

COMMERCIAL AND INVESTMENT COMMITTEE: MINUTES

Date: Friday 28th July 2017

Venue: Room 128, Shire Hall, Cambridge

Time: 10.00am – 12.45pm

Present: Councillors I Bates, P Downes (substituting for Cllr Nethsingha), L Dupre (substituting for Cllr Jenkins), A Hay (Chairwoman), P Raynes, T Rogers, M Shellens, J Whitehead (substituting for Cllr Jones) and T Wotherspoon

Also present: Councillors S Hoy and S Tierney

Apologies: Councillors D Jenkins (Cllr Dupre substituting), L Jones (Cllr Whitehead substituting), L Nethsingha (Cllr Downes substituting) and J Schumann

20. DECLARATIONS OF INTEREST

There were no declarations of interest.

21. MINUTES AND ACTION LOG OF THE ASSETS AND INVESTMENT COMMITTEE HELD 30TH JUNE 2017

The Committee resolved to approve the minutes of the Committee meeting held on 30th June 2017, and note the Action Log.

Members discussed the following items on the Action Log:

Item 86/Finance and Performance report – Members had highlighted some issues earlier in the year around the presentation of the financial information. Over August officers would be looking at the standard format of the Finance & Performance reports presented to Service Committees. Members put forward the following suggestions:

- given the remit of the Commercial & Investment Committee, the report should reflect performance against commercial objectives;
- greater use of diagrams would be helpful;
- a simple statement of what the budget was and what had been spent to date would be very helpful. Officers commented that because the focus was on forward projections, actual expenditure to date was not included. However, the reports did need to better reflect profiling, which the new integrated ERP (financial system) would help with.

Item 17/Antiquities: information would be recirculated. **Action required.**

Item 17/Confidential items – it had been agreed that items on the Programme Highlight Report would be dealt with by exception, therefore reducing the quantum that comes to the Committee. Additionally, there would be fewer confidential items once sites had been sold to CHIC.

Item 19/Rural Payments Agency – there had been unofficial dialogue with the relevant Government Office, and John's team were working with tenants to gather evidence on the impact of the delays to payments.

22. ENERGY EFFICIENCY, INVEST TO SAVE FUND FOR COUNCIL NON-SCHOOL BUILDINGS

A report was presented setting out the proposed scope and governance of the £1 million Invest to Save Energy Efficiency Fund for the Council's non-schools building portfolio. Members noted the background to the project, and officers' recommendations for Investment principles going forward, based on their experience of operating the fund to date:

- the scope of the fund would cover County Council retained buildings (non-school portfolio). This includes all directly owned and operated premises. For example, offices, libraries, care homes, community centres and highways depots;
- the overall fund would deliver an average payback in ten years or less, including borrowing costs. This allowed some flexibility at a project level to balance projects that deliver a quick payback with others that payback over a slightly longer period;
- Maintenance savings would be included as part of the business case; and
- Energy savings schemes with strong CO₂ reductions would be prioritised.

The Committee noted the challenges of developing a project pipeline, i.e. investing £250K per annum over four years, and the proposed way to achieve this. It was noted that it may be necessary to bring in some additional expertise to scope key projects for investment that would benefit the authority.

As the projects were likely to be in the region of £20K-£80K, it was proposed that the approval of individual business cases be delegated to the Chief

Finance Officer in consultation with the Chair of Commercial and Investment Committee.

Arising from the report, Members:

- queried the proportion of savings that would be made. Officers explained that as each individual project would be very different, it was difficult to estimate savings;
- in response to a question on the minimum percentage officers were looking for, for a scheme to be viable, officers advised that it was not possible to give a simple Internal Rate of Return (IRR). Investment in energy savings was viewed differently to commercial investment decisions i.e. some schemes were being progressed for non-financial reasons;
- a Member expressed some concern that the pipeline of projects would not be presented to Committee for decision. Officers commented that the relevant delegations were already in the Constitution, but a key driver was to reduce the volume of detailed work coming to Committee, albeit the Committee would retain control through the Chair's oversight and approval process;
- commented that the easiest way to save money and energy was to turn things off, and asked how staff could be encouraged to save more. Measures taken to date, especially in the larger office buildings, were noted, including how energy and related costs had been apportioned historically, and the issues that had arisen with that decentralised property function. It was suggested that information on that background may be helpful to Committee Members going forward
Action: Chris/John. Saving energy and money had to be balanced against safety considerations e.g. lighting in stairwells and corridors. However, it was acknowledged that there may be limited scope to influence behaviour further;
- observed that this was an additional responsibility to be borne by the Chief Finance Officer, and asked if he had the capacity to take on this work. Chris commented that in addition to being robustly overseen by the Strategic Property Assets Board, the detail of any proposal would be considered by a member of his finance team, leaving him to make challenges at a high level;

