

Project Enterprise Outturn 2021/22

Report of the Finance and Resources Portfolio Holder

Recommended:

That the outturn position for Project Enterprise investments in 2021/22 be noted.

Summary:

- The Council created the workstream, known as Project Enterprise, to generate income and reduce its reliance on external government funding.
- This report summarises the return on investment made during the 2021/22 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) is now a well-established workstream through which the Council makes property investments to increase its income generation capacity and sustain delivery of frontline services.
- 1.2 On 10th November 2021, Council approved the Medium Term Financial Strategy (MTFS) for 2022/23-2024/25. This strategy set out that the Council will continue to seek new investment opportunities through Project Enterprise to achieve its objectives.
- 1.3 This report summarises the 2021/22 outturn position of 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 reserves held by the Council in projects that will yield greater returns than the cash 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 2021/22.
- 2.3 The amount of investment in completed PE acquisitions at 31st March 2022 was £29.602M, of which £255,000 related to projects that were completed in 2021/22. Two further development projects have been approved, with the first expected to reach practical completion by summer 2022.

- 2.4 The performance of PE projects can usefully be compared with the results of the Council's treasury management function. The Treasury Management Review 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 31st March 2022.
- 4.2 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
Andover Trade Park	6,738
Solar panels at Portway depot	51
Housing purchases / development (14 houses)	2,630
Retail property in Andover	1,338
Sub-Total	29,347

Investment properties completed during the year	
Redevelopment of seven properties in Romsey	255
Total expenditure on investment property	29,602

- 4.3 Further information, including the rental income achieved from each investment and the asset valuations as at 31st March 2022 (which are commercially confidential information) and explanations of movement from the original business cases, are shown in the confidential annex.
- 4.4 In addition to the investments listed above that have been purchased and retained by the Council, two regeneration projects have been completed in previous years and then sold to generate a one-off capital receipt. The details of those transactions are commercially sensitive and are discussed in more detail in the confidential annex.
- 4.5 Net rental income from PE properties held by the Council throughout 2021/22 was £2.112M.
- 4.6 This was £25,000 more than the £2.087M that was forecast in the approved business cases, despite two of the more recent investments only returning a part-year income in 2021/22. The main reasons for the variance are discussed in the confidential annex.
- 4.7 The average return on investment achieved in the year was 7.0%.

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 completed PE property investments have been financed from the Capital Receipts Reserve.
- 6.2 The actual expenditure for PE property acquisitions is now in excess of £29.6M. To ensure the long-term sustainability of the Capital Receipts Reserve, some of the rental income earned each year is used to repay the reserve.
- 6.3 This is 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. This identifies £3M of approved funding for Project Enterprise projects for 2022/23.

Revenue Implications

- 6.5 The properties purchased above all form part of the corporate property portfolio that is managed by the Property & Asset Management Service.
- 6.6 PE properties generated £2.112M in income at an average return on investment of 7.0%. There were no arrears relating to the 2021/22 financial year at the time of writing this report.
- 6.7 By comparison, the Council's cash investment portfolio generated an average return of 0.42% in the year.
- 6.8 Overall, this equates to an additional income for the Council of £1.98M as a result of the PE investments held throughout the year.
- 6.9 The additional income of £1.98M identified above adds to the £8.38M of additional income that has been generated in previous years through Project Enterprise investments.
- 6.10 This means that Project Enterprise has now generated more than £10M in additional income for the Council than would have been earned had funds been retained as cash balances.

Forecast for 2022/23

- 6.11 There is not expected to be a significant movement in the rent levels over the next financial year and income in excess of £2M is again expected. Interest rates are increasing, so it is likely that the 2022/23 outturn will return a lower, but still significant, gain when compared to the cash portfolio.

7 Future Investment Opportunities

- 7.1 Project Enterprise has been a combination of developing / enhancing the Council's own property portfolio and making purchases of investment property for a purely commercial return.
- 7.2 Changes to the Prudential Code in December 2021 mean that there are new implications for access to Public Works Loan Board loan financing where a Council has approval in its capital programme for capital expenditure of a primarily investment nature.
- 7.3 This means that any future decisions to approve Project Enterprise investments will need to have regard to the wider capital expenditure plans and potential need for external borrowing. This may be particularly relevant as regeneration projects move towards implementation.
- 7.4 The implications of any decision will be explained more fully when future investments are identified and brought forward for consideration.

8 Conclusion and reasons for recommendation

- 8.1 This report reviews the performance of the investments made under the Project Enterprise programme in the 2021/22 financial year.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
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.			
No of Annexes:	1 (confidential)	File Ref:	N/A
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