

MID SUFFOLK DISTRICT COUNCIL

TO: Council	REPORT NUMBER: MC/19/16
FROM: Cllr Gerard Brewster – Chair of MSDC (Suffolk Holdings) Ltd	DATE OF MEETING: 25 July 2019
OFFICER: Emily Atack – Assistant Director Assets and Investments, Managing Director CIFCO	KEY DECISION REF NO. N/A

CAPITAL INVESTMENT FUND COMPANY ('CIFCO CAPITAL LTD') BUSINESS TRADING AND PERFORMANCE REPORT 2018/2019

1. PURPOSE OF REPORT

- 1.1 This report presents the trading activity for CIFCO Capital Ltd (CIFCO) for 2018/19. Appended to the report (Confidential Appendix A) is the draft business plan 2019/20 which subject to Council approval will form the basis of CIFCO trading in 2019/20.

2. OPTIONS CONSIDERED

- 2.1 The options available are to approve the 2019/20 CIFCO business plan for its adoption by CIFCO or to recommend amendments to the business plan.
- 2.2 The business plan had been prepared by the board of CIFCO in consultation with its fund managers Jones Lang LaSalle. The Business Plan has been approved by the Holding Companies and endorsed by the Joint Overview and Scrutiny Committee.

3. RECOMMENDATIONS

- 3.1 That Council notes CIFCO Capital Ltd trading activity and performance for the year to end April 2019
- 3.2 That Council approves CIFCO Capital Ltd's 2019/20 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 2019/2020 period.**

4. KEY INFORMATION

- 4.1 CIFCO Capital Ltd has been trading since 2017 and as such this is the third annual business plan for the company. Over the last 12 months CIFCO has completed the first phase of investment and now holds 12 diverse commercial assets primarily across the Eastern region.

The fully invested fund now has a rent roll in excess of £3m, which is due to return £2.33m to the Councils in repayments providing net income after borrowing costs of c.£786,000 for Babergh District Council and c.£676,000 for Mid-Suffolk District Council. The differing net amounts reflect the Councils' different treasury management strategies. These figures are equivalent to 12.9% of income generated by Council Tax for the Councils and make a significant contribution to the Councils' budgets.

- 4.2 The year has presented a number of challenges, in particular the disruption in the retail sector and the growth in the warehouse sector, driven by the expansion of on-line shopping. This has meant that the Board has had to consider acquisitions very carefully to reflect this changing market. In addition, it has proved difficult to identify opportunistic assets at a price which justified the increased risk of such assets and following advice from our fund managers, Jones Lang LaSalle (JLL) our acquisition policy has concentrated on the core and core plus sectors of the market, resulting in an overall portfolio yield slightly below the original target but with a more resilient risk profile. The board continues to operate a strong risk management strategy and has in place an expert team of professional advisers to ensure that acquisitions meet the criteria required by our shareholders.
- 4.3 In February 2019, the shareholder Councils agreed to a further phase of investment totalling a further £50m. The 2019/20 business plan considers the strategy for further investment alongside the on-going management of the existing fund and the company.
- 4.4 The updated investment strategy for 2019/20 commissioned by the Board and developed by the Board's Fund Manager (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.
- 4.3 This medium to long term resilience is based upon;
- A current average WAULT to expiry of 8 Years 11 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.
- 4.4 The 2019/20 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 Plan is based looks at the individual attributes of each asset class targeted by CIFCO including strengths and weaknesses.

- 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 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 cash flow back to the Council through loans. 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. This 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

4.5 The principle change to the investment strategy relates to the target sectors for investment which are summarised in the table below and largely reflect the challenges within the retail market and the intention to reduce exposure to this sector, through the acquisition of non-retail assets:

Sector	2018/19 Target	2019/20 Target	Target Change	Actual 2019
High Street Retail	15-20%	10-15%	Decrease	17%
Retail Warehouse	15-20%	10-15%	Decrease	13%
Offices	15-20%	20-25%	Increase	32%
Industrial	20-25%	25-35%	Increase	27%
Alternatives & Other	25-30%	20-25%	Decrease	10%

4.6 With an increased fund size the Board will also now seek to sub-categorise sectors to further diversify risk, for example the office sector of the fund will look to include single let and multi-let offices.

