued interest, deferred income
Loan payments due in <1 yr	(1.227)	(1.227)	Barclays Bank
	(2.202)	(3.535)	
Net current Assets/(liabilities)	4.871	4.135	
Loan repayments due in > 1 yr	(38.848)	(39.474)	Barclays Bank
Defined scheme pensions liabilities	(0.022)	(0.022)	FRS102 actuarial valuation
Net Asset / (Liabilities)	32.614	31.252	

	Projected 31 March 2019	As at 31 March 2018	
Cash Backed Reserves - £m	1.691	1.632	Increase due to 2018/19 year to date profit transferred to reserves - Cash backed reserves are available for use by the LLP's Management Committee to invest and improve its property portfolio.

Current Ratio	3.21	2.17	A current ratio exceeding 1 indicates the company has sufficient resources to meet its current commitments. Comparison of current assets & current liabilities equate to net current assets of £4.871m, and a current ratio of 3.21.
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NLP Cash Flow Forecast to October 2019

