

MTFS and Governance Updates

Cabinet Member for Finance and Commissioning

Date: 20 October 2022
Agenda Item: 11
Contact Officer: Anthony Thomas
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Key Decision? YES
Local Ward All Wards
Members



Council

1. Executive Summary

Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy

- 1.1. The Council has received external funding from Changing Places and the United Kingdom Shared Prosperity Fund that require an update to the Medium Term Financial Strategy to reflect the grant income and the matching expenditure.

Money Matters: Review of Reserves

- 1.2. Local Authorities can establish reserves to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, to cushion the impact of unexpected events or emergencies and earmarked reserves to meet known or predicted events.
- 1.3. In addition, capital reserves are retained in relation to Capital receipts (these resources result from the sale of assets) and Capital grants and contributions (these resources relate to Capital Grants, Community Infrastructure Levy, Special Areas of Conservation and Section 106).
- 1.4. The level of reserves has increased across local government since 2013/14 due to the localisation of Council Tax Support and the local retention of Business Rates. The levels have further increased since 2020/21 due to COVID grants.
- 1.5. The various comparisons available show that the Council's reserves were in a healthy position relative to all District Councils and this provides an element of resilience for financial 'shocks' such as the COVID-19 pandemic.
- 1.6. However, it is important to note that whilst the short term picture based on the increases in reserves may appear to suggest that generally local government finances are sustainable, there remains concern about the medium-term to long-term outlook which remains unsettled and uncertain.
- 1.7. The Capital Strategy risk assessment identified a significant risk that the Capital Programme did not include investment to realise all of the Council's strategic aims and this was reiterated in the Corporate Peer Challenge.
- 1.8. A review of reserves has been undertaken with the aim of repurposing reserves to provide funding for strategic priorities.

A Cinema for Lichfield District

- 1.9. The paper proposes a significant financial investment by the council in its role as place-shaper for our district, to spark the regeneration of the site known as 'Birmingham Road', adjacent to the district council house in the centre of Lichfield city.
- 1.10. It seeks support for the creation of a joint venture partnership with Evolve Estates (owners of the Three Spires Shopping Centre) through which a new cinema and associated food and beverage (F&B) units will be developed.

2. Recommendations

2.1. Council approve:

Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy

- The creation of a Capital Programme project for Changing Places funded by external grant of **(£94,285)**, which is to deliver Changing Places public conveniences at Swan Island and the National Memorial Arboretum.
- An update to the Medium Term Financial Strategy to reflect the budgets shown in the financial implications that will be funded by the three year UKSPF allocation of **(£3,285,310)**.

Money Matters: Review of Reserves

- To repurpose earmarked reserves and agree changes to the Capital Programme to release reserves that will result in the strategic priorities reserve balance of **(£5,169,000)**.

A Cinema for Lichfield District

- Lichfield District Council enter a joint venture Limited Liability Partnership (LLP) with Evolve Estates (subject to any issues identified in relation to financial standing and independent valuation of the Debenham's building being satisfactorily addressed) for the purposes of developing a new cinema and associated food and beverage units in the former Debenhams store on the Three Spires retail site.
- Delegated authority be granted to the Leader and Chief Executive Officer to finalise the details of the LLP in consultation with the Monitoring Officer and S151 Officer subject to financial implications remaining within the budget framework recommended for approval below.
- The Leader and Chief Executive being the Council's representatives on the LLP board.
- The creation of a budget in the Capital Programme for the Joint Venture loan advance totalling **£5,349,000** (including £400,000 being funded by the UKSPF).
- To dispose of Venture House and include a budgeted capital receipt of **(£850,000)**¹ in the Medium Term Financial Strategy to fund strategic priorities (a receipt greater than this level will increase the level of the strategic priorities reserve).
- To fund the capital investment through UKSPF funding of **(£400,000)**, the capital receipt from the sale of Venture House of **(£850,000)** and the strategic priorities earmarked reserve of **(£4,099,000)**.
- To approve the inclusion of a project with a budget of **£1,070,000**² in the Capital Programme (initially equally spread between 2022/23 and 2023/24) for BRS enabling works funded from this capital receipt and the strategic priorities reserve.
- At this stage, in terms of the Joint Venture, the Revenue Budget will be based on a budget neutral (no surplus or deficit is included) position until the projections included in this report have been reviewed. Any future changes following independent review will be reported in line with the Council's budget monitoring and any budget approvals will be in line with the budget framework.

