

<b>TO:</b>	<b>COUNCIL</b>	<b>APPENDIX D to PAPER MC/21/12</b>
<b>FROM:</b>	<b>Joint Overview and Scrutiny Committee</b>	<b>DATE OF MEETING: 23 September 2021</b>
<b>OFFICER:</b>	<b>Henriette Holloway Governance Support Officer</b>	

**COUNCIL ARE ASKED TO CONSIDER THE RECOMMENDATIONS BELOW FROM THE JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 28 JUNE 2021 FOR:**

**JOS/21/2 CAPITAL INVESTMENT FUND COMPANY (CIFCO CAPITAL LTD.) BUSINESS TRADING AND PERFORMANCE REPORT 2020/21**

**JOS/21/3 PART 2 CONFIDENTIAL APPENDIX B – CAPITAL INVESTMENT FUND COMPANY (CIFCO CAPITAL LTD.) BUSINESS PLAN**

<p><b>RECOMMENDATIONS</b></p> <p>That the Joint Overview and Scrutiny Committee has considered the four bullet points in paragraph 1.2 of the Executive Summary and that the Committee was satisfied that the CIFCO Capital Ltd Business Plan and Investment Plan was robust for 2021/22.</p>
<p><b>REASON FOR DECISION</b></p> <p>The Committee scrutinised CIFCO Business Trading and Performance Report 2020/21 and the Confidential Business Plan to ensure that the Business Plan was robust.</p>

## **APPENDICES**

<b>Title</b>	<b>Location</b>
A) Executive Summary	Attached
B) Draft Minute – JOINT O&S COMMITTEE	Attached

### **BABERGH & MID SUFFOLK JOINT OVERVIEW & SCRUTINY COMMITTEE – 28 JUNE 2021** **EXECUTIVE SUMMARY** **CAPITAL INVESTMENT FUND COMPANY ('CIFCO CAPITAL LTD') BUSINESS TRADING** **AND PERFORMANCE REPORT 2020/21**

#### **1. PURPOSE OF REPORT**

- 1.1 To consider the trading activity for CIFCO Capital Ltd (CIFCO) for 2020/21 and the Business Plan for 2021/22. The finalised report and Business Plan will be presented to both Councils at their July meetings and the Joint Overview & Scrutiny Committee is tasked with reviewing both the draft report and the Business Plan in advance of Councils' consideration.
- 1.2 The Joint Overview & Scrutiny Committee is asked to consider the following:
- Does the current performance of CIFCO deliver good value to the Councils?
  - Are the KPIs appropriate measures of performance?
  - Is the business plan robust and appropriate for the next 12 months?
  - Is there sufficient confidence in the management of CIFCO?

#### **2. EXECUTVE SUMMARY**

- The Councils' investment in CIFCO is now completed, with final sums being drawn down in March 2021 by CIFCO enabling the completion of 2 further properties during 21/22 and to provide funds for future capital investments in the assets.
- Focus and purpose of CIFCO is to continue to generate income and add value where possible- change in KPIs as a consequence to reflect the current full investment status and increased emphasis on sustainability.
- CIFCO portfolio provides a diverse portfolio of assets and tenants to mitigate over exposure to individual tenants and sectors.
- Since 2018, the CIFCO portfolio has diversified away from retail assets towards a greater emphasis on industrial assets.
- CIFCO Rental Income is £5m per annum
- Rent Collection has held up well in the face of the pandemic– total arrears currently equate to 4.6% of rent roll (£233k against £5m rent roll).
- Tenant Administrations has resulted in £240k bad debt being written off this year.
- CIFCO made full debt repayments during 20/21 despite challenges of COVID
- Mid Suffolk received net income during 20/21 of £1,018,000 (equivalent to 16.7% of its Council Tax Income)
- Babergh received net income of £1,274,000 during 20/21 (equivalent to 22.06% of its Council Tax Income)

- Total net income received by the Councils to date £5,487,000 since inception 2017.
- CIFCO Final Draft Accounts will be available for the full Council meetings in July
- CIFCO Indicative Draft 20/21 Accounts show a Pre-Tax loss of c.£4.4m comprising £2m of acquisition costs and a downward adjustment in value of £2.4m primarily relating to those assets most impacted by COVID. These losses would only be realised if assets are sold at the current time.
- As part of prudent financial planning in response to COVID, CIFCO is looking to defer between 6 and 13% of debt repayments to the Councils over the next 3 years. All sums will be paid in full and accrued in Councils' accounts. Additional interest will be paid in relation to the delayed repayments.
- Despite COVID administrations, the quality of portfolio has led to most vacant properties being relet and VOIDs remain low at circa 3% of the portfolio.
- Capital Investments of circa £800,000 planned during 21/22 to add value, improve sustainability and improve re-letting opportunities.
- Some Information from the business plan is included within the body of the Council report and as such many of the tables are duplicated.

