

COMMERCIAL AND INVESTMENT COMMITTEE: MINUTES

Date: Friday 15th December 2017

Venue: Room 128, Shire Hall, Cambridge

Time: 10.00am – 12.40pm

Present: Councillors J Gowing (substituting for Cllr Bates), A Hay (Vice-Chairwoman), D Jenkins, L Jones, L Nethsingha, P Raynes, T Rogers, J Schumann (Chairman), M Shellens and T Wotherspoon

Apologies: Councillor I Bates (Councillor Gowing substituting)

63. DECLARATIONS OF INTEREST

There were no declarations of interest.

64. MINUTES AND ACTION LOG OF THE ASSETS AND INVESTMENT COMMITTEE HELD 24TH NOVEMBER 2017

The Committee resolved to approve the minutes of the Committee meeting held on 24th November 2017.

Members noted updates in the Action Log, against the following items:

86 and 60: Finance and Performance Report – The Chairman thanked Ellie for the recent workshop, and Members noted that the revised Finance and Performance report would be presented to the January Committee.

51(1): Report showing County Council assets by electoral division – Officers advised that an agency had been engaged but due to the Christmas period it was suggested that the process to appoint an individual be restarted in January. The format of the report had been discussed with the Chairman.

55(2): Workshop on reporting back from CHIC – the proposed date for this workshop would be circulated before Christmas. The Workshop would include a number of areas of activities including the relaunch and rebranding of CHIC, and the reporting back process. **Action required.**

58(3): ESPO business case – this had been circulated, with a request for comments by 08/12/17. No comments had been received so the establishment of the new trading company had been given approval.

59: Breakdown of £184M housing schemes – this had been circulated to the Committee by email on 14/12/17.

61(1) and 62(2): Covering report for the Programme Highlight Report, and the Training Plan, would be provided for the January meeting.

It was resolved to note the Action Log.

65. PROPOSED USE OF HILL RISE

A report was presented detailing the proposed refurbishment of Hill Rise, Huntingdon, to relocate the current “No Wrong Door” model offer in Cambridgeshire, and move from the current site in Wisbech.

Officers outlined the wide-ranging transformational way of working with young people who are either at risk of being looked after, are already looked after or are care leavers. Part of this ‘Hub’ model is to provide services wrapping around residential children’s home provision. For a variety of reasons it was desirable to relocate this service from Wisbech to Hill Rise in Huntingdon. The current provision was located in a Victorian villa in Wisbech, and whilst attractive, it was very prone to damage and difficult to repair, with a layout that was not suitable for young people with complex needs. The location also gave rise to a number of pressures, including other children’s homes (not County Council) in that area, which put pressure on Police colleagues. Having reviewed options and undertaken a feasibility study of costs, Hill Rise emerged as the only real option.

Arising from the report:

- A Member expressed concern that the Committee was being asked to agree a decision which was outside their remit, i.e. the suitability of a particular site for Looked After Children, which should be a decision for the CYP Committee. The Chairman confirmed that the proposal had been reviewed by the CYP Committee, and reassurances given that from the perspective of professionals in that arena that this was the right thing to do. However, ultimately the Commercial and Investment Committee was responsible for assets and the change of use of assets. It was further noted that the proposal was that if the Children’s Home moved to Hill Rise, the Victoria Road building would be retained within the People and Communities portfolio for use as smaller move-on provision for older children or young adults;

- A Member commented that this report (and Committee reports more generally) should make it clear what other options were considered, so that Members could understand why the proposal was the most cost effective option available. The Deputy Chief Executive confirmed that this matter has been considered in detail by the Strategic Property Asset Board. He stressed that the Commercial and Investment Committee was responsible for the assets of the organisation, and if Members did not feel that this was the right use of that asset, it was within its gift to refuse the proposal, and charge officers with finding an alternative. He added that it was important that as an organisation, the Council maximises the use of its assets. The Chairman echoed these comments, adding that in the past there had not always been a strategic view of all the Council's assets. He added that there had sometimes been a presumption within some teams that because they used an asset, it was theirs. The new approach would emphasise that assets were corporately owned, and the best use of assets should take into consideration land values, service outcomes, etc;
- Councillor Shellens noted that Hill Rise was within his division, and he was disappointed that he had not been consulted. Officers apologised for this oversight;
- Following on from earlier comments, another Member raised issues on the way information was presented to Committees. Noting the statement that *"the Children and Young People's Committee is fully appraised of the Hub development"* it was pointed out that it did not stipulate whether that Committee was endorsing or recommending the proposal. Moreover, there was no specific business case for the future use of Victoria Road, other than *"...the Victoria Road building would be retained with the People and Communities portfolio for use as smaller move-on provision for older children or young adults"*;
- A Member commented that the report went into too much detail on costs. There was a discussion on the level of detail required, with officers pointing out that different Members asked for differing levels of information;
- In response to a question on sprinklers, it was confirmed that the Council had carried out a full review of its properties following Grenfell, and reported back through the General Purposes Committee. Sprinklers were not fitted in two level buildings, with the government guidelines specifying five floors or more. The Member commented that it would have been interesting to see what the cost would have been. It was agreed that this policy issue could be discussed outside the meeting;