5. KEY PERFORMANCE INDICATORS (KPI)

5.1 The key performance indicators were set within the 2018/19 Business Plan, these are set out below together with performance against these targets: -

5.2 KPI 1 - Net Initial Yield (NIY) Performance against target

The fully invested portfolio NIY is targeted at a minimum of 6%.

Actual - Initial Yield 5.75% Equivalent Yield 5.98%

5.3 KPI 2 - Progress against 18 Month full investment target

Full investment is targeted to be achieved by September 2018 in advance of the January 2019 (18 month) full investment target.

Actual - Fully invested by March 2019

5.4 KPI 3 - Distribution Performance against target

The CIFCO Board has agreed an interest rate applied to loans of 5%. The CIFCO Board will aim to raise this to 5.25% by September 2019.

Actual – 5% Based on the existing portfolio the Shareholders will receive gross income of £2.2m in loan repayments from CIFCO Capital, generating net income to the Councils £1.45m. This is equivalent to in excess of 12% of the revenue received from Council Tax. The Board will continue to review opportunities to increase the return to the Shareholders on a quarterly basis, however it is unlikely that it will be in a position to increase the interest rate during the next phase of acquisitions.

5.5 The following updated KPIs are included with the 2019/20 business plan: -

- KPI 1 Net Initial Yield (NIY) Performance against target
- The fully invested portfolio NIY is targeted at 5.75%.
- KPI 2 Equivalent Yield (EY) is targeted at 6%
- KPI 3 Progress against 24 Month full investment target
- Full investment is targeted to be achieved by April 2021
- KPI 4 Quarterly Rent Arrears of less than 5%
- Measured by the amount of rent outstanding at the end of the quarter as a percentage of the total rent due that quarter.

6. LINKS TO JOINT STRATEGIC PLAN

6.1 A resilient and robust business plan for CIFCO Capital Ltd will contribute to the following strategic objectives:

- Investment in land and property to generate income and regenerate areas
- Financially sustainable Councils

7. COMPANY STRUCTURE AND IN-YEAR REPORTING

7.1 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 in April 2018.

7.2 The Board meets monthly and has held 13 Meetings to date (between April 2018 and May 2019) to review performance of the assets and fund, make new acquisition decisions, appoint corporate advisers and put in place strategies and policies for company governance.

A wide range of approvals have taken place covering risk, performance management, governance, acquisitions, portfolio management, delegations and procurement.

- 7.3 Each acquisition is recommended to the Board by Jones Lang La Salle, 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.
- 7.4 Each quarter the Chairman of CIFCO reports progress at a simultaneous Holding Company Boards meeting. He presents his assessment of company activity during the last quarter and performance data relating to that activity.
- 7.5 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 Jones Lang LaSalle Ltd (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.

8. BOARD DIRECTOR PROFILES

- 8.1 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 Derrick Haley and Cllr Nick Ridley both served as Councillor directors on the board since its inception, Derrick Haley has now retired, and Nick Ridley resigned having not been returned at the election. They will be succeeded by Cllr Rick Meyer and Cllr Michael Holt.
- 8.2 The new Councillor directors will be appointed by the Joint Holding Companies in June following the completion of the skills audit.
- 8.3 The Board provides Council shareholder 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 and externally validated 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 7 Investments) – Emily is a Member of the Royal Institution of Chartered Surveyors (RICS). She has approximately 20 years' experience in both 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.

