DRAFT MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 22 JUNE 2020

JOS/19/31 CAPITAL INVESTMENT FUND COMPANY ('CIFCO CAPITAL LTD') BUSINESS TRADING AND PERFORMANCE REPORT 2019/20

42.1 The Chair advised Members that the Committee would be examining the Business plan only, and not the governance structure of CIFCO, or the terms under which CIFCO was set up. Any decisions relating to that, or its terms or reference, any questions relating to these areas would be the responsibility for Full Council.

42.2 The Chair then introduced the Board Members present:

Chris Haworth – Chair of CIFCO CAPITAL LTD.

Henry Cooke - Director of CIFCO CAPITAL LTD

Mark Sargeantson – Director of CIFCO CAPITAL LTD

Councillor Rick Meyer – Director of CIFCO CAPITAL LTD

Councillor David Busby - Director of BDC (Suffolk Holdings) Ltd and Cabinet Member for Assets and Investments

Councillor Gerard Brewster – Director of MSDC (Suffolk Holdings) Ltd.

Councillor Peter Gould – Mid Suffolk Cabinet Member for Assets and Investments

Nigel Golder - Director - Strategic Asset Management JLL (Jones Lang LaSalle)

Neville Pritchard - Director - Capital Markets JLL (Jones Lang LaSalle)

Emily Atack – Managing Director of CIFCO and Assistant Director for Assts and Investments

42.3 The Chair invited Councillor Peter Gould, MSDC Cabinet Member for Assets and Investments, introduce Report JOS/19/31.

42.4 Councillor Gould detailed the income and benefits provided to the Councils, including that CIFCO had provided the Councils with approximately £3m of net income since its inception in 2017. Approximately £1.6m was received in the last financial year, equating to approximately 10% of the Councils workforce costs or 13.5% of Council Tax income. This income was essential in enabling the Councils to continue to invest and deliver services within our districts. CIFCO collected over 70% of the March quarter rent and were consequently able to make the full debt repayment to the Councils in March. Whilst difficult times remain ahead with the continued impact of COVID-19, the proposed business plan seeks to continue the investment of the 2nd tranche of funds approved by Council last year, and in doing so to further diversify the portfolio away from High Street retail focusing on the industrial and alternative sectors and to continue to deliver and grow this important revenue stream for the Councils.

DRAFT MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 22 JUNE 2020

42.5 The Chair invited the Chair of CIFCO, and the Managing Director to present the presentation for CIFCO.

Note: A short adjournment between occurred 10:10am and 10:15am.

42.6 The Chair invited Members to ask questions.

42.7 Councillor Carter asked in relation paragraph 4.1 what the actual geographical percentage split of asset value was between Eastern region and the rest, noting that Milton Keynes was not in the East.

42.8 Councillor Carter asked that CIFCO seemed to have gone into the office sector just as this sector lost favour due to home working. Similarly, it now seemed that CIFCO was buying high street properties, as this sector went into decline. Were properties attractively priced because others were divesting. Further as there was the same amount of office space available, but a reduced number of workers due to homeworking, how would CIFCO be investing based on this. He also enquired when CIFCO would invest in renewable energy.

42.9 The Chair of CIFCO responded that this was a new market and it was inappropriate to be the first to invest in this market, but it would be a consideration for the future. The Assistant Director for Assets and Investments added that only one renewable energy had come forward and that this was not right for the portfolio.

42.10 Nigel Golder and Neville Pritchard both agreed that the Covid-19 Pandemic was likely to change the way office space would be utilised in the future. Demands for meeting rooms, coffee platforms, alternative office space in which staff would be able to work would increase, although they did not believe that homeworking would entirely replace office work. Regional headquarters and hubs would still be required. During the 2008/09 recession office space declined, resulting in a small surplus, therefore companies had to utilise the space available differently. Leisure and creative activities would also be requiring office space in the future.

42.11 Concerns over serviced offices were also part of the mix and the cost per office desk had increased, as the rise in hot desking had grown in popularity. However, this way of working might not be possible to continue, as it may have an impact on the available office space and the resulting increase in rents.

42.12 In addition, a regional bias to the Eastern Region was not advantageous when building a robust property portfolio as town centers were small and lacking strong commercial centers. The number of profitable opportunities, which meet the criteria set for CIFCO were smaller and bidding for these opportunities might not be successful.

