

North Lanarkshire Council Report

Enterprise and Growth Committee

approval noting

Ref KH/CM/KS

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Fusion Assets Ltd – 2018/19 Operational Performance Monitoring as at 31 March 2019 and Financial Performance as at 31 December 2018

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Executive Summary

This report provides details of Fusion Assets Ltd's (Fusion Assets) operational performance against performance indicator targets in 2018/19. This report also details the company's financial standing as at 31 December 2018.

Recommendations

Members are asked to:

1. Note Fusion Assets' operational performance for 2018/19;
2. Note Fusion Assets' financial performance against its approved 2018/19 revenue and capital budgets as at 31 December 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

The plan for North Lanarkshire	Fusion Assets primarily supports the "Improve economic opportunities and outcomes" and "Improve North Lanarkshire's Resource Base" priorities within the Council's Plan for North Lanarkshire.
Appendix 1	Approved Operational Performance Indicators for 2018/19 and Year End Performance Update
Appendix 2	Financial Performance from 1 April 2018 to 31 December 2018
Appendix 3	Overall Financial Standing – Balance Sheet as at 31 December 2018
Appendix 4	Forecast Cash Balances to December 2020
Appendix 5	Approved Budget 2019/20

1. Background

- 1.1 Fusion Assets is a wholly owned subsidiary of the Council which focuses on providing economic regeneration and physical development projects, especially in areas where there is little speculative development by the private sector and/or market failure. Using Vacant and Derelict Land Funding (VDLF) awarded to the Council by the Scottish Government and Regeneration Capital Grant Funding (RCGF), which Fusion secures through its own direct applications to the Scottish Government, the company can lever in additional private funding through joint venture partnerships for each project. In addition, Fusion Assets has used the Council as a guarantor to secure SPRUCE (The Scottish Partnership for Regeneration in Urban Areas) loan finance. It should be noted that Fusion Assets does not receive an on-going or recurring management fee from the Council
- 1.2 Once land has been acquired and remediated with construction and letting, where applicable, undertaken, the company generally will look to sell the development which should enable loans to be repaid and future projects to be funded. Although Fusion Assets primarily focuses on developing sites for industrial purposes, the company's business objectives allow for development of brownfield and town centre sites for social housing. In December 2018 Fusion completed the first of such projects on Bellshill Main Street and successfully sold the site to Clyde Valley Housing Association for the construction of 16 flats and two single storey semi-detached properties.

2. Report

Performance Indicators

- 2.1 Fusion Assets' performance is reported on a six monthly basis to committee with the current indicators developed over time by the former ALEOs and External Bodies' Monitoring Sub Committee to better show Fusion's impact in terms of Gross Value Added and cumulative impact. In addition to fulfilling reporting requirements these indicators demonstrate where the company is contributing to the Council's strategic priorities.
- 2.2 The performance indicators are listed in Appendix 1 along with outcomes achieved during the period 1 April 2018 – 31 March 2019. Additional commentary provides members with further information.
- 2.3 Fusion Assets' areas of activity are aligned with the Council's strategic priorities and were previously aligned with the Council's Business Plan to 2020. Engagement is due to take place between the Fusion Assets Board and the Council's Business Solutions team to explore where Fusion Assets can directly contribute to the Council's shared ambitions and The Plan for North Lanarkshire.

ALEO Service Review

- 2.4 Fusion Assets was subject to a service review in 2017/18 which generated an improvement plan with a small number of actions to enhance performance. These actions are largely complete with the Board of Directors agreeing to strengthen community and stakeholder engagement as future projects are developed and

explore benchmarking opportunities with other economic development public bodies and agencies. Moreover, a skills matrix to support the selection process for co-opted director appointments is being developed in conjunction with the Chairperson and Managing Director and this is due to be finalised by the Board at its next meeting in May 2019.

- 2.5 As part of the service review recommendations the Council is also investigating, through the Economic Regeneration Delivery Plan, the feasibility of incorporating commercial and industrial development and inward investment activity within the wider enterprise contract proposals, considered at the special Policy and Strategy Committee on 21 February 2019 and designed to deliver major infrastructure projects, service and facility improvements and achieve inclusive growth across North Lanarkshire over the next 10 years.

