

ITEM 8 **Project Enterprise Update**

Report of the Head of Acting Head of Revenues (Local Taxation & Project Enterprise) (Portfolio: Economic)

Recommended:

That the Overview & Scrutiny Committee considers the work undertaken to date on Project Enterprise.

SUMMARY:

- Project Enterprise was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on government revenue support grant.
- Total expenditure on completed projects by 31 March 2017 was £18.745M with a further £10.140M approved in the Capital Programme for further projects.

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 This was formalised in the 2015/16 Medium Term Financial Strategy (November 2014), as below, and has been reiterated in more recent strategy updates.

It [the Council] will do this by taking a more entrepreneurial approach and looking at the feasibility of creating arm's-length companies to facilitate property investment and acquisition, development of housing, and green energy.
Extract from para 4.6.12 of Medium Term Financial Strategy 2015-18.

- 1.3 PE was established with three main focus areas:
 - Investment in commercial property
 - Investment in housing
 - Investment in renewable energy / energy efficiency measures

2 Background

Project Board

- 2.1 The PE Board is chaired by the Chief Executive. The board also includes the Corporate Directors; Heads of Finance; Legal; and Estates.
- 2.2 Support to the Board comes from the Heads of Housing & EH; Planning & Building; Acting Head of Revenues (Local Taxation and PE); and a Project Manager.

Investment Strategy

- 2.3 Council recently approved an update to the Investment Strategy (January 2017) that was established to guide decision making for PE investments.
- 2.4 This strategy (see Annex) sets out a two-stage gateway process that investments should meet to be considered appropriate for PE.
- 2.5 The first stage of the gateway process assesses the Council's powers to invest and the appropriateness of the investment; the second stage develops the business case for each project.

Member Panel for Investment Approval

- 2.6 In recognition of the fast pace of the local property markets, a process has been established to enable property acquisitions to be approved where the normal approval process would impair the Council's ability to pursue an acquisition (Cabinet 30 September 2015, Council 11 November 2015).
- 2.7 This process is by way of a delegated authority to the Head of Estates to purchase property investments after consulting a cross-party Member panel established for that purpose.
- 2.8 One of the controls in place to support this delegation is the requirement to retrospectively report the details of each purchase approved by the Panel to a following meeting of the Council.
- 2.9 A budget of £3M is allocated in the Capital Programme for purchases approved under this delegated authority.

3 Commercial Property Investments

- 3.1 Six commercial property investments had been completed by PE up to the end of March 2017, with total capital expenditure amounting to £18.58M. The investment strategy allows for investment properties to be purchased outside the borough boundaries. Three of the six completed investments have been purchased outside of Test Valley – two in Southampton and one in Newbury.
- 3.2 In addition to the completed investments, two further projects (both in Test Valley) have been approved and are included in the Capital Programme with a combined capital budget of £9.11M.
- 3.3 A summary of the return on investments is given in section 6, Resource Implications.
- 3.4 More information on the actual income generated from PE investments will be reported to Cabinet in June 2017 along with other financial outturn reports.

4 Valley Housing Ltd

- 4.1 In November 2015 Council approved the creation of a wholly-owned housing development and management company, to be called Valley Housing Ltd (VHL). The company was incorporated at Companies House on 30 April 2016.

- 4.2 The directors of the company are the Heads of Estates; Community & Leisure; and Housing & Environmental Health. The Acting Head of Revenues (Local Taxation & Project Enterprise) is the company secretary. The Economic Portfolio Holder is the Council’s shareholder representative on the board of directors.
- 4.3 There is an Operational Agreement between the Council and VHL that sets out the level of independence the company can have without specific authority of the Council.
- 4.4 The annual business plan for VHL was presented as a confidential item to Cabinet on 21 December 2016.
- 4.5 The first property purchase for VHL was completed in late 2016 and the company completed the letting of this property in March 2017.
- 4.6 VHL also expects to take on leases for two properties that are being constructed in Andover (completion expected in the summer of 2017) and further houses for which the purchases are currently being negotiated.

5 Renewable Energy Projects

- 5.1 Two potential renewable energy projects have been considered but not progressed because the business case was not strong enough to support the required capital investment.
- 5.2 These projects would have seen the Council constructing solar power arrays with a view to selling the electricity generated to nearby commercial customers. The main reason for not being able to proceed with these projects was the significant reduction in feed-in-tariff levels in January 2016.
- 5.3 To date, the only renewable energy project that has been approved is for a solar array to be constructed on the Council’s Portway depot. The installation is expected to take place this summer.

6 Resource Implications

Investment Summary and Return on Investment

- 6.1 The table below shows the Council’s actual expenditure and approved budgets for PE investments.

	Investment Property £’000	Housing £’000	Renewable Energy £’000	Total £’000
Completed before 1 st April 2016	11,968	0	0	11,968
Completed during 2016/17	6,612	165	0	6,777
Total – Completed Projects	18,580	165	0	18,745
Approved projects	9,114	964	62	10,140
Total	27,694	1,129	62	28,885

- 6.2 It is estimated that the ongoing additional annual income from completed investments will be £1.465M. This represents a return of 7.8% on the total investment of £18.745M.

- 6.3 By comparison, the income from the management of the Council's cash investments is expected to be around 0.7% in 2016/17.

Budget Strategy

- 6.4 One of the objectives in the Budget Strategy is “to ensure that the Council is not dependent on Government Revenue Support Grant by 2020/21”.
- 6.5 The Council has already sustained significant reductions in government support in recent years and the Revenue Support Grant is expected to be lost entirely by 2019/20.
- 6.6 The agreed approach to managing these cuts is to take a draw from the New Homes Bonus reserve each year to offset the reduction in government grant. Whilst this provides a medium-term solution, it is not sustainable to continually draw from reserves. The extra income generated by PE projects will be used to reduce the draw from the New Homes Bonus Reserve and provide longer term certainty to the budget setting process.

7 Risk Management

- 7.1 The risks of each project are considered as part of the development of the business case and can vary depending on the type of investment being proposed.
- 7.2 Examples of the risks that are considered where commercial properties are being purchased include:
- The tenant's financial stability
 - The length of the existing leases and any restrictive covenants
 - The likely ability of the Council to find new tenants, if necessary.
 - Any additional costs the Council might incur if a property became vacant, e.g. business rates.
- 7.3 The potential implications arising from void periods are reported to Councillors as part of the approval process for each project.

8 Conclusion

- 8.1 Project Enterprise was established to increase the returns generated by the Council's cash balances.
- 8.2 The report shows that over the past three years over £18M has been spend on completed investments and that approval is in place for a further £10M of investments in future years.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
<u>Confidentiality</u> 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.			
No of Annexes:	2		
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