42.13 The Chair for CIFCO advised Members that in the past year CIFCO had reviewed 65 opportunities and had proceeded to bid on 16 whilst being successful in acquiring 2 properties.

DRAFT MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 22 JUNE 2020

42.14 Councillor Jane Gould referred to page 47 in the report and asked how investing in the food and beverages sector, including drive-ins, corresponded with the statement on page 43, which stated there was no environmental impacts from the new business plan. She enquired, if CIFCO would be looking more deeply for green assets to invest in in the future.

42.15 The Assistant Director for Assets and Investment responded that the Board of CIFCO was aware that both Councils have declared a Climate Emergency and that the Board was currently working with its advisers JLL to draft a Sustainability Policy. It was not just a question of how 'green' the required assets were, but also how the current portfolio was managed and how tenants were supported to make decisions about sustainability going forward.

42.16 In response to several questions for availability of the annual accounts for CIFCO, Members were informed that they would be available in July/August 2020 and filed at Companies' House.

42.17 Councillor Jane Gould's additional question for what the alternative funding might be, the Assistant Director, responded that the PWLB funding was just one type of funding included in the range of short and long-term borrowing used by the Council. It was currently too early to say, what the alternative funding types would be.

42.18 Councillor Jane Gould continued with questions and asked if there was an exit plan in place for CIFCO, to mitigate the risk of the investments losing too much in value.

42.19 The Assistant Director – Assets and Investments, responded that the investments continued to deliver and that the current losses were book losses. These losses would only be realised if the assets were to be sold. It was up to the Board of Directors to manage the portfolio. Different assets might be considered for sale if it was the right move for the asset at that time. However, growth in income and continuing capital value for property investments tended to increase long-term.

42.20 Councillor Grandon asked the following questions, which in part had been responded to previously by Nigel Golder. Why over 40% of the properties purchased to date by CIFCO were not in the stated 'geographical area targeted for acquisitions' i.e. in the East of England, and why was the CIFCO Board unable to find enough sustainable investment properties in the East of England using East Anglian ratepayers' money.

42.21 The Assistant Director – Assets and Investment, explained that it was the Council, which borrowed funds from sources such as PWLB and other loan sources, which funded the investments. The gross income generated from CIFCO to the Council had been £2.33m, generated from investments outside the District. The net-profit brought an income to the Council, which could be invested in the District. (paragraph 4.2). The £3.5m loss (paragraph 10.3) had been predicted and included in part £0.5m acquisitions costs and the requisition of the two newly required assets.

DRAFT MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 22 JUNE 2020

42.22 Councillor Muller referred to the 70% successful collection of rent in the March quarter and inquired how much would be collected for the June quarter.

42.23 The Assistant Director – Assets and Investment responded that it was estimated that between 45%- 50% would be collected for the June quarter. Some tenants were not affected by the Covid-19 lock down, and some retailers would be able to trade again. The situation was changing daily. CIFCO was able to repay the full debt repayment to the Council in March and hoping to be in a position to be able to make a greater debt repayment than percentage collected in June. Some tenants have had their rental payment deferred and CIFCO was working with tenants to manage the rent payments.

42.24 Councillor McLaren asked what financial direction CIFCO would take in 2020/21 in relation to the Covid-19 pandemic and if portfolio investments would be re-evaluated. Also, if the Section 151 Officer could detail the relationship between the Council and CIFCO as an independent enterprise.

42.25 The Section 151 Officer explained that CIFCO was a public independent company registered at Companies' House and accounts were published on their website. The Councils were sole shareholders in CIFCO. The income received from CIFCO was an important income stream for the Council and there was currently a deferment rather than non-collection of rents for CIFCO. If there was going to be a long-term default with the repayment of the loan for CIFCO, the Council would need to address this with CIFCO. Currently, she did not have any concerns in relation to Section 114 for CIFCO.

42.26 Councillor McCraw asked about the breakeven point for the overall income for the two councils. He asked what the percentage of rent arrears would have to be for CIFCO to be unable to repay the debt payments to the Council.

42.27 The Section 151 Officer responded that the position of break even had been considered and it would be 40% for Mid Suffolk and 29% for Babergh. The position was different for the two Councils due to the different loan arrangements.

