

Appendix C

Financial Impact Of Baytree Development

Contents

	Page
Current Financial Position	3
Capital Budget	4
Financing the Project	5
Revenue Implications	6

Current Financial Position

1.1 Currently the Council receives the following income from Baytree and Academy Place

Baytree - The income has been protected by the NOI guarantee up until early 2023. After this the NOI guarantee is no longer in place and the true income of Baytree is applicable this less expenses and SAIL's management fee is approximately £402k per annum

Academy Place - £1,016m (gross) less expenses and SAIL management fee of 3% approximately a net return of £833k to Brentwood Borough Council.

1.2 The interest payable and average MRP (minimum revenue provision) that is charged to the General Fund for these acquisitions are £992k

1.3 Since purchasing the strategic Assets the Council has been contributing the net income into an earmark reserve that specific use is to help support fund the In-borough regeneration. The balance on this reserve at 31st March 2022 (subject to audit) is £1,931m. It is forecast that this reserve is expected to hold funds of £2,809m by March 2023.

Capital Budget

2.1 The total capital budget for the development is £21,898,093. Split out as following

Table 1 – Total Budget

Cost	Amount £
Total Construction	16,096,330
Capital Contribution to Cinema	1,250,000
Capital Contribution to New Lettings	1,500,000
White Boxing Costs	300,000
New Shop Fronts	200,000
Section 106	250,000
Fees and Ancillary Costs	2,028,137
Professional Fees	273,626
Total Capital Budget	21,898,093

2.2 It is expected that planning will be submitted in November 2022 and the project will start on site September 2023. The Capital budget is therefore profiled over 3 financial years

Table 2 – Capital Budget Profile

Year	Budget £
2022/23	987,730
2023/24	12,451,880
2024/25	8,458,483

Financing the Project.

2.3 The Mews Houses that are being built are expected to be sold on the open market and are forecast to generate a capital receipt of £3,691,350. This capital receipt will be offset against the project costs reducing the amount the Council is required to borrow to fund the project.

2.4 The expected amount of borrowing is £18,206,743. With the MRP charged over 50 years the following table shows the impact on the General Fund Account regarding different interest rates.

Interest Rate	Total Interest pa	Total MRP pa	Total Charge pa
3.5%	637,236	364,135	1,001,371
4.0%	728,270	364,135	1,092,405
4.5%	819,303	364,135	1,183,438
5.0%	910,337	364,135	1,274,472

2.5 The assumption is that the Council will short-term borrowing for cashflow purposes during the build phase. Upon completion the Council will look to long term borrow. The current economic climate has seen interest rates from PWLB peak at over 5%, it must be stressed that current interest rates are higher than modelled, however, the expectation is that interest's rate should drop by 2024/25 and the Council will achieve its modelled rate of 3.5% to 4%.

2.6 The rental income from Baytree will grow, the income back to BBC is expected to be £1.699m per annum this is an increase of £1.297m compared to the current income (not including the NOI guarantee) of £402k. The additional income does not cover the financing costs for both the acquisition and development. However, the Council will have the ability to use the income from Academy Place to fund the increased financing costs.

2.7 the Proposed Impact of the increased financing costs funded from the increased rental income at Baytree and utilising Academy Place's rental income is tabled below.

Table 3 – Financing Costs

Acquisition Financing Costs	992,098
Baytree Development Financing Costs (4%)	1,092,405
Total Financing Costs	2,084,503
Revised Net Income	2,531,909
Surplus Income	447,406

2.7 This will leave a balance of £447,406 per annum that can continue to be earmarked or can be released into the General Fund to reduce the deficit currently being forecast in future year.

Revenue Implications

3.1 The proposed development means that the General Fund has to finance the borrowing at approximately £1.092 per annum. Table 3 demonstrates that the Council can utilise the growth in rental income and the income from Academy Place to finance these costs.

3.2 The revenue income growth is only effective 6 to 12 months after the project is complete. This is due to letting the cinema with a 12-month free period and new lettings with 6-month free period. In addition to this the current businesses will also have a 6-month rent free period to compensate them whilst the building work commences. All businesses are expected to remain open and be able to trade.

3.3 The costs associated with letting fees and lease legal fees are also revenue costs and need to be factored into the Council's budget. It is expected that the loss of rent and any other costs will be met from the In-borough Regeneration Reserve so that the General Fund is not affected financially through the development of Bay tree. The forecast utilisation of this reserve is tabled below

Table 4 – Utilisation of In-Borough Regeneration Reserve.

	Drawdown on Reserve	Balance
Forecast Opening Balance		2,809,313
2023/24	(480,197)	(480,197)
Forecast Closing Balance		2,329,116
2024/25	(758,393)	(758,393)
Forecast Balance		1,570,723
2025/26	(70,000)	(70,000)
Total	1,308,589	1,500,723

3.4 There is a balance of £1,501m. This balance can be used to fund in year short-term borrowing for the development phase. In addition, the balance can remain to support future works at a later date. For example, funding further feasibility works for phase two of the project. The balance of the reserve will be reviewed by the Section 151 officer on an annual basis and any balance and its use will be determined by this officer in the best interest of the Council's financial position.

3.5 In addition to revenue costs, the additional economic growth will generate business rate income. This additional income is expected to be approximately £58k of which the Council's share would equate to £23k.