

BABERGH and MID SUFFOLK DISTRICT COUNCILS

TO: BDC Council MSDC Council	REPORT NUMBER: MC/21/12
FROM: Cllr David Busby BDC Cabinet Member for Assets & Investments; Cllr Peter Gould MSDC Cabinet Member for Assets & Investments	DATE OF MEETING: 21 September 2021 23 September 2021
OFFICER: Emily Atack – Assistant Director Assets & Investments, Managing Director CIFCO	KEY DECISION REF NO. N/A

CAPITAL INVESTMENT FUND COMPANY ('CIFCO CAPITAL LTD') BUSINESS TRADING AND PERFORMANCE REPORT

1. PURPOSE OF REPORT

- 1.1 This report presents the trading activity for CIFCO Capital Ltd (CIFCO) for 2020/21. Appended to the report (Confidential Appendix C) is the draft business plan 2021/22 which, subject to Council approval, will form the basis of CIFCO's trading in 2021/22. CIFCO's performance against its business plan is monitored quarterly by the Holding Companies. The board of CIFCO directors continually assess the market and appropriately apply and adapt the guidelines of the business plan throughout each trading year. This report sets out performance to 23rd June 2021 in line with usual reporting timelines, however an update on performance from 24th June 2021 to 6th September 2021 is set out in appendix A for information.

2. OPTIONS CONSIDERED

- 2.1 The options available are to approve the 2021/22 CIFCO business plan for its adoption by CIFCO or to recommend amendments to the business plan.
- 2.2 The business plan has been prepared by the Board of CIFCO in consultation with its fund managers Jones Lang LaSalle (JLL). The Business Plan has been approved by the Holding Companies and reviewed by the Councils' Joint Overview & Scrutiny Committee. The Councils' Joint Overview & Scrutiny Committee were satisfied that:
- The current performance of CIFCO delivers good value to the Councils
 - That the KPIs are appropriate measures of performance
 - The business plan is robust and appropriate for the next 12 months
 - There is sufficient confidence in the management of CIFCO

3. RECOMMENDATIONS
3.1 That Council notes CIFCO Capital Ltd trading activity and performance for the year to 31st March 2021
3.2 That Council approves CIFCO Capital Ltd's 2021/22 business plan for adoption by CIFCO Capital Limited.
REASON FOR DECISION
3.3 To provide appropriate governance and performance monitoring for the operation of CIFCO Capital Ltd for the 2021/2022 period.

4. KEY INFORMATION

- 4.1 CIFCO has been trading since 2017, CIFCO has completed the second phase of investment which was approved by Council in 2019. CIFCO now holds 21 diverse commercial assets primarily in the industrial and office sectors. Details of these assets can be found on the CIFCO website <https://cifcocapital.com/our-portfolio/>.
- 4.2 A summary of the portfolio is set out below:

	Q1 2021
Total Asset Value	£83,918,000
Contracted Rent p.a.	£5,004,824
ERV	£5,556,641
Number of Assets	21
Number of Tenants	90
WAULT	To break 7 years 0 months To expiry: 8 years 6 months
Initial Yield	5.60%
Equivalent Yield	6.16%
Reversionary Yield	6.24%
Void Rate	5.72%
Running Yield*	5.20%

ERV = Estimated Rental Value. WAULT = Weighted Average Unexpired Lease Term

- 4.3 CIFCO is a trading company that was set up jointly by Babergh and Mid Suffolk District Councils to acquire commercial property to generate a revenue stream. CIFCO is jointly owned by BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd which in turn are each 100% owned by the respective councils. An ownership structure chart is set out at Appendix B. Commercial properties are acquired by CIFCO with funding provided by the Councils by way of loans (90%) and equity investments (10%). The loans are secured against the properties acquired and shares are issued in respect of equity investments made with each new acquisition. The value of the shares (equity investment) fluctuates in line with the value of the portfolio.

As the portfolio matures and the costs of acquisition (fees, stamp duty etc) are recovered, dividends will be payable to the Holding Companies and their respective Council owners as a return on the equity investment as well as revenue being generated through loan repayment.