Service Delivery Highlights

- 2.6 Fusion Assets' commercial developments and sites continue to attract a wide range of new companies to North Lanarkshire including Fluid System Technologies who have taken occupation of a 10,000 square foot unit at Link Park, Newhouse on behalf of a large American oil and gas company for their new Scottish depot. Another large American multinational corporation in the oil and gas sector – National Oilwell Vargo – has leased an industrial unit at Western Campus as part of their relocation to Strathclyde Business Park. These Quarter 3 and Quarter 4 highlights are in addition to previously reported 2018/19 highlights which included the commencement of construction on the first 18,000 square foot industrial unit at Gartcosh and Belfast based engineering contractors, Stothers Ltd, moving into Western Campus, Strathclyde Business Park.

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

- 4.1.1 To satisfy the Council's duty to ensure the organisation delivering urban regeneration and economic development services on its behalf is financially sound, the Council's Section 95 Officer maintains appropriate and proportionate processes and procedures for scrutinising Fusion Assets' financial performance.
- 4.1.2 The Council's Legal Agreements with Fusion Assets specify the financial information which must be submitted to the Council including an annual business plan, monthly 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 Fusion Assets to deliver these services.

- 4.1.3 Financial Solutions provides financial management services to Fusion Assets through a Service Level Agreement. This therefore reduces the financial governance activity required as Council officers are responsible for ensuring robust financial management arrangements are in place for the company while also generating £14,000 income annually for the Council.
- 4.1.4 The Council does not expend annual revenue or capital resources directly through Fusion Assets to deliver services which assist the Council in achieving its priority outcomes. However, Fusion Assets has been successful in securing VDLF funding via the Council. For financial year 2018-19, £0.595m VDLF has been approved.

Financial Performance 1 April 2018 to 31 December 2018

- 4.1.5 The company approved a 2018-19 operating budget with projected net operating costs of £0.209m. Based on their financial statements to 31 December 2018, Fusion Assets is currently projecting a minor overspend of £0.004m. A summary is provided at Appendix 2 along with previous year comparator outturn position.
- 4.1.6 Reflecting the regeneration and project-based nature of Fusion Assets, the company's project (capital) development expenditure is monitored cumulatively with spend on all projects fully tracked back to each project's inception. The summary financial position of the projects is outlined in table 1 below.

	Budget	Actual	Projection	Variance (Budget v Projection)
	£	£	£	£
Expenditure (VDLF & Non VDLF)	14,815,031	14,774,502	15,838,794	(1,023,764)
Income (VDLF & Non VDLF)	(18,655,643)	(12,626,055)	(19,508,818)	(853,175)
Net Cost/(Surplus)	(3,840,612)	2,148,447	(3,670,024)	(170,588)

Table 1

- 4.1.7 As outlined above, cumulative expenditure of £14.815m has been approved, which will be met from budgeted income of £18.656m, a combination of VDLF grant, Regeneration Capital Grant funding, anticipated capital receipts and Fusion Assets' own resources. An overall surplus of £3.670m is currently projected, which is an increase of £0.192m than previously reported. These are estimates reflecting current valuations of land transfers and receipts from onward sales, which may fluctuate, impacting the surplus projected. The sale of the Main Street, Bellshill project completed in December 2018 with a sales receipt of £0.399m.
- 4.1.8 As at 30 December 2018 net costs of £2.148m are reported, with a projected £1.065m of expenditure to be incurred on pre-development and building works. Further receipts of £6.883m are still anticipated, mainly from the onward sale of developments.

4.1.9 Members are reminded the total development investment of the current portfolio is in the order of £40m, which predominantly rests with the joint venture companies and excludes some c. £9m 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.

Overall Financial Standing as at 30 December 2018

4.1.10 Appendix 3 gives an update on the overall financial standing of the company, as at 31 December 2018, together with further information and previous year's comparator figures. As can be seen a healthy current ratio of 1.41 is reported, which gives assurance the company has sufficient resources to meet its commitments.

Cash Flow Forecast to December 2020

4.1.11 The company requires effective cash management to support its development programme therefore the cash position is closely monitored, with the cash balance as at 31 December 2018 totalling £1.474m. The cash flow forecast to December 2020 is illustrated within Appendix 4. Based on estimated expenditure and receipts, the forecast demonstrates there is sufficient funding available to carry out the proposed development programme. The lowest cash balance is forecast at £1.267m in May 2019, with the balance reaching a high of £2.275m in December 2019.