¹ Updated from £650,000 included in the Report to Cabinet on 6 September 2022 to £850,000 by the Report to Cabinet on 11 October 2022.

² Updated from £2,000,000 included in the Report to Cabinet on 6 September 2022 to £1,070,000 by the Report to Cabinet on 11 October 2022.

3. Background

Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy

- 1.1. The Council has received external funding for Changing Places to deliver Changing Places public conveniences at Swan Island and the National Memorial Arboretum.
- 1.2. The UKSPF will replace European Structural and Investment Funds (ESIF) with the objective of levelling up and creating opportunities for people and place across the UK, delivering on priorities within the Levelling Up White Paper.
- 1.3. The fund provides £2.6 billion of new funding for investment by March 2025.
- 1.4. The Council has to submit an investment plan to Government to outline local interventions over the financial years 2022/23, 2023/24 and 2024/25 which meets the UKSPF priorities.
- 1.5. Once the submitted investment plan is approved, the first payment is expected to be received by lead local authorities from October 2022.

Money Matters: Review of Reserves

- 1.6. Local authorities can claim retrospectively for this financial year (2022-23), against any projects delivered from April 2022 onwards which are included in the investment plan. However, these are delivered at risk and if not approved in the investment plan will be a cost against the Council.
- 1.7. The Capital Strategy approved by Council on 22 February 2022 included a risk assessment by the Chief Finance Officer.
- 1.8. This risk assessment identified a significant risk that the Capital Programme did not include investment to realise all of the Council's Strategic aims including the provision of a new Leisure Centre in Lichfield City and planned redevelopment of the Birmingham Road Site.
- 1.9. The LGA Corporate Peer Challenge commented on investment moving forward including the use of reserves as part of its investment strategy:

“LDC should also have the confidence to use its finances to support the delivery of its priorities. In order to deliver the organisation’s priorities, resourcing of these is absolutely essential and the peer team recommend that the council give some further consideration of how to effectively do this. For example, LDC has developed reserves through the effective management of its budget and as it now embarks on a significant transformation programme designed to deliver long term savings, the council may need to draw on those reserves to implement this strategy. The council may also want to consider the use of reserves in supporting organisational development within the transformation programme and also how deploying the reserves might play a part in LDC’s wider investment strategy.”

- 1.10. The release of an element of reserves is one option to fund capital investment. However in the current economic climate, there is a balance that will need to be maintained between ensuring financial resilience and the level of reserves released.
- 1.11. Therefore the outcomes from any review of reserves must be:
 - The Council must remain financially resilient and continue to provide essential services in a sustainable way. Therefore only earmarked reserves will be considered for release with general reserves being used to balance the budget to provide resilience.
 - The release of reserves will be focussed on only providing funding for strategic priorities.
 - The cost of financing capital investment and therefore the impact on the revenue budget will be minimised given other inflationary budget pressures such as pay awards.
 - To be cognisant of the level of reserves held at other District and Nearest Neighbour Councils whilst taking into account the specific financial risks at this Council.
 - To consider redirecting reserve funding for approved capital investment potentially to those projects that have become a higher strategic priority.

