

CIFCO – BAPTC/BDC on Tuesday 27th March 2018

Attendees - BAPTC	Attendees - Babergh
Peter Eaton (Hintlesham & Chattisham), PE, John Foster (Sproughton), JF, Helen Davies (Sproughton), HD, Rodney Marsh (East Bergholt), RM. Ann Burchnall (Burstall), AB, Chris Matthews (Capel), CM	Arthur Charvonia – CEO Louise Rawsthorne – MD, BMS Invest Chris Haworth – Chair, CIFCO

QUESTIONS EMAILED TO BDC PRIOR TO THE MEETING

1. Business plan approved in closed meeting – what are the key objectives and targets?
2. What are the safeguards to protect tax payers from the downside and make sure all of the upside is DC revenue?
3. What fees do JLL and any other agents/professional advisers charge?
4. Where is it in the Articles that Directors resign as soon as they cease to be Members or Officers?
5. What are the Director’s emoluments?
6. What contribution is CIFCO expected to make to the Council’s income and over what period?
7. Have any investments been made? If so how will they be reported to BDC and the public?
8. How are you managing the risk associated with these investments

BACKGROUND NOTES (ISSUED PRIOR TO MEETING)

1. CIFCO Capital Ltd (<https://beta.companieshouse.gov.uk/company/10814415>) is owned in equal parts by new companies set up by Babergh and Mid Suffolk. BDC (Suffolk Holdings) is effectively the controlling council team.
2. The business plan was approved by all members in general meeting but public were excluded (there is a statute they can use for this). JLL are said to provide property lists for CIPCO but it is unclear to what extent they advise them (<http://www.jll.co.uk/united-kingdom/en-gb/services/developers-and-investors/property-and-asset-management>).
3. It appears that Louise Rawsthorne (MD, CIFCO) is appearing before the Scrutiny Committee in April in closed session.

NOTES FROM THE MEETING: CIFCO

1. AC outlined the reasons for the formation of CIFCO. Namely, the funding crisis created by removal of Government revenue support grant after 2019, reduction of New Homes Bonus from 5 to 3 years, increased costs and demand on services. One option is to increase income from fees & charges but there is a danger this would hurt the local economy. The Council House portfolio provides a positive revenue stream and Babergh aims to reinvest in affordable housing but money for council housing is ring fenced. AC outlined the headroom available and the possibility of increasing it.
2. AC provided further detailed information on the general account and stressed its separation from CIFCo. Babergh intends to expand its house building programme including market housing,

along with council housing. It also undertakes regeneration investment (e.g. in Sudbury) all of which is completely distinct from CIFCo's operations.

3. Councils have been forced to look for alternative income sources and are making use of currently low borrowing rates (i.e. cheap money). Loans have been made available via the Public Works Loan Board (PWLB).
4. AC stated that Babergh looked long and hard at alternative models for its investment vehicle, sought legal and financial advice plus considered the models of other Local Authorities. CIFCO therefore took two years to set up.
5. CIFCO Capital Ltd is owned in equal parts by new companies set up by Babergh and Mid Suffolk. BDC (Suffolk Holdings) Ltd is the Council entity that borrows the money from the PWLB. BDC directors are Dave Busby, Arthur Charvonia, Jennie Jenkins and Nick Ridley. Interest rates from PWLB were said to be below 2% and comprised a mix of variable and fixed rates. A £50 million facility has been established with draw down only when required. This was thought to be proportionate to the size of the Council's budget and not too large to present an unacceptable risk. Advice was taken and the Council opted to begin at the lower end of the range considered.
6. BDC lends money to CIFCo at a 'commercial' rate of around 5%. This is said to avoid the danger that the Council is competing unfairly or distorting the market. BDC profits from the difference and can feed the income into Council operations. With around £25 million spent the income stream next year is expected to be £2.2 million, split equally between Babergh and Mid Suffolk. No income has been received so far (Mar'18).
7. The board of CIFCo comprises a non executive chairman – Christopher Haworth – with two other non-exec members - Henry Cooke, Mark Sargeantson - and two councillors (Nick Ridley and Derek Haley). The non-execs are paid £10,000pa (no bonus or benefits from performance above targets) and the councillors receive no additional payment. Directors are appointed for 3 years. Christopher Haworth was said to have been appointed for his real estate experience (ex Carter Jonas). He is a director of several other companies including land promoter Huntstowe Land (co-founder). AC does not believe officers should be on the board.
8. CH reviewed activities to date, stressing CIFCo's primary function was to make money. Purchases include M&S premises in Brentwood, Caffè Nero and Wagamama in Peterborough, several car dealerships in Milton Keynes and industrial premises in Norwich. Lists of potential purchases are supplied by advisers Jones Lang Lasalle (JLL) along with a form of credit score for the tenants.
9. HD questioned CH on the risk management process. CH stated there was a risk management process. Secondary consent for each purchase is required from the BDC directors. So far 6 assets had been purchased out of around 50 reviewed. These 6 assets are intended to supply the core investment; long term tenants giving a return of around 5% with minimal risk. 'Core plus' assets which might give a slightly higher return – but also at lower risk - are now being sought. The business plan aim is a return of 6-8%. AC said he recognized the weakness of the retail sector and investment in this type of property would be restricted.
10. RM requested clarity on ultimate liability in the event of losses incurred or the collapse of CIFCo. AC confirmed Babergh and Mid Suffolk DCs were ultimately liable. CH indicated the CIFCo board was mindful of its responsibilities and stated that in at least one case the freehold asset it had acquired had a higher value without the tenant than with it.
11. A significant change of support staff is underway. The responsible officer - Louise Rawsthorne – Managing Director, BMS Invest – is leaving and the post has been advertised. CIFCo are also looking for a company to manage the property portfolio.
12. PE asked whether there was a danger of the investment activity by so many councils creating a property bubble. JF asked for the total lending figure from the PWLB. CH did not know but pointed to the overall size of the market and the many players involved. AC said by no means all councils are involved.

13. The Government's review of the sector was discussed. AC pointed to continued Government support under revised guidelines; his observations can be found in Government Briefing Paper 08142 of 16 February – "Local Government, Commercial Property Investments".
14. JF asked whether there were benefits in investing outside the area such as avoiding conflicts of interest. AC said it avoided Babergh being "responsible for everything" in the area and CH said to maximise profitability they needed to look wherever there was the best opportunity to invest. Ipswich Borough Councils have invested a lot locally which could be regarded as riskier; Babergh have diversified more.
15. BAPTC members questioned the apparent level of secrecy concerning the set up and operation of CIFCo. AC stated that this was one part of the learning curve and that in retrospect more information could have been provided. A CIFCo website is planned but is not a priority.
16. While some DCs are now claiming they could raise all their income from investments and commercial activity, enabling them to abolish council tax, he felt this was a dangerous.
17. JF asked about CIFCo's perspective on the new international accountancy standards – IFRS 16 – which are forecast to have a significant impact on large sectors of the property market. CH said it would be considered.

SUBSEQUENT FOLLOW-UP

None, work focussed on other areas

CURRENT STATUS (NOV'18)

Only one item of news appears on the Babergh website regarding CIFCo. No records of meetings appear on the website to understand current status.

<https://baberghmidsuffolk.moderngov.co.uk/documents/s10822/2018%2006%2028%20Final%20CIFCO%20OS%20Report%20May%2018%20v4.pdf>