- 4.4 Since the last business plan was approved in July 2020, 7 assets have been acquired by CIFCO completing the Councils' investment in the fund and increasing contracted rent to c. £5m per annum showing a net initial yield of 5.6% to CIFCO and increasing the Councils' gross annual income from £2.49m to £3.1m. This has increased net income (after Councils' borrowing costs) to £1.274m for Babergh DC and £1.018m for Mid Suffolk DC (£2.291m in total). The differing net amounts reflect the Councils' different treasury management strategies. These figures are equivalent to 22.06% of income generated by Babergh DC from Council Tax and 16.7% of income generated from Council tax by Mid Suffolk DC. This income makes a significant contribution to the Councils' budgets being equivalent to 13.6% of the Councils' staff costs.
- 4.5 In addition to the 7 assets acquired over the last 12 months the board has also committed to acquire a new build convenience store in Stanton, East Anglia. This acquisition will be completed when the development and lease to the occupier completes (anticipated late Autumn 2021). All funds to complete this acquisition were drawn down from the Councils before the end of the financial year (i.e. before 31st March 2021).
- 4.6 The year has been an extremely challenging one for all of us, and the pandemic has been difficult for some of our occupiers. Some tenants have been lost and we have worked hard with others, as a responsible landlord, to ensure their continuing ability to trade successfully. Overall, the portfolio has held up well, due to the work of the board and professional team, the quality of the assets and diverse portfolio. Rent collection on a quarterly basis has been well above industry norms and by day 90 broadly in line with our KPI, we expect this to improve further and return to normal levels by the end of this financial year. In spite of the very challenging year, the company has continued to make full debt repayment to our shareholders.
- 4.7 The 2021/22 business plan focuses on the on-going management of the fund and the company, to maximise revenue and return to our shareholders and to seek out opportunities to enhance the value of the portfolio wherever possible. The board is also keen to maximise the sustainability of its portfolio. With the majority of assets held on Full Repairing and Insuring (FRI) leases, the main opportunity will be to work with occupiers to put in place measures to reduce the carbon footprint. Where refurbishment is required at lease end, this will be carried out with a focus on sustainability. The board is adopting a new KPI this year providing a means to measure our impact on reducing the carbon footprint of the portfolio. This will help us to explore what can be achieved in subsequent years.
- 4.8 The updated investment strategy for 2021/22 commissioned by the Board and developed by the Board's Fund Manager, Jones Lang La Salle (JLL) is designed not only to give strong short-term results but medium and long-term income resilience. CIFCO does not specifically target Capital growth and its projections are not based upon such growth, but a focus on income growth.

4.9 This medium to long term resilience is based upon:

- A current average WAULT (weighted average unexpired lease term) to expiry of 8 Years 6 months
- A strategy that balances the portfolio so that a significant number of the assets are 'Core' and liquid
- A strategy that balances other attributes such as geography, asset class and sector so that resistance to medium and longer-term market stresses in any individual attribute can be mitigated
- A company structure that allows flexibility in asset acquisition and disposal.

4.10 The 2021/22 Business Plan contains all the elements of the previous Business Plan approved by both Councils last year. The Plan includes:

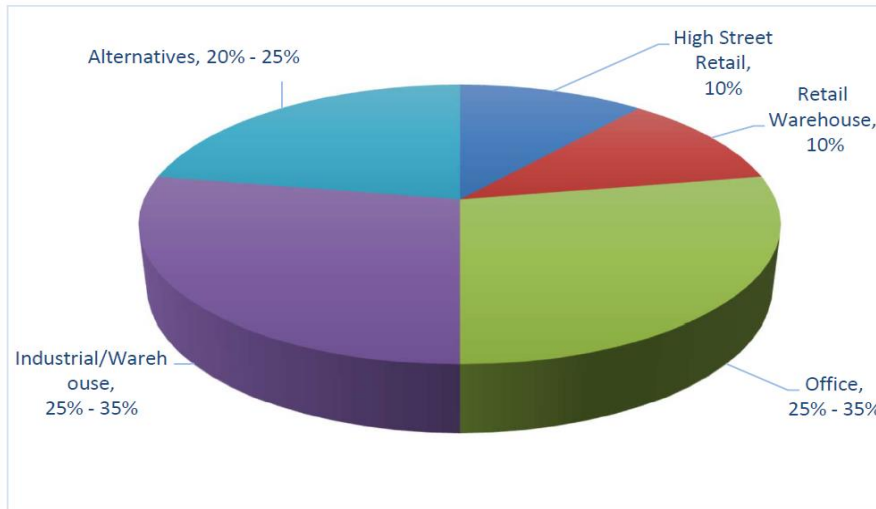
- A review of performance over the last 12 months against key performance indicators together with strategy for the year ahead.
- A summary of the full market conditions assessment and revised investment strategy commissioned by the Company's Fund Manager, JLL.
- The JLL market assessment, upon which the business plan is based, looks at the individual attributes of each asset class.
- The risks of investment in individual asset classes specifically reflecting the increased challenges in the high street retail sector.
- The business plan is not the document to analyse the strengths and weaknesses of individual tenant covenant. This is a matter for the Board in its due diligence as those assets arise in the marketplace and for the quarterly portfolio covenant review by the Board undertaken independently by fund manager JLL. However, the business plan does review the proportion of the fund let to different strengths of covenant.
- The Business Plan incorporates high level financial cashflow back to the Council through loan repayments. CIFCO borrows on a fixed rate so interest rate fluctuations are mitigated. Cashflow and operational finance is dealt with quarterly by the Board alongside quarterly risk analysis.
- In addition, the Board's future revisions to its investment strategy are influenced by quarterly portfolio analysis report from JLL which covers:
 - Investment Guidelines
 - JLL IPD (a UK benchmarking index) Forecasts
 - Tenant Covenant Log
 - Critical Dates Schedule
 - Individual Property Business Plans
 - Tenancy Schedule
 - Arrears
 - EPC Schedule

