

DEVELOPMENT OF THE COUNCIL'S INVESTMENT PORTFOLIO

To: General Purposes Committee

Meeting Date: 16th July 2019

From: James Gemmell, Transformation Manager

Electoral division(s): All

Forward Plan ref: Not applicable **Key decision:** No

Purpose: The Committee is asked to consider the proposed request to drawdown transformation funds to support the development of the Council's investment portfolio.

Recommendation: General Purposes Committee is requested to approve the drawdown of £147,000 to support the development of the acquisitions and investment activities outlined within the Commercial Strategy 2019-21.

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1. BACKGROUND

- 1.1 On 22nd January 2019, General Purposes Committee (GPC) agreed an outline investment of £3million of revenue to support the delivery of transformation and savings within the Council's business plan for 2019/20 to 2023/24. The Committee asked that individual business cases against this funding be brought to GPC when ready.
- 1.2 A business case was developed and agreed during the 2019/20 business planning cycle, relating to developing strength and depth in our commercial investment activity. The business case contained a proposal to obtain external expertise, not only support in achieving the financial targets contained within the strategy but to support the skilling up of officers and members in this area.
- 1.3 This request is to draw down £147,000 of the agreed funding to facilitate the work of Redington Ltd, an external investment adviser, to support the development of our acquisitions and investment strategy / portfolio.

2. ACQUISITIONS AND INVESTMENTS

- 2.1 The Council's Commercial Strategy was agreed by the Commercial and Investment (C&I) Committee on 26th April 2019 and reiterates the objective of the Council's Corporate Strategy to increase the level of return from our commercial activity and developing a wider range of investments.
- 2.2 The objective of our investment portfolio is to acquire / manage investments that make a secure and increasing contribution to the Council's revenue streams in order to support the delivery of frontline services to our communities. This will be done through:
 - Acquiring investments that provide long term returns to support the delivery of the Council's desired outcomes;
 - Creating a portfolio that balances risk and rewards that are aligned to the Council's risk appetite; ensuring the portfolio is diverse through avoiding sector and geographical concentration risks
 - Developing a portfolio that yields a stable income stream for the Council;
 - Making investments in assets that seek to protect the capital invested;
 - Establishing a diverse portfolio that spreads risk by avoiding sector and geographical concentration risks
- 2.3 Work has progressed in this area through the development of our direct property investments (two completed acquisitions) and also investing c£10m into the Local Authorities Property Fund (pooled fund).
- 2.3.1 However, the Commercial Strategy represents a desire to significantly grow our current operations which means there is a need to explore the art of the possible and consider not only our existing portfolio but to consider investment in non-property assets. Whilst discussions are ongoing around the development of a dedicated commercial team to oversee this work, it was felt that progressing beyond our direct property investments is a specialist area of activity in which the Council has limited previous experience, skills or access to market opportunities and as such there would be significant risk of (initially) attempting to do this using only 'in-house' resources.

3.0 INVESTMENT ADVICE

- 3.1 In acknowledging these challenges, we have over the last two years, undertaken market testing and sought advice on the different routes to market and opportunities to invest which could be available to us. In addition, significant attention has, and continues to be, paid to the changing context and environment (at a national level) which could have an impact in this area e.g. borrowing powers and governance arrangements.
- 3.2 Following discussions at the Council's Commercial Board, a working group of Commercial and Investment (C&I) and at C&I Committee (through the business planning process) it was agreed that we should progress with obtaining specialist support in this area. A procurement exercise for an external investment adviser began in September 2018 and a twelve month contract for support was awarded to Redington Ltd in May 2019. The first phase of work of this work is scheduled for completion in July 2019 which will set out advice on the preferred routes to market (based on our objectives), likely return, and internal governance arrangements.

4.0 FUNDING

- 4.1 This is a one-off request for the drawdown of transformation funding as an element of the overarching funding request made to GPC in January 2019. A Transformation Fund Bid is attached in **Appendix A**.

