

North Lanarkshire Council Report

Enterprise and Growth Committee

approval noting

Ref PH/DG

Date 05/11/20

Fusion Assets' Performance & Financial Monitoring Report

From Pamela Humphries, Head of Planning and Regeneration

Email Greerd@nothlan.gov.uk

Telephone David Greer
Growth Programme Manager
tel. 01236 632856

Executive Summary

This report provides details of the operational performance of Fusion Assets Ltd. (Fusion Assets) during Qtr.1 & 2 2020/21 and outlines a range of economic outputs and outcomes being delivered through this ALEO.

The report also details the financial performance of Fusion Assets for 2019/20 and overall current financial standing (up to June 2020) and projections.

Fusion Assets' operational and financial performance will be reported to the Enterprise and Growth Committee on a bi-annual basis.

Recommendations

It is recommended that committee:

- 1) Note the content of this report and the operational performance of Fusion Assets during 2020/21 Qtr.1 & 2; and
- 2) Note the financial performance of Fusion Assets for 2019/20 and overall current financial standing (up to June 2020) and projections.

The Plan for North Lanarkshire

Priority Improve economic opportunities and outcomes

Ambition statement (3) Maximise the use of our marketable land and assets through improved development in business and industrial infrastructure

1. Background

- 1.1 Fusion Assets is a wholly owned subsidiary of the council which focuses on delivering physical economic regeneration projects across North Lanarkshire and in particular office and industrial development – a market where there is otherwise little private sector investment and limited speculative development. Unlike more traditional council owned property companies, Fusion Assets is more akin to an urban regeneration company whose role is focused on the redevelopment of vacant and derelict land and brownfield sites rather than commercial property management.
 - 1.2 It should be noted that Fusion Assets does not receive an on-going or recurring management fee from the council for the delivery of services but rather uses grant funding from the council's annual Vacant & Derelict Land Fund (VDLF) allocation from the Scottish Government as enabling investment for the acquisition and redevelopment of vacant and derelict land sites. In taking this forward, Fusion Assets has developed a unique and innovative development model where the value of an acquired/remediated land site, together with other loan funding and Fusion's reserves, is used as equity to set up a joint venture partnership with the private sector that will fund and manage the commercial redevelopment of said site. Once complete and let/partially let, unless restricted by the terms and conditions of any grant funding, this asset is sold to a private sector investor with returns used to pay off loan funding and/or re-invested in future regeneration projects.
 - 1.3 Fusion Assets operational and financial performance was previously considered by the former ALEOs and External Bodies Monitoring Sub Committee on a six monthly basis. Following changes to the council's Scheme of Administration, responsibility for oversight of service delivery by arm's length bodies now rests with the relevant service committee. The functions delivered by Fusion Assets on behalf of the council fall within the Terms of Reference of the Enterprise & Growth Committee and Fusion Assets' Performance Reports will now be submitted to this committee every 6 months in line with the council's Strategic Performance Framework as approved by members in November 2019.
 - 1.4 In addition to performance monitoring by service committees, the Audit and Scrutiny Panel holds responsibility for ensuring the effectiveness of the administrative and financial governance of all of the council's ALEOs (including Fusion Assets) whilst the Policy and Strategy Committee retains responsibility for considering the outputs from reviews by the council into its arm's length delivery arrangements, including recommendations in relation to Best Value and potential future delivery options.
-

2. Report

2.1 Operational Performance Indicators

- 2.1.1 Fusion Assets' performance is reported on a six monthly basis to committee with the current indicators developed to show this company's contribution to North Lanarkshire's wider economy. These indicators also demonstrate where the company is contributing to the council's strategic priorities particularly in relation to The Plan for North Lanarkshire and the council's Economic Regeneration Delivery Plan.

2.1.2 The performance indicators are listed in Appendix 1 along with outcomes achieved during the period 1 April 2020 to 30 September 2020.

2.2 Financial Performance Indicators

Financial Performance 1 April 2019 to 31 March 2020

2.2.1 The company's draft unaudited annual accounts to 31 March 2020 reports a projected net surplus of £0.513m (after consideration of a net operating expenditure of £0.127m). This favourable outturn is primarily due to the sale of its investment in Central Assets (Scotland) LLP (Western Campus) in October 2019 with a net development gain of £0.559m. A summary of the 2019/20 financial performance is provided at Appendix 2 along with previous year comparator outturn position.