4.11 The original target when CIFCO was established was to hold no more than 25% of the fund in any sector, however with the weakening retail sector over the years since CIFCO was established and which has been exacerbated by the pandemic, the board has continued to successfully diversify the portfolio away

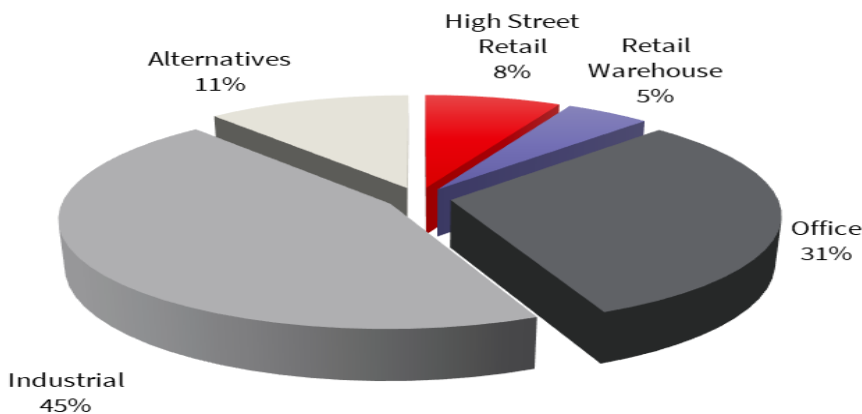
from high street retail investments and has increased its exposure to the industrial sector which continues to perform well. The leisure sector has been particularly impacted by the pandemic with few suitable leisure investments being marketed during 20/21. The charts below show the current make-up of the portfolio versus the 2020 strategy.

Portfolio Sector Split 2021 versus 2020 Strategy

Target Core Weightings



Actual Sector Split Weightings March 2021



5. KEY PERFORMANCE INDICATORS (KPI)

5.1 The key performance indicators were set within the **2020/21** Business Plan, these are set out below together with performance against these targets: -

KPI	Description	Target	Actual
1	Net Initial Yield (NIY)	5.75%	5.6%
2	Equivalent Yield (EY)	6%	6.15%
3	Progress against 24 Month full investment target to be achieved by April 2021	£100M	£99.2M
4	Quarterly Rent Arrears Measured by the amount of rent outstanding at the end of the quarter as a percentage of the total rent due that quarter.	<5%	Q1-5.22% Q2-6.86% Q3-3.42% Q4-3.29%

6. KEY STRATEGIC OBJECTIVES 2021/22

- Retain all assets at the current time with no sales anticipated
- Complete purchase of Convenience Store asset and no further acquisitions to be made now fund fully invested
- Maximise revenue through pro-active tenant engagement and lease events
- Post- Covid Restriction Re-ignite inspection regime and direct tenant engagement – assess tenant business direction plus repair and maintenance of property
- Enhance ESG & Sustainability credentials – deliver current action plan and demonstrate achievements
- Maintain tight budgetary and credit control
- Manage lease expiries
- Strategic deployment of Capital Expenditure
- Monitor markets for opportunities to enhance value and income
- Implement individual asset initiatives creating measurable added value

7. KEY PERFORMANCE INDICATORS (KPIs) 2021/22

- 7.1 The board propose to change the key performance indicators to reflect the end of the acquisition phase and to reflect the emphasis on portfolio management, focusing on income growth, return on investment, sustainability and rent collection.

KPI	Description	Target
1	Increase contracted rent from £5m per annum by 1 st April 2022	CPI + 1%
2	Equivalent Yield (EY)	6%
3	Reduce Portfolio EPC Score from 6628 (Average D Rating)	-10%
4	Quarterly Rent Arrears Measured by the amount of rent outstanding at the end of the quarter as a percentage of the total rent due that quarter.	<5%

The Board anticipates that KPI 4 may be challenging in the short term due to the continuing impact of the pandemic but aspire to returning to meet this target longer term.

8. LINKS TO JOINT CORPORATE PLAN

- 8.1 A resilient and robust business plan for CIFCO Capital Ltd will contribute to the strong governance of the Company and its performance. The Business plan aligns with The Councils' Corporate Plan and Medium-Term Financial Strategies delivering an important income stream into our districts to support the delivery of services and projects within our districts.
- 8.2 The investment in CIFCO is a long-term investment which will create a legacy for future generations.