- a Member suggested that the Business Case Template should include a box for audit review, and that a proportion of these should be audited
Action required;
- in response to a Member question, it was confirmed that programmed spend for the current year was £250K, but projects identified to date only totalled around £100K, the two key projects being LED lighting upgrades at Central and Wisbech libraries. It was confirmed that it would be possible to carry forward any underspends against budget.

It was resolved unanimously to:

- a) agree the Investment principles for the Energy Efficiency, Invest to Save Fund, set out in section 2.1 of the report;
- b) agree that a portion of the savings made from the fund are used to purchase expertise to identify the project pipeline;
- c) agree that approval of individual business cases is delegated to the Chief Finance Officer, in consultation with the Chair of Commercial and Investment Committee.

23. WISBECH CASTLE – TO CONSIDER A DISPOSAL (BY WAY OF THE GRANT OF A LONG LEASE) TO WISBECH TOWN COUNCIL AT LESS THAN BEST CONSIDERATION

The Committee received a report on Wisbech Town Council's business case for taking a minimum of a 30 year lease of Wisbech Castle on a peppercorn rent, and their request for a 25 year loan of £150,000.

Wisbech Castle has been owned and managed for some years, and up until last year had been used primarily for educational purposes. However, the Service operating Wisbech Castle had declared it surplus to operational need. The Assets & Investment Committee visited the site last summer and considered possible future uses, but at that point there was no obvious use for the site, and it was proposed that the site was disposed of.

At that stage Councillor Hoy, as a Local Member and Member of Wisbech Town Council, had highlighted the desire locally to retain the site for community use, and the Assets and Investment Committee has asked Wisbech Town Council to present a detailed Business Case.

The Chairwoman invited Councillor Hoy to present the Town Council's Business Case.

Councillor Hoy explained that a great deal of work had gone into this issue, which the Town Council saw as both a short and long term priority, for which they were prepared to precept. Local people were very supportive of the project. Central to the whole case was maintaining this vital heritage asset, and keeping it open for public use. Even in the unlikely event that the Town Council was unsuccessful in running the Castle, and had to pass management back to the County Council, the asset would be enhanced as the vital repairs would have been carried out. There were many advantages for both parties in the proposed arrangements, not least the removal of a liability for the County Council. The arrangement would represent a real example of localism, which was especially pertinent as the County Council had signed up to the Wisbech 2020 vision, one of the aims of which was to “*secure investment in Wisbech heritage*”.

Councillor Steve Tierney spoke as both a local County Councillor, District Councillor, Town Councillor and Mayor of Wisbech. He briefly set out the historical importance of Wisbech Castle, which was the “beating heart” of Wisbech. He stressed that for the people of Wisbech, the Castle was not just a line on a balance sheet, but a vital part of the town and its history. The proposal put forward offered the opportunity for the County Council to do something amazing for the people of Wisbech, rather than selling to some unknown investor.

Arising from the report:

- it was clarified that legal colleagues had checked the legal documents relating to the original gifting of the Castle, and there were no restrictions to stop the County Council selling the site;
- a number of Members expressed strong support for the proposal, especially given the historic importance of the site and the commitment demonstrated by the Town Council to work with communities;
- asked why the Town Council were not applying for a Heritage Lottery Fund (HLF) grant. It was confirmed that there had been detailed discussion with Heritage Lottery Fund representatives, but those representatives would not commit at this stage, which was common practice. It was proposed that an application be made to the HLF specifically for the dungeons;
- commented that if the Committee was making a loan on a commercial basis, there would be the expectation of more detail and certainty, specifically around funding and future income. It was also suggested that applying for Trust status may open up more funding streams. The Chief

