**INVESTMENT BOARD held on ZOOM on WEDNESDAY, 2 FEBRUARY 2022 at 6.00 pm**

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| Present: | Councillor N Reeve (Chair)<br>Councillors G Bagnall, C Criscione, N Hargreaves, A Khan, P Lavelle, G LeCount, J Lodge, R Pavitt, G Sell and J De Vries |
| Officers in attendance: | C Gibson (Democratic Services Officer) and A Webb (Director - Finance and Corporate Services) |
| Independent Member: | R White |

## IB16 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

There were no apologies for absence or declarations of interest.

## IB17 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 11 November 2021 were approved.

## IB18 COMMERCIAL STRATEGY 2022 - 2027

The Director of Finance and Corporate Services presented the Commercial Strategy 2022 – 2027 and recommended that Members endorse the Strategy, subject to any agreed amendments. He outlined his briefing note that had been provided to Committee Members earlier in the day that detailed the key changes to the Commercial Strategy.

He said that the Council could no longer take on new investments:

- The Prudential Code previously said commercial activity should not be undertaken for yield. The Code now says ‘an authority must not borrow to invest primarily for financial return’.

  We had the QC Opinion which says that we were not undertaking investment for yield but to underpin our core services. Clearly this Opinion and therefore approach now falls as the aim of any commercial investment is for financial return.

But the Council can retain and enhance our existing assets:

- The Code says - Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios. However, authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their

annual treasury management or investment strategies. The reviews should evaluate whether to meet expected borrowing needs by taking new borrowing or by repaying investments, based on a financial appraisal that takes account of financial implications and risk reduction benefits. Authorities with commercial land and property may also invest in maximising its value, including repair, renewal and updating of the properties.

The Council's original plan to buy and sell assets to keep the portfolio 'fresh and relevant' is no longer an option. We will need to retain the current assets for the long term, including re-letting and refurbishing as tenants change. There will also be an increased chance of business failure/rent default which we have to have a provision for. Therefore the seven new strategy key principles are:

- There will be no new commercial investments.
- Subject to (d) and (e) below, the portfolio, as set out in this document is therefore complete. Of the £300 million allocated in 2020 to building the fund, £275,565,000 (£275 million) has been used.
- MRP will be applied on an annuity basis over the life of each asset.
- As the Council already owns, through Aspire (CRP) Ltd, the land at Chesterford Research Park it will continue to develop the asset to maximise its value.
- As the Council already owns 46% of Stane Retail Park, which includes all of the public car parking, link roads and other shared elements for the entire site, it will evaluate the option of acquiring the rest of the asset to maximise the value of the already owned part. This would be done on the basis that the sum of the whole is worth more than the sum of the constituent parts.
- The portfolio will be reviewed on a regular basis to determine the requirements of the Council and the appropriateness of retaining or selling each asset.
- The Council will look to maintain the commercial asset portfolio at an investment level of no more than £275 million. However, it should be noted that investments may need to take place ahead of sales which could temporarily increase that number.

Building this Commercial Strategy into the new Medium Term Financial Strategy (MTFS), we end up by 2026/27 with a significant deficit/shortfall in our budget of £5.687 million per annum. This is in the main due to the following

- The need to set aside a £1m per annum provision for future refurbishment/void/rent free/bad debt.
- The need to provide for Minimum Revenue Provision (MRP) which is basically turning our loans into total repayment loans over the life of the asset. This will cost us £3.3m in 2022/23 rising to £3.6m by 2026/27

Whilst we can retain the whole of our portfolio, it is likely that we will bring to the Investment Board during the next few months proposals to sell one asset. The aim will be to achieve a profit on sale of several million pounds to enable us to rework the capital financing requirement over the life of the MTFS. This would then reduce the 2026/27 deficit/shortfall from £5.687m to around £2.6m.