9. COMPANY STRUCTURE AND IN-YEAR REPORTING

- 9.1 The Board of CIFCO Capital Ltd ('CIFCO') is responsible to its shareholders MSDC (Suffolk Holdings) Ltd and BDC (Suffolk Holdings) Ltd for the proper performance of the company against the business plan approved by the two parent Councils usually in July each year.
- 9.2 The Board meets regularly to review performance of the assets and fund, make portfolio decisions, appoint corporate advisers, and to put in place strategies and policies for company governance. A wide range of approvals have taken place throughout the year covering risk, performance management, governance, acquisitions, portfolio management, delegations and procurement.

Since Lockdown in March 2020 the Board have been holding virtual Board meetings and has also held virtual strategy days.

- 9.3 Each acquisition is recommended to the Board by JLL, approved in the first instance by the CIFCO Board subject to satisfactory due diligence and then reported to each Holding Company Board for further consideration and approval before funds are released. No acquisition can be made without the approval of both Holding Company Boards.
- 9.4 Each quarter the Chairman of CIFCO reports progress at a simultaneous Holding Company Boards meeting. He presents his assessment of the market and company activity during the last quarter and performance data relating to that activity.
- 9.5 The CIFCO Board reviews its annual business plan and investment strategy continuously to ensure that it remains consistent with the marketplace and emerging risks and opportunities. Its investment strategy is developed with advice from JLL. The Business Plan is amended in full annually. The Business Plan is presented to both Holding Companies for consideration and approval before it progresses to both full Councils for final consideration.

10. BOARD DIRECTOR PROFILES

- 10.1 The Board of CIFCO comprises 3 non-executive directors, the managing director (who is also the Assistant Director for Assets & Investments) and two Councillor directors- one from each shareholder, Cllr Rick Meyer and Cllr Elisabeth Malvisi who joined the Board in April 2021 to replace Cllr Holt.
- 10.2 The Board provides Council shareholders' perspective (through the appointment of two elected member Directors and the Managing Director) balanced with a strong commercial property industry expertise (through the appointment of three industry expert Directors not linked to the Council and the Managing Director who is Chartered Surveyor with experience in the property investment market). All Directors undergo a mandatory skills assessment before appointment.

Directors' Profiles



Chris Haworth (Non-Executive Director and Chair) - BSc in Estate management from Reading University, fellow of the Royal Institution of Chartered Surveyors, and a member of the National landlords Association. Partner of Carter Jonas for 12 years, until August 2012, and Head of the National Commercial Division for 8 years.



Emily Atack (Managing Director and Assistant Director Assets & Investments) – Emily is a Member of the Royal Institution of Chartered Surveyors. She has approximately 20 years' experience in both the private and public sector, primarily in dealing with commercial property transactions.



Henry Cooke (Non-Executive Director)- Investment banking professional with over 30 years' experience in roles across research, sales, trading, structuring, origination, syndication and asset management of US, UK, Australian and European mortgage backed, asset backed, whole-business and real estate financing



Mark Sargeantson (Non-Executive Director) – Fellow of the Royal Institution of Chartered Surveyors, partner of Cluttons, until early 1991. Acted for a wide range of property owners and investors mostly in portfolio and asset management in London and across the UK. Joined Fenn Wright, Ipswich in April 1991 and was a partner until 2008 and a consultant to the practice to the present day.

Elisabeth Malvisi (BDC Councillor Director)



Elisabeth has over 20 years' experience gained in the retail sector with such household names as Marks & Spencer and the university of Stirling Institute for Retail studies. Established a world leading provider of automotive waste. Elected as a District Councillor in May 2019.



Richard Meyer (MSDC Councillor Director)

Retired security risk management professional with senior management experience in: the Armed Forces, RAF Regiment; the Private Sector, De Beers; and the Public Sector with the British Library. He was elected as a District Councillor in May 2019.

11. CORPORATE GOVERNANCE

- 11.1 CIFCO Capital continues to have robust corporate governance, reporting quarterly to the BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd Boards. The Councils' internal audit team completed a review of the company's transaction and property management processes in 2019/20 and found that substantial assurances are in place, with no recommendations for improvement.
- 11.2 CIFCO Capital has complied fully with all Companies House registration and filing requirements. Ensors are the company's financial auditors. CIFCO Capital Ltd.'s financial year aligns with the shareholders financial year ending 31st March. The Non-Executive Directors have signed service agreements laying out individual obligations. These agreements are aligned to the Company's adopted Articles.
- 11.3 Board Members have completed Director training focusing on Corporate Law and Director requirements and the Board has an adopted director guidance code which aligns with other companies within the group and clearly sets out the expectations, responsibilities and obligations for all directors.
- 11.4 A self – evaluation and an evaluation of the Chair is undertaken by the Board annually.

