

23 November 2015

Public Accounts Committee
National Assembly for Wales
Senedd
Cardiff
CF10 4PZ

T +44 (0)20 7198 2000
F +44 (0)20 7198 2001
www.lsh.co.uk

Lambert Smith Hampton
United Kingdom House
180 Oxford Street
London
W1D 1NN

For the attention of Darren Millar AM, Chair

Our Ref: JG237

Dear Sirs

PUBLIC ACCOUNTS COMMITTEE – INQUIRY INTO RIFW

Further to our attendance at the meeting of the Public Accounts Committee on 20 October 2015 and your second request for information dated 6 November 2015, please find below the responses to your questions:

- 1. During the Committee’s oral evidence session with you on 20 October you (Mr Green) made the following comment that “the only thing we would do again would be to strive to prove that we had achieved best value” [Transcript #455]. I would be grateful if you could expand on how you would prove ‘best value’ and with hindsight, what specific actions you would have taken to do this.**

In the circumstances, the way to ‘prove’ best value would have been to obtain an independent valuation of the assets prior to the portfolio sale. As you know, we supported this action at the time and in November 2011 provided a quote to Amber for Jones Lang LaSalle (formerly King Sturge) to provide an update to their original valuation (see the attached copy email in [Appendix 1](#)).

You are also aware that Amber did subsequently commission an independent valuation (March 2013) from Colliers, which confirms their opinion of the value of the portfolio of assets at £19.4m as at the date of exchange of Contracts (18 February 2012).

- 2. In your letter dated 28 October, you provided further information in relation to the interest shown by Legat Owen but did not provide any information relating to all other expressions of interest, which the Committee had requested by e-mail dated 21 October. The Committee also questioned you (Mr Mogridge) on why interest in the assets from potential purchasers was not consistently reported to the RIFW Board, specifically asking what the process was for communicating offers and interest to the Board. The Committee were told that you (Mr Mogridge) would check. The Committee wishes to seek clarification on this issue and requests that the following details be provided to the Committee:**

a) Details of each expression of interest shown in the assets from potential purchasers or their representatives:

We have consistently stated we did not undertake formal marketing of the assets contained within the portfolio due to significant impairments identified in the legal Titles, which needed to be resolved. We did however undertake soft marketing to gauge the level of interest and reacted to enquiries from this activity, reporting all enquiries where serious interest or offers were submitted directly to the Fund Manager, either via email or verbally.

It was originally intended that once the ARP was approved in March 2011, and the legal due diligence completed, further marketing activity would be undertaken on a site by site basis.

A significant ongoing concern was that RIFW was in the unusual position of incomplete knowledge on Title issues that could affect the saleability of the individual properties. LSH advised that formal marketing could not be undertaken effectively without evidence of marketable Title and an associated sales pack. The opportunity of a sale at a good price and on a 'warts and all' basis presented a realistic opportunity for RIFW to dispose of a potentially difficult bundle of assets in a declining market.

In March 2011, the Board resolved to appoint legal advisors to complete the required legal due diligence on the assets in order to facilitate proper marketing and promotion. Due to the extent and nature of the impairments, this process was not completed until January 2012.

Therefore, any prospect of marketing the assets had to be delayed until these impairments had been addressed.

All offers and expressions of interest reported to Amber as Fund Manager are detailed within the RIFW Asset Realisation Report prepared by the Fund Manager dated 14 December 2012 (see the attached extracts in [Appendix 2](#)). Referring to Section 7.3 of the Report:

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

To add context to the offers:

1. Llandudno Junction (reported verbally to Amber)

At the time of the offer from Fairways Care (27 April 2011) the offer on the whole portfolio was being considered and further legal due diligence on the assets was required to prove marketable Title. Full Title had not been transferred to RIFW, restrictive covenants not identified on the Title posed a risk to development and there was an issue regarding access relating to an unregistered and unadopted parcel of land at the entrance to the site.

2. Bangor (reported verbally to Amber)

At the time of the offer from Redrow Homes (22 July 2011) terms had already been agreed and solicitors instructed to progress the portfolio sale. Redrow had acknowledged that they were aware of the portfolio sale. Welsh Government did not own all the land believed to be in the Title. Four parcels of land were missing from the Title and as such were not transferred to RIFW. There were significant concerns that the site did not have adequate access for development.

In line with instructions and normal market practice, contact was maintained with these interested parties throughout the portfolio sale due diligence process in order to keep the interest active in the event that the sale to GST did not complete.

b) To whom and when these expressions of interest were reported by Lambert Smith Hampton.

All serious expressions of interest / offers were reported upon receipt either verbally or by email to the Fund Manager, Amber. Details of these are confirmed in the attached extracts from Amber’s Report ([Appendix 2](#)).

c) Details of the process by which expressions of interest were reported to the Board.

Expressions of interest were reported to Amber, the Fund Manager, upon receipt, either verbally, by email or by way of monthly update reports.

As previously advised, it should be noted that the reporting process from LSH was directly to Amber and not to the Board. The Fund Management Agreement provides for the Board to be notified of decisions taken by the Fund Manager and, as such, the quarterly Board

Meetings were not intended as a vehicle for reporting general interest in the assets.

- d) In instances where expressions of interest were not reported to the RIFW Board, the reasons for this (Auditor General Report, paragraphs 3.78 and 3.82 – 3.83 refer).

To place this request into context, the following extracts have been taken from the Auditor General’s report :

3.78

“The District Valuer’s report states that “a significant divergence exists between our valuations and the sale values achieved. Based on my investigations, I believe such a divergence could have been mitigated by a carefully handled disposal process with prudent and proper marketing”. The assets were not openly advertised and no marketing materials were produced or distributed. Wales Audit Office staff conducted a written survey of LSH’s marketing contacts and have confirmed that:

- a. LSH’s activity was reactive in response to enquiries from interested potential purchasers.
- b. Interest expressed in buying individual sites was not consistently followed up by LSH.
- c. Offers and expressions of interest received by LSH were not consistently and promptly reported to Amber or the RIFW Board.”

In dealing with the points raised in order, firstly the District Valuer’s report (July 2015) is indeed a significant divergence between the sales values achieved and its valuation. It should be noted that the District Valuation Officer’s report also varies significantly (by up to 43%) from valuations undertaken by international firms King Sturge (October 2009/March 2010), Savills (January 2012) and Colliers (March 2013) all of whom concur that the sale value achieved represented the Market Value at the date of exchange of Contracts in February 2012.

	REPORT DATE	VALUATION / SALE DATE	PORTFOLIO VALUE
DVS	July 2015	March 2012 (Brackla - March 2013)	£30.919m
King Sturge	October 2009	Updated March 2010	£19.830m
Savills	January 2012	January 2012	£17.741m - £20.332m
Colliers Int	March 2013	February 2012	£19.400m
Sale Price	n/a	18 February 2012	£21.747m

In response to points (a) to (c) above:

- a. LSH has always maintained that marketing activity was reactive, on the basis that the majority of assets were significantly impaired and incapable of being sold on an individual basis without significant work being undertaken to mitigate these impairments.
- b. Interest expressed in individual