## **MINUTE RELATING TO THE RECOMMENDATION TO COUNCIL FROM THE JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 28 JUNE 2021**

### **70 JOS/21/2 CAPITAL INVESTMENT FUND COMPANY (CIFCO CAPITAL LTD.) BUSINESS TRADING AND PERFORMANCE REPORT 2020/21**

- 70.1 The Chair, Councillor Welham outlined the purpose of the scrutiny process to Members and invited the Mid Suffolk Cabinet Member for Assets and Investments to introduce the report.
- 70.2 Councillor Peter Gould detailed the main points and developments for CIFCO included in the report and informed Members that CIFCO's website has been updated to provide more detail about the company.
- 70.3 The witnesses then introduced themselves to the Committee:
- Sir Christopher Haworth - Chair of the Board of Directors for CIFCO CAPITAL LTD.
  - Neville Pritchard – Director, Capital Markets JLL (Jones Lang LaSalle)
  - Henry Cooke – Director, CIFCO CAPITAL LTD.
  - Zoe McLaughlin – Ensors Accountants (CIFCO Auditors)
- 70.4 Emily Atack, Chris Haworth and Neville Pritchard then presented a summary of the Business Plan to Members including the purpose of the business plan, key investments criteria 2020/21, acquisitions and portfolio summary, key performance indicators (KPIs) and the business debt repayment plan, CIFCO Capital and Income 2017 – March 2021 and the income to the Councils.
- 70.5 The chair of the Board of Directors, Chris Haworth concluded that the portfolio was well balanced, however the board was always looking to improve the value of the assets. Despite a capital (book) loss of £12.5m, Councils had to date received a net income of £5.5m.
- 70.6 The Chair then read the question received from Mr Young, a member of the public:
- Why was it necessary for CIFCO Capital Ltd. to allocate 983269 new shares on 20.01.2021 to each shareholder (BDC & MSDC) and when and where were BDC Councillors informed, and subsequently agreed to such action?"
- 70.7 The Assistant Director – Assets and Investments responded that shares were allocated to the shareholders on the acquisition of new assets by CIFCO to represent the equity element invested by the shareholders. Due to the process involved these were often grouped together and issued as a single allocation of shares – the allocation referred to above was in respect of 4 property acquisitions by CIFCO and represents 10% of the costs of acquiring the properties, which was the agreed equity investment by the shareholders. This process for issuing shares had been in place since CIFCO was originally set up and ensured that the shareholders equity is appropriately recorded and protected.
- 70.8 The Chair then read the supplementary question from Mr Young:

Why has a resolution dated 27 Sept 2019, giving authority for the CIFCO CAPITAL Ltd. Directors to allot shares, and signed on behalf of BDC (SUFFOLK HOLDINGS) Ltd., only just been registered some 20 months late?

- 70.9 The Assistant Director – Assets and Investments responded that CIFCO's lawyers noted that this resolution was not showing on the Companies House website when undertaking some company housekeeping. A copy of the resolution was sent to Companies House at the time; however, it was not uncommon for documents to go missing or be filed erroneously by Companies House. It was decided therefore to refile the resolution for completeness.
- 70.10 Councillor Dawson enquired after the value of the shares and the Assistant Director – Assets and Investment responded they represented 10% of the value of the assets and that each held a value of £1.
- 70.11 Councillor Caston referred to the opportunistic investments in the report and if there was a way to look further afield to achieve balance for opportunistic investments.
- 70.12 Sir Christopher responded that currently there was no plans to sell any assets in the short term but in the future any possible opportunities would be considered.
- 70.13 Councillor Welham queried the investment guidelines in relation to investments in the north of the county and the Assistant Director for Assets and Investments responded that the guidelines were to invest across the county. However, the focus had been on investing in the south, as this part of the county provided better opportunity to acquire suitable assets meeting the criteria.
- 70.14 In response to Councillor Scarff's question to the late payment interests on page 30, and at what level of interest was this calculated, the Assistant Director for Assets and Investments clarified that deferred payment would be charged at 2% above the agreed interest rate for the main loan.
- 70.15 Councillor Barrett commented that the CIFCO fund 5.6% return though the whole point of CIFCO was to generate a net income to the Council. He asked if the net income return of 3.67% to the Council acceptable as he felt it was very poor return for the amount invested by the Council.
- 70.16 Assistant Director – Corporate resources and Section 151 Officer explained that the 3.67% was slightly better than the anticipated rate, when CIFCO was set up as then the anticipated rate had been 2%.
- 70.17 In a response to a further question from Councillor Barrett, the Assistant Director – Corporate Resources responded the Councils were no longer able to access the Public Work Loans Board (PLWB) for debt for yield investment.
- 70.18 Councillor Barrett asked if it would not be prudent to reduce the management costs and make CIFCO a holding company rather than an acquisition type company.
- 70.19 The Assistant Director for Assets and Investments explained that the cost related mostly to the consultants employed to manage the portfolio to ensure that CIFCO received the best advice and that the board had reviewed how the portfolio should be managed. It was important to manage the portfolio well to maintain value and maximise opportunities.