9. CORPORATE GOVERNANCE

- 9.1 CIFCO Capital continues to have robust corporate governance, reporting quarterly to the BDC (Suffolk Holdings) Ltd and MSDC (Suffolk Holdings) Ltd Boards, who in turn report to the Councils twice yearly. The Councils' internal audit team has completed a review of the company's governance and found that reasonable assurances are in place, with all recommendations being adopted.
- 9.2 CIFCO Capital has complied fully with all Companies House registration and filing requirements. Ensors are the company's financial auditors. The Board of CIFCO Capital adjusted the financial year (previously running 1st July to 30th June) to align with the shareholders financial year ending 31st March.
- 9.3 The Non-Executive Directors have signed service agreements laying out individual obligations. These agreements are aligned to the Company's adopted Articles.

- 9.4 New and existing Board Members will be provided with Director training focusing on Corporate Law and Director requirements. The Board will be adopting a new director guidance code during the forthcoming year, which will clearly set out the expectations, responsibilities and obligations for all directors.

10. FINANCIAL PERFORMANCE AND ACQUISITION PROGRESS

- 10.1 The tables below show the income received from CIFCO whilst the first tranche of funding was being invested, showing each Council has received approximately £1m since 2017. The tables also show the movement of capital over this period. The year to date was calculated as at 16th June 2019.

CIFCO (Babergh)					CIFCO (Mid Suffolk)				
£ 000					£ 000				
	2017-18	2018-19	2019-20 ytd	Cumulative		2017-18	2018-19	2019-20 ytd	Cumulative
Revenue Impact					Revenue Impact				
Interest Received	(86)	(782)	(300)	(1,168)	Interest Received	(86)	(782)	(300)	(1,168)
Interest Paid	11	119		130	Interest Paid	11	235		246
Net Interest	(75)	(663)	(300)	(1,038)	Net Interest	(75)	(547)	(300)	(922)
Dividends from CIFCO	-	-	-	-	Dividends from CIFCO	-	-	-	-
Total Revenue	(75)	(663)	(300)	(1,038)	Total Revenue	(75)	(547)	(300)	(922)
£ m					£ m				
	2017-18	2018-19	2019-20 ytd	Cumulative		2017-18	2018-19	2019-20 ytd	Cumulative
Capital Movement					Capital Movement				
Capital Borrowed	12.38	13.71	1.17	27.26	Capital Borrowed	12.38	13.71	1.17	27.26
Loans Repaid	-	-	-	-	Loans Repaid	-	-	-	-
Gross Borrowing	12.38	13.71	1.17	27.26	Gross Borrowing	12.38	13.71	1.17	27.26
Loans Made to CIFCO	11.15	12.34	1.05	24.54	Loans Made to CIFCO	11.15	12.34	1.05	24.54
Loans Repaid	-	-	(0.02)	(0.02)	Loans Repaid	-	-	(0.02)	(0.02)
Equity	1.23	1.37	0.12	2.72	Equity	1.23	1.37	0.12	2.72
Gross Investment	12.38	13.71	1.15	27.24	Gross Investment	12.38	13.71	1.15	27.24
Net Capital Movements	-	-	0.02	0.02	Net Capital Movements	-	-	0.02	0.02

- 10.2 The CIFCO accounts for the year ending 31st March 2019 show a loss of £3.1m. This loss includes the one-off costs of acquiring the assets (including stamp duty and fees of approximately £1.5m) and an adjustment in valuation following the year-end revaluation. This adjustment in valuation does not impact the income return to the fund and shows a reduction in value of 3% across the portfolio.
- 10.3 The administrative costs of operating CIFCO Capital Ltd for the financial year 1 July 2018 ending 31st March 2019 was £246,000, the full year equivalent being £330,000. Administrative costs include professional fees, executive and non-executive resource costs. CIFCO Capital paid the Councils £50,000 for resource for the year 1st April 2018 to 31st March 2019. Assuming a portfolio value of £75m by March 2020, the budget for administrative costs for the year 2019/20 is £500,000. The increased administrative costs budget reflects an increase in fees which are calculated as a percentage of rent and/or portfolio value.
- 10.4 The Board has considered the merits of acquiring 77 assets, rejected 64 as unsuitable, submitted offers on 13 and acquired 6. The Board, with Holding Company approval, has invested in six assets between 1st April and 31st May at a value of £28,255,000.
- 10.5 From these 6 properties, the company receives £1,714,771 in rental income per annum, bringing the total annual rent to £3,119,558 against the previously anticipated rental income of circa £2.8 million per annum.