12. FINANCIAL PERFORMANCE AND ACQUISITION PROGRESS

12.1 The Councils have received total net income of circa £5.49m since CIFCO's incorporation in 2017, details are set out in the table below:

CIFCO (Babergh)						CIFCO (Mid Suffolk)					
£ 000						£ 000					
	2017-18	2018-19	2019-20	2020-21	Cumulative		2017-18	2018-19	2019-20	2020-21	Cumulative
Revenue Impact						Revenue Impact					
Interest Received	(86)	(782)	(1,245)	(1,551)	(3,664)	Interest Received	(86)	(782)	(1,245)	(1,551)	(3,664)
Interest Paid	11	119	316	277	723	Interest Paid	11	235	541	533	1,320
Net Interest	(75)	(663)	(929)	(1,274)	(2,941)	Net Interest	(75)	(547)	(704)	(1,018)	(2,344)
Other income/ Recharges	(9)	(25)	(32)	(35)	(101)	Other income/ Recharges	(9)	(25)	(32)	(35)	(101)
Total Revenue	(84)	(688)	(961)	(1,309)	(3,042)	Total Revenue	(84)	(572)	(736)	(1,053)	(2,445)
£ m						£ m					
	2017-18	2018-19	2019-20	2020-21	Cumulative		2017-18	2018-19	2019-20	2020-21	Cumulative
Capital Movement						Capital Movement					
Capital Borrowed	12.38	13.71	4.05	19.44	49.58	Capital Borrowed	12.38	13.71	4.05	19.44	49.58
Loans Repaid	-	-	-	-	-	Loans Repaid	-	-	-	-	-
Gross Borrowing	12.38	13.71	4.05	19.44	49.58	Gross Borrowing	12.38	13.71	4.05	19.44	49.58
Loans Made to CIFCO	11.15	12.34	3.64	17.50	44.63	Loans Made to CIFCO	11.15	12.34	3.64	17.50	44.63
Loans Repaid	-	(0.08)	(0.12)	(0.15)	(0.35)	Loans Repaid	-	(0.08)	(0.12)	(0.15)	(0.35)
Equity	1.23	1.37	0.41	1.94	4.95	Equity	1.23	1.37	0.41	1.94	4.95
Gross Investment	12.38	13.63	3.93	19.29	49.23	Gross Investment	12.38	13.63	3.93	19.29	49.23
Net Capital Movements	-	0.08	0.12	0.15	0.35	Net Capital Movements	-	0.08	0.12	0.15	0.35

12.2 The Councils have different treasury management approaches and as such whilst the gross amount receivable from CIFCO is the same, the net amounts differ depending upon the Councils' finance costs, as illustrated in the table below for 2020-21:

<u>BDC</u>	£m	<u>MSDC</u>	£m
<u>CIFCO Tranche 1 £26.097m</u>		<u>CIFCO Tranche 1 £26.097m</u>	
Interest Receivable (From CIFCO)	-1.162	Interest Receivable (From CIFCO)	-1.162
Interest Payable		Interest Payable	
£14.847m Short term loans Average rate 0.32%	0.029	£3.597m Short term loans Average rate 0.51%	0.026
£5m 10 Year loans @ 1.71%	0.073	£10m 10 Year loans @ 1.71%	0.147
£6.25m 50 Year loans @ 2.63%	0.162	£12.5m 50 Year loans @ 2.63%	0.324
Total Interest Payable	0.264	Total Interest Payable	0.497
<i>NB. £11.25 PWLB borrowing not yet taken</i>		<i>NB. All £22.5m PWLB borrowing taken</i>	
Net Return	0.898	Net Return	0.665
<u>CIFCO Tranche 2 £23.492m</u>		<u>CIFCO Tranche 2 £23.492m</u>	
Interest Receivable (From CIFCO)	-0.389	Interest Receivable (From CIFCO)	-0.389
Interest Payable		Interest Payable	
Short term loans Average rate 0.32%	0.013	Short term loans Average rate 0.51%	0.037
<i>NB.PWLB borrowing taken</i>		<i>NB.PWLB borrowing taken</i>	
Net Return	0.376	Net Return	0.352

<u>BDC</u>	£m	<u>MSDC</u>	£m
Total Return Tranche 1 and 2	1.274	Total Return Tranche 1 and 2	1.017
Total Capital borrowed	49.58	Total Capital borrowed	49.58
Percentage return	2.57%	Percentage return	2.05%

12.3 The Councils' investment in CIFCO was completed by 31st March 2021, with a total of c.£99.2m being drawn down by CIFCO over the full investment period. This included a sum of approximately £4.5m for transactions that were due to complete after the 31st of March (Cavendish Street, Ipswich & Convenience Store in Stanton, East Anglia) and approximately £1.6m for future capital investments in the portfolio. Approximately £810,000 of this is due to be invested during this financial year as set out below: -