A Cinema for Lichfield District

- 1.12. The importance of local government as ‘place shapers’ has been understood for decades but was most recently underlined and articulated by Sir Michael Lyons in his inquiry into the sector in 2007 where he addressed our role, function, and funding. He called for us to help improve satisfaction and prosperity of local areas through ‘the creative use of powers and influence to promote the general well-being of a community and its citizens’.
- 1.13. In the context of the Cabinet paper, delivering ‘place shaping’ responsibilities requires the council to shift away from a focus purely on delivering our day-to-day services, which of course remain important, to become an organisation that understands its role and relationships within our local communities – becoming a partner and enabler and working alongside other public and private institutions and organisations, using resources (including money) judiciously to make things happen for our communities where they otherwise would not.
- 1.14. The Cabinet paper introduces a proposal for the council to enter a commercial arrangement with a private sector organisation to deliver a long-standing ‘place shaping’ aspiration, identified in the city centre Masterplan and Zoning Plan, to develop and operate a cinema and associated F&B activities for the benefit of the entire district.
- 1.15. The councils’ Lichfield City Centre Masterplan 2020 is an important document that aims to shape the future growth of the city centre, set out opportunities for enhancing the quality of environment, the range of different uses on offer, and provide a prospectus for investment in Lichfield. While the council believes elements of it have evolved since its inception, the Masterplan is still considered to be a key means of enhancing what is already a strong and vibrant city centre, and its adoption demonstrates the importance of the city centre as an asset for residents, visitors, those who work in the city and residents across the district.
- 1.16. The Masterplan states that the Birmingham Road Gateway Site (BRS) is the most significant development opportunity in the city centre aimed at supporting & providing a vibrant mix of uses. With the intention for it to be reconfigured to provide a new city centre quarter, one that enhances the experience of arrival into the city centre by all modes of transport and introduces a new mix of leisure (a new cinema together with restaurant uses), residential, and commercial development opportunities to Lichfield.
- 1.17. The Debenhams building sits adjacent to BRS and provides an opportunity to deliver on these ambitions, especially the recommendation for a cinema with associated food and beverage units.

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| Alternative Options | These are contained in the Cabinet Reports. |
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| Consultation | This is detailed in the Cabinet Reports. |
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Financial Implications

Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy

The Investment Plan totalling **£3,285,310** submitted on 1 August 2022 is summarised below:

| Project | Revenue | | | | Capital | | | |
|------------------------|----------------|-----------------|-------------------|-------------------|-----------------|-----------------|-----------------|-------------------|
| | 2022/23 | 2023/24 | 2024/25 | Total | 2022/23 | 2023/24 | 2024/25 | Total |
| Burntwood | £0 | | | | | £250,000 | | £250,000 |
| Cinema | £0 | | | | | | £400,000 | £400,000 |
| Incubator | £0 | | | | £353,703 | £300,000 | £546,297 | £1,200,000 |
| Localities Work | £45,000 | £90,000 | £90,000 | £225,000 | | | | |
| Us Girls | £0 | £30,000 | £60,000 | £90,000 | | | | |
| Play Streets | £0 | £20,000 | £40,000 | £60,000 | | | | |
| High Street | £0 | £0 | £279,310 | £279,310 | | | | |
| Marketing of | £0 | £4,905 | £65,095 | £70,000 | | | | |
| Entrepreneurial | £0 | £0 | £93,000 | £93,000 | | | | |
| Resource (from the 4%) | £0 | £32,500 | £32,500 | £65,000 | | | | |
| Evolve | £0 | £70,000 | £70,000 | £140,000 | | | | |
| Transport | £0 | £0 | £320,000 | £320,000 | | | | |
| Workforce | £0 | £0 | £93,000 | £93,000 | | | | |
| Total | £45,000 | £247,405 | £1,142,905 | £1,435,310 | £353,703 | £550,000 | £946,297 | £1,850,000 |

Money Matters: Review of Reserves

The recommended level, excluding those assessed to have a high operational risk, is **(£5,169,000)** and are related to:

- The release of uncommitted earmarked reserves of **(£2,100,000)**.
- Capital Programme – release the equipment storage budget of **(£111,000)**.
- Capital Programme – reduce the coach park budget to £350,000 a saving of **(£273,000)**.
- Capital Programme – reduce the loan to the Company to £150,000 a saving of **(£525,000)**.
- Revenue Budget – release unallocated and uncommitted Risk and Recovery Funding of **(£709,000)**.
- Revenue Budget – release uncommitted element of strategic budget of £1,200,000 a saving of **(£500,000)**.
- The release other earmarked reserves of **(£951,000)**.

