Commercial Investment

SCRUTINY PRESENTATION
FOR 8 AUGUST 2023

Somerset Council

Service funding model

Investment Income Estimates:	% of Fund Total
Gross Investment Fund	
Gross Yield (average)	7.00%
Less: Financing	4.30%
Less: Fixed Costs	0.30%
Net Income	2.40%
Less: Risk Reserve / Sinking Fund	0.17%
Budget for Target Investment Income	2.23%

Derived from SSDC model at time of approval of second tranche of capital funding.
Financing based on interest rate 2.30% plus MRP 2%

Commercial investment assets

Investment assets are held to earn income, or for capital appreciation or both.

For Somerset Council, the commercial assets comprise land with buildings or infrastructure intended to deliver income.

Capital overview

	31/03/2023	
CFR Closing Balance	Forecast	
	£	
Investment Property		
Mendip	49,621,640	PWLB
Sedgemoor	43,628,688	Short-term
Somerset WT	91,563,120	Short-term
South Somerset	85,345,032	Short-term
TOTAL	270,158,480	
Amount Fully Financed	18,932,168	
Gearing	93.5%	
Battery Storage		
Fideoak	8,957,055	Short-term
FERL 1	16,979,761	Short-term
FERL 2	10,630,877	Short-term
	36,567,693	

Investment Property Assets summary

Capital investment made £290m

Individual asset capital value from £1.2m to £22.2m

48 properties

36 out of Somerset

17 multi let

31 single let

91 tenants
Currently 7 voids
5.9% of total ERV

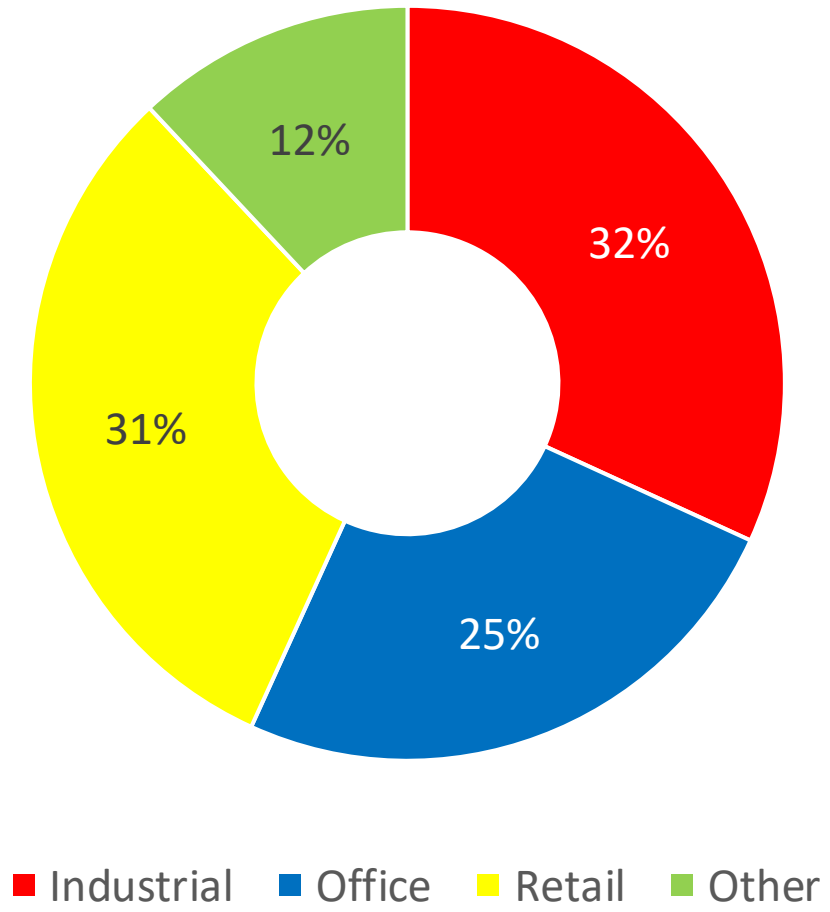
Average income per tenant £211k

Gross average yield 6.62%*

Average WAULT 6.27 years

Gross rental income (Jul 2023) £19.3m

Value by Sector



Note: Sector split calculated on year end 21/22 Asset Valuations reported by each Council.