Property	Town	Tenant	Description	Capital Investment
Epsom	Renaissance House Common Parts	Common Areas	Common Parts Reception & WC refurbishment	£ 120,000
Harlow	2& 3 Pasadena Way	Vacant	Full refurbishment including roof replacement for reletting.	£ 425,000
Harlow	Unit 2 Princes Gate	Under Offer Sports Bike Shop Ltd	Refurbishment to enable reletting	£ 120,000
Norwich	24 Kingsway	Wurth	Full refurbishment enabling new lease to Wurth	£ 100,000
Coventry	2a & 2b Pilot Business Park	Agreement to lease Nisbetts	Removal of mezzanine and refurbishment	£ 45,000
2021/22				£ 810,000

- 12.4 Capital investment in the portfolio is essential to protect and enhance the value of the portfolio ensuring that the properties remain fit for purpose and attract the highest possible rent and best tenants. For example, the refurbishment of 2 & 3 Pasadena Way will increase the ERV (estimate rental value) from £7 psf to £10 psf once the works are completed as well as ensuring that the property attracts a better tenant with a stronger covenant and therefore enhancing the investment (capital) value of the property. The remaining £835,000 will be held by CIFCO for future capital investments in the portfolio. There are no further investments by the Councils planned within the Councils' Medium Term Financial Strategies.
- 12.5 The CIFCO accounts for the year ending 31st March 2021 show a loss of £4.58m before taxation. This loss includes the one-off costs of acquiring the 6 additional assets during 2020/21 (including stamp duty and fees of circa £1.9m) and an adjustment in portfolio valuation following the annual year-end revaluation (£2.4m) and bad debt write off of £300k. This is primarily a capital loss as a result of the reduction in the value of assets held on the company's balance sheet and the costs of acquisition. The value of this company is effectively the same as the value of the assets (properties) it owns and as such the company value (and equity or shares within it) will fluctuate in line with the property values. This "paper loss" does not require any additional capital or equity to be invested within the company and would only be realised in the event that properties are sold. The reduction in value of the portfolio and costs of acquisition are recorded as an impairment within the trading accounts. This impairment is also reflected in the shareholders accounts to reflect the changing value of the company. The total loss across the company structure in this regard is £4.58m for 2020/21, with a total capital loss since inception of approximately £12.6m (Acquisition costs of circa £5.5m and Reduction in value of £7.1m).
- 12.6 The portfolio was revalued as at 31st March 2021 by Knight Frank as independent valuers. The portfolio value reduced by 2.88% (c. £2.4m) overall. Whilst some of the asset values have increased, others remained stable, a

number have been adjusted downwards particularly in the retail sector, reflecting the structural change and malaise in the High Street which has been accentuated by COVID 19.

- 12.7 Trading conditions were challenging during 2020/21 and quarterly rent collection was below our long term KPI for June and December 2020, however significantly better than some other funds- particularly retail and leisure weighted funds. The rent collection figures to date are set out below, against some industry benchmarks (Alt Remit & Workman) these figures may increase further as arrears continue to be recovered:

	June 2020 Qtr			September 2020 Qtr		
	CIFCO	Workman	Alt Remit	CIFCO	Workman	Alt Remit
Day 0	54.41%	47.01%	37.80%	63.80%	56.73%	50.50%
Day 7	69.10%	61.33%	50.70%	67.03%	70.82%	62.00%
Day 21	73.84%	71.08%	59.20%	68.99%	74.84%	67.80%
Day 35	74.01%	77.37%	63.30%	73.91%	83.37%	72.70%
Day 90	94.78%	87.89%	72.50%	93.14%	87.89%	79.10%
	December 2020 Qtr			March 2021 Qtr		
	CIFCO	Workman	Alt Remit	CIFCO	Workman	Alt Remit
Day 0	75.32%	64.48%	52.60%	63.47%	55.49%	46.40%
Day 7	81.37%	70.31%	59.50%	67.59%	68.09%	60.50%
Day 21	82.27%	73.34%	67.20%	78.41%	77.57%	67.30%
Day 35	82.60%	77.58%	71.70%	88.12%	80.63%	71.80%
Day 90	96.58%	82.89%	78.60%	96.71%	84.70%	80.70%

- 12.8 Overall arrears as at 24th June 2021 were £184,807.55 which represents approximately 3% of the annual contracted rent. Rent collection has been a significant focus during the course of 20/21 with approximately 20 requests from tenants to vary payment terms, including moving from quarterly to monthly rental payments and some requests for rental concessions. All requests were considered on a fair and reasonable basis and in the context of limited recourse being available to Landlord's to pursue debts- Government restrictions limiting debt recovery are currently in place until March 2022.