This was particularly true during the pandemic when it was important to manage a good relationship with tenants to maximise rent collection and support businesses long term prospects.

- 70.20 Councillor Maybury referred to the re-letting of properties and how she understood void period of six months were likely before a property could be re-let. She also queried the time it took to refurbish a property. The Assistant Director of Assets and Investments outlined the rental arrangements with tenants and explained how refurbishment could increase the rental charges and gain high quality of tenants for the properties.
- 70.21 In response to further questions from Councillor Maybury the Assistant Director continued that tenant engagement formed part of the contract with the management agent at no additional costs, and that there was an allowance in the budget for additional costs such as costs for transactions such as rent reviews and re-lettings to be undertaken.
- 70.22 Councillor McLaren asked the Section 151 Officer whether in her professional opinion, she thought that the KPI measures were appropriate.
- 70.23 The Section 151 officer responded that her professional opinion did not extend to property, hence the professional advice received, however she was comfortable in relation to the Councils' finance.
- 70.24 Councillor McLaren asked when CIFCO would be allowed to pursue debts in relation to the Government's regulations for the recovery of rental debt.
- 70.25 The Assistant Director for Assets and Investments explained that the current pandemic Government regulations suspended usual rent recovery actions until June 2022. However, in the meantime the Government would be introducing arbitration to support agreements regarding rental arrears being made between landlords and tenants.
- 70.26 Councillor Ekpenyong referred to the weighted average unexpired lease term (WAULT) of approximately eight years and six months, page 19 in relation to the assets liquidity outlined in the Strategic Priorities on page 22 and asked how these two objectives sat together.
- 70.27 The Assistant Director for Assets and Investments responded that this was the average length of the lease term for the portfolio and that leases were renegotiated to ensure rental growth she then outlined the liquidity for assets and explained that liquidity relates to whether assets could be easily sold. Investors would consider lease length when acquiring assets and different lease lengths are attractive to different investors.
- 70.28 Chris Haworth continued those reviews of leases and lease renewals added value to the portfolio and enabled an increased to the rental income over time. Currently the portfolio performed well in this respect.
- 70.29 Mr Pritchard added that leases were usually for 10 years, often with a break clause at 5 years but depended upon the markets for different properties. Leases expired could be advantageous, as it was possible to apply rent at market value to properties when leases were up for either re-negotiations or for new tenants.

- 70.30 Councillor Gould referred to sustainability and initiatives and asked if there were other targets for sustainability than the EPC.
- 70.31 The Assistant Director for Assets and Investments explained that whilst the Board of CIFCO was keen to have targets for sustainability, only ECP data was currently available to measure against, but other sustainable targets would be considered in the future as further benchmarks are developed by the industry.
- 70.32 Chris Haworth explained that it was difficult to set targets for sustainability, as each property and tenant were different. However, investing in some properties might be considered by the Board in the future. In a response to a further question from Councillor Gould, The Assistant Director for Asset and Investments confirmed that JLL had a sustainability department, which CIFCO collaborated with. CIFCO shared the sustainability challenge with tenants, but that she thought the CIFCO was at the forefront of this changing model.
- 70.33 Councillor Welham asked for clarification of the management fee.
- 70.34 The Assistant Director responded that company management costs equated to circa 17.5% of the annual income and this covered all of the running costs of CIFCO.
- 70.35 In response to a further question from Councillor Welham regarding the shortfall of repayments, the Assistant Director responded that the repayments would be posed at the end of three years and would either be repaid or added to the debt if this was not possible.
- 70.36 Members debated the issues and Councillor Caston felt that CIFCO was in a better place than he had thought based on the information he had received at this meeting.
- 70.37 Members considered the recommendation to make to Council and there was a general agreement that the Committee thought the Business Plan was robust and that Members had scrutinised the four bullets point detailed in the Executive Summary.
- 70.38 Councillor Barrett proposed that the Committee had considered the four bullets point in the Executive summary and that the Committee was satisfied that the Business Plan was robust for 2021/22.
- 70.39 Councillor Ekpenyong seconded the recommendations.

By 10 votes for, 1 abstention

**It was RESOLVED: -**

**That the Joint Overview and Scrutiny Committee has considered the four bullets points in paragraph 1.2 of the Executive Summary and that the Committee was satisfied that the CIFCO Capital Ltd Business Plan and Investment Plan was robust for 2021/22.**