This includes income from the first asset acquisition of the second phase of investment, excluding this the income the first phase of investment generates an income of £2.98m.

10.6 A summary of the assets acquired between 1st April 2018 and 31st May 2019 are set out below:

2 Eastman Way, Hemel Hempstead (Completed 17 July 2018)



Situated in the established 'Maylands Business Park, surrounded by similar uses and occupiers. The unit is let on a long lease to a good covenant providing secure long-term income. This property is classified as a Core asset.

Olympus Business Park, Ipswich (Completed 3 August 2018)



A well-located industrial asset in an established location. The units are well let to a range of tenants, diversifying the income risk. Approaching lease events provide the opportunity to secure tenants on longer terms and demonstrate rental growth. This property is classified as a Core plus asset.

Westpark House, 23 Cumberland Place, Southampton (Completed 19 Dec 2018)



The property provides a well let office building in an established business location in Southampton. Following the removal of the tenant's break, the long unexpired term (7.9 years to expiry) provides a good income for the fund without exposure to capital expenditure. Paris Smith LLP provides a strong covenant with minimal risk of failure. The property is classified as a 'Core' asset of the portfolio.

Omron, Opal Drive, Milton Keynes (Completed 9 Jan 2019)



The property provides a well located, fully let and recently refurbished office building. Milton Keynes has been projected to be a leading growth centre in the UK. A strong tenant covenant combined with a low rental base provides the opportunity to generate an increasing income for the fund, especially if the tenant's break can be removed. The property is classified as a 'Core' asset of the portfolio.

Lutea House, Brentwood (Completed 12 March 2019)



The property provides a well let office building in an established business location in Brentwood. Long unexpired term (7.6 years to expiry) provides a good income, with fixed rental uplifts, for the fund without exposure to capital expenditure. Shawbrook Bank provides a strong covenant with minimal risk of failure. The property is classified as a 'Core' asset of the portfolio.

DW Fitness, Lincoln (Completed 15 May 2019)



The property provides a well located, fully let building currently fitted out for gym/leisure use. A good tenant covenant combined with fixed rental uplifts provides the opportunity to generate an increasing income for the fund. The property is classified as a 'Core' asset of the portfolio.

11. CORPORATE APPOINTMENTS

11.1 In 2019/2020, 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
- MS Amlin - 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
- Knight Frank – Independent Portfolio Valuers

12. RISK MANAGEMENT

This report most closely links with the following Significant Risk:

Risk Description	Likelihood	Impact	Mitigation Measures
4a) If the Capital Investment Fund (CIF) does not generate forecast investment returns, we may be unable to meet the income projections for the Councils	2	3	CIFCO has now completed acquisitions for the first tranche of funding. The adoption of the proposed business plan will provide governance, accountability and a framework for the second tranche of funding. CIFCO activity continues to be closely monitored, together with market conditions and any changes or prospective changes in government legislation.

12.1 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.

13. REVISED BUSINESS PLAN CONSULTATIONS

13.1 The Board of Directors considered the 2019/20 business plan at a 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.

13.2 The 2019/20 business plan and performance report were reported to the Joint Overview & Scrutiny Committee on 1st July 2019. By a unanimous vote, it was resolved that the Joint Overview and Scrutiny Committee note CIFCO Capital Ltd. trading activity and performance for the year to end April 2019 and endorse the report and 2019/20 business plan.

14. EQUALITY ANALYSIS

14.1 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. Funding for the programme is independent of existing revenue streams and therefore it will not impact the delivery of any existing front-line services.

