Agenda Item no. 2

COMMERCIAL AND INVESTMENT COMMITTEE: MINUTES

Date: 17 January 2020

Time: 10:00am – 11:00am

Venue: Kreis Viersen Room, Shire Hall, Cambridge

Present: Councillors J Schumann (Chairman), I Bates, A Hay (Vice Chairwoman), D Jenkins, J Gowing, L Jones, T Rogers and T Wotherspoon

In attendance: Councillor P Hudson

Apologies: Councillors Dupré and Shellens

311. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies were presented on behalf of Councillors Dupré and Shellens.

312. MINUTES OF THE MEETING HELD ON 16 DECEMBER 2019 AND ACTION LOG

The minutes of the meeting held on 16 December 2019 were agreed as a correct record.

The Action Log was noted and the following items were discussed:

Item 274(2) – the Chairman advised that he was still waiting for legal advice on the This Land Board representation issue, and would circulate this as soon as it was available.

Item 294 – it was noted that the This Land shareholder meeting had taken place on 8th January.

Item 304 (1) – the Performance Reporting session would take place after the Committee meeting.

Item 304(2) - the issue of the gap between green and blue ratings in performance ratings was being addressed.

Item 307 – the date of the Alconbury Weald Business Case report would be confirmed.

313. PETITIONS AND PUBLIC QUESTIONS

There were no petitions or public questions.

314. DEPLOYMENT OF INVESTMENT FUNDS

Members considered a report on a proposal to invest £20M in a Multi-Class Credit portfolio. Representatives from Redington Ltd, the Committee's strategic investment advisors, were present to advise the Committee.

Following the development of a property portfolio over the last few years, it was agreed that investment needed to be diversified, to reduce risk and introduce greater liquidity. Based upon the Council's requirements and funding capacity, it was proposed that £20M of capital receipts be deployed in to a Multi-Class Credit fund. This involved investment in a broad range of bonds and loans with a view to generating income. These investments would be actively managed. The likely returns to this investment were set out in the report, but it was noted that these were very prudent estimates, and likely returns were likely to exceed these figures. It was also noted that in line with any investment of this kind, the value of the investment could decrease as well as increase.

The level of complexity in these investments required greater skills and knowledge, so an appropriately skilled and experienced investment manager needed to be procured. The proposed investment would be funded through £20M of capital receipts, which would be made available by requesting or swapping a further £20M of borrowing to fund commercial property investments.

A Member queried how investments would fit in with the County Council's Climate Change Strategy, e.g. investment in fossil fuels, reminding the Committee that following the agreement of that Strategy, the Council had a commitment not to invest in fossil fuels. Representatives from Redington commented that they understood the constraints that clients faced, especially around ESG (Environmental, Social and Governance) considerations, and would ensure that the fund only invested in an acceptable range of investments. There was also a strong commitment to monitoring performance and risk and presenting regular reports to the Committee. It was noted that the Council's Climate Change Strategy was separate to the Pension Fund. Councillor Rogers, Chairman of the Pension Fund, advised that ESG considerations was a major issue in pension fund investment, and investment managers had been given a clear message that only those managers with a strong appreciation of Responsible Investing and Carbon Capture would be considered for selection. He also commented that with regard to ESG considerations, there tended to be more focus on Environmental and Governance, less on Social.

Arising from the report:

- A Member noted that paragraph 5.3 of the report stated that the Committee would retain strategic decision making functions, whilst paragraph 8.1.4 stated that a new governance model would be required to effectively manage the growing investment portfolio. It was confirmed that a progress report would be presented to the Committee's Investment Group regularly, and once or twice a year to the Committee;

- A Member noted that the first recommendation referred to reassigning the £20M of capital receipts from financing commercial property to the asset classes, whereas paragraph 6.1 of the report referred to requesting or swapping a further £20M of borrowing to fund the commercial property investments. It was confirmed that the £20M would be additional investment;

- It was confirmed that the percentage of investment in Property and Non-Property should be 84% and 16% respectively;

- A Member asked how long income would be fixed (i.e. returns from the investment)? Redington representatives advised that the portfolio would be invested in a broad range of investments, but there would be considerable churn, and an associated risk. The current yield was around 5.5%, but a prudent longer term estimate of 3.6% (net of fees) had been given. The return was not fixed, but would vary as interest rates change. This was seen as acceptable as the investment was low risk, partly due to the defensive nature of the assets held, and the active management of the fund, and also because investment was in a range of assets, so the credit risk was also more limited;