Finance Officer responded that this was not a commercial loan, which would indeed be much more stringent, but was the passporting of a loan. He was comfortable that the money would be repaid, and that the Town Council would not renege on the loan;

- noted that there was not a “do nothing” option, as the Castle represented an ongoing liability for the County Council, so if the Committee did not approve the proposal, the only option would be to sell on the open market;
- congratulated Councillor Hoy on developing and presenting the Business Case, and for her openness in saying that not everything could be predicted;
- asked why residential occupancy had been ruled out. It was confirmed by Councillors Hoy and Tierney that some residential usage may still be an option, but they were keen that it should be a community building first and foremost;
- supported the concept of local councils taking on responsibility for buildings in their area;
- noted that if in the event that the lessee fails to perform its responsibilities under the lease the landlord has the right to seek forfeiture.

It was resolved unanimously to:

- a) agree to lease Wisbech Castle to Wisbech Town Council at less than best consideration;
- b) agree the tenure length of that lease;
- c) delegate the agreement of the final Heads of Term to the Deputy Chief Executive in consultation with the Chairman of the Committee;
- d) agree the principle of the loan over a 25 year period.

24. COMMERCIAL ACQUISITIONS STRATEGY

The Committee considered a report which sought to establish the Committee's appetite for acquiring commercial assets as a mechanism for delivering financial returns. Those returns would be used to mitigate the financial challenges facing the Council and thereby reduce the impact on services provided to Cambridgeshire residents.

Officers explained that the Assets and Investment Committee had reviewed a few ad hoc investment opportunities over the previous twelve months. These

opportunities had consumed significant officer and Member time, and had ultimately not resulted in an acquisition. This was partly due to the lack of a framework by which to consider the proposals. Such a commercial framework with associated governance arrangements needed to be established in order for the Committee and officers to operate and discharge this area of their work. This framework would then need to be agreed by the General Purposes Committee.

The investments would be financed by borrowing from the Public Works Loan Board (PWLB) at much lower rates than those available to the commercial sector. If business growth was one of Members' key corporate objectives, this borrowing power could be used to invest in opportunities within the county. Ultimately, pursuing any such investment opportunities would result in further and significant indebtedness by the Council.

One of the problems was that rates of return were significantly lower in Cambridgeshire than elsewhere in the country, because the economy in the county was so buoyant, but this in turn pushed returns down, meaning that it may be necessary to consider investment opportunities outside the county. CHIC would be used as the investment vehicle to acquire and manage these investments.

In terms of governance, there were currently delegations to the Chief Finance Officer in consultation with the Chairman of Commercial and Investments Committee, up to £250K. It was proposed to establish a tiered decision making arrangement, with those individuals able to authorise Investment/Loan Values up to £10M.

Arising from the report:

- in response to a Member question, it was confirmed that the returns were definitely there to be had, as the market was buoyant. Whilst there would be market downturns, Members acknowledged that the benefits of investing in tangible assets, and noted that many organisations e.g. Cambridge colleges, had used property investments to safeguard their financial security, and many local authorities were going down this route;
- a Member observed that Section 13 of the Strategy explored the various risks involved, but the tiered decision making arrangements only referred to the loan values and not the degree of risk. She asked if there was a way of factoring in the level of risk e.g. comparatively low financial investments may have a higher degree of risk. Officers commented that once the principles had been agreed, they would be happy to tailor the governance arrangements in line with Member comments;