The values reported were £265m, circa 5% down on purchase price - broadly in line with slight softening in market.

Location


Edinburgh
Londonderry
Derry
NORTHERN IRELAND
United Kingdom
Sligo
Isle of Man
Dundalk
Drogheda
Manchester
Dublin
Galway
Ireland
Liverpool
Sheffield
Limerick
Kilkenny
Norwich
Tralee
Waterford
Amsterdam
Cambridge
Dingle
Killarney
Cork
WALES
Netherlands
London
Rotterdam
Antwerp
Brussels
Belgium
Lille
Liège
Cologne
Plymouth
English Channel
Luxembourg
Styled by District
SSDC (20)
SW&T (12)
S (8)
M (7)

Main asset risk areas

- Tenant failure
- Lease end voids
- Rental value changes
- Capital value changes
- Building depreciation
- Asset management delivery

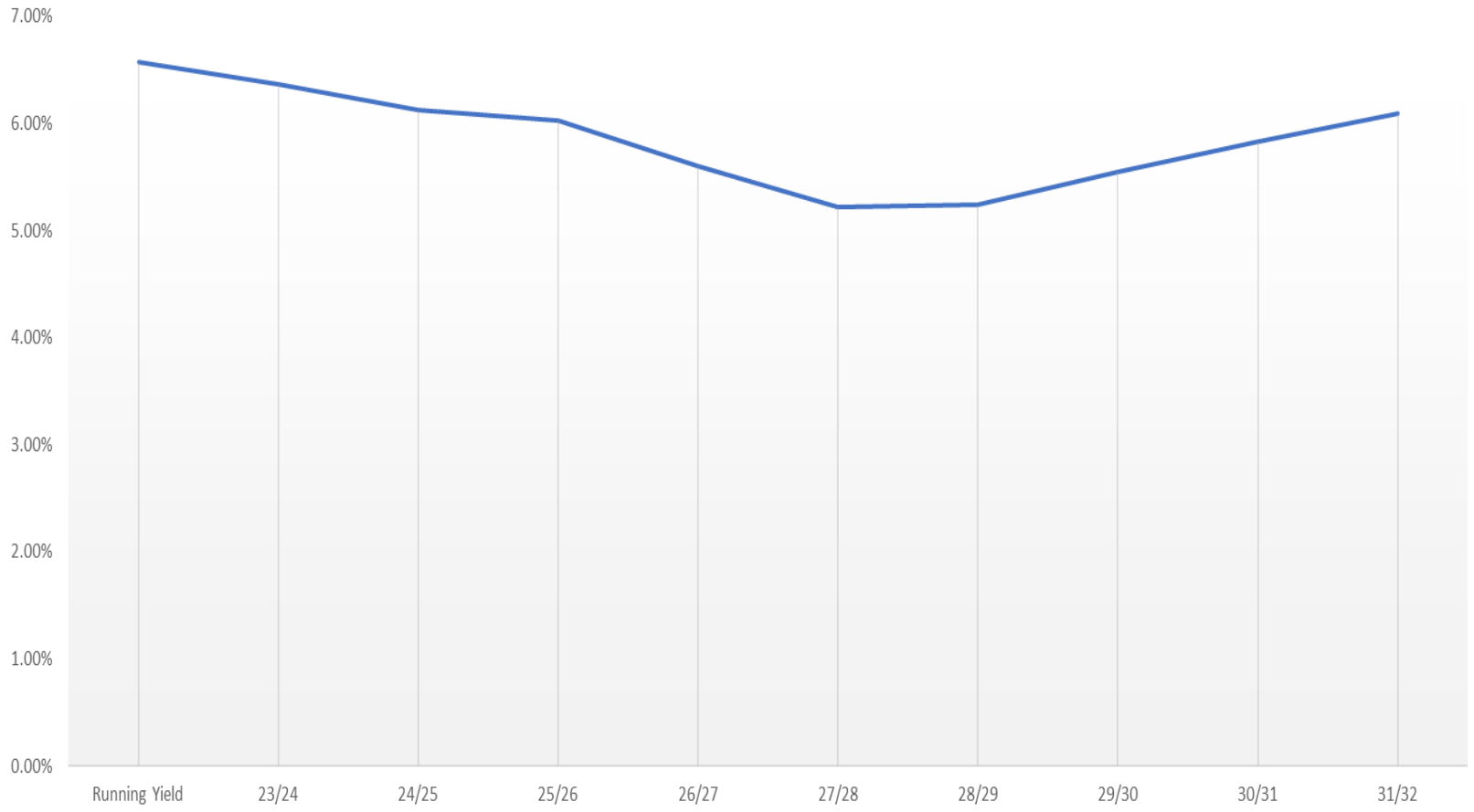
Tenant failure

- COVID-19 stress test on rent payments: 96-98% collected
- Three current tenants in Administration or proposing CVA
- This is c3% of our lessees

