Questions for Scrutiny 19/04/2021 – from Nick Quinn (Local Resident)

Concerning Agenda Items: 9 (Cabinet Member for Finance - Update) I am surprised that this 'update' from the Cabinet Member for Finance does not mention the Millions of pounds, from the Council's cash balances, currently on loan to 3Rivers Developments Ltd.

In the last section, the Cabinet Member states that: "the Council must also continue to explore more commercial new opportunities recognising the attendant increased portfolio of risk likely to be more subject to market/demand volatility". I emphasise the use of MUST in this sentence.

Traditionally, Councils have been risk averse with their investments. Mid Devon is not being so careful - there is even a warning that "This may require that reserve levels are once again reviewed".

The Cabinet Member promises that "any such decisions will be the subject of rigorous due diligence". I hope that Scrutiny Committee will play a key role in ensuring that such "rigorous due diligence" does, in fact, take place.

Whilst mentioning "risk and volatility" in his 'update', the Cabinet Member does not make it clear what level of risk, or volatility, he considers it is acceptable to take when investing, or loaning, public money.

Nor is it obvious how the "risk and volatility" relates to the Risk Reports that are regularly passed to Committees and the Cabinet.

So I ask the Cabinet Member for Finance:

When considering investment of public money in new, or existing, commercial ventures, please could you explain;

a) How the risk/volatility, of a potential investment/loan, is assessed?

b) What level of risk/volatility would prevent an investment, or loan, from taking place?

c) How the assessment of risk/volatility relates to the Risk Reports?

Thank you.

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As noted in the report, the current financial circumstances for MDDC are "… set against a backdrop of Government reductions in Revenue Support Grant funding of well over £4.0M since 2010/11." If the Council had not taken an innovative approach to funding, there would have been an inevitable financial impact on the Council and its ability to maintain the services on which local communities depend. As noted by MDDC's external auditors in the past regarding the use of alternative funding streams, "Doing nothing is not an option." Nor is MDDC unique: it is headline news when such ventures fail, but it should be noted that at least 150 other Councils have pursued similar initiatives.

The strategic decision made by Full Council in 2017 was to invest in 3RDL and to date has provided a net positive income stream for the Council. There are inevitably risks associated with commercial investments which is why sound governance and oversight is important. The questions raised are, consequently, very pertinent, given that the business must continue to be a sound going concern to continue to contribute constructively to Council finances.

The Council employs qualified finance professionals, service specialists and consults with industry experts when assessing risk / volatility of any potential new or continuing investment decisions. This is a complex task that requires examination of several inter-related issues, such as: the industry / business / product being invested in, the risk of non-repayment (or only partial repayment), the use of the funds, security offered, credit worthiness, the funding amount and duration of the loan, previous experience, the level of overall return, and so forth. In addition the Council must ensure that investments comply with national guidance and legislation as well as its own constitution, financial rules, and treasury management policy. As every investment is unique, so too is the assessment.

It is an investment truth that higher levels of return will mean more risk. Equally, to secure optimum financial returns a balanced approach to risk across the whole investment portfolio is appropriate. This is formally agreed by Full Council in the Treasury Management Strategy which sets clearly defined limits on how much, for how long and where the Council can invest its funds. 3RDL investment has a higher risk profile than most Council investments and therefore requires particular care. With professional input, guidelines have been set which should provide good protection, for example the minimum profitability associated with new projects. However, each case must be reviewed on its merits considering all the points above: a black & white answer cannot be given.

The Risk Reports are designed to look at overall investment risk in the Council, with particular attention being given to 3RDL. These rightly consider the business as a whole and the effectiveness of governance arrangements related to the Council's responsibilities as Shareholder and Lender. It is for the relevant Officers and Councillors / Committees to act in line with those governance arrangements to manage the risks to the Council. Of course, it is for the business itself, not the Council, to manage the delivery of projects and associated risks.