Overall Financial Standing as at 31 March 2020

2.2.2 Appendix 3 gives an update on the overall financial standing of the company, as at 31st March 2020 together with the previous year's comparator figures. As can be seen a healthy current asset to liabilities ratio of 1.96 is reported, which gives assurance the company has sufficient resources to meet its current commitments.

2020/21 Budget and Financial Projections

2.2.3 The company approved a 2020/21 operating budget with projected net operating cost of £0.098m, which is a reduction of £0.030m on the 2019-20 budget. This is primarily due to increased rental income of £0.046m and other income of £0.024m, partly offset by increased expenditure of £0.043m.

2.2.4 Based on their financial statements to 30 June 2020, Fusion Assets is currently projecting a minor underspend of £0.010m. A summary is provided at Appendix 4 along with previous year comparator outturn position.

2.2.5 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.

Table 1

	Budget	Actual	Projection	Variance (Budget vs Projection)
Expenditure (VDLF & Non VDLF)	(18,114,803)	(15,459,834)	(18,412,615)	(297,812)
Income (VDLF & Non VDLF)	21,920,643	14,760,545	22,353,345	432,702
Net Cost/Surplus	3,805,840	(699,289)	3,940,730	134,890

2.2.6 As outlined above, cumulative expenditure of £18.115m has been approved, which will be met from budgeted income of £21.921m, a combination of VDLF grant, Regeneration Capital Grant funding, anticipated capital receipts and Fusion Assets own resources. An overall surplus of £3.941m is currently projected, which is a

decrease of £0.176m than previously reported. These are estimates reflecting current valuations of land transfers and receipts from onward sales, which may fluctuate, impacting the surplus projected.

- 2.2.7 As at 30 June 2020 net costs of £0.699m are reported, with a projected £2.953m of expenditure to be incurred on pre-development and building works. Further receipts of £7.592m are still anticipated, mainly from the onward sale of developments and VDLF funding.
- 2.2.8 It should also be noted that 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 £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.

Cash Flow Forecast to June 2020

- 2.2.9 The company requires effective cash management to support its development programme therefore the cash position is closely monitored, with the cash balance as at 30 June 2020 totalling £2.712m. Based on estimated expenditure and receipts until June 2022, it is forecasted that there is sufficient funding available to carry out the proposed development programme. The lowest cash balance is forecast at £0.432m in March 2021, before levelling out to £1.78M by Jun 2022.

2.3 Key Achievements & Highlights (2020/21 – Q 1&2)

- 2.3.1 The impact of Covid-19 on Fusion Assets has to date been minimal and has resulted in only the loss of only one sitting tenant at Link Park (Building 1) although this unit has subsequently been re-let to a facilities management company, Apleona.
- 2.3.2 Gartcosh Estates LLP (a joint venture between Fusion Assets and J Smart & Co.) have now let the recently completed 18,000sqft development at Gartcosh Business Interchange (the first commercial business to locate to this site) and are now looking to progress the development of a further two large scale units, totalling an additional 42,000sqft in size, as part of the first phase of this development.
- 2.3.3 Through the 2019/20 VDLF Programme, Fusion Assets were awarded funding to support the development of two projects: Link Park and Biocity Expansion Site.
- 2.3.4 Although delayed slightly as a result of Covid-19, contractors have now been appointed to undertake ground remediation and enabling works to enable the development of the remaining part of Link Park (Plot 1). In addition site investigation works are now taking place to support Fusion Assets' acquisition of a derelict land site within the Biocity complex (Chapelhall) and its eventual redevelopment as an expansion site for biotech industries.
- 2.3.5 Lastly, Fusion Assets has recently secured £0.8M through North Lanarkshire's 2020/21 VDLF Programme: £0.75M to support the acquisition of the remaining part of Plot 1 at Gartcosh Business Interchange for future commercial development; and £0.05M for feasibility works at the planned business park currently under development at Ravenscraig.
-

3. Equality and Diversity

3.1 Fairer Scotland Duty

Promoting inclusive growth sits at the heart of the council's Ambition Programme. Fusion Assets will contribute towards this goal through the delivery of activity that supports the council to meet its Fairer Scotland Duty and address socio-economic disadvantage by:

- promoting and enabling investment that will create and improve access to new and better employment opportunity; and
- working as part of North Lanarkshire's ERDP Business & Industry Group to ensure effective linkage between economic opportunity, skills and work-force development.