Lease end voids

- Inherent risk of investment property
- “Reasonable worst case” assumption – when buying and continuing management – see Running Yield chart
- COVID-19 business changes caused some increase
- Actual “risk” is all upside
- Continuous focus of asset management

Running Yield

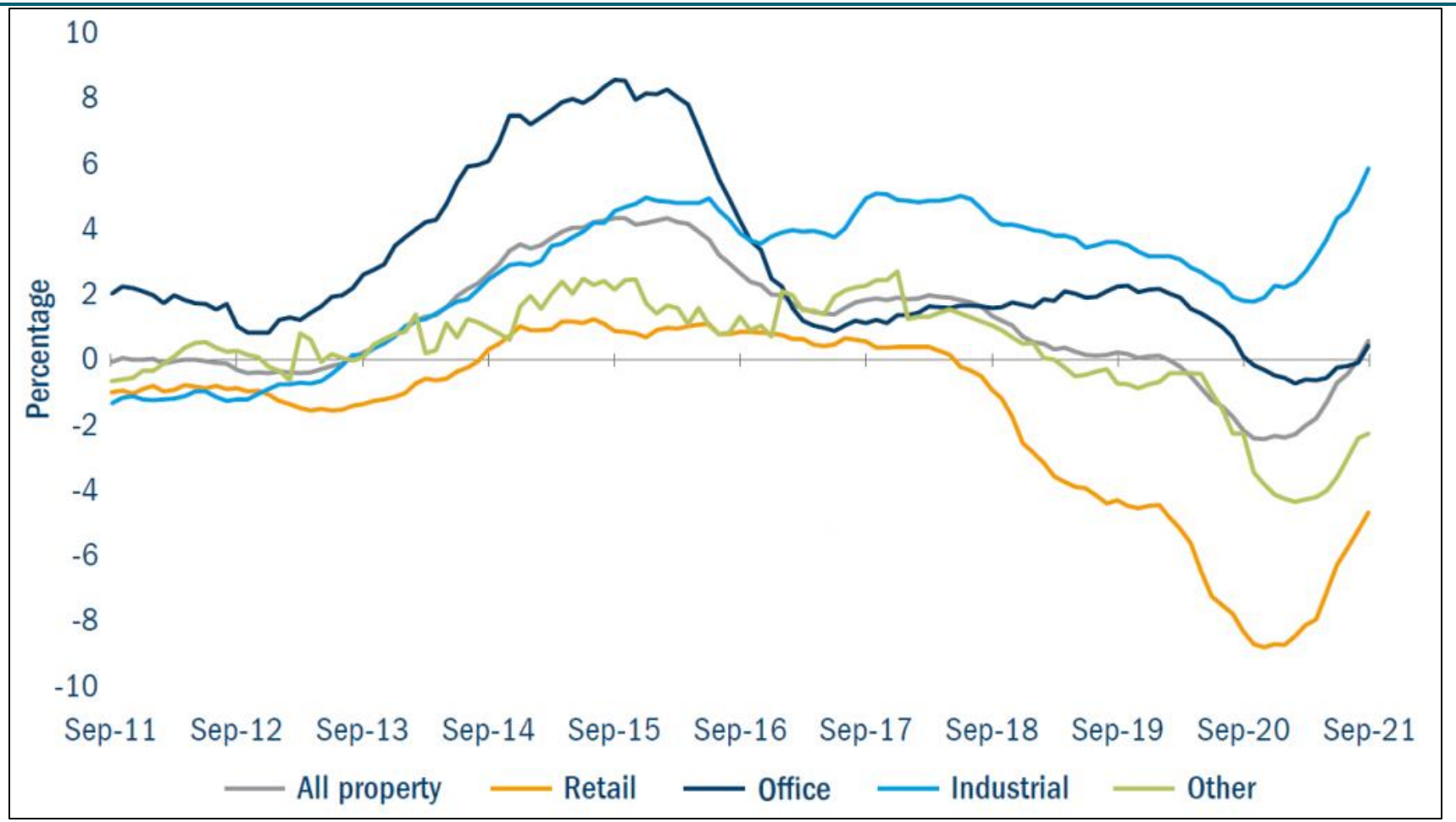


This is the projected profile of passing rents as return on original investment.