- It was confirmed that the £169K to be invested was from the Council's capital programme, which was a corporate budget focused on property related investment;
- It was suggested that a report could be provided to a future meeting on the future of Victoria Road.

It was resolved, by a majority, to:

- 1) Agree to the move from the current site at Victoria Road, Wisbech, and renovations to the Hill Rise property at a cost of £169,000.

66. PORTFOLIO SALE OF SITES

The Committee received a report proposing the sale of a number of land and property assets to the Council's wholly owned development company, Cambridgeshire Housing and Investment Company (CHIC) in a single sale process, known as the 'portfolio'.

Members were reminded that the Committee had previously agreed that the financial model to be adopted would involve the Council making loans to CHIC at commercial rates, in order to provide the funding to allow that company to purchase land from the Council and to finance the costs for construction. The report went on to set out that the Council must (i) realise best value in the disposal of any asset, even if it was to a company wholly owned by the Council, (ii) such valuation needed to be based on "Red Book" Valuations; and (iii) those Red Book valuations would be based on current use which would include an element of hope value, given a number of sites would be acquired by CHIC without planning approval.

Technical advice had been sought on a number of areas surrounding the proposed portfolio sale approach. The advice provided was that the arms length relationship should be maintained, which was important to avoid state aid and procurement issues, and key to that relationship would be selling at market value. The interest rate needed to be competitive and based on the company's credit history, which was challenging as CHIC was a new company. The valuation approach had been considered and approved by the Commercial and Investment Committee in June 2017. A valuer had been appointed through a competitive tender process, and they would be reporting to CHIC and Legal as they become available i.e. not presented as a whole at the end of March.

Officers stressed that the key reason for taking a portfolio sale approach, rather than agreeing individual transfers, was that the process of sale of sites to CHIC had been slower than originally anticipated. The portfolio sale would speed up the process so that returns could be fully realised in 2018/19 and used on front line services.

It was clarified that the Deputy Section 151 Officer, Tom Kelly, would be reporting to and advising the Committee on matters relating to CHIC, as the Section 151 Officer, Chris Malyon, sat on the Board of CHIC, and therefore it was important to try and disaggregate the role from the company. The Section 151 Officer and Monitoring Officer had had discussions about future member engagement with the CHIC Board, and the importance of maintaining separation from the Council in terms of operation of the business, whilst identifying a way that would keep the company very visible to members.

The Chairman and Councillor Shellens proposed the following additions (in bold) to the recommendations:

- 1) *To authorise, **in principle**, a loan facility to Cambridgeshire Housing and Investment Company for up to £120,000,000, **at a commercial rate**, for land acquisition, construct and associated costs;*
- 2) *To delegate the negotiation of the final terms of the sale and loan agreement to the deputy Section 151 Officer in consultation with the Chairman of the Committee, including the repayment and interest charging arrangements, **and that the outcome of any further negotiations will be brought back to Committee.***

Arising from the report:

- A Member observed that as CHIC would be operating at arms' length, Members would not know what it was doing, how it was running its business, etc. The Chairman reminded Members that it had been agreed that a workshop would take place with CHIC, exploring these issues, and in particular how it would report in future to the Committee. It was also noted that as a shareholder, the Council had rights to reports, and as a bare minimum it was a regulatory requirement for the company to hold an Annual General Meeting. It was further noted that whilst the Portfolio Sale approach primarily benefitted the Council, it would also be of benefit to CHIC, enabling them to progress applications, etc;
- A Member commented that whilst agreeing with the proposals in principle, there was an inherent risk with a delegating responsibility for such a significant loan to one individual. Additionally, whilst some of the loan was secured on property, other elements were effectively unsecured and

higher risk e.g. development cost and equity. Other Members agreed that the report lacked sufficient information on the risks involved e.g. if the property market sinks, and whilst the delegation was proposed, it did not absolved the Committee of its responsibilities. She was assured with the proposed amendment to the report to bring back a further report before the decision was made. It was also agreed that the Local Member Engagement Protocol, referenced in paragraph 6.6, would be circulated to Committee. **Action required;**