42.28 The Assistant Director – Assets and Investment responded to Councillor McLaren's second question and that the Board of CIFCO in co-operation with the fund managers evaluates the assets on a quarterly basis. Assets were revalued on the 31 March each year. The evaluation process was part of the Board's function. The Council would also consider future income from investments, there was still £40m available as agreed by the Councils last year.

42.29 Councillor Welham asked several questions including what would happen if the collection of rents went below the 40% for Mid Suffolk; what was the total loss since CIFCO was set-up; what the predicted losses for 2020/21 might be and when losses would cease .

42.30 The Assistant Director – Assets and Investments explained that if the rent collections deferment went below 40%, the loan repayments would be met but there would not be any net-income for the Council. The losses for last year was

£3.1m and that included £1.5m cost acquisition and £1.5m of revaluation adjustments. Further costs were predicted until the investment programme had been completed, and included the cost of acquisitions, which was approximately 6.75% and included stamp duty. This cost would in effect be losses or impairments until the investment programme had been completed. The future value of the portfolio was difficult to predict, as this depended on the market value, and such predictions should be discouraged, especially as the current market conditions were unstable.

42.31 Councillor Welham asked what the flow of funds were between the Council and the MSDC (Suffolk Holdings) Ltd. in terms of the value of equity held on behalf of the Council.

42.32 The Assistant Director – Assets and Investments explained that the CIFCO was set-up with 90% loan and 10% equity. Each Council held 5% equity. The equity value was dependent on the value of the portfolio and would fluctuate in line with portfolio value fluctuation. The 5% equity held by MSDC (Suffolk Holdings) Ltd. was the same 5% equity held for each Council in CIFCO.

42.33 Councillor Welham asked for clarification of what the losses were at present; the Assistant Director – Assets and Investments explained that the accounts were presently being prepared for CIFCO and would be included in the Councils' own accounts and would be published in July/August 2020.

42.34 Councillor Welham then asked it the rent collection went below the 40%, and the Council only received the debt repayment and not net-profit should that not be included as a risk in the CIFCO Business Plan, and if it was reasonable to set the same KPIs as last year's this year.

42.35 The Assistant Director – Assets and Investment responded that the risk was part of the reports risk assessment and formed part of the Council's significant risk register.

42.36 The Board of CIFCO retained the same KPIs for the current year to enable consistency and to measure performance. The report did detail that the KPI 4 would be challenging to meet, but that this was for long term aspiration for CIFCO to return to the 5% target.

42.37 Councillor Welham enquired if there was a 'business reduction plan' within the Business Plan to show the actions that would be necessary should one of the Councils wish to reduce their equity, the total investment or withdraw completely.

42.38 The Company structure was governed by the company articles of the Holding Company's operations, specifically by the equity subscription agreement between the two Councils and this would govern arrangements if one of the Councils wished to change their equity subscription. In response to a follow-up question from Councillor Welham, the Equity Subscription Agreement was not a public document, as it formed part of the Holding Company's governance and it would

be for the Holding Company to decide if this document should be shared more widely.

42.39 Further questions from Councillor Welham included reference to paragraph 6.2 in relation to the income from CIFCO and Gateway 14 and

42.40 The income from CIFCO, as stated in the report, helps to fund other property projects within the Councils. Gateway 14 was a development project, which did not currently generate an income in the short-term, whereas CIFCO was an income generating project for the short, medium and long term, from which the income generated could be spent short-term on projects such as Gateway 14. In turn Gateway 14 would generate an income and capital receipts in the longer term. However, income received by the Council from CIFCO could be spent on any projects or costs incurred within the Council.

42.41 Councillor Welham then enquired why the risk register did not include an evaluation of the risk of continuing company losses, as company losses would continue.

42.42 The Assistant Director explained that the risk did not generate the forecast investment returns, so it could be interpreted as both income and capital and was a broad risk, hence included in the significant risk register.

42.43 Councillor Osborne thought the presentation had been excellent and questions and responses had been good.

42.44 Councillor Carter enquired if the Council as landlords was responsible for the environmental aspects of the properties in the portfolio and if properties required to be brought up to standard would affect the value of the portfolio. He questioned if CIFCO would be investing in social housing and whether they would be new build or if the Council would be investing in carbon neutral properties.

42.45 The Assistant Director explained that tenants held the responsibility for full repair and insurance and in that respect, they held the environmental responsibility for the properties. However, CIFCO had made sure that properties in the portfolio meet standard environmental requirements.