5. RETURN ON INVESTMENT

- 5.1 The benefits of external advice provided to the Council by Redington Ltd include:
- Access to knowledge: As outlined above, we need access to up-to-date specialist knowledge of the market, strategic thinking, process tools and support. We would benefit from broader business perspectives gained from experience with other clients, markets and sectors to support the de-risking of our investments. Advice will be provided on the illiquid asset opportunity set, based on risk, return and investment horizon and liquid asset opportunities, measured on contractual / non-contractual return and volatility
 - Objectivity: independent assessment and evaluation of different views and benchmarking of performance
 - Transfer insights and practices: Support can be provided to upskill both officers and member's knowledge of the market / process.
 - Management support: this process will require a large quantity of resource (human capital and specific expertise) and a clear governance process, therefore capacity to drive this work forward is required
- 5.1.1 The level of complexity and monitoring and choosing where to invest our funds requires more skill and knowledge than that required for investing the Local Authority Investment fund – and it is not something we could currently manage internally. Therefore it is likely that we will need to procure a Fund Manager(s) to manage a particular element of the portfolio. However, there was concern that the same lack of knowledge which prevents us from currently expanding the portfolio ourselves could restrict our ability to undertake a robust procurement process. Redington Ltd will be able to provide support to us in this area by;
- Developing the correct specification and mandate

- Effectively assessing the Fund Managers
- Ensuring the process is not just a 'beauty parade' and the Council is able to understand and justify the award

5.1.2 There has, rightly, been increasing scrutiny on the investment practices of local authorities with concerns raised over the sustainability of investments and whether appropriate governance arrangements were in place to make investment decisions. Redington Ltd are an independent advisor and will therefore be able to offer us impartial advice not only on the market but will help us develop appropriate internal governance arrangements ensuring that we make appropriate decisions.

5.2 The direct financial benefits will be predicated on the level of funding available to implement the investment strategy together with the level of risk appetite from the Council. To date the investments made could generally be described as illiquid and within the Council's stated criteria for the medium-term investment horizon of 10 years. Redington Ltd will help the Council focus on the art of the possible by focussing on a wide range of asset classes, being both liquid and illiquid, offering a wider range of investment strategies than we have considered to date. By combining liquid and illiquid assets it's possible to improve overall investment returns and can assist in the overall management of the strategy.

5.2.1 This will be supplemented by a detailed training offer to members and officers enabling investment decisions to be appropriately analysed and challenged.

5.3 Subject to the above, and speed in which we are able to implement the investment strategy, we would expect to see initial returns during the 2019/20 financial year. Such returns will be in the region of 5% (net) of the amount invested.

6. ALIGNMENT WITH CORPORATE PRIORITIES

6.1 A good quality of life for everyone

6.2 Thriving places for people to live

6.3 The best start for Cambridgeshire's children

The Council's Corporate Strategy, with these priorities at its core, identifies a number of key objectives that are directly linked to commercial activity, with this proposal supporting the implementation of that strategy.

7. SIGNIFICANT IMPLICATIONS

7.1 Resource Implications

The ability to achieve our commercial goals will be dependent on having the right skills within the organisation as well as the funding to implement our investment strategy.

7.2 Procurement/Contractual/Council Contract Procedure Rules Implications

Procurement guidelines have been followed in appointing Redington.

7.3 Statutory, Legal and Risk implications

Our ability to achieve our investment goals will depend on a number of factors including how well we use our legal powers and delegations and the political appetite to accept new risk. Full business cases, which consider legal implications and clearly articulate risk and reward, will be developed for all investment proposals.

7.4 Equality and Diversity Implications

There are no significant implications in this area for the appointment of an external investment adviser.

7.5 Engagement and Consultation Implications

There are no significant implications in this area for the appointment of an external investment adviser.

7.6 Localism and Local Member Involvement

Environmental, social and governance (ESG) factors will be used in measuring the sustainability and ethical impact of an investment proposals.

Members will be supported in understanding the opportunities, risks and benefits of different investment opportunities.

7.7 Public Health Implications

There are no significant implications in this area for the appointment of an external investment adviser.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Not applicable
Has the impact on statutory, legal and risk implications been cleared by LGSS Law?	n/a
Have the equality and diversity implications been cleared by your Service Contact?	n/a

Have any engagement and communication implications been cleared by Communications?	n/a
Have any localism and Local Member involvement issues been cleared by your Service Contact?	n/a
Have any Public Health implications been cleared by Public Health	n/a

Source Documents	Location
Business Planning Papers to December Service Committees	https://cmis.cambridgeshire.gov.uk/ccclive/Committees.aspx
Commercial Strategy	https://cambridgeshire.cmis.uk.com/ccclive/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/775/Committee/31/Default.aspx