Operating Budget – 2019/20

4.1.12 The company has approved a 2019/20 operating budget with projected net operating cost of £0.127m, which is a reduction of £0.082m on the 2018/19 budget. This is primarily due to decreased expenditure of £0.021m and increased rental income of £0.068m due to the successful leasing of units within Newhouse Building. Appendix 5 contains details of the approved budget for 2019/20.

4.2 HR/Policy/Legislative Impact

4.2.1 There are no policy, legislative 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 Fusion Assets' risk register annual review took place in July 2018 and it is also further reviewed at every board meeting. The annual review for 2019 will take place in spring in preparation for its upload to the Council's Fig Tree Risk Management System and Fusion Assets' Managing Director attended a Fig Tree training event on 17 January 2019 to support the process.

5. Measures of success

- 5.1 In 2018/19 Fusion Assets' developments have accommodated 8 businesses – 4 at Western Campus, 2 at Drumpellier and 2 at Link Park. These developments, together with Dundyvan Enterprise Park (now sold), have accommodated 29 businesses in total since 2011.
- 5.2 In terms of Gross Value Added Fusion Assets have added £595,696 in the last 2 quarters and £1,748,656 in total for 2018/19. This is around £384,000 below target. GVA is based on an average calculation per job and, as the job target was slightly below target at 82%, the GVA's total was less than target. It should, however, be noted that the 2018/19 GVA total exceeded the comparable outcome in 2017/18 by £345,888 (24.7%). In total, since 2011, Fusion Assets have added £6,738,248.
- 5.3 In terms of jobs created Fusion Assets' developments at Western Campus, Drumpellier and Link Park have created 31 jobs in the last 2 quarters of 2018/19 and 91 jobs in total in 2018/19. Since 2011 these developments and Dundyvan Enterprise Park have created 353 jobs in total.
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Head of Business Solutions

Fusion Assets Ltd - 2018/19 Performance Measures, Targets and Outcomes

Six Monthly Measures:

Area of Activity	Performance Indicator	2018/19 Target Outcome	Progress Update as at 31 st March 2019	Comments	Cumulative Total (Since 2011)	2017/18 Actual
Improve economic opportunities and outcomes						
Support development of strategic investment sites, Enterprise Areas and industrial parks	Number of infrastructure works to support strategic industrial sites	1	VDLF approval received for works. Contract let and scheduled to be completed May 2019.	Target based on site remediation and infrastructure works for Gartcosh Business Interchange (will not be added to cumulative total as site previously included)	8	0

Area of Activity	Performance Indicator	2018/19 Businesses Accommodated by Site as at 31 st March 2019				Comments	Cumulative Total (Since 2011)	2017/18 Actual	
Support businesses in expansion and development	Number of businesses accommodated	T A R G E T S	Dundyvan Enterprise Park	N/A	A C T U A L	Dundyvan Enterprise Park	N/A	13	3
			Western Campus	5		Western Campus	4	11	4
			Drumpellier	2		Drumpellier	2	3	1
			Link Park	2		Link Park	2	2	0
			Gartcosh	N/A		Gartcosh	N/A	0	0
						Two tenants ceased trading at Western Campus during Q3/4 2018/19 with one unit filled and other currently vacant.			
						Building 1 construction completed slightly ahead of schedule at end of February 2019 at Gartcosh Industrial Park.			

Annual Measures:

Area of Activity	Performance Indicator	2018/19 Target Outcome	Actual Outcomes as at 31 st March 2019	Comments	Cumulative Total (Since 2011)	2017/18 Actual
Improve economic opportunities and outcomes						
Support local economic growth	Gross Value Added	£2,132,976	£1,748,656	Calculation based upon NL's average GVA per head of £19,216 (2016) per gross job created. GVA did not meet target as job target was 111 with only 91 jobs were created.	£6,783,248	£1,402,768

Area of Activity	Performance Indicator	2018/19 Number of Jobs Created by Site as at 31 st March 2019				Comments	Cumulative Total (Since 2011)	2017/18 Actual
Enhance the number of direct, indirect and induced jobs	Number of jobs created	TARGETS		ACTUAL		Dundyvan Enterprise Park sold in early 2018 and as such jobs created at this site not counted from 2018/19 onwards	119	7
		Dundyvan Enterprise Park	N/A	Dundyvan Enterprise Park	N/A			
		Western Campus	64	Western Campus	29		164	58
		Drumpellier	18	Drumpellier	25		33	8
		Link Park	29	Link Park	37		37	0
		Gartcosh	N/A	Gartcosh	N/A	Building 1 construction completed ahead of schedule at end of February 2019 at Gartcosh.	0	0

