

Cobtree Manor Estate Financial Position

Final Decision-Maker	Cobtree Manor Estate Committee
Lead Head of Service	Director of Finance & Business Improvement – Mark Green
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	Boxley

Executive Summary

The report summarises the current financial position of the Estate covering the activities at the golf course, Kent Life, the Manor Park and the residential properties. Details for the proposed draft budgets for 2022/23 are also included.

There is also an update on the Committee's request to review the investments held, and to investigate the possibility of repaying the balance due on the costs of the car park works by using some of the Charifund permanent endowment investment.

Purpose of Report

To update the Committee on the current financial position and any other relevant matters that may impact the financial position of the Trust.

This report makes the following recommendations to this Committee:

1. That the current financial position be noted.
2. That the proposed budgets for 2022/23 are agreed.
3. That officers investigate alternative investment options with a view to bringing these back to the Committee to make a final decision.
4. That the bank account balance is utilised to pay off the balance due to the Council for the cost of the car park works.

Timetable

Meeting	Date
Cobtree Manor Estate Committee	25 January 2022

Cobtree Manor Estate Financial Position

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The operation of the Estate directly supports the objects of the Trust as set out when the Council became the Corporate Trustee	Head of Regeneration & Economic Development
Cross Cutting Objectives	The operation of the Estate supports the Council's strategic objective to ensure there are good leisure and cultural attractions in the Borough.	Head of Regeneration & Economic Development
Risk Management	There is a potential reputational risk if the facilities are operated poorly. This is addressed in the annual risk management report.	Leisure Manager
Financial	There is a financial risk to the Trust if the operations cost more than predicted or fail to generate sufficient income to cover the costs of running the estate.	Senior Finance Manager (Client)
Staffing	There are no additional implications arising from this report.	Leisure Manager
Legal	<p>Under the Council's Constitution the Committee as Corporate Trustee is responsible for all matters relating to the Charity with the exception of daily management.</p> <p>Law applicable to charities in England and Wales requires the trustee to prepare financial statements for each financial year which give a true and fair view of the Charity's financial activities during the year and of its financial position at the end of the year. This update report assists in meeting those requirements</p> <p>There are no further implications arising from this report.</p>	Contracts and Commissioning Team Leader, Mid Kent Legal Services
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Policy and Information Manager

Equalities	There are no additional implications arising from this report.	Equalities and Communities Officer
Public Health	There are no additional implications arising from this report.	Public Health Officer
Crime and Disorder	There are no additional implications arising from this report.	Head of Regeneration & Economic Development
Procurement	There are no additional implications arising from this report.	Head of Regeneration & Economic Development
Biodiversity & Climate Change	The implications of this report on biodiversity and climate change have been considered and there are no implications on biodiversity and climate change.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

- 2.1 This is a regular update report on the financial position of the Estate, which enables the Committee to see how the various areas of activity are performing. Covid-19 has presented a significant risk to the finances and operations of the estate, emphasising the need for robust management and monitoring of the budget.

3. CURRENT FINANCIAL POSITION

- 3.1 The table below summarises the financial position of the Estate as at 31st December 2021. **Appendix 1** provides a more detailed breakdown of the figures.

Following feedback from the Committee at the last meeting the summary table has been redesigned to highlight more clearly whether variances are positive or negative.

