ASSETS AND INVESTMENT COMMITTEE: MINUTES

Date: Friday 22nd July 2016

Venue: Wisbech Castle

Time: 10.05am – 12.20pm

Present: Councillors Boden, Bullen (Vice Chairman), Dent, Harford, Hickford (Chairman), Jenkins and Sales

Apologies: None

A Member suggested that as the Committee had had the opportunity to tour Wisbech Castle immediately before the meeting, that the Wisbech Castle item be deferred. Due to the significance of the site, more work was needed, and the input of the community and Town Council sought. It was also noted that 2016 was the 200th anniversary of the current Castle building, and it was suggested that the Communications team should do something to promote this.

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES OF ASSETS AND INVESTMENT COMMITTEE HELD 24TH JUNE 2016

The Committee resolved to approve the minutes of the Assets and Investment Committee held 24th June 2016.

21. SECOND REVIEW OF INVESTMENT PRIINCIPLES FOR ENERGY PROJECTS

Members received a report proposing a review of the set of investment principles and level of investment agreed at the General Purposes Committee (GPC) on 19th May 2015 for the Local Authority Fund investments into Energy Projects.

At the September 2014 GPC meeting, a set of principles was established for energy investments and a delegated decision process to facilitate investment on individual energy projects. This was reviewed by GPC in May 2015, and a further review was now proposed. The investment projects relate to schools, other County Council buildings and sites. The intention was to set out principles so that the Committee did not have to consider every individual project, if the project met the principles. There had been further reductions in Feed In Tariffs for renewable/low carbon schemes, but also new incentives for Renewable Heat which may be worth exploring. One major impact was that solar PV no longer attracts finance incentives at the level that can make a significant contribution to help offset costs for new boiler for schools. This means there are some projects with boilers which can not be delivered within the payback period agreed with Members and an extension to this payback for such schemes needs to be extended if new boilers for schools are to be facilitated.

The officer explained that the current schools and County Council buildings programme, combined with the St Ives Park and Ride Smart Energy Grids Project would exceed the current loan facility of £10 million. As more projects were planned, an increase to £20 million was sought. Some of the larger projects brought a whole range of other issues e.g. insurance, risk, planning and programming.

Arising from the report, individual Members raised the following points:

- queried the assumption that where a school boiler needed replacing, it would replaced with another boiler – why were ground source heat pumps not being considered as an alternative? The officer confirmed that they were looking at new technologies;

- asked why this was coming to Committee asking for just £10million additional loan facility when some of the bigger projects would need a lot more investment? The officer explained that the focus of the additional £10M was to facilitate the current project pipeline of a whole range of smaller projects, which still needed to be kept moving through the system and which required the delegated decision making process. To bring forward the larger projects, a broader debate was required as to how to facilitate these including setting investment return limits and other parameters that the business cases would need to deliver and how investment principles could apply to these larger projects. Once finalised this would form the strategy going forward and be included in the Constitution;

- commented that investment and funding decisions appeared to be getting confused. The decision to invest was the main issue – once that had been agreed, funding was a secondary consideration. The Member suggested that decisions to invest in smaller schemes e.g. less than £1M should be delegated on the basis of a set of agreed principles. Projects over that amount should be brought to Committee;

- expressed some concerns about the acceptability of the methodologies used for payback periods. The Member suggested that in practical terms, it was very difficult to give any degree of assurance on payback schemes, especially as there would be significant changes taking place, both economically and technologically, over the periods in question. He further suggested that it was acceptable if the payback calculations were being used to differentiate between competing schemes, but not if it was being suggested that were being used to provide some sort of external validity. The officer explained that the service provider gave a guarantee on energy savings reduction i.e. these were engineer designed schemes and they were held to account over energy savings. There was clearly a challenge to predict future energy costs. The predicted energy costs used in the business case are based on the former Department for Energy and Climate Change (DECC) website. It was also explained that the benefits of the scheme were shared with schools and it was important for school to see positive cashflow from day one. The loan and fees charged by CCC were structured in the business case to facilitate this. It was agreed that the business case documents dealing with this process would be emailed to the Committee, and that the Finance Officer would also be happy to answer any detailed questions from Members. **Action required.**