The Director – Finance and Corporate Services said that the Government had now provided some certainty and that the Council would look to secure longer-term borrowing, most likely in several tranches through the Public Works Loans Board (PWLB). He said that there were further requirements in respect of statutory performance reporting, all risks had been updated and that the Commercial Strategy would also be considered at Scrutiny Committee on 3 February 2022 as part of the MTFS and Budget Proposals 2022/23 report.

The Chair said that there had been some criticisms expressed about the Council's investment strategy but that if the investments had not been made the Council's financial position would have been much worse.

The Director – Finance and Corporate Services confirmed that if the investments had not been made the MTFS financial shortfall would have been over £9m as compared to £5.7m. He said that there was an element of flexibility available in that the amount invested both at the start and end of the financial year now had to remain at £275m but there could be movements made during the year that could enhance income provision.

Members expressed disappointment in the changes that had been made to the Prudential Code. Members considered that the £275m investments by the Council had been made based on very sound decisions and were proving to be good investments.

Various comments and questions were raised by Members with responses from the Director – Finance and Corporate Services:

- Whether de-investment should be considered.
- The opportunities for getting better yields through moving investments during the financial year within the £275m threshold.
- The effect of a possible debt cap.
- The possible opportunity to "ramp-up" the delivery of buildings at Chesterford Research Park and for further investment at Stane Retail Park.
- Implications for the Risk Register and comments to be taken forward to Scrutiny Committee.
- Implications for the Council's credit rating.
- The intention was to set aside £1m each year (excluding Chesterford Research Park) for the next 10-12 years for future stock condition funding.
- Consideration of the articulation of KPI's within Treasury Management strategies and the need to look at comparators, alongside the possible references to GAP Committee.

Richard White, Independent Member, said that he considered that the Director – Finance and Corporate Services had done a "sterling job" that had put the Council in a stronger position. His advice was to retain the current portfolio and that putting aside £1m/ year for stock condition funding might be less than was required. He asked if there were any Capital Gains Tax (CGT) implications. He said he would be willing to be contacted outside of the meeting for any further questions.

The Director – Finance and Corporate Services indicated that the £1m could not be inflated and that there were no CGT implications.

*Richard White left the meeting at 6.52 pm.*

Further comments and questions were raised by Members:

- There was a need to continue to keep the pressure on through personal contact with the MP.
- The sustainability of the Commercial Strategy.
- The Council having a 10-year MTFS as opposed to the usual 5-year MTFS. This showed a relatively stable position for years 6 – 10, with possible caveats with the Local Plan and the ending of the PFI arrangement for Leisure in 2031.
- Possible future uses of the London Road offices and possible redesignation of the Chesterford Research Park.
- Possible consideration of public/private partnerships.

*Councillors Bagnall and De Vries left the meeting at 7.05 pm.*

*Councillors Lavelle and Lodge left the meeting at 7.25 pm.*

The following actions were agreed to be taken forward from this meeting:

- Issues to be raised at Scrutiny Committee:
    - Have all risks been adequately identified and extrapolated?
    - Consideration of the risk of a debt cap being put in place.
    - Consideration of the risk as to what future steps the Government might take.
    - The need to identify any risks in the event of Aspire taking forward plans to “ramp-up” developments at Chesterford Research Park.
    - Consideration as to whether the Treasury Management KPI’s should also be taken within GAP’s remit.

- The Chair agreed to meet with Councillor LeCount to discuss possible income generation ideas and opportunities moving forward, to then take up with the Director – Finance and Corporate Services.

The Chair put forward the recommendation that Members endorsed the Commercial Strategy, subject to the issues raised being considered by Scrutiny Committee.

Councillor Khan said that he would abstain from supporting this recommendation as there were further opportunities available for challenge; no other dissent was shown.

Members agreed to endorse the Strategy, subject to the issues raised being considered by Scrutiny Committee.

*Councillor Pavitt left the meeting at 7.40.*

The Director – Finance and Corporate Services and the Assistant Director – ICT and Facilities were thanked for all their good work.

*Meeting closed at 7.45.*