This is a reasonable worst-case scenario, assuming all tenants break as soon as they can, and rents are not increased at review.

Where purchase costs not provided 6% added to purchase price to ascertain accurate net running yield.

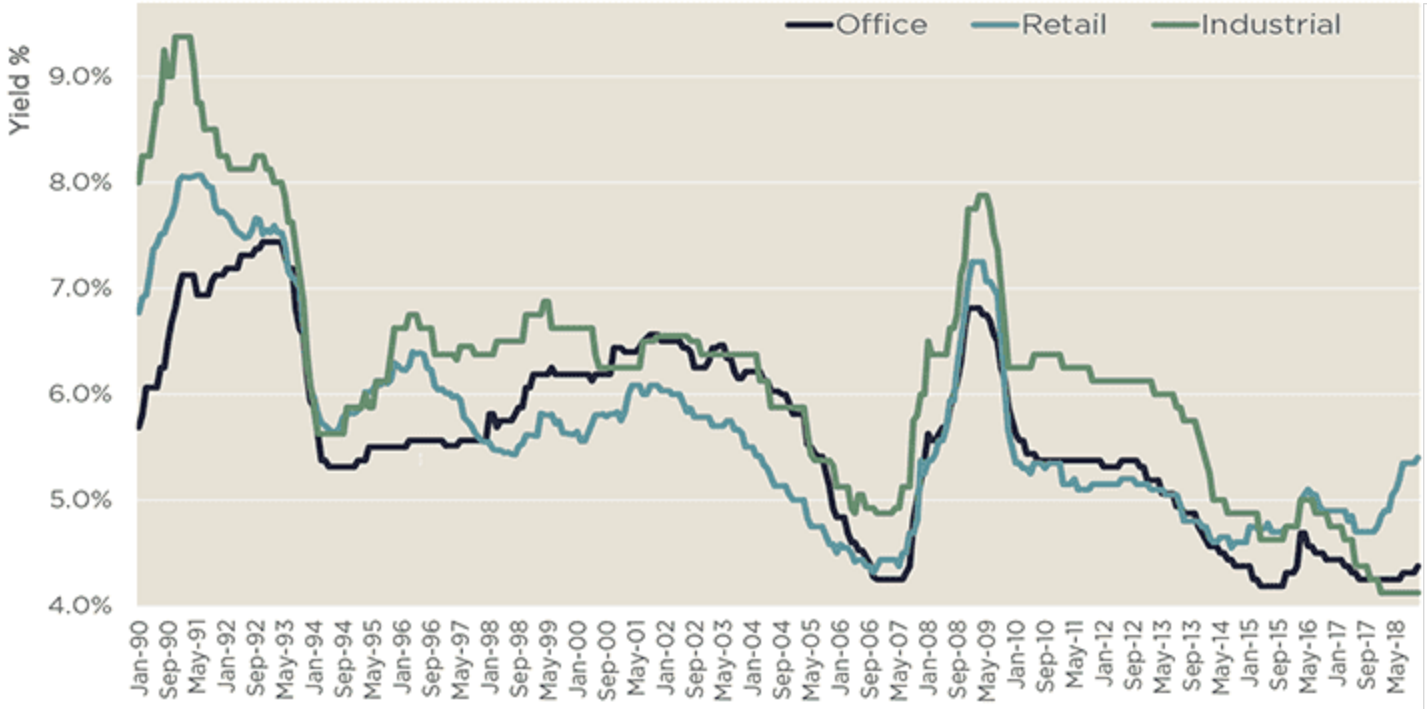
Rental value changes