A Cinema for Lichfield District

The Level and Nature of Investment in the Joint Venture LLP

The latest project budget for the development is **£6,997,000**. Taking account of the Council's initial financial contribution of **£3,000,000** to match the assessed value of the asset, this means that the remaining cost of **£3,997,000** will be shared on a 50:50 basis between the two partners.

This cost sharing arrangement will result in each partner making a further financial contribution of **£1,998,500**.

Therefore, the Council's project budget contribution will be **£4,998,500**.

However, a further client contingency of **10%** identified by the Council's Quantity Surveyor is recommended and this equates to **£350,500** (being the Council's 50% share).

Therefore, the total financial contribution and Capital Programme Budget is recommended to be **£5,349,000**.

An indicative investment profile, that will need to be refined as the project develops, based on a start date of November 2022 and practical completion in November 2024, is shown in summary below:

| Investment Profile (assumes start Nov 2022 & opening Nov 2024) | | | | |
|---|-----------------|-------------------|-------------------|-------------------|
| | 2022/23 | 2023/24 | 2024/25 | Total |
| | £ | £ | £ | £ |
| Capital Budget | £834,000 | £2,499,000 | £1,665,500 | £4,998,500 |
| Client Contingency @ 10% | £58,000 | £175,000 | £117,500 | £350,500 |
| Profiled Total Budget | £892,000 | £2,674,000 | £1,783,000 | £5,349,000 |

This financial contribution will be through a long term capital loan advance to the Joint Venture. The presence of a private sector partner will mean the terms of the loan will need to be in compliance with subsidy control requirements.

The Funding of the Investment

The recommended funding for the investment of **(£5,349,000)** and updated BRS enabling works budget that takes account of this recommended revised investment level would be:

| | 2022/23 | 2023/24 | 2024/25 | Total |
|---|-------------------|---------------------|---------------------|---------------------|
| | £ | £ | £ | £ |
| UKSPF | | | (£400,000) | (£400,000) |
| Sale of Venture House - Original | (£650,000) | | | (£650,000) |
| Sale of Venture House - Current | (£200,000) | | | (£200,000) |
| Repurposed Reserves | (£42,000) | (£2,674,000) | (£1,383,000) | (£4,099,000) |
| Total Funding | (£892,000) | (£2,674,000) | (£1,783,000) | (£5,349,000) |
| Latest BRS Enabling Works Budget | £535,000 | £535,000 | | £1,070,000 |

Financial Implications resulting from the Investment

The investment through a long term capital loan advance will result in income to the Council from the repayment of the loan (capital receipts until the loan has been repaid).

Other financial implications relate to:

- Loan interest (revenue income).
- The use of earmarked reserves to partly fund the investment will also result in a loss of investment income (revenue cost).
- Additional business rates from the enhanced 'footprint' of the development.
- The loss of 11% of net income from the former anchor store because the joint venture will be outside of the shopping centre lease.