- Another Member commented on the risk implications, and said that whilst recognising the potential benefits of the arrangement to the Council's revenue stream, she had concerns that this would put enormous pressure on CHIC, and questioned whether it would be able to deliver longer term;
- There was a discussion on the interest rate charged to CHIC, which was a fine balance: the Council had to ensure that it gets a reasonable return for its investment and risk exposure, but this needs to be balanced against CHIC's business plan and financial model. Members were reassured that the financial model was viable. There were also tax implications and state aid considerations, i.e. the Council cannot subsidise a private company. These issues would further be explored at the workshop around the CHIC business plan;
- It was agreed that the next report setting out the proposed delegated negotiations would be presented to the February Committee;
- With regard to risk issues, officers said that whilst not playing down the risks involved, it was important to understand that this was not a £120M *cash* loan. Rather it was transferring assets to the ownership of a wholly owned company, and financing this, in cash terms, through the capital receipt created by the transfer. This therefore minimised any external cash exposure. Whilst acknowledging this point, one Member commented that she was still not completely reassured, and the planned workshop would be vital for Members: she asked that the proposed date for this workshop be circulated as soon as possible. **Action required.** Officers cautioned that they had not anticipated including anything specific on the portfolio sale at that workshop. Another Member commented that it was really helpful to clarify that it would not be a 'cash' loan, but the situation was still not straightforward, and Members' concerns on risk exposure were still valid.

It was resolved, by a majority, to:

- a) authorise, in principle, a loan facility to Cambridgeshire Housing and Investment Company for up to £120,000,000, at a commercial rate, for land acquisition, construct and associated costs;
- b) delegate the negotiation of the final terms of the sale and loan agreement to the deputy Section 151 Officers in consultation with the Chairman of the Committee, including the repayment and interest charging arrangements, and the outcome of any further negotiations will be brought back to Committee.

67. PROCESS FOR DECLARING ASSETS SURPLUS TO REQUIREMENTS

Members considered a report reviewing the governance process around the decision taken at the last meeting to dispose of St Luke's Barn, and to assess the effectiveness of the current processes when considering assets deemed surplus to requirements.

With regard to statements made at previous Committee meetings regarding the CREATE project, the Section 151 Officer advised that he sought to clarify the suggestion that an instruction had been issued to officers to not progress on seeking further financial sponsorship. It had since been established that this claim related to an email that he had sent officers involved that had been misinterpreted, i.e. he had requested specific actions relating to the project be stopped, and it had been interpreted as stopping all actions relating to the project.

Officers explained that as discussed under the Hill Rise report, there were cultural issues that needed to be addressed within the Council about the ownership of assets. There has been a process within the Council for declaring assets surplus to requirements, but that protocol needs to be reviewed, to provide a stronger landlord/tenant relationship, and challenging the use of assets across the portfolio. The report highlighted the failings in the current system, and the need for a more holistic review, enabling officers to come back with a more robust approach, taking in to account the Committee's role.

A number of Members praised officers for presenting such a good report, and the welcomed the review, which would clarify the process and role of the Committee. One Member suggested that his favoured approach would be charging a notional rent. Another Member commented that key to this would be how the Commercial and Investment Committee's role would be squared against the relevant Service Committee's strategies.

It was resolved unanimously to:

1. Comment on the contents of the report;
2. Request officers to undertake a review of the current process for 'declaring assets surplus to requirements' and to propose a revised scheme for the Committee's approval by the end of the current financial year.

68. COMMERCIAL AND INVESTMENT COMMITTEE REVENUE AND CAPITAL BUSINESS PLANNING PROPOSALS FOR 2018-19 TO 2022-23

The Committee considered a report which gave an overview of the draft Business Plan revenue and capital proposals for services that were within the remit of the Commercial and Investment Committee. Members noted the material changes that had been made since the Committee had considered the Business Plan report in October. The Business Plan was being predicated on a 2% Adult Social Care precept increase for the period that government had announced that this was available. The actual grant settlement should be announced week commencing 18/12/17. The numbers had also been drafted prior to the adjustment in the local government pay cap, the additional pressure (increase from 1% to 2%) was not included. The Council was also bidding to be included in the Business Rates retention pilot.

Arising from the report:

- Members discussed the budget gap and what was being done to manage these pressures, and how the general reserve would pick up any shortfall, but that this in turn would cause an additional pressure going forward;
- One Member observed that politically, this resulted from the majority party's insistence on limiting the Council Tax increase to 2% Adult Social Care precept.

