Richard Pavitt, Great Chesterford 31/01/19

Thank you Mr Chairman.

I wrote to you in October with questions relating to the council's purchase of 50% of Chesterford Research Park. These questions remain unanswered. I fail to see why it should take quite so long to respond to what are straightforward questions, so I will restate those questions and expand on a number of points.

The Govt is on record as saying the prime duty of a local authority is to provide services to local residents, not to take on disproportionate levels of financial risk by undertaking speculative investments, especially where that is funded by additional borrowing and is to fund yield generation.

Where I refer to Govt regulation it is to the **STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS** as issued under the Local Government Act 2003.

Returning to my questions:

1. Would you consider that Chesterford Research Park represents a disproportionate level of financial risk, especially as the council has, in effect, put all its money on a single bet?

No. There was a significant amount of due diligence undertaken by external advisers during the purchase process. If you look at the annual report from the Aspire directors (including 2 non-execs) that went to the GAP meeting in September 2018 they confirm that what was forecast to be achieved has been achieved. The council recognises that it needs to further diversify its investment holdings which is reflected in the new Investment Strategy. We have to remember that 'life science' is a very broad science area and there is little competition for work between companies located at the park. We maintain a MTFS Reserve which at present is equivalent to one year's loan repayment amount should all of the businesses at the park cease to trade at the same time. This is an example of good financial risk management.

2. Did the council at that time have an "Investment Strategy" approved by full council as laid down in statutory Guidance? To my knowledge there was no such strategy.

Yes, it did. The requirement for an Investment Strategy was set out by government in November 2017 to be implemented on an annual basis starting 2018/19. Therefore our first investment strategy was published and approved by Scrutiny, Cabinet and Council in February 2018.

Comment [a1]: This is incorrect. Scrutiny committee on 6/2/18 did not APPROVE the strategy. It discussed and scrutinized the strategy. The role of Scrutiny is not to approve proposals.

3. Do the elected members and statutory officers involved in the investment decision-making process have the appropriate capacity and skills?

Throughout the whole of the decision making process officers and councillors were supported by industry experts Cushman & Wakefield and international lawyers Hogan Lovells. Both these companies undertook significant due diligence in their respective areas. In addition, the officers working with the Council's financial advisers, Arlingclose undertook due diligence around the funding options for the purchase. The reports, advice and guidance from each of these parties were used to prepare the report that was presented to councillors and led to them making their decision to purchase.

The Finance Portfolio Holder, Councillor Howell, attended the final meeting with the lead advisers from both Cushman and Wakefield and Hogan Lovells where the investment was reviewed in great detail before the recommendation to purchase was made to Council. Subsequently, Councillor Howell also attended the financing meeting where, following a bid process, the decision was made to use Phoenix Life as the funding provider.

Ongoing, to supplement the existing in-house skills we have recruited two Non-Executive Directors with significant experience to help the Council manage its investment in the park,

4. The declared purpose of the investment was to generate income. I recall seeing the term *"to plug the gap in the council's income."* The following guidance in a Q&A on the Ministry of Housing, Communities & Local Government web site states: *"borrowing solely to fund yield generating investments is borrowing in advance of need."*

   With the foregoing in mind, why did the council ignore Government regulation that states: *Authorities must not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.*

In no way does this investment contravene either government finance regulations or those by our accounting body CIPFA. Our accounts for 2017/18 (the first year of CRP income) were audited by our external auditors EY and we were given an unqualified audit opinion once again. Had there been any concerns from government or CIPFA EY would have raised them.

The council has since sought to justify the purchase as having multiple objectives but that appears little more than convenient retrofitting.

In conclusion, it appears that the council not only contravened regulations but also made the investment and borrowing without a published investment strategy that demonstrated a full appreciation of the risks and the market it was operating in.