Area of Activity	Performance Indicator	2018/19 Target Outcome	Actual Outcomes as at 31 March 2019	Comments	Cumulative Total (Since 2011)	2017/18 Actual
Improve the health and wellbeing of our communities						
Reduce Brownfield sites/vacant & derelict land	Cumulative total of vacant and derelict land improved	1.47	VDLF approval received for works. Contract let and works scheduled for completion in May 2019.	Target based on site remediation and infrastructure works for phase 2 – Gartcosh Business Interchange	13.4	0.0
Reduce Brownfield sites/vacant & derelict land	Cumulative total of vacant and derelict land taken off register.	0.0		Gartcosh Phase 1 (part) to be removed from register in 2019/20. Land removed to date from Dundyvan, Western Campus, Link Park (part) and	5.10	0.0

					Drumpellier Business Park (part) all pre 2017/18		
Area of Activity	2018/19 External Funding Leverage by Fusion Assets (Completed Projects)				Comments	Total (Since 2011)	2017/18
Improve North Lanarkshire's Resource Base							
Leverage on Council Investment	Project	Dundyvan	Western Campus	Gartcosh Phase 1	Link Park – excluded until full development completed/financed Gartcosh Phase 1: Excludes VDLF investment made in Phase 1B as this not currently financed. NLC secured additional £108,000 capital receipt from NLC's purchase of site for Gartcosh Phase 2.		N/A
	Total Project Spend	£2,985,993	£4,209,915	£5,541,621		£12,737,529	
	VDLF	£162,917	£748,564	£976,000		£1,887,481	
	NLC	N/A	£99,351	N/A		£99,351	
	RCGF	N/A	N/A	N/A		N/A	
	Private Sector	£387,750	£631,000	£857,000		£1,875,750	
	Fusion	£530,326	£631,000	£524,000		£1,685,326	
	Loan Finance	£1,905,000	£2,100,000	£3,184,621		£7,189,621	
	Ratio of Leverage achieved from NLC investment (including VDLF Funding)	18:1	5:1	6:1		6:1	

Fusion Assets Limited

Financial Performance 1 April 2018 to 31 December 2018

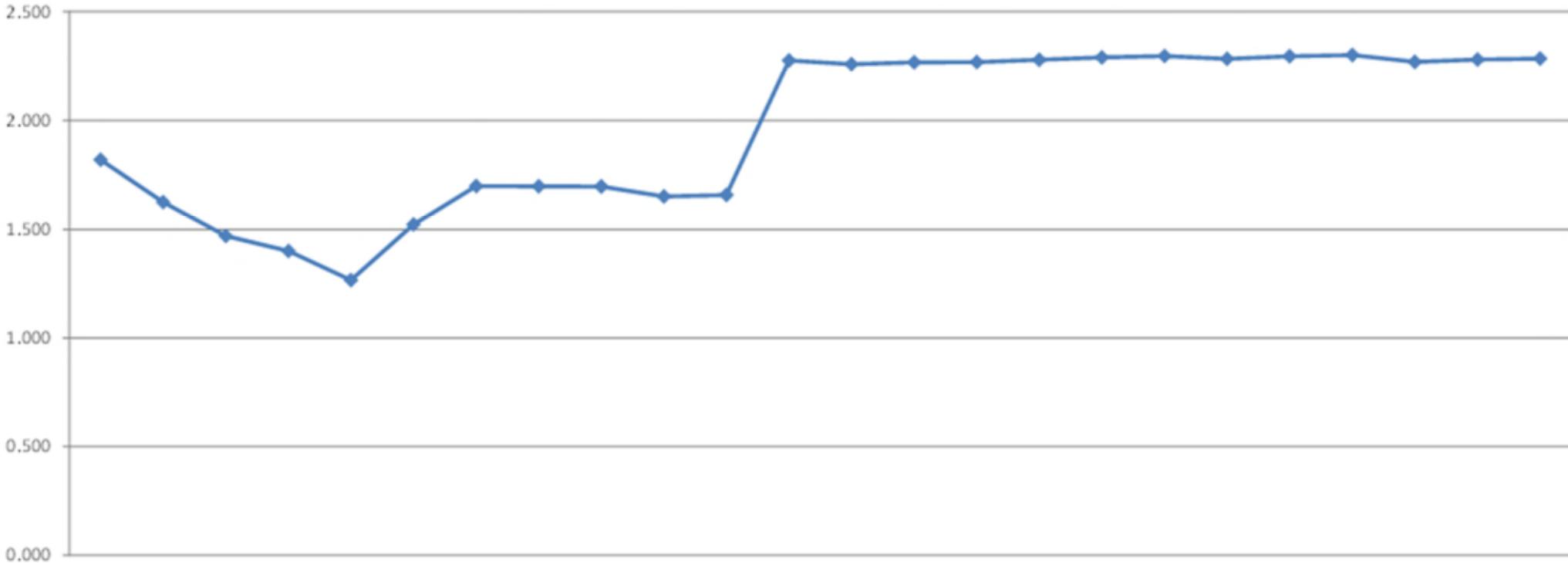
Income & expenditure	Annual Budget £	Projected Outturn £	Projected Variance £	2017/18 Final Outturn £	Commentary
Rental Income	19,000	3,568	(15,433)	0	Under-recovery in income at Newhouse Building due to lease agreements
Bank Interest	5,000	7,122	2,122	4,498	
Investments	0	0	0	97,252	
Misc	0	0	0	22	
Total Income	24,000	10,689	(13,311)	101,772	
Expenditure:					
Staff costs	(90,400)	(94,239)	(3,839)	(92,649)	
Board Costs	(15,000)	(14,961)	39	(14,986)	
Operating Costs	(118,000)	(105,936)	12,064	(71,365)	
Running Costs	(10,000)	(8,745)	1,255	(9,577)	
Total Expenditure	(233,400)	(223,880)	9,520	(188,578)	
Increase / (Utilisation) of Reserves	(209,400)	(213,191)	(3,791)	(86,806)	