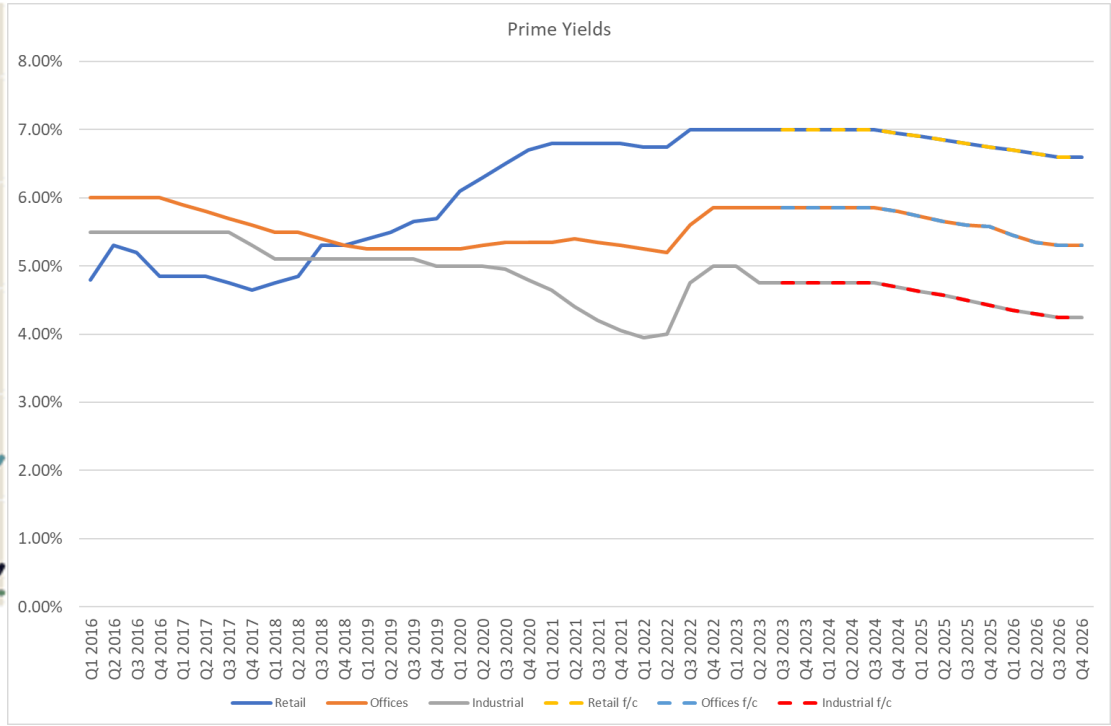


10-year UK commercial property rental value growth (annualised)

Capital value changes

- Long term changes in relative yields between main sectors
- Inverse relationship between yield and capital value changes
- Partial correlation with base rate history