3.2 Equality Impact Assessment

Fusion Assets aim to ensure that any potential adverse equalities impacts as a result of policy and/or plans developed are minimised or negated where possible.

4. Implications

4.1 Financial Impact

Fusion Assets does not receive an on-going or recurring management fee from the council for the delivery of services but rather uses grant funding from the council's Vacant & Derelict Land Fund (VDLF) allocation as enabling investment for the acquisition and redevelopment of vacant and derelict land sites.

The council did, however, award Fusion Assets £1.4M through the 2019/20 VDLF Programme and a further £0.8M through the 2020/21 Programme for a variety of industrial development projects.

4.2 HR/Policy/Legislative Impact

This report has no HR, Policy or Legislative impact.

4.3 Environmental Impact

The environmental impact of any projects progressed as part of the ERDP has/will be assessed as part of the business case process.

4.4 Risk Impact

Fusion Assets' initial risk register review took place in spring 2019 and has been uploaded to the council's Fig Tree Risk Register. This risk register is reviewed annually.

5. Measures of success

Fusion Assets' measures of success will be reflected in the level of physical regeneration works which they deliver together with economic outcomes achieved from investment made. For 2020/21 this will include:

- 1.64ha of V&DL improved and remediation at key business locations to support future commercial development;
 - The acquisition of 0.41ha of V&DL to support the expansion of biotech industries at Biocity
 - the acquisition of 3.18ha of V&DL to support the continued development of Gartcosh Industrial Park;
 - the procurement of feasibility works to support potential future industrial development at Ravenscraig; and
 - the full letting of Link Park, Plot A1 (Building 1) and Gartcosh Industrial Park (Building 1).
-

6. Supporting documents

Appendix 1: Fusion Assets Ltd - 2020/21 Performance Measures, Targets and Outcomes



Pamela Humphries
Head of Planning and Regeneration

Fusion Assets Ltd - 2020/21 Operational Performance Measures, Targets and Outcomes

Area of Activity	Performance Indicator	2020/21 Target Outcome	Achieved To Date	Comments	Cumulative Total (Since 2011)				
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	1	Target – 1.64ha: for enabling and site remediation works at Link Park (Plot A1 – phase 2) – already included as part of cumulative total	8				
Area of Activity	Performance Indicator	2020/21 Businesses Accommodated by Site as at 30 th September 2020				Cumulative Total (Since 2011)			
Support businesses in expansion and development	Number of new gross businesses re-located	T A R G E T	Dundyvan Enterprise Park	N/A	A C T U A L	Dundyvan Enterprise Park	N/A	Dundyvan Enterprise Park was sold in early 2018 and Western Campus in October 2019. Businesses accommodated at these sites have not been counted from date of sale.	13
			Western Campus	N/A		Western Campus	N/A	12	
			Drumpellier	0		Drumpellier	0	3	
			Link Park (Building 1)	1		Link Park	1	3	
			Gartcosh (Building 1)	1		Gartcosh	1	1	
			Gartcosh (Building 1) is now fully let whilst Link Park (Building 1) has one 5000sqft unit still available for let.						
Total Number of businesses accommodated when properties under ownership of Fusion Assets/Fusion Assets JV.					32				

Area of Activity	Performance Indicator	2020/21 Number of Gross Jobs Created by Site as at 30th September 2020				Comments	Cumulative Total (Since 2011)
		TARGETS		ACTUAL			
Enhance the number of direct, indirect and induced jobs	Number of new direct gross jobs created (FTE)	Dundyvan Enterprise Park	N/A	Dundyvan Enterprise Park	N/A	Dundyvan Enterprise Park was sold in early 2018 and Western Campus in October 2019. Jobs created at these sites have not been counted from date of sale.	119
		Western Campus	N/A	Western Campus	N/A		166
		Drumpellier	0	Drumpellier	0		35
		Link Park (Building 1)	7	Link Park	6		43
		Gartcosh (Building 1)	24	Gartcosh	25		25
						Drumpellier Business Centre was fully let pre April 2020. As such, there was no additional job creation targets for this site for 2020/21.	
Total Number of gross jobs created when properties under ownership of Fusion Assets/Fusion Assets JV.							388