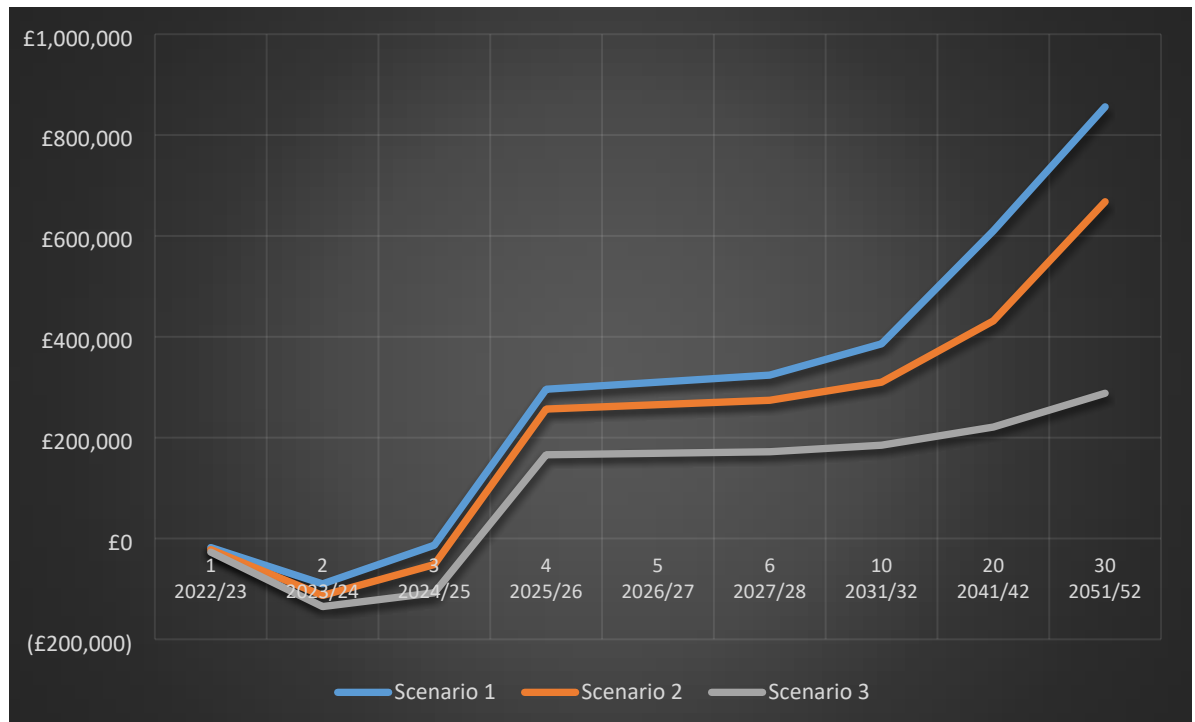
The Projected Net Income of the Joint Venture

The starting point to assess the financial implications relates to the projected net income and expenditure for the Joint Venture.

At this stage, no projections have been provided by EE however to inform the decision making process at the Council, three illustrative scenarios have been developed based around the following assumptions:

| Scenario | 1 | 2 | 3 |
|----------------------------------|-------------------|-------------------|-------------------|
| Annual Inflation | 2% | 1% | 0% |
| Running Void | 0% | 5% | 10% |
| LDC Loan Rate | 4% | 5% | 6% |
| Year 4 Rental Income | (£612,000) | (£606,000) | (£600,000) |
| Year 4 Operational Costs | £316,000 | £349,300 | £434,000 |
| Year 4 2025/26 Net Income | (£296,000) | (£256,700) | (£166,000) |

Projected net income (for illustrative purposes, income is shown as positive) has been estimated over a 30 year horizon and is shown in summary below:

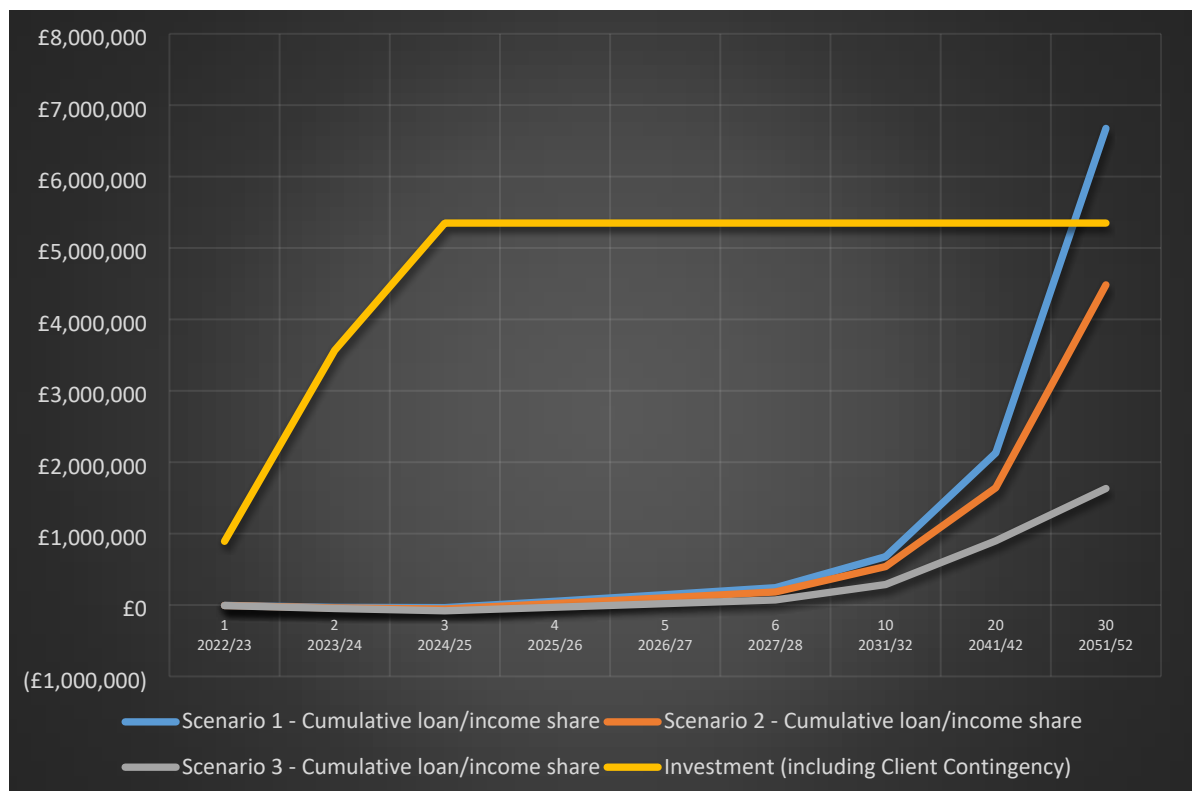


It is important to note that these projections will need to be agreed with EE and will be subject to review by an independent set of advisors.

Payback of the Investment

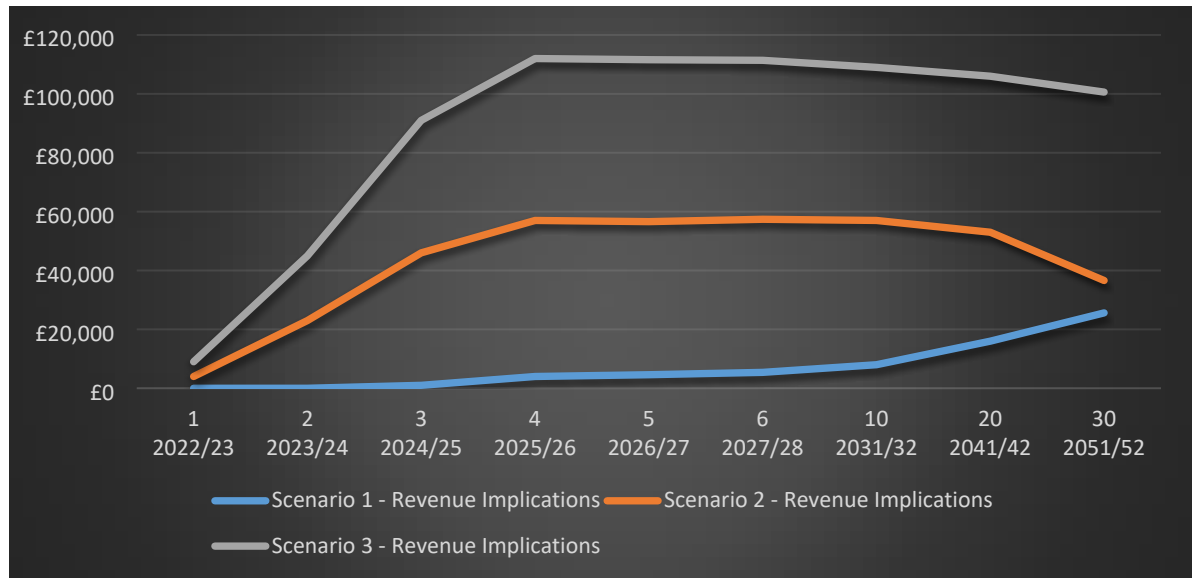
These projections have also been used to estimate the payback period for the capital loan advance over a 30 year horizon (once the loan has been repaid, the income could then become revenue income).