- it was suggested that the Committee could set up a Working Group to explore the Strategy further;
- a Member queried if venture capital had been considered. Members agreed that venture capital was high risk, and unlike property, there was no guarantee of an asset at the end of the process;
- a Member queried the relationship between commercial acquisitions and the budgeting process. It was confirmed that the borrowing costs would be included in the revenue budget, and these would be netted off against income projections. The idea was to develop a portfolio, along similar lines to the Energy Efficiency fund, where the fund could be used for property investment opportunities;
- a Member asked if there was an opportunity for joint working with other authorities locally, given that jointly authorities would have bigger sums to invest and could take advantage of greater purchasing power. Whilst this was a possibility, officers commented that sharing the risk also meant sharing the reward; moreover supply of funding was not an issue;
- a Member queried whether market saturation would be an issue, and commented that the Council's role was to provide services and respond to public need – this could be seen as a distraction to the real purpose of local government. The Chief Finance Officer commented that this type of investment was a means to an end, to support front line services;
- a Member commented that reputational risk also need to be taken into consideration, which was not referenced at all in the Strategy, and used the example of Estover playing fields in March: Members needed to explore the risk of being perceived to be a bad neighbour;
- a Member observed that by investing in or developing Care Homes, the Council could potentially benefit by saving costs, and asked if that type of investment would be considered. Officers advised that the Committee would be considering a business case on Care Homes at a future meeting, and that a lot of work was going on in that area, but that was not relevant to this particular aspect of the Committee's investment work;
- it was confirmed that the borrowing required for these acquisitions would impact on the prudential borrowing in the Treasury Strategy;

- it was noted that with many local authorities borrowing from the PWLB for the same reason, there was a risk that in future the PWLB would change its criteria for loans and this type of investment would no longer be feasible, therefore time was of the essence;
- it was confirmed that the costs of employing any consultants or new officers would have to be set against the returns;
- a Member commented that paragraph 8.2 of the strategy, detailing how returns would be generated, through using CHIC as a vehicle to develop the housing portfolio, was confusing, and it was agreed to reword this;
- it was agreed that the Working Group on the Commercial Acquisition Strategy would comprise Councillors Shellens, Whitehead, Raynes, Schumann and Hay.

It was resolved unanimously to:

- a) endorse the Strategy as set out in the appendix to the report, subject to the Working Group's approval;
- b) request that General Purposes Committee agree the proposed governance arrangements, following the findings of the Working Group.

25. RESOLUTION ON THE ARTICLES OF ASSOCIATION FOR CAMBRIDGESHIRE HOUSING AND INVESTMENT COMPANY LIMITED

The Committee considered a report which set out the revised Articles of Association for Cambridgeshire Housing and Investment Company (CHIC). Members were advised that these Articles had been the subject of considerable discussion between officers and the Executive Officer of CHIC. It was further noted that the Chief Finance Officer and the Monitoring Officer were also non-Executive Directors who sat on the CHIC Board.

Members were also reminded that the Articles would effectively become the constitution and *modus operandi* of CHIC, setting out how the company was run, governed and owned, and putting the company on a more commercial footing, rather than as a company controlled by a local authority.

In response to a question on any differences to usual commercial Articles, officers drew attention to Article 11 (Appointment of Independent Chairman) and the distinction between Executive and Non-Executive Directors. It was confirmed that there was a Non-Executive Director fee payable to the Chief

Finance Officer and Monitoring Officer, but that was payable to their employer, i.e. it was not a personal payment.

In response to a Member question, it was confirmed that the purpose of setting up CHIC was primarily to derive an income stream, partly through the margin on loans provided by the Council, and that providing key worker housing was not a main driver. Whilst schemes delivered by CHIC would provide affordable housing under the relevant planning laws, the company was primarily a commercial company, with profits as the main driver.

It was resolved unanimously to:

agree, as the Shareholder's representative, the Resolution to adopt the Articles of Association of the Company (as attached to the report) in substitution for and to the exclusion of the current Articles of Association.

26. DISPOSAL POLICY: LEASEHOLD AND FREEHOLD

The Committee considered a report which considered future policy approaches for whether disposals should be freehold or leasehold.

There was currently no formal policy position on whether disposals should be freehold or leasehold, or whether capital or revenue returns should be sought. Whilst most disposals by the County Council were freehold, the report set out examples of where the Council has opted for leasehold e.g. Estover Road playing field, Castle Court, and the rationale behind these decisions. The conclusion was that the current approach of determining the most appropriate method of disposal being made on a case by case basis should continue.

It was resolved unanimously that the most appropriate method of disposal for property assets should continue to be determined on a case by case basis.

With the Committee's agreement, the Chairwoman agreed to reorder the agenda to take the Finance and Performance Report and Agenda Plan before the CREATE report, as the latter report would be considered partly in public session and partly in private session.