Fusion Assets

Overall Financial Standing - Balance Sheet as at 31 December 2018

Balances/ Indicator	as at 31 Dec 2018 £'000	as at 31 March 2018 £'000	Movement £'000	Commentary
Fixed Assets:				
Investments	968	631	337	Joint Ventures - an increase of £0.337m from previous year re. new investment in Gartcosh Estates LLP in April 2018.
Investment Property	1,541	1,541	0	Property under construction - Newhouse
Plant & Equipment	3	3	0	CCTV Equipment
	2,512	2,175	337	
Current Assets:				
Stocks	3,525	3,144	381	Work in progress
Trade Debtors	527	586	(59)	Debtors, VAT recoverable, deferred taxation, accrued income, prepayments
Bank	1,472	1,845	(372)	
	5,524	5,575	(51)	
Current Liabilities:				
Other Creditors inc. VAT & other taxes	(3,913)	(3,492)	(421)	Deferred income (VDLF), accruals, tax
	(3,914)	(3,493)	(421)	
Net current Assets/(liabilities)	1,611	2,082	(472)	
Creditors: Amounts falling due over 1 year	(2,314)	(2,314)	0	Deferred income (Boots)
Net Asset / (Liabilities)	1,809	1,943	(134)	
Current Ratio	1.41	1.60	(0.18)	A comparison of current assets, current liabilities and short term loan obligations, gives a net current asset position of £1.611m, and a healthy current ratio of 1.41, which gives assurance the company has sufficient resources to meet its commitments

Forecast Cash Balances to December 2020



	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
balance	1.820	1.626	1.470	1.400	1.267	1.523	1.700	1.699	1.698	1.652	1.659	2.275	2.259	2.267	2.268	2.279	2.290	2.296	2.284	2.295	2.301	2.269	2.280	2.284

Fusion Assets Limited
Approved Budget - 19/20

Income & expenditure	2018/19 Annual Budget £	2019/20 Annual Budget £	Movement £	Commentary
Rental Income	19,000	86,723	67,723	estimated income for 19/20 relating to leasing Newhouse building
Bank Interest	5,000	7,000	2,000	
Investments	0	0	0	
Misc	0	0	0	
Total Income	24,000	93,723	69,723	
Expenditure:				
Staff costs	(90,400)	(104,175)	(13,775)	increased costs due to pay award and increased superannuation contributions
Board Costs	(15,000)	(15,000)	0	
Operating Costs	(118,000)	(92,750)	25,250	Decreased provision for associated costs due to leasing of Newhouse Building
Running Costs	(10,000)	(9,000)	1,000	
	0	0	0	
Total Expenditure	(233,400)	(220,926)	12,474	
Increase / (Utilisation) of Reserves	(209,400)	(127,202)	82,197	