- Clarification was sought on the statement *"as the investment in spread over varying assets, it is difficult to monitor the performance against similar investments"*. Representatives from Redington explained that as a largely unconstrained approach was being taken to the investments, the fund would comprise a broad range of assets in varying quantities, so could not be easily tracked e.g. against market indices such as the FTSE 100, as it would not be on a like for like basis. This was why Redington's research team was really important, so that the performance and decision making processes of assets held could be properly understood;

- Noting that investment was in both loans and bonds, a Member asked what percentages would be invested in each. Redington representatives advised that the split between assets would vary over time. It was also acknowledged that bonds were not performing well currently. The investment manager appointed would have experience across both assets, and would be who is capable of undertaking the necessary bottom-up research, and identifying those companies with a good risk return profile, a philosophy that complimented the Committee's objectives, and good decision making structures;

A Member suggested that the report presented to General Purposes Committee should include some of the detail given in response to the questions raised, particularly around the nature of the borrowing and the governance arrangements. It was also agreed to split recommendation (1) into two parts (a) and (b), for clarity.

It was resolved unanimously to:

1. (a) Recommend to the General Purposes Committee that £20M of capital receipts funding is reassigned from financing commercial property to the asset classes outline within the paper, thereby supporting the investment activities outlined with the Commercial Strategy 2019-21 and our Investment Strategy;
   (b) Require a corresponding increase in borrowing of £20M to replace the capital receipts funding for commercial property;

2. Delegate responsibility to the Director of Business Improvement and Development, in consultation with the Chair of Commercial & Investment Committee, to appoint the required Investment Manager;

3. Note the principles around the future direction of travel for the investment portfolio predicated on a more detailed paper setting out the future direction coming to Commercial & Investment Committee.

315. FINANCE MONITORING REPORT – NOVEMBER 2019

The Committee considered a report on the financial information relating to the areas within the Commercial and Investment Committee's remit, for the period ending 30th November 2019.

There were no significant changes to the Revenue budget. On the Capital side, an underspend of £5.522M was expected at year end, with one new significant forecast outturn variance (£256K) relating to the suspension of the Woodston Closed Landfill Energy Project. Members were reminded that at their October meeting, the Committee had approved an additional capital budget of £2.484M for the Cambs 2020 Spokes programme, for the current year.

It was noted that information about Brunswick House had been circulated to the Committee, and a more detailed report would be presented to the Investment Working Group in February.

It was noted that at the This Land shareholder meeting in January, some dissatisfaction had been expressed, and there had been a commitment through the Chair of the This Land Board to hold additional shareholder meetings, and keep Members updated on sites coming forward once the new Business Plan was in place;

A Member commented that the Committee had missed its income targets each year, and there tended to be an over-optimistic view of the speed of income generation. Officers commented that some investments were longer term, and there needed to be confidence that the trajectory of the portfolio was on target in the long term, and not just taking a short to medium term view. The Chairman commented that the some of the underachievement to date related to This Land, although it had been acknowledged from an early stage that there would be challenges given the ambitious timeline. However, he was confident that the income targets in the current budget round were achievable. Officers commented that the targets were quite prudent but based on current information, and the time lag issue should be much less of an issue in 2020/2021.

A Member queried the commercial activity in Annex 3 (Capital Expenditure), specifically that the budget had been revised upwards, yet the forecast expenditure was considerably lower. It was noted that the biggest variances were the commercial investments including This Land, and the Energy schemes, which had been considered by Members on numerous occasions.

It was resolved unanimously to:

a) Review, note and comment upon the report.

316. COMMITTEE AGENDA PLAN, TRAINING PLAN AND APPOINTMENTS TO OUTSIDE BODIES

The Committee considered the Agenda Plan and the Training Plan. Members were reminded that since the agenda despatch, it had been agreed to move the Committee session on Performance Reporting forward from 24th January to the conclusion of the meeting. The Chairman thanked Amanda Askham and Dawn Cave for arranging this, which was of greater convenience for Members.

It was resolved to note the Agenda Plan and Training Plan

317. EXCLUSION OF PRESS AND PUBLIC

It was resolved by a majority:

That the press and public be excluded from the meeting on the grounds that the agenda contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed – information relation relating to the financial or business affairs of any particular person (including the authority holding that information)

318. OPTION OF LAND FORMING PART OF NORTHSTOWE PHASE 3B – HOMES ENGLAND

The Committee considered a report on the proposals for land under option at Longstanton, which formed part of the new town of Northstowe, to Homes England.

It was resolved to:

Approve the recommendation as set out in the report.