Area of Activity	Performance Indicator	2020/21 Target Outcome (ha)	Actual Outcomes as at 30 September 2020 (ha)	Comments	Cumulative Total - ha (Since 2011)
Improve the health and wellbeing of our communities					
Improve brownfield and vacant & derelict land	Total of vacant and derelict land improved (ha)	1.64	0	Target – 1.64Ha for enabling and site remediation works at Link Park (Plot A1 – phase 2) – already included as part of cumulative total	13.79
Vacant & derelict land sites removed from register	Total of vacant and derelict land taken off register (ha)	0	0	Previous land removed to date includes from Dundyvan Enterprise Park, Western Campus, Link Park (part) and Drumpellier Business Park (part)	3.76
V&DL acquired for commercial development	V&DL acquired (ha)	2.52	0	Previous sites acquired include: Condor Park, Dundyvan Enterprise Park, Gartcosh Phase 1 & 2, Lanarkshire Enterprise Park, Link Park Plot A1 & A2, Western Campus and Westfield Point.	12.36

				Sites to be acquired in 2020/21: Gartcosh Phase 3 (2ha) and Biocity Expansion (0.52ha)	
--	--	--	--	--	--

Area of Activity	External Funding Leverage by Fusion Assets (Completed Projects)					Comments	Cumulative Total (Since 2011)
Improve North Lanarkshire's Resource Base							
Leverage on Council Investment	Project	Dundyvan	Western Campus	Gartcosh Phase 1	Drumpellier	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 an additional £108,000 capital receipt from NLC's purchase of site for Gartcosh Phase 2.	Total
	Total Project Spend	£2,985,993	£4,209,915	£5,541,621	£1,646,596		£14,384,125
	VDLF	£162,917	£748,564	£976,000	£300,000		£2,187,481
	NLC	N/A	£99,351	N/A	N/A		£99,351
	RCGF	N/A	N/A	N/A	£1,116,591		£1,116,591
	Private Sector	£387,750	£631,000	£857,000	£115,000		£1,990,750
	Fusion	£530,326	£631,000	£524,000	£115,000		£1,800,326
	Loan Finance	£1,905,000	£2,100,000	£3,184,621	N/A		£7,189,621
	Ratio of Leverage achieved from NLC investment (including VDLF Funding)	18:1	5:1	6:1	5:1		6:1

Forecast GVA & Employment Impact of Projects Completed to Date

Development Name	Construction Spend ^{*1}	Construction Jobs (PYE)	Construction Impact – GVA (£) ^{*2}	Employment By 2030 ^{*3}	GVA Impact By 2030 ^{*3}	
					Local Economy	Value
Dundyvan Enterprise Park	£2,823,000	18.8	£983,860	312 jobs	+ 0.5%	£37M
Western Campus	£3,362,000	22.4	£1,172,259	357 jobs	+ 0.7%	£50M
Gartcosh Industrial Park (Building 1)	£1,310,000	8.7	£455,297	175 jobs	+ 0.1%	£7M
Enterprise House, Drumpellier Business Park	£1,046,000	7.0	£366,331	65 jobs	+ 0.02%	£2M
Link Park, Newhouse (Building 1)	£1,100,000	7.3	£382,030	156 jobs	+ 0.1%	£8M
TOTAL	£9,641,000	64.2	£3,359,777	+ 1065 jobs	+ 1.42%	£104M

^{*1} Excludes site acquisition and remediation costs

^{*2} Person Year Equivalent (PYE) construction impacts are reported as gross impacts and as such do not take account of displacement or leakage to the local economy. *Source: Scottish Annual Business Statistics 2019*

^{*3} Employment and GVA impacts take in to account direct impacts (changes in employment and GVA as a direct result of these commercial developments), indirect impacts (impacts on supply chains) and induced impacts (household spending as a result of wages earned both via direct and indirect impacts). The uplifts in GVA and employment figures are based on a number of assumptions around the occupancy rates and types of businesses occupying these premises as well as macro-economic factors such as Brexit. The model on which 10 year Employment and GVA forecasts were produced was developed before the Covid-19 global pandemic and therefore may prove optimistic. *Source: NLC Oxford Economics Model 2019*