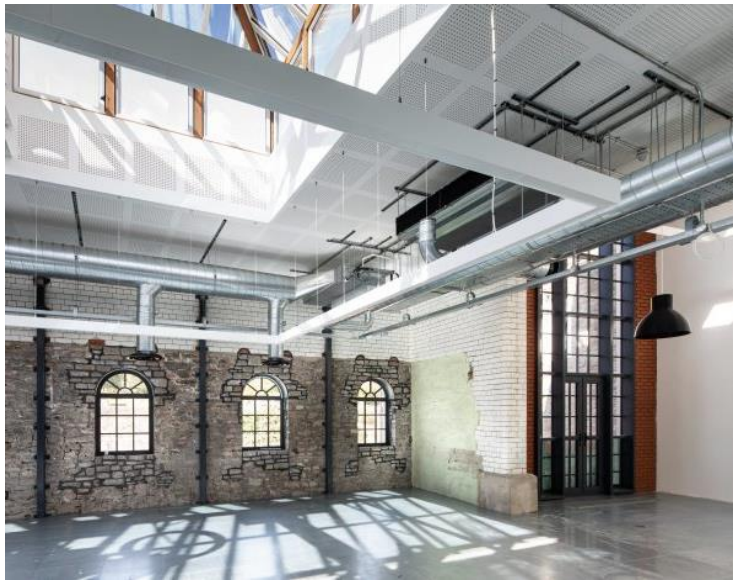




Building depreciation

- Tenant repairing obligations
- Lease end improvements – Imperial House example

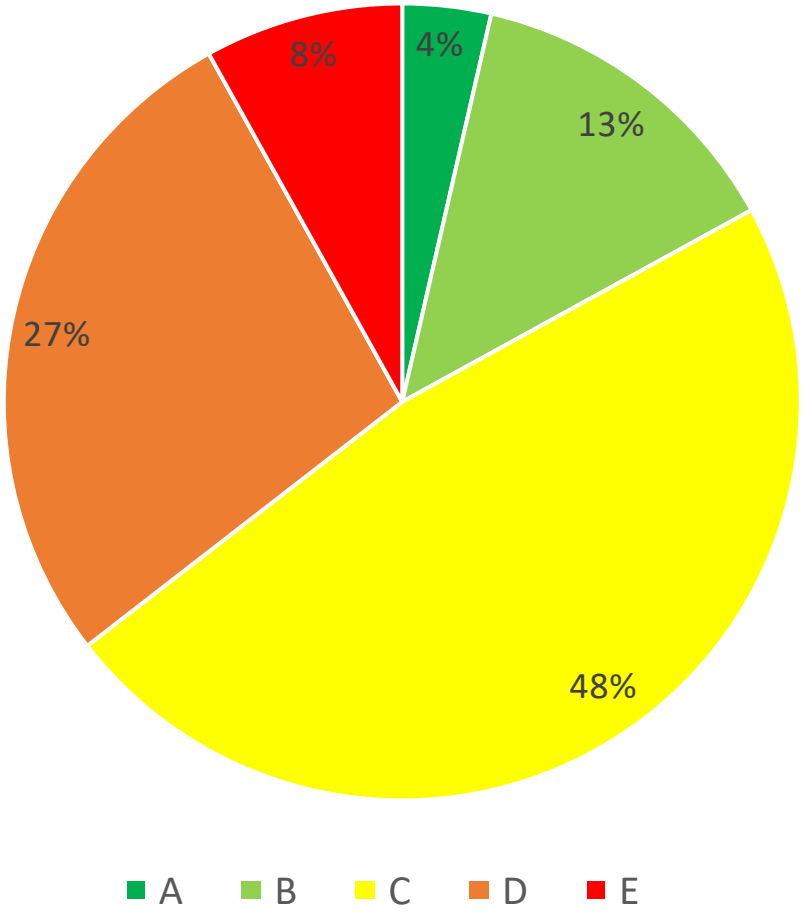
Imperial House



Fermentation Building

Steelite

Energy Performance



- 65% of assets at minimum Grade C required by 2027.
- 19% of assets at minimum Grade B required by 2030.
- Only 8% at E and nothing below.

Asset management delivery

- LGR – consolidated approach
- Temporary team roles
- Rent collection
- Priorities
  - Processes and operations
  - Governance (incl Executive Sub-committee)
  - Portfolio Review and presentation
  - Strategic direction
  - Team structure and resourcing
  - Adviser appointment

Battery Energy Storage JV

The investment

- Battery Energy Storage Systems (BESS) – renewable energy sold to the national grid
- Investment Lifespan – 25 years
- 3 companies – SSDC OPL – FERL1 – FERL2
- 2 BESS locations – Fideoak Taunton & Fareham
- 100% Council funded – via loans to JV companies

Site / Phase	BESS	Loan provided £m	Investment approved	Site energised	First Income delivered
Fideoak phase 1	25 MW	9.840	18/4/2018	November 2019	April 2020
Fideoak phase 2	5 MW	2.033	16/7/2019	November 2019	April 2020
Fideoak rectification		1.284	24/6/2019	November 2019	
Fareham 1	40MW	18.690	20/5/2020	March 2022	April 2022
Fareham 2	20MW	10.319	16/2/2021	July 2022	Aug 2022
Total	**90MW**	**42.165**			

Fareham

Sources of income

Benefit	Explanation
Grid frequency balancing	The national grid has peaks and troughs in terms of power supply – the use of battery technology allows power to be drawn from the grid at off peak times and be re-supplied during peak periods as renewable energy – per megawatt unit
Capacity standby	Emergency losses of power can be resupplied or redirected to the grid per mega- watt from the battery storage system
Balanced mechanisms	To take excessive power from the grid when it is not being generated, e.g. a wind turbine is programmed to shut down if the grid is in full supply – battery storage can be used to draw off this excess supply if the turbine is kept in use
Wholesale trading	From a purely commercial point of view – power supply from the battery storage can be sold by an optimiser company to the grid on a wholesale basis and rates have increased markedly since 2019 with sharper increases expected in 2022 to 2029

Questions & discussion