3.1.1 Overall Summary Position:

SUMMARY TOTALS

	Revised Budget for Year 2021/22	Profiled Budget as at 31st December 2021	Actuals as at 31st December 2021	Variance: Underspend (-) Overspend (+)
Golf Course				
Expenditure	£70,930	£40,830	£41,851	£1,021
Income	-£169,240	-£126,750	-£126,750	£0
Net Expenditure (+)/Income (-)	-£98,310	-£85,920	-£84,899	£1,021
Manor Park				
Expenditure	£262,590	£192,945	£178,458	-£14,487
Income	-£184,080	-£104,745	-£113,848	-£9,103
Net Expenditure (+)/Income (-)	£78,510	£88,200	£64,610	-£23,590
Kent Life				
Expenditure	£21,050	£15,788	£14,555	-£1,233
Income	-£73,600	-£36,800	-£36,800	£0
Net Expenditure (+)/Income (-)	-£52,550	-£21,013	-£22,245	-£1,233
Residential Properties				
Expenditure	£13,040	£9,780	£8,816	-£964
Income	-£20,000	-£15,000	-£13,265	£1,735
Net Expenditure (+)/Income (-)	-£6,960	-£5,220	-£4,449	£771
Operational Total	-£79,310	-£23,953	-£46,983	-£23,030
Investment Income	-£40,000	-£30,000	-£30,137	-£137
Car Park Repayment	£69,650	£0	£0	£0
Total for the Year	-£49,660	-£53,953	-£77,120	-£23,167
Net Expenditure (+)/Income (-)				

3.2 The current position shows a surplus of £23,167 for the year to date. There are no significant issues to report, but the following points should be noted:

- The budget has now been adjusted to reallocate funding to areas where there had previously been an overspend. The overall budget has not changed though, with a surplus of £49,660 still forecast.
 - The £20,000 budget for Covid recovery has now been reallocated to the golf course to be used for a feasibility study as outlined at the last meeting.
 - The reallocations means that at present there are no new significant budget variances to report.
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4. BUDGETS 2022/23

4.1 The proposed budgets for 2022/23 are shown at **Appendix 2**. To ensure some consistency the general approach to setting the budgets was as follows:

- Running costs have been increased by inflation (2%) where applicable.
- Contract income has been increased in line with the agreed schedules.
- Insurance costs have been updated in line with estimated premium increases.
- The recharges from Maidstone Borough Council have been updated following a review of the services provided and a revised schedule is shown at **Appendix 4**.

4.2 In overall terms the projected surplus from operational activities for 2022/23 is budgeted to be £74,970 compared to the budgeted surplus of £79,310 for 2021/22. After allowing for investment income and the repayment of the car park construction costs the overall net surplus will be £45,320. It should be noted that should a decision be made to repay the car park costs using the permanent endowment then the overall net surplus would change.

5. INVESTMENT OPTIONS

5.1 Members requested at the last meeting that the investment of the permanent endowment with Charifund be reviewed and that options for investing all or some of the sum elsewhere be identified.

5.2 The current value of the investment with Charifund is £890,740, compared to the figure of £860,945 reported to the last Committee meeting. The value of the investment in December 2019 was £930,938.

5.3 Charifund is a specialist investment fund aimed specifically at the charity sector. The following fund description is taken from their website:

The fund aims to provide: an annual yield above that available from the FTSE All-Share Index; an income stream that increases every year; and a level of capital growth, net of the Ongoing Charge Figure, that is higher than inflation over any ten-year period, as measured by the UK Retail Prices Index. At least 70% of the fund is invested in the shares of UK companies, with a focus on high-yielding stocks where the companies have the potential to grow their dividends over the long term. There is no guarantee that the fund will achieve its objective over this, or any other, period and investors may not get back the original amount they invested.

5.4 There are a number of alternative funds that are also aimed at the charity sector. These follow broadly the same principles as Charifund in terms of their aims and objectives. The Council's treasury management advisors have been asked to assist in identifying some suitable alternatives.

- 5.5 Members may also wish to consider whether they would prefer a fund with an ethical investment policy, this is something a number of the alternative funds do offer. A decision will also be needed as to whether the endowment is split into more than two different investment funds.
- 5.6 There is further detailed guidance available on investment matters on the Charity Commission website:
- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/857987/CC14_new.pdf
- 5.7 A list of suitable alternative funds with performance data will also be presented to the next meeting of the Committee to enable a final decision to be made.
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6. REPAYMENT OF CAR PARK LOAN

