

Project Enterprise Outturn 2018/19

Report of the Finance Portfolio Holder

Recommended:

That the outturn position for Project Enterprise investments in 2018/19 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 return on investment made during the 2018/19 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 central Government funding.
- 1.2 On 10 October 2018, Cabinet approved the Medium Term Financial Strategy (MTFS) for 2019-22. This strategy sets out that the Council will continue to seek new investment opportunities through Project Enterprise to achieve its objectives.
- 1.3 This report summarises the 2018/19 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 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 2018/19. 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 2019 was £30.425M, of which £3.966M related to projects that were completed in 2018/19. Three further projects have commenced or been approved with a total 2019/20 budget of £6.426M.

- 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 2019.
- 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
Housing purchases / development	1,080
Solar panels at Portway depot	51
Sub-Total	26,459

Investment properties completed during the year	
Purchase of five houses in Andover	990
Completion of Evolution 50 development	2,976
Total expenditure on investment property	30,425

- 4.3 Further information, including the rental income achieved from each investment and the asset valuations as at 31 March 2019 (which are commercially confidential information) and explanations of movement from the original business cases, are shown in the confidential annex.
- 4.4 Unlike most of the projects in the table above, which are retained by the Council for ongoing rental income, the completion of the Evolution 50 development concluded with a sale of the property to generate a one-off capital receipt. The details of this transaction 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 2018/19 was £1.924M. Rental income of £18,000 was generated from investments that were completed in the year.
- 4.6 The net income from properties held throughout the year was £66,000 more than the £1.858M that was forecast in the approved business cases. The main reasons for this are discussed in the confidential annex.
- 4.7 The average return on investment achieved in the year was 7.3%.
- 4.8 At 31 March 2019, three further investments had been approved by the Council. The biggest of the projects is expected to reach completion in June, with the other two expected to be completed in the summer of 2019. 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 £36.8M. 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. This identifies £6M of approved funding for Project Enterprise projects for 2019/20 to 2020/21. Once this has been exhausted, the Council is expected to be in a position where external borrowing is required to fund future investments. This will need to be considered when preparing the business case for future property purchase or development.

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 2018/19 financial year generated £1.924M in rental income at an average return on investment of 7.3%.
- 6.7 By comparison, the Council's cash investment portfolio generated an average return of 0.83% in the year.
- 6.8 Overall, this equates to an additional income for the Council of £1.7M as a result of the PE investments held throughout the year.

Forecast for 2019/20

- 6.9 If the income levels received in 2018/19 continue and the latest completions generate income in line with their business case, rental income in 2019/20 is expected to be exceed £2M.
- 6.10 If this is the case Project Enterprise investments will yield in excess of £1.75M additional income for the Council than would have been generated 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 2018/19 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.

No of Annexes:	1	File Ref:	N/A
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(Portfolio: Finance)

Officer:	Carl Whatley	Ext:	8540
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Report to:	Cabinet	Date:	20 May 2019
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