This is shown for the three scenarios above (for illustrative purposes, income is shown as positive) in summary below:



Other Financial Implications

Annual projections for the other financial implications are also provided over a 30 year horizon and this is shown (for illustrative purposes, income is shown as positive) for the three scenarios above in summary below:



Investment Appraisal

Investment appraisal information has been provided for each of the three scenarios:

| Scenario (including Client Contingency) | 1 | 2 | 3 |
|---|------------|------------|------------|
| Rental Share @ year 5 | 30% | 30% | 30% |
| Rental Share @ year 20 | 70% | 70% | 30% |
| Rental Share @ year 30 | 50% | 70% | 30% |
| Payback Period in years | 27 | 31 | 48 |
| Net Present Value (nil residual value, 6% & over 30 years) negative value because investment exceeds net present value of income | £2,546,771 | £2,651,397 | £2,802,376 |
| Accounting Rate of Return over 30 years | 4.39% | 3.73% | 2.90% |

Investment Strategy Report Update

Service Investments: Loans

Contribution: It is recommended the Council lend money to the joint venture to support the development of a cinema for Lichfield District.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, an upper limit on the outstanding loan to the joint venture is recommended as follows:

| Category of borrower | 31.3.2023 Projection | | | 2023/24 | 2023/24 |
|---------------------------|----------------------|----------------|------------------------|------------|----------------|
| | Balance owing | Loss allowance | Net figure in accounts | Projection | Proposed Limit |
| Joint Venture (full loan) | 892,000 | 0 | 892,000 | 3,566,000 | 5,349,000 |