27. FINANCE AND PERFORMANCE REPORT – JUNE 2017

The Committee considered a report on the financial and performance information relating to the areas within the Commercial and Investment Committee's remit. The Chief Finance Officer advised that there was little to

report currently, but gave advance notice that the baselined pipeline, sales opportunities would be coming to the Committee, and the phasing impact on financial modelling undertaken 18 months ago would be reported to the next meeting.

It was noted that the £112M identified in the 2017/18 Capital Programme revised budget for Housing Schemes, the majority would be pushed back due to various planning issues, and would be backloaded in financial year.

It was resolved unanimously to review, note and comment on the report.

28. COMMITTEE AGENDA PLAN

Members considered the forward agenda plan for Commercial & Investment Committee. It was noted that the dates for reports on schemes identified in the Programme Highlight Report to be considered at Committee would be added to the Agenda Plan. **Action required.**

It was noted that the Audit & Accounts Committee had recently received a report which stated that considerable tracts of land – up to 350 hectares – which had been purchased for highway use between the 1930s and 1990s was not being used in the current highways extent. Some of these parcels of land were quite significant and could present additional sale or development opportunities. Officers confirmed that this issue was being actively progressed.

It was resolved unanimously to note the agenda plan.

29. CREATE UPDATE REPORT

The Committee considered a report on the proposal to convert a Council-owned community arts building in North Cambridge into a state-of-the-art National Centre for Research and Engagement in Arts, Technology and Education (CREATE). Officers apologised for the late publication of the report, and it was noted that the Chairman had indicated at the time of publication that he was willing to accept the report on the following grounds:

1. Reason for Lateness: The report had only just been finalised and signed off for publication.
2. Reason for Urgency: Decision required from the Committee given timescales.

It was noted that the Children and Young People (CYP) Committee had already given its approval in principle to the proposal, but that General Purposes Committee had requested that Commercial and Investment Committee consider the proposal from its perspective.

It was confirmed that the majority of finance for the project was already in place and it would be advantageous to release the site as soon as possible.

A number of Members commented that the project had strong support from the CYP Committee, for the reasons set out in the report. Given the pressures on the arts sector generally over the last few years, it would be imprudent to miss this opportunity.

A Member queried the sequencing between the hiatus in progressing the project and the search for commercial contributions, sponsorship, etc. Officers confirmed that the whole scheme had been paused whilst clarity was sought on site issues, because it was difficult to secure financial contributions from sponsors when the site issues were unresolved. Whilst strong expressions of interest had been given by various partners, no firm commitment to sponsorship had been given. However, partners acknowledged that as a County Council scheme, it was essentially “low risk”, especially given the goodwill of all involved.

A Member queried the work with media partners. It was noted that the BBC may be supporting the project in terms on the technical and skills side.

It was noted that the feasibility study would take up to a year, and the costings included an inflationary element for that period, and some slippage had also been included.

The Committee agreed to move into private session to consider some commercially sensitive information relating to the CREATE project.

30. EXCLUSION OF PRESS AND PUBLIC

It was resolved unanimously that the press and public be excluded from the meeting during the consideration of the following reports on the grounds that it is likely to involve the disclosure of exempt information under paragraph 3 of Schedule 12A of the Local Government Act 1972 as it refers to information relating to the financial or business affairs of any particular person (including the authority holding that information) and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

It was resolved unanimously to:

- a) agree the continuation to the next phase of development, funded by the Arts Council of England's Stage 1 grant to secure remaining funding, carry out design and pre-planning application discussions to establish deliverability and further community and stakeholder engagement;
- b) as a priority, explore with other parties the options for a joint venture to develop a community arts facility as part of a mixed use development on site;
- c) agree that the Shire Hall Working Group plus the Local Member be involved in the project sponsor role, as requested by General Purposes Committee in March 2017;
- d) request that a further update on the project's progress be presented to the Commercial & Investment Committee in September 2017.

31. PROGRAMME HIGHLIGHT REPORT

Members considered a schedule of the development programme, plus a report on Milton Road Library redevelopment.

It was resolved unanimously to approve a Letter of Intent for Stage 2 investigation and design work expenditure relating to the redevelopment of Milton Road Library by Cambridgeshire Housing & Investment Company should the Council not proceed with the sale to them.

Chairman