42.46 She stated that CIFCO had no intentions to acquire or build any social housing.

42.47 Councillor Jane Gould asked in relation to CIFCO investment in drive-ins, food and beverages outlets and that these out-lets had an impact on carbon emissions. How could Members influence the Board if they felt that the investments did not follow the Council's wishes.

42.48 Councillor McCraw responded that Full Council would be looking at the Business Plan collectively in July 2020 and that Members of the Council sat on the Board of CIFCO representing the wishes of the Council. They would be the best way to influence the Board

DRAFT MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 22 JUNE 2020

Members debated the issues and raised several points including:

- That CIFCO was producing an income and continued to do so.
- That the use of renewable sources and low carbon emissions would be addressed by the Climate Taskforce.
- That the report did not contain enough information about the risk, equity and losses and that this should be clearly addressed in the risk register and explained in the report.
- Concerns for the losses and the impact on the Council's income.
- If it was possible to ensure that the current deferment of the rents and shortfall would actually materialise, especially if the tenants' trading positions changed over the coming year.
- Concerns for the deferment of rents due to the current financial instability.
- The portfolio value might divest for the short-term, but if the debt could still be serviced and an income received, then CIFCO served its purpose.
- That there was no requirement for an exit strategy, as there was no intention of selling the assets. The investments were long-term investments.
- Rental income was not likely to come down, the most likely risk for rental income would be the loss of occupancy of the properties.

42.53 Councillor Welham returned to the question of equity, losses and risks. He was concerned that if CIFCO had an income loss and would only be able to fulfil the debt repayment, then the benefit of investing in CIFCO would be diminished as the cash-flow from CIFCO to the Council would be reduced. He was also concerned about the reduction of equity. He clarified that a reduction strategy was not necessarily an exit strategy, but a way the Council could decide not to provide funds to invest in for instance car sales, coffee shops or restaurants.

42.54 The Chair asked if Councillor Welham was asking for specific sectors to be included in the Business Plan or to be removed, to which Councillor Welham responded, that he did not want to alter the Business Plan, but asked how the Business Plan would reflect if there was a particular sector the Council did not want to be involved in. It would be an advantage to include a reduction of assets strategy to adhere to such adjustments.

42.55 On the request of the Chair, Councillor Caston explained that the Climate Taskforce would deliver its report to Cabinet next month and included general investment strategies for climate change.

DRAFT MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 22 JUNE 2020

42.56 Councillor Carter thought it was important to invest for the future and that an exit strategy should be included, as circumstances were changing and the way of working now would have an impact on the investment for the future.

42.57 Councillor Hadingham MOVED recommendation 3.1 to 3.2 in the report and Councillor Osborne SECONDED it.

42.58 The Chair considered if it was necessary to proceed into a closed session and Members agreed it was not.

42.59 The Monitoring Officer advised that the recommendations in the report were for the Councils consideration and that the Committee would have to adjust the recommendations to reflect they endorsed the report and Business Plan.

42.60 The Proposer, Councillor Hadingham and the Seconder, Councillor Osborne agreed to the suggested adjustment.

42.61 Councillor Welham then proposed an amendment:

That more information be added in the report regarding risks, equity and risks and made available to Councillors, when they discuss the Business plans at their respective Council meetings.

42.62 The Chair asked if the Proposer and Seconder accepted the amendment.

42.63 Councillor Hadingham, the Proposer, and Councillor Osborne the Seconder both refused the proposed Amendment.

42.64 Councillor Carter SECONDED the proposed Amendment, which was put to Members for voting and the vote was LOST by 5 votes to 6 votes.

42.65 The recommendation that the Committee endorsed the Capital Investment Fund Company (CIFCO CAPITAL LTD.) Business trading and Performance Report and Business Plan, was put to Members for voting and the vote was CARRIED.

By 8 votes to 1 and 2 abstentions.

It was RESOLVED:-

That the Joint Overview and Scrutiny Committee endorses the Capital Investment Fund Company (CIFCO CAPITAL LTD.) Business trading and Performance Report and Business Plan.

42.66 The Chair expressed the hope that the CIFCO Board and Officers would address the concerns raised within the meeting, and those expressed in the defeated amendment, in their final reports to the Councils.