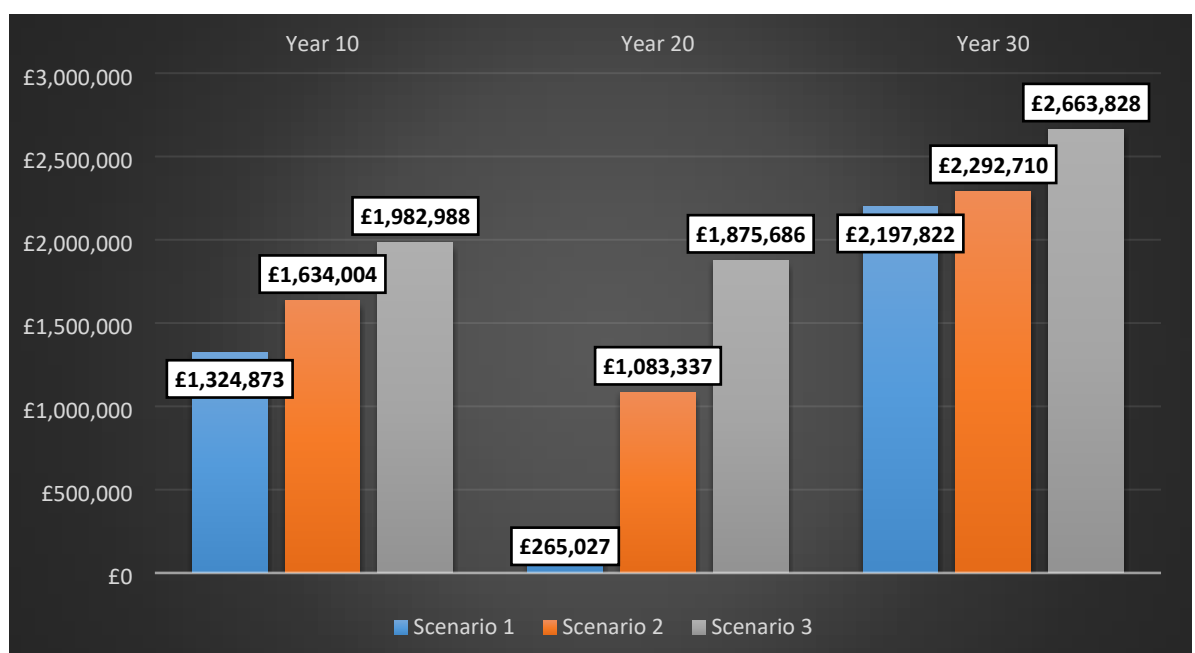
Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent including placing charges on properties (secured) and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: This loan for a service purpose is the **£5,349,000** loan for to the Joint Venture for the provision of a cinema and food and beverage. The Council will provide representatives onto the LLP Partnership Board and therefore the Council will be able to manage the repayment risk through project due diligence, the monitoring of selected projects and through governance oversight.

Exit or 'Cash Out' from the Joint Venture

The Joint Venture agreement will allow either party to exit the agreement after a set period of time. The calculation of an exit or 'cash out' payment is very difficult to determine because it will be impacted by a range of wider economic conditions. Therefore to provide an illustration of the projected level of gains or (losses), a net present value-based calculation has been undertaken using a discount rate of **6%**. However it is important to note this is not a formal or definitive valuation.

A summary of the calculations (for illustrative purposes, losses are shown as positive values) in the chart below:



Areas where further Information is still Required or Independent Review will take Place

- Further information on the approach to Service Charges by the Joint Venture.
- Further information on the net income projections for the Joint Venture from EE.
- A review of the commercial, indirect taxation and financial arrangements (draft Heads of Terms) of the proposed JV, identify and quantify the key commercial and financial risks throughout the life of the JV, identify mitigations and recommendations to address same, and considers the overall balance of risk and return between the two parties as currently presented, and
- A review of the financial standing and integrity of the proposed counterparty to the transaction.

Approved by
Section 151
Officer

Yes

Legal Implications

These are contained in the Cabinet Reports.

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| Approved by Monitoring Officer | Yes |
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| Contribution to the Delivery of the Strategic Plan | This is detailed in the Cabinet Report. |
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| Equality, Diversity and Human Rights Implications | These are contained in the Cabinet Reports. |
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| Crime & Safety Issues | These are contained in the Cabinet Reports. |
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| Environmental Impact | This is contained in the Cabinet Reports. |
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| GDPR / Privacy Impact Assessment | This is contained in the Cabinet Reports. |
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| | Risk Description & Risk Owner | Original Score (RYG) | How We Manage It | Current Score (RYG) |
|---|--|----------------------|------------------|---------------------|
| A | These are contained in the Cabinet Reports | | | |

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| | <p>Background documents</p> <p>Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy – Report to Cabinet 6 September 2022</p> <p>Money Matters: Review of Reserves – Report to Cabinet 6 September 2022</p> <p>A Cinema for Lichfield District – Report to Cabinet 11 October 2022</p> |
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| | Relevant web links |
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