Turning to individual business cases:

- Members discussed pressures on the County Farms budget, including Brexit. It was suggested that the County Farms Working Group may look at the impact of Brexit. Councillor Jones commented that despite becoming a Member of this Working Group she had only been invited to one meeting to date. **Action required;**

- Commercial Investment Strategy – a Member commented that there appeared to be no reference to the risks of timeframes slipping or escalating costs. Officers confirmed that there was no risk register specifically for this, but the corporate risk register does pick up the risks associated with the Business Plan, albeit not to the level of individual projects;
- External funding – in response to a Member question, it was confirmed that the proposed Cambridgeshire Lottery would be managed by an external lottery manager. The cash flow would be retained by the external lottery manager, but voluntary organisations that wish to sign up as beneficiaries of the lottery would be authorised internally by the Council, to maintain control. Furthermore, the Council would be able to select beneficiaries for the Central Fund which can offset our own existing grants. It was agreed to provide further information to Councillor Raynes on the proposed operation of the Lottery and update the business case. **Action required.** It was suggested that this could be a full item at a future meeting. In response to a further question, officers commented that as with a number of other proposals, the Council does not currently have the capacity or skills for the Lottery, but individuals would be recruited to attract the external income this and other projects would generate, and the funding for these posts would come from the Transformation Fund. The General Purposes Committee was trying to bring forward some pump priming for these type of projects. How those individuals might be employed e.g. on a contract was discussed;
- With regard to Shire Hall maintenance, it was confirmed that this would only be required for as long as Shire Hall continued to be occupied;
- A Member expressed concern on all of business cases, as she felt they were based on unrealistic figures, and the Commercial and Investment Committee had an impact on all the other Committees. She also felt that by sticking to a 2% Council Tax increase in recent years, the Council was now trying to plug a gap that it did not need to have.

It was resolved, by a majority, to:

- a) note the overview and context provided for the 2018/19 to 2022/23 Business Plan revenue proposals for the Service, updated since the last report to the Committee in October;
- b) comment on the draft revenue savings proposals that are within the remit of the Commercial and Investment Committee for 2018/19 to 2022/23, and endorse them to the General Purposes Committee as part of consideration for the Council's overall Business Plan;

- c) comment on the changes to the capital programme that are within the remit of the Commercial and Investment Committee and endorse them to the General Purposes Committee as part of consideration for the Council's overall Business Plan.

69. FINANCE AND PERFORMANCE REPORT – OCTOBER 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 report included a specific request for a loan facility of up to £2.040M to CHIC. This was different to the portfolio sale discussed in a previous report, and related to a parcel of land that CHIC wanted to purchase from a third party. The business case for the proposal had been reviewed and stacked up reasonably well, and the loan would be secured against the land.

A Member commented that he was nervous about delegating to officers the negotiation of detailed terms, as this ought to be the responsibility of the Committee. It was noted that there were sensitive timescales involved, and having to wait for a Committee date could mean that the purchase could not be progressed. It was further noted that the majority of the terms were set out in the report i.e. the value of the loan, the length of the loan (3.5 years), with the only key remaining factor was the interest rate, which would be determined largely by the draw down date.

A Member alluded to the proposed development being in Abbey Division, and asked whether the Local Member was aware of the proposal? Officers commented that currently CHIC was only looking at acquiring the land. There was a discussion on the degree of involvement of Committee Members in the business plans behind such proposals, and the need for sufficient information to be provided to Members, to enable them to come to a reasoned decision when making such loans.

With regard to the main part of the report, the Chairman advised that because the Committee had taken on additional liabilities, the financial position had changed, although the extent of the liability had reduced.

In response to a question on the forecast variance for *Traded Services to Schools and Parents*, it was noted that this was a specific issue on equipment reserves, where the reserve was more than was required, so this was essentially part of good financial management.

It was resolved unanimously to:

- a) review, note and comment on the report;
- b) approve a loan facility at a competitive market rate to Cambridgeshire Housing & Investment Company, of up to £2.040M, for the scheme set out in Section 3 of the report, authorising the Deputy Section 151 Officer to agree detailed terms in consultation with the Chairman of the Committee.

70. PROGRAMME HIGHLIGHT REPORT

The Committee considered the Programme Highlight Report.