- 12.9 In most situations CIFCO tenants have been keen to maintain a strong relationship with their landlord and payment plans have been agreed. In addition to informal agreements in relation to rental payment, CIFCO has been subject to some tenants entering into administration and 1 CVA (with Nero Holdings Limited). The CVA has resulted in an agreement for 30% of the rental arrears being paid with the balance written off and a turnover rent being paid for 3 years- the CVA is currently subject to a third-party legal challenge. Overall, approximately £300,000 of bad debt has been written off (approximately 6% of the current contracted rent) for the trading year 2020/21. Further details are set out below: -

Property	Tenant Administration	Current Position
Princes Gate Retail Park, Edinburgh Way, Harlow	Go Outdoors Ltd	Assignment to Go Outdoors Retail Limited
Princes Gate Retail Park, Edinburgh Way, Harlow	Lewis's Home Retail Ltd.	Let to Sports Bikes Limited
Unit 24 Kingway, City Trading Estate, Norwich	Economy German Kitchens Ltd	Let to Wurth Ltd
Units 2-3 Pasadena Trading Estate, Harlow	Majestic Shower Company Ltd	Vacant- Refurbishment Underway
DW FITNESS, Tritton Road, Lincoln	Dave Whelan Sports Ltd	Assignment to SDI Fitness Ltd.
36-39 Long Causeway, Peterborough	Nero Holdings Ltd	Nero remain in occupation subject to CVA

12.10 Whilst rent collection was challenging throughout the last financial year, the diversity of the portfolio in terms of tenant, location and sector mitigated the impact of COVID 19 on the fund and helped to maintain an important income stream for the Councils, with full debt repayments being made to the Councils. The Councils' total interest repayments in respect of loans taken out to fund CIFCO equated to £810,000 in 2020/21 which is equivalent to an average of approximately 16% of the current contracted rent payable to CIFCO (5.5% Babergh DC & 10.7% Mid Suffolk DC). Rental collection by CIFCO would need to fall significantly before it was insufficient to cover the Councils' related debt.

12.11 The capital investment for the first phase of funding from Babergh and Mid-Suffolk District Councils is scheduled to be repaid in full by December 2068 with the second phase being repaid by 2071. During 2020/21 CIFCO has been able to maintain full debt repayment to the Councils, however this may not be the case for the next 3 years as the fund continues to recover from the impacts of the pandemic. It is proposed that debt repayments are deferred for 13% of the portfolio during 21/22, 11% in 22/23, and 6% in 2023/24. All deferred repayments will be accrued in the Councils' accounts and additional interest will be payable to the Councils in relation to these delayed repayments. The table below sets out the debt repayment schedule for the next 3 years together with additional interest charges. In the event that income levels exceed expectations, CIFCO will endeavour to make full debt repayments.

Financial Year	Amount of Repayments to be Deferred	Full Repayment	Adjusted Repayment	Additional Late Payment Interest Payable by CIFCO on deferred amount
2021/22	£654,678	£4,867,981.25	£4,213,303.49	£35,349.19
2022/23	£538,570	£4,867,981.25	£4,329,410.93	£15,876.58
2023/24	£293,493	£4,869,970.99	£4,576,478.47	£2,982.78
			Total	£54,208.55

12.12 The costs of operating the portfolio are borne by CIFCO Capital Limited and these include finance costs, management, legal, audit and accountancy fees, director costs and staffing costs (paid to the Council) and any property expenses such as repairs that are not the responsibility of the tenants. The running costs for 2020/21 excluding finance costs, impairment and bad debts equated to approximately £838,000 including recharges of £70,000 paid to the Council for staff and premises overheads. Operating budgets for the next three years are set out within Appendix 4 of the business plan.

12.13 The Board has considered the merits of acquiring 111 assets, rejected 85 as unsuitable, submitted offers on 26 and acquired 7 assets. Details of which are set out in Appendix 2 along with the other properties within the portfolio.

13. CORPORATE APPOINTMENTS

13.1 In 2021/2022, the Board will work with the following corporate partners to support its investment activity:

- JLL – Fund Manager and Acquisitions Adviser
- Birketts LLP - Legal Adviser
- Zurich UK – Corporate Insurer
- Axa - Portfolio Insurer
- Aquilla Insurance Brokers Ltd - Insurance Broker
- Lloyds Bank PLC – Corporate Banking
- Ensors – Accountancy and Audit
- Grant Thornton – Tax and Strategic Finance Advice
- Workman LLP – Property Management

The portfolio valuation contract is due to be reviewed during 2021/22.

