

# Project Enterprise Outturn 2023/24

Report of the Finance and Resources Portfolio Holder

## Recommended:

**That the outturn position for Project Enterprise investments in 2023/24 be noted.**

### SUMMARY:

This report summarises the return on investment made during the 2023/24 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 the workstream through which the Council has made property investments to increase its income generation capacity and sustain delivery of frontline services.
- 1.2 This report summarises the 2023/24 outturn position completed as part of PE.

## 2 Background

- 2.1 Since 2014, the Council has invested in a number of projects with the objective of generating additional revenue income. This additional income has been generated by investing cash reserves held by the Council into projects that will yield long-term returns greater than that of the cash investment portfolio.
- 2.2 The performance of PE projects can usefully be compared with the results of the Council's treasury management function. The Treasury Management Review was presented to Cabinet in May 2024 and showed an average return on investment of 4.4% for the year.
- 2.3 The above figure reflects a significant increase in the base rate of interest over the past two years. Increases to base rate, and the direct link to the net cost of financing any new investments, has made the justification of a business case for new investment much harder to demonstrate.
- 2.4 This, together with recent changes to government policy and CIPFA guidance on commercial investments by local authorities, has meant that seeking opportunities for future commercial investments have had to be curtailed.

- 2.5 No Project Enterprise investments were completed in 2023/24 and no further projects currently have approval. It is expected that future projects will be limited to developments on land already owned by the Council or to deliver additional housing in conjunction with Valley Housing Ltd (the Council's arm's-length housing company).

### 3 Corporate Objectives

- 3.1 Income generated from PE has been an important factor in the Council's ability to set sustainable budgets in recent years, allowing resources to be made available for delivery of Corporate Action Plan projects.

### 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 2024. Overall rental income figures and returns on investment are included in the Resource Implications section below.

	Total cost £'000
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
Retail property in Andover	1,338
Housing purchases / development (14 houses)	2,630
Redevelopment of seven residential properties in Romsey	255
Walworth Business Park development	6,996
<b>Total</b>	<b>36,547</b>

- 4.2 Further information, including the rental income achieved from each investment; the asset valuations as at 31 March 2024; and explanations of movement from the original business cases, are shown in the confidential annex.

- 4.3 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.
- 4.4 Net rental income from PE properties held by the Council throughout 2023/24 was £2.559M.
- 4.5 This was £209,000 more than was forecast in the approved business cases and is expected to grow in future years as rent reviews increase annual turnover. The main reasons for the variance are discussed in the confidential annex.
- 4.6 The average return on investment achieved in the year was 7.6%.

## **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 in excess of £36M. 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 was included in the Capital Outturn report to Cabinet in May 2024. This identifies £1M of approved funding for Project Enterprise projects for 2023/24 as a budget for potential housing purchases to grow Valley Housing Ltd.

### Revenue Implications

- 6.5 The properties purchased above all form part of the corporate property portfolio that is managed by the Property and Asset Management Service.
- 6.6 PE properties generated £2.559M in income at an average return on investment of 7.6%. There were rent arrears relating to four tenants, totalling £106,000, for the 2023/24 financial year at the time of writing this report. All four debts are being pursued and none are considered to be uncollectable.
- 6.7 By comparison, the Council's cash investment portfolio generated an average return of 4.4% in the year.

- 6.8 Overall, this equates to an additional income for the Council of £950,000 as a result of the PE investments held throughout the year.
- 6.9 The additional income adds to the £12.1M 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 £13M in additional income for the Council than would have been earned had funds been retained as cash balances.

Forecast for 2024/25

- 6.11 Whilst no new investment opportunities have been identified, it is expected that there will be rental growth in some of the existing properties with the full effect of rent reviews that were undertaken in 2023/24 and further rent reviews scheduled for 2024/25 taking effect.
- 6.12 There were two vacant units across the whole PE portfolio at 1 April 2024 and these are being marketed for new tenants.

**7 Conclusion and reasons for recommendation**

- 7.1 This report reviews the performance of the investments made under the Project Enterprise programme in the 2023/24 financial year.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
<b>Report</b> - 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.			
<b>Annex</b> - 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	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Carl Whatley	Ext:	8540
Report to:	Cabinet	Date:	10 July 2024