Members received updates on the following schemes:

- Russell Street (Cambridge);
- Guilden Morden - being recommended for refusal;
- Papworth Everard – CHIC were having discussions with planners about the number of houses on site. The Parish Council was interested in buying this site;
- East Barnwell – the planning submission date moved;
- Soham Eastern gateway application had been withdrawn to allow further public consultation following concerns raised on access into the town. It was noted that there had been no further public consultation, which had resulted in cynicism among some stakeholders. Officers agreed to check with CHIC colleagues. **Action required;**
- The Cottenham planning application which had initially been refused had been resubmitted. Hopeful have committee date early next year, had meeting with Parish Council about terms;
- The Litlington application would be going to Committee on 10/01/18.

A Member was pleased to see the indicative number of units included as a total at the top of page. It was confirmed that ten units should be deducted (Ramsey St Mary). **Action required.**

It was resolved to:

note the Programme Highlight report.

71. COMMITTEE AGENDA PLAN AND APPOINTMENTS TO OUTSIDE BODIES

Members considered the forward agenda plan for Commercial & Investment Committee. A Member suggested that standing items on the agenda plan should just be listed in the header. **Action required.**

Nominations were sought for both the Adult Accommodation and Cambridgeshire Music Member Reference Groups.

It was resolved to:

- (i) Note the Agenda Plan, including the updates provided orally at the meeting;
- (ii) Appoint Councillor Rogers to the Adult Accommodation Member Reference Group;
- (iii) Appoint Councillors Jenkins, Raynes and Schumann to the Cambridgeshire Music Members' Reference Group.

72. SMART ENERGY GRID – BUSINESS CASE AND EUROPEAN REGIONAL DEVELOPMENT FUND UPDATE

Members were reminded that following Committee approval in September 2016, the Council received approval for its outline application for European Regional Development Fund Grant (ERDF) in November 2016 for a Smart Energy Grid Project at the St Ives Park and Ride site. A full application was subsequently prepared and submitted to the Department for Communities and Local Government (DCLG) in March 2017.

In discussion with DCLG in October 2017, a timetable to secure ERDF funding has been agreed for February 2018. An updated business case and agreement that the Council would match fund the project was required. This revised business case reflected the changes and opportunities arising on the project during the last year, and the key changes were outlined. It was now estimated that a better Internal Rate of Return (IRR) and Net Present Value (NPV) would be achieved over 25 years than previously estimated.

Members noted how the project would work and its importance as a demonstrator project, enabling the Council to test new technologies and control mechanisms, and learn how to sell energy directly, i.e. it was not primarily intended as a commercial project.

A Member commented that whilst he was very supportive of the project in principle, he asked whether the recommendation for delegated decision making was required. Officers outlined the key challenges, including the complex negotiations on electricity sales with customers, and how it would be

difficult to have brought a report to members whilst they were still in the process of trying to agree commercial deals. Moreover, the discussions were further complicated in that DCLG was currently assessing the submission to determine eligibility for 50% state aid intervention: there was a risk that the state aid intensity could be reduced which would mean that the commercial deal would need to change to reflect the investment parameters agreed by members as part of this report. Due to the fluid nature of these discussions and that any deal would be within the investment parameters agreed by committee, a delegation was seen as the most appropriate way forward.

In response to a Member question, it was confirmed that the NPV was calculated on cashflows. The discount rate had changed slightly, due to increases in interest rates over the last year.

It was resolved unanimously to:

1. Approve an additional £362,453.50 investment by the Council towards the updated business case as summarised in section 2.2 of the report for the extended Smart Energy Grid project;
2. Approve the Council's overall commitment of 50% match funding for the Smart Energy Grid to draw down the ERDF grant;
3. Delegate to the Chief Finance Officer in consultation with the Chairman of Commercial and Investment Committee, the detailed negotiations and contracting with all parties involved to ensure the overall parameters of the business case, agreed in section 2.2 of the report, can be brought together and closed.

73. EXCLUSION OF PRESS AND PUBLIC

On being put to the vote it was resolved, by a majority, 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.

(Councillor Nethsingha left the meeting)

74. COUNTY COUNCIL HEADQUARTERS AND LOCAL SERVICE DELIVERY MODEL

The Committee considered a report on County Council Headquarters and Local Service Delivery Model.

It was resolved, by a majority, to:

1. Note the contents of the report and associated business case;
2. Approve that the option of 'do nothing' be rejected;
3. Agree to commence the next phase of the project to include the development of a detailed financial assessment of the revenue and capital implications of moving to a hub and spoke model;
4. Authorise the Deputy Chief Executive to enter commercial negotiations with landowners of the two sites evaluated within the business case;
5. Agree to retaining the historical and archaeological significance of the Shire Hall site as a condition of the new use;
6. Request a further report to come to the Committee in the next financial quarter setting out the outcome of those negotiations before a final commitment is made.