Appendix 2

Fusion Assets Limited

Financial Performance as at 31 March 2020

Income & expenditure	2019/20			2018/19 Final Outturn £	Commentary
	Budget £	Provisional Outturn £	Variance £		
Rental Income	86,723	102,048	15,325	17,440	Under-recovery in income at Newhouse Building due to lease agreements
Bank Interest	7,000	12,608	5,608	8,530	Bank interest received
Investments	0	566,325	566,325	91,469	Net proceeds from sale of investments
Misc	0	28,951	28,951	10	Primarily exclusivity agreement re Newhouse A2 & grant income in respect of feasibility studies
Total Income	93,723	709,932	616,209	117,450	
Expenditure:					
Staff costs	(103,600)	(102,705)	895	(95,358)	
Board Costs	(15,000)	(15,041)	(41)	(14,992)	
Operating Costs	(92,750)	(74,304)	18,446	(86,534)	Underspends in project management, development fees, professional fees, land management and PR/Marketing
Running Costs	(9,576)	(9,838)	(262)	(9,245)	
Total Expenditure	(220,926)	(201,888)	19,038	(206,129)	
Net Surplus/Deficit	(127,202)	508,045	635,247	(88,679)	
Accounting adjustments:					
Release of deferred grant income	0	537,600	537,600	846,833	
Unrealised gain/(loss) on investment property	0	(19,569)	(19,569)	230,618	
Impairment	0	(537,600)	(537,600)	19,672	
P&L Adjustments	0	41,307	41,307	0	
Tax provision	0	(16,334)	(16,334)	(132,898)	
Increase / (Utilisation) of Reserves	(127,202)	513,448	640,650	875,545	

Appendix 3

Fusion Assets

Overall Financial Standing - Balance Sheet as at 31 March 2020

Balances/ Indicator	as at 31 March 2020 £'000	as at 31 March 2019 £'000	Movement £'000	Commentary
Fixed Assets:				
Investments	857	1,488	(631)	Joint Ventures - an decrease of £0.631m from previous year due to sale of investment in Central Assets LLP.
Investment Property	1,795	1,795	0	Newhouse Building 1
Plant & Equipment	1	2	(1)	CCTV Equipment
	2,654	3,286	(632)	
Current Assets:				
Stocks	2,900	2,874	26	Work in progress
Trade Debtors	520	592	(73)	Debtors, VAT recoverable, deferred taxation, accrued income, prepayments
Bank	2,763	1,790	973	Increase in balance primarily due to receipt due to sale of investment of £1.190m
	6,183	5,257	926	
Current Liabilities:				
Other Creditors inc. VAT & other taxes	(3,151)	(3,371)	220	Deferred income (VDLF), accruals, tax
	(3,151)	(3,371)	220	
Net current Assets/(liabilities)	3,031	1,886	1,145	
Creditors: Amounts falling due over 1 year	(2,353)	(2,353)	0	Deferred income (Boots)
Net Asset / (Liabilities)	3,332	2,818	513	

Current Ratio	1.96	1.56	0.40	A comparison of current assets, current liabilities and short term loan obligations, gives a net current asset position of £3.031m, and a healthy current ratio of 1.96, which gives assurance the company has sufficient resources to meet its current commitments
---------------	------	------	------	---

Fusion Assets Limited

Appendix 4

Financial Performance as at 30th June 2020

Income & expenditure	Annual Budget £	Projected Outturn £	Projected Variance £	2019/20 Final Outturn £	Commentary
Rental Income	133,614	120,511	(13,103)	48,110	Under-recovery in income at Newhouse Building due to lease agreements Exclusivity agreement re Newhouse A2
Bank Interest	8,500	8,500	0	12,511	
Investments	0	0	0	0	
Misc	24,000	24,000	0	28,951	
Total Income	166,114	153,011	(13,103)	89,572	
Expenditure:					
Staff costs	(156,300)	(124,374)	31,926	(102,705)	Underspend due to delay in recruitment Increased expenditure due to legal and marketing costs in relation to lease agreements
Board Costs	(15,000)	(15,011)	(11)	(15,041)	
Operating Costs	(83,925)	(92,938)	(9,013)	(72,477)	
Running Costs	(8,500)	(8,437)	63	(9,933)	
Total Expenditure	(263,725)	(240,760)	22,964	(200,156)	
Net Surplus/Deficit	(97,611)	(87,750)	9,861	(110,584)	