- suggested that an entirely new approach was needed, especially given the reduction in government incentives. The Member suggested a more business like arrangement needed to be adopted to secure greater returns. The Member also expressed concern about the £2.3M investment in the St Ives Park & Ride project and asked whether there were customers for this electricity. The officer explained that customers had already expressed interest in being involved in the St Ives project, and she gave further details on how it would work as a demonstrator project to find solutions to connecting to the grid. Members are aware that the local grid network is at capacity at this is a significant constraint on green growth. Whilst accepting that the Council had responsibility for maintained schools, he queried why this was extended to Academies. It was noted that there were no loans to Academies, as they were funded directly by central government, and they were instead charged as part of a Managed Service Arrangement. This had a benefit to the academy and the se in that less money was being spent on energy, and more on education and that CCC benefits through charging for the energy reductions service

- noted that the total return to the team from schools investments was quite small which covered the team costs with a small surplus. It was agreed that the detailed financial figures would be provided to the Committee. **Action required.** Some Members commented that it was important for the Committee to know exactly what the team was bringing in i.e. in terms of non-financial benefits/added value, given the small return and opportunity cost of investing that funding elsewhere, as these type of services could be provided by other organisations;

Whilst not wanting to delay current projects and those in the pipeline, Members felt that a more fundamental review of this work was needed to provide Committee with the detailed financial understanding of investments and how this needs to be reported to committee. Concerns were expressed about the low return from the team and the position on Academies. The Chairman suggested that the Committee accepts the recommendations as presented in the report for the short term, but on the proviso that a more in depth review was required between the Committee and the Chairman of the General Purposes Committee to agree the longer term approach.

In response to a question as to when the additional £10M needed to be in place, the officer confirmed that this needed to be in place by March 2017, by which point new projects would be contracted.

Councillor Bullen proposed an amendment as follows:
(f) that a minimum floor be put on future projects e.g. at least a 3% return.

This amendment was seconded by Councillor Dent, but on being put to the vote was lost.

Other Members agreed broadly that a floor needed to be put on the return on future projects, but that a wider discussion on the team’s work needed to be had on future strategy. A Member also pointed out that the remit of the Committee was to maximise returns on the County’s assets.

The Chairman concluded that the report recommendations should be put to the vote, with the proviso that the Committee seek a meeting with the Chairman of GPC to discuss concerns and thoughts as soon as possible. It was clarified that the Chairman of GPC was suggested, because although Assets & Investment Committee had the required powers on this matter, this matter had broader implications which touched on other Committees, so a debate with the chairman of GPC was needed, as that is the umbrella for all other Committees, in the first instance.

It was resolved, by a majority, on the condition that the Committee sought a meeting with the Chairman of General Purposes Committee to discuss Members' thoughts and issues as soon as possible:

a) that the existing delegated authority to provide loan funding for individual projects for schools and County Council assets is updated to reflect Assets and Investment Committee's role in decisions and the delegated loan facility is extended from £10m to £20m to facilitate the next phase of projects in Appendix B&C.

b) to extend the payback period for smaller projects on schools and CCC assets from 15 to 20 years.

c) to extend project payback from 15 to 25 years for larger energy projects in line with the Authority's other infrastructure projects and to set development budgets in advance which are repaid through project delivery including sale of energy to local consumers.

d) to support funding of demonstrator projects which can provide wider economic and policy benefits provided they are managed within the energy investment principles and supplemented by grants where possible to manage financial risk.

e) that officers develop a corporate energy strategy to coordinate, unlock and manage larger energy projects from across CCC assets including proposals to facilitate the generation and selling of energy to local consumers, for decision by Members.

22. MANAGING AFFORDABLE HOUSING WITHIN THE PROPERTY PORTFOLIO

The Committee considered a report on possible property management approaches where the Council, or its Development Company, intended to retain ownership of allocations for affordable housing under Section 106 Agreements for housing development of Council owned sites. Such management was a specialist area i.e. managing tenants, allocations and buildings, and was usually managed by a registered provider.

The report set out three options for managing social housing:

1. Not to register as a Registered Provider of Social Housing (RP) and hold Social Housing managed from within existing resources in Strategic Assets, or the Company;
2. To register as an RP and manage from within Strategic Assets or the Company;
3. To employ a Local Housing Authority or an RP to manage retained Social Housing.