15. ENVIRONMENTAL IMPLICATIONS

15.1 There are no known negative environmental impacts resulting from the proposals within the CIFCO CAPITAL LTD Business Plan 2019/20.

16. APPENDICES

Title	Location
(a) DRAFT CIFCO CAPITAL LTD Business Plan 2019/20 (CONFIDENTIAL)	Attached in Part 2 of the Agenda
(b) Recommendations from the Joint Overview and Scrutiny Committee	Attached

TO: MSDC COUNCIL	APPENDIX B TO PAPER MC/19/16
FROM: Joint Overview and Scrutiny Committee	DATE OF MEETING: 23 July 2019

COUNCIL IS ASKED TO CONSIDER THE RECOMMENDATIONS BELOW FROM THE JOINT OVERVIEW AND SCRUTINY COMMITTEE HELD ON 1 JULY 2019

JOS/19/1 CAPITAL INVESTMENT FUND COMPANY (CIFCO LTD) BUSINESS TRADING AND PERFORMANCE REPORT

APPENDIX A – DRAFT CIFCO CAPITAL LTD BUSINESS PLAN 2019/20 (CONFIDENTIAL)

RECOMMENDATIONS	
1.1	That the Joint Overview and Scrutiny Committee note CIFCO Capital Ltd. trading activity and performance for the year to end April 2019.
1.2	That the Joint Overview and Scrutiny Committee endorse the report and ask that Council notes the comments made in the minutes from the meeting 1 July 2019.
REASON FOR DECISION	
The Committee provided scrutiny of the CIFCO Capital Performance and activity of the first years of trading	

APPENDICES

Title	Location
1. Draft Minute – Capital Investment Fund Company (CIFCO Ltd.) Business Trading and Performance Report	Attached
2. Draft Minute- Appendix A – Draft CIFCO Capital Ltd. Business Plan 2019/20 (CONFIDENTIAL)	Attached in Part 2 of the agenda

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BABERGH AND MID SUFFOLK DISTRICT COUNCILS

Minutes of the meeting of the **JOINT OVERVIEW AND SCRUTINY COMMITTEE** held in the King Edmund Chamber - Endeavour House, 8 Russell Road, Ipswich on Monday, 1 July 2019

PRESENT:

Councillors:	Sue Ayres	James Caston
	Jane Gould	Kathryn Grandon
	Lavinia Hadingham	Alastair McCraw (Chair)
	Mary McLaren	Andrew Mellen
	Dave Muller	Adrian Osborne
	Keith Scarff	Keith Welham

In attendance:

Councillors: David Busby
John Hinton

Chris Haworth – Chair of CIFCO Capital Ltd
Mark Sargeantson – Chair of CIFCO Capital Ltd
Rick Meyer - Director-elect CIFCO Capital Ltd
Nigel Golder - Director- Strategic Asset Management, JLL (Advisers to CIFCO Capital Ltd
Neville Pritchard - Director- Capital Markets, JLL
Officers: Strategic Director (JS)
Assistant Director - Assets and Investments (EA)
Deputy Monitoring Officer and Corporate Manager-Democratic Services (JR)
Senior Acting Governance Support Officer (HH)

1 APOLOGIES FOR ABSENCE

1.1 None.

2 DECLARATION OF INTERESTS

2.1 There were no declarations of interests.

3 TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH THE COUNCIL'S PETITION SCHEME

3.1 None received.

4 QUESTIONS BY THE PUBLIC

4.1 None received.

5 QUESTIONS BY COUNCILLORS

5.1 None received.

6 JOS/19/1 CAPITAL INVESTMENT FUND COMPANY ('CIFCO CAPITAL LTD') BUSINESS TRADING AND PERFORMANCE REPORT 2018/19

6.1 The Assistant Director for Assets and Investments introduced the Board Members and Advisors:

Name	Position
Chris Haworth	Chair CIFCO Capital Ltd
Mark Sargeantson	Chair CIFCO Capital Ltd
Rick Meyer	Director-elect CIFCO Capital Ltd
Nigel Golder	Director - Strategic Asset Management, JLL (Advisers to CIFCO Capital Ltd)
Neville Pritchard	Director - Capital Markets, JLL

6.2 Chris Haworth, Chair of CIFCO Capital Ltd. provided the first part of the presentation which covered a summary of the current portfolio, the purpose of the CIFCO Business Plan, and Key Performance Indicators.

