

ITEM 11

Project Enterprise Outturn 2017/18

Report of the Finance Portfolio Holder

Recommended:

That the outturn position for Project Enterprise investments in 2017/18 be noted.

SUMMARY:

- The Council has created a workstream, known as Project Enterprise, to generate income and reduce the Council's reliance on external government funding.
- This report summarises the financial returns made during the 2017/18 financial year from Project Enterprise projects and compares the results with the original business case for each project.

1 Introduction

- 1.1 Project Enterprise (PE) was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on Government Revenue Support Grant.
- 1.2 On 15 November 2017, Cabinet approved the Medium Term Financial Strategy (MTFS) for 2018-21. This strategy sets out that the Council will work towards a position where it is not dependent on Government external funding by 2020/21.
- 1.3 This report summarises the 2017/18 outturn position of those projects completed as part of PE.

2 Background

- 2.1 Since 2014, the Council has invested in a number of projects that have sought to generate additional revenue income. This additional income has been generated by investing the cash reserves held by the Council in projects that will yield greater returns than the current investment portfolio.
- 2.2 This report examines the amount of investment that has been made in PE projects and reviews the results achieved by them in 2017/18. It also considers other projects that have been approved by Council which will be completed in future financial years.
- 2.3 The amount of investment in completed PE projects at 31 March 2018 was £26.519M, of which £7.769M was completed in 2017/18. Four further projects have commenced or been approved with a total 2018/19 budget of £6.292M.

- 2.4 The performance of PE projects can usefully be compared with the results of the Council’s treasury management function. The Treasury Management Outturn report is presented elsewhere on this agenda.
- 2.5 The purpose of this report is to account in the public domain for the Council’s expenditure insofar as this can be done without breaching commercial confidences or impeding projects which have not yet been completed. These latter considerations necessitate a confidential annex.
- 2.6 Inevitably, over time, information will move from the confidential annex into the public report as transactions are completed.

3 Corporate Objectives and Priorities

- 3.1 The MTFs sets out that the Council will continue to seek out new investment opportunities through Project Enterprise, making better use of cash resources to enhance revenue returns.

4 Project Enterprise Investments

- 4.1 The following table shows a summary of the total cost of properties purchased by the Council as part of PE up to 31 March 2018.
- 4.2 Further information, including the rental income achieved from individual tenants and the asset valuations as at 31 March 2018 (which are commercially confidential information) and explanations of movement from the original business cases, are shown in the confidential annex.
- 4.3 Overall rental income figures and returns on investment are included in the Resource Implications section below.

| | Total cost £'000 |
|---|---------------------|
| Investment properties held throughout the year | |
| Sopwith Park, Portway Business Park | 912 |
| Imperial Court, Walworth Business Park | 696 |
| Plot 88, Walworth Business Park | 4,587 |
| Shirley Road, Southampton | 5,773 |
| Bitterne Road, Southampton | 4,952 |
| Hambridge Lane, Newbury | 1,670 |
| Lune Court, Andover | 160 |
| Sub-Total | 18,750 |

| Investment properties purchased during the year | |
|--|---------------|
| Andover Trade Park | 6,798 |
| Development of two houses, High Street, Andover | 373 |
| Tintagel Close, Andover | 182 |
| Spey Court, Andover | 200 |
| Tintagel Close, Andover | 165 |
| Total expenditure on investment property | 26,468 |

- 4.4 The confidential annex also gives detail of projects which Council has approved but which have not yet been completed.
- 4.5 In addition to the expenditure on investment property, the Council also completed a renewable energy investment during the year. This was the installation of a solar energy array at the Council's Portway depot at a cost of £51,000.
- 4.6 Net rental income from PE properties held by the Council throughout 2017/18 was £1.352M. Rental income of £164,000 was generated from investments that were completed in the year.
- 4.7 The net income from properties held throughout the year was £50,000 less than the £1.402M that was forecast in the approved business cases. The main cause of this was a vacant unit at the Bitterne Road investment during the year. The empty unit was re-occupied before the end of the financial year.
- 4.8 The average return on investment achieved in the year was 7.2%.
- 4.9 At 31 March 2018, five further investments had been approved by the Council. One of the projects is nearing completion, with the other four expected to be completed in 2018/19 or 2019/20. The approved capital budgets and income projections are shown in the confidential annex.

5 Risk Management

- 5.1 This report is for information purposes so the Council's Risk management process does not need to be applied.

6 Resource Implications

Capital Reserves

- 6.1 All PE property investments have been financed from the Capital Receipts Reserve.

- 6.2 Approved expenditure for PE projects is now in excess of £36M. To ensure the long-term sustainability of the Capital Receipts Reserve, some of the rental income earned each year will be used to repay the reserve.
- 6.3 This will be by way of a transfer equivalent to 2% of the capital expenditure, ensuring that the full capital cost is repaid over the life of the investments.
- 6.4 More information on the forecast balance of the Capital Receipts Reserve is included in the Capital Outturn report elsewhere on this agenda.

Revenue Implications

- 6.5 The properties purchased above all form part of the corporate property portfolio that is managed by the Estates & Economic Development Service.
- 6.6 Income from PE properties owned by the Council throughout the 2017/18 financial year generated £1.352M in rental income at an average return on investment of 7.2%.
- 6.7 By comparison, the Council's cash investment portfolio generated an average return of 0.61% in the year.
- 6.8 Overall, this equates to an additional income for the Council of £1.238M as a result of the PE investments held throughout the year.

Forecast for 2018/19

- 6.9 If the income levels received in 2017/18 continue and the latest completions generate income in line with their business case, rental income in 2018/19 is expected to be around £1.89M. This level of income would reflect an average return on investment of 7.1%.
- 6.10 The 2018/19 Treasury Management Strategy sets out that the Council expects to earn 0.1% above base rate for its investments in the year. If, as expected, an interest rate rise occurs in the spring of 2018 the estimated interest foregone as a result of financing PE investments for the year will be £220,000.
- 6.11 PE income is therefore expected to be £1.67M greater in 2018/19 than would have been achieved by retaining balances in cash reserves.

7 Conclusion and reasons for recommendation

- 7.1 This report reviews the performance of the investments made under the Project Enterprise programme in the 2017/18 financial year.

Background Papers (Local Government Act 1972 Section 100D)

None

Confidentiality

Report

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

Annex

It is considered that the annex to this report contains exempt information within the meaning of paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. It is further considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information because the information relates to the financial or business affairs of both the Council and third parties.

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|--|--------------|-----------|-------------|
| No of Annexes: | 1 | File Ref: | N/A |
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| Report to: | Cabinet | Date: | 16 May 2018 |