Option (3) was the officers' recommended option.

Councillor Harford declared a non-prejudicial interest as a South Cambridgeshire District Council (SCDC) Member in relation to this item, specifically the proposal at (3) above (SCDC being a Local Housing Authority).

It was noted that in the early stage, there may only be a few units to be managed. It was suggested that the arrangement be reviewed once the social housing portfolio reached a certain size – the key would be establishing when it would become economically viable not to outsource. It was also noted that securing a Registered Provider was not always an easy process, so this needed to be addressed at an early stage.

It was noted that in terms of nomenclature, the correct term was social housing, as opposed to affordable housing, and Members urged officers to be accurate and consistent so as not to leave the Council open to legal challenge. It was also agreed that the contract with the Registered Provider should specify that the Council or Company retained the right to review or cancel arrangements under specific circumstances. The Committee agreed unanimously that the following text should be added to recommendation (b): *"…on terms and conditions to be delegated to the Chief Finance Officer in consultation with the Chairman of Assets & Investment Committee, and reviews the position after an appropriate period of operation."*

A Member observed that the risk of Right To Buy (RTB) was not explored in the report, and Members asked for a report back to a future meeting on RTB, to cover current legislation and future risks.

It was resolved unanimously to:

a) the Council, or its Development Company, does not become a Registered Provider of Social Housing;

b) the Council, or its Development Company uses the services of a Local Housing Authority or an existing Registered Provider to provide a full management service for any Social Housing in its ownership on terms and conditions to be delegated to the Chief Finance Officer in consultation with the Chairman of Assets & Investment Committee, and reviews the position after an appropriate period of operation.

23. DEVELOPMENT OF AN ACQUISITIONS AND INVESTMENT STRATEGY

Members considered a report on the development of a Property Acquisition and Investment policy.

Members were reminded that they had had discussions about developing this Strategy at their June Committee meeting, including the lack of specific resources and skills within the Council to progress such a strategy. The report sought Members' views and briefly outlined the rationale for an acquisition policy and the resources required.

In discussion, Members welcomed the direction of travel, and individual Members:

- suggested that the Farm Estates should be considered separately to other investments;

- suggested that more detail was required on the rate of return and discount factor to be used;

- stressed the importance of a consistent policy e.g. an acquisitions policy to top up estates;
- stressed the importance of being proactive rather than reactive in terms of what opportunities were available;

- commented that the statements in the report that *"properties acquired under the Policy should be managed solely for financial investment returns"* and *"investment property is acquired and managed through a Special Purpose Vehicle"* were absolutely fundamental to the Strategy;

- suggested that there needed to be some reference to the IPD and what had already been done, and acknowledge that such a venture would be established in competition to commercial businesses with large reservoirs of funds and skilled individuals;

- observed that the Council was at an advantage of having a significant landbank within the county, and there may be leverage opportunities on the basis of that;

- commented that there was a danger of creating something with a lot of debt, and care needed to be taken when looking at principal repayments, and also tax implications (stamp duty, land tax, and potentially CGT and Corporation Tax liabilities);

- commented that specialist agents/consultants needed to be appointed in-house;

- noted that the Investment Review group had agreed in principle that sales income would be reinvested, to make sure there was not a shrinking portfolio.

The Chairman advised that he was setting up a meeting with officers and the Chief Finance Officer in August to review this, and he would extend this invitation to Members, if they were available. **ACTION: Councillor Hickford.**

It was resolved to:

a) agree that a Property Acquisition and Investment Policy should be adopted on the basis set out in the report;

b) a report be brought to a future for a Key Decision to approve delegation arrangements for authorising individual transactions.

24. COMMITTEE AGENDA PLAN

The Committee noted the agenda plan. Officers advised that the potential item on solar farms listed as a Key Decision for the August meeting was no longer required: there had been concerns that additional costs would push the Council below the threshold, but the latest review indicated that it was still above the 7% threshold. The other item identified for the August meeting could be deferred until the September meeting.

It was resolved to note the agenda plan, including the oral updates provided at the meeting.

25. 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.