6.3 Neville Pritchard, Director – Capital Market, Jones La Salle Ltd (JLL) then detailed the current market for business properties. He stated that currently there was £65 billion transaction in the housing market, which had been slowed down by Brexit, but was now slowly increasing again as the market gained confidence.

6.4 Industrial properties performed best, as industrial units were used for a multitude of purposes including mail order distributions units.

6.5 Office suites also performed well in the market, and the view was to focus on office units and industrial property. A good location applied to tenants and in combination with a long lease, would make industrial units prospective assets to increase the property portfolios.

6.6 Nigel Golder, Director- Strategic Asset Management, JLL (Advisers to CIFCO Capital Ltd) then continued the presentation, including investment strategy and sector targets.

6.7 The Assistant Director for Assets and Investments presented the Council's capital and revenue in relation to CIFCO.

6.8 Councillor Grandon asked why CIFCO invested in the high street retail market, when it was performing less favourable and if national retailers negotiated individual rental agreements for their branches.

6.9 Neville Pritchard responded that the property in question was mostly food orientated store.

These kind of stores perform better than the other high street stores. The unit also had the potential to be divided into smaller units, should the current tenant serve notice. It was agreed that food stores were a strong asset to have in the property portfolio.

- 6.10 Councillor McCraw reminded Members that risk management had been undertaken and that that this part for the business set-up had been scrutinised last year.
- 6.11 Councillor Caston enquired if carparks were included in the respective properties with car parks and it was confirmed that in principle most of the carparks were included.
- 6.12 Councillor Scarff was concerned that the increase in councils investing in business properties were inflating the business property market.
- 6.13 Neville Pritchard responded that the investments that councils made were only a small portion of the investment market, around £3 billions of the £65 billion invested in the property market.
- 6.14 Mark Sargeantson added when CIFCO was bidding for a property the purchase had to fulfil certain criteria otherwise CIFCO would withdraw from the process.
- 6.15 Councillor Welham enquired how optimistic the Director were in negotiating rent increase as there currently was breakdown in rents in the high street retail sector.
- 6.16 Nigel Golder explained that every six- months CIFCO had face to face with the occupiers of the properties to anticipate outcome of rent negotiations.
- 6.17 Part of the management of the portfolio was to look at assets to add value and currently there was no need to sell any properties. However, should this become a need the funds would be reinvested in other properties.
- 6.18 Councillor Mellen asked how the Directors anticipated the effect of Brexit and the rise of the No-deal Brexit.
- 6.19 Neville Pritchard responded that fundamentally there was a limited supply of good properties and that eventually business would be affected by Brexit. Some occupiers are concerned about the effects of Brexit, which had slowed the market down. However, overall there the market had been confident during the past eighteen months, but matters were likely to improve once it became known how Brexit would be attained.
- 6.20 The Chair asked if the covenants and fundamental income would be affected by Brexit and the effects this might have on the market. Nigel Golder responded that the fundamental income stream was predicted to be steady for the next five years.

7 RESOLUTION TO EXCLUDE THE PUBLIC (WHICH TERM INCLUDES THE PRESS)

By a unanimous vote

It was Resolved: -

That under section 100(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act in the paragraph registered against the item.

8 PART 2 APPENDIX A - DRAFT CIFCO CAPITAL LTD BUSINESS PLAN 2019/20 (CONFIDENTIAL)

The business of the meeting was concluded at 3.15 pm.

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Chair