- 6.1 At the last meeting Members requested that the option of repaying the balance due to the Council for the costs of constructing the car park by using some of the permanent endowment be investigated. As referenced in the last section of this report the permanent endowment is currently invested with Charifund.
- 6.2 The use of permanent endowment does require the permission of the Charity Commission. The following text is taken from their website:
- Only consider spending permanent endowment if the trustees agree it's necessary to help your charity carry out its purposes more effectively. For example, if your charity:
- needs money to set up a new project
 - has outgrown its existing premises and needs to sell them to buy new
- 6.3 A case would therefore need to be made that repaying the balance due would meet these criteria. It should also be noted that when the permanent endowment was last used to fund the new play area and park enhancement works there was a suggestion that the sum withdrawn should be repaid so the value of the endowment returned to its original level. At the time this was the intended course of action, however shortly thereafter there were financial pressures from the contracts at the golf course and Kent Life that mean no repayments have been made so far.
- 6.4 Withdrawal of the permanent endowment would reduce the level of investment income received, which currently helps support the day to day running costs of the estate. The average annual amount received over the last four years is £42,975.
- 6.5 The balance outstanding for the car park works at 31st March 2022 would be £190,211, and as referenced earlier the current value of the Charifund investment is £860,945. Withdrawal of £190,211 would represent 22% of the current value. A 22% reduction in the annual investment income would be around £9,454. There are currently 3 years left to repay the cost of the

works, and the interest element of that is £9,364. The loss in investment income over the same period could be £28,362. This is of course an indicative figure given that the value of the investment and the returns will fluctuate over the period.

- 6.6 Annual repayments are currently £69,646, and the impact of repaying the balance due to the Council are shown on the cashflow projection at **Appendix 3**.
- 6.7 The projection suggests that the net operational surplus will be on average around £70,000 annually over the next 10 years. As referenced earlier the loss of investment income from withdrawing funds from the permanent endowment is greater than the interest due to the Council. However, this does mean that going forward there is a greater level of funds available for some possible investment in the golf course which could then help protect that significant income stream in the future.
- 6.8 The projection also suggests that there would be insufficient resources to provide any significant funding towards the cost of a new or refurbished clubhouse at the golf course.
- 6.9 Should the Committee still be minded to use the permanent endowment to repay the cost of the car park works then the initial step should be that officers approach the Charity Commission with a suitable case for doing so.
- 6.10 There is a further option that the Committee may wish to consider. There is at present sufficient funds in the Cobtree bank balance to pay off the balance due. This would not have an adverse effect on cashflow going forward and would protect the future level of investment income. Alternatively, the bank account balance could be utilised to provide some funding for any works needed for the golf course, either directly or as match funding with a partner organisation. **Appendix 3** also shows the cashflow projection should this option be agreed.

7. AVAILABLE OPTIONS

- 7.1 Section 3 - for noting only.
- 7.2 Section 4 - the Committee could ask for adjustments to be made to the draft budgets.
- 7.3 Section 5 – the Committee could choose to leave the permanent endowment invested in Charifund or investigate alternative funds.
- 7.4 Section 6 – the Committee could choose to use the permanent endowment to repay the cost of the car park works; could continue with the annual repayments over the remainder of the term ; or could use the bank balance to repay the loan.
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8. PREFERRED OPTIONS AND REASONS FOR RECOMMENDATIONS

- 8.1 Section 3 - for noting only.
 - 8.2 Section 4 – that the budget is approved and formally adopted so that it is in place for 1st April 2022.
 - 8.3 Section 5 – officers will look at the available alternative options so that the Committee can make an informed decision at the next meeting.
 - 8.4 Section 6 – given the potential complications in withdrawing funds from the permanent endowment the recommendation is to use the bank balance to pay off the balance of the costs due to the Council.
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9. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 9.1 Officers will continue to monitor the financial position and take appropriate action where necessary.
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10. REPORT APPENDICES

- Appendix 1: Financial Position
 - Appendix 2: Draft Budget 2022/23
 - Appendix 3: Projected Cashflow 2021/22 onwards
 - Appendix 4 – Draft Maidstone BC Staff Recharges 2022/23
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11. BACKGROUND PAPERS

None.