14. RISK MANAGEMENT

This report most closely links with the following Significant Risk:

Risk Description	Likelihood	Impact	Score	Mitigation Measures
10) If the Capital Investment Fund (CIFCO) does not generate forecast investment returns, we may be unable to meet the income projections for the Councils	2	3	6	The adoption of the proposed business plan will provide governance, accountability, and a framework for the management of the property fund. CIFCO activity continues to be closely monitored, together with market conditions and any changes or prospective changes in government legislation.

14.1 The Board of CIFCO Capital Ltd actively manages risk and considers the fund risk register formally at the Board meetings each quarter. There is a comprehensive risk management strategy in place which requires the Managing Director to attend a group risk panel each quarter to report on risk to the Holding Company Chairs and shareholder senior risk officers.

14.2 The Board continues to review the risk register regularly as a consequence of COVID 19 to ensure that risks were appropriately recorded and mitigated. This year the Board has undertaken a full review of the risk strategy and mechanism for quantifying risk to ensure that it robust and fit for purpose particularly in the light of the pandemic.

15. REVISED BUSINESS PLAN CONSULTATIONS

15.1 The Board of Directors considered the 2021/22 business plan at a virtual strategy day in March with its adviser JLL. The Business Plan has subsequently been developed with the Board of CIFCO and approved by both BDC and MSDC Holding Companies who recommend its approval by the Council for adoption by CIFCO.

15.2 The Councils' Joint Overview & Scrutiny Committee reviewed the business plan in June 2021 and were satisfied that:

- The current performance of CIFCO delivers good value to the Councils
- That the KPIs are appropriate measures of performance
- The business plan is robust and appropriate for the next 12 months
- There is sufficient confidence in the management of CIFCO

16. EQUALITY ANALYSIS

- 16.1 An Equality Impact Assessment was originally completed in September 2016. The outcome of the assessment was that the strategy itself will not impact residents, staff or any specific protected characteristics.

17. ENVIRONMENTAL IMPLICATIONS

Sustainability

- 17.1 During 20/21 CIFCO adopted a sustainability policy attached at Appendix 7. Taking action on climate change and the greenhouse gas emissions which cause it, is a critical part of building a more sustainable future – and every business must play their part. Buildings account for 40% of emissions, creating an urgent need for the real estate sector to develop and implement plans to transition to net zero carbon.
- 17.2 Methods of measuring the sustainability of investment property portfolios are still developing, however whilst this is the case, we will seek to measure the sustainability of our portfolio with the data currently available, namely EPC data. All of the properties held within the portfolio have EPC ratings, 71.5% are rated D and above with the 27.3% rated E and 1.3% rated F. The table below sets out the current portfolio rating, together with target ratings to achieve by the end of this financial year. The target equates to a 10% reduction in portfolio rating, which would move the portfolio from a D rating to a C rating.

Total Portfolio Rating	6628
Average Portfolio Score	83
Average Portfolio Rating	D
Target Portfolio Rating April 2022	5965
Target Average Portfolio Score April 2022	75
Target Average Portfolio Rating April 2022	C

- 17.3 Whilst our tenants are largely responsible for maintaining and repairing their own demises, CIFCO is keen to support tenants to improve their EPC ratings and to improve the ratings of buildings within our control, such as vacant properties and the common parts of multi-let buildings.
- 17.4 The following action plan, details current planned or potential sustainability improvements and how they are to be measured. As initiatives are implemented JLL and Workman will record and measure the benefit for future reporting purposes.

CIFCO Sustainability Action Plan 2021/22

Property	Initiative	Measurement
Renaissance House, Epsom	LED lighting 1 st /3 rd floor	EPC rating improvement/energy consumption
Renaissance House, Epsom	LED lighting to common parts	EPC rating improvement/energy consumption
Renaissance House, Epsom	Smart Meters	Energy consumption
Units 2&3 Pasadena Way, Harlow	Refurbishment works/materials/lighting/smart meters/insulation	Identify specific green construction ratings. EPC rating improvement
Units 2&3 Pasadena Way, Harlow	PV panels feasibility study to new roof	Energy savings
Unit 24 Norwich	Refurbishment works/materials/lighting/smart meters/insulation	Identify specific green construction improvements
Olympus Park	Cycle Cage feasibility	Social and environ benefits
Unit 2 Princes Close, Harlow	Engage with prospective tenant on refurbishment works – identify green initiatives	
Renaissance, Epsom	Electric charging points in car park - feasibility	Support use of green energy through take up
Green Leases	Workshop with Birketts to review green covenants in leases and consents for alterations	Identify lease improvements
Coventry	Establish use of existing solar panels	Measure take up and energy consumption

18. APPENDICES

Title	Location
(a) Quarter 2 Performance Update	Attached
(b) Company ownership structure	Attached
(c) DRAFT CIFCO CAPITAL LTD Business Plan 2021/22 (CONFIDENTIAL)	Redacted Attached Unredacted Attached in Part 2
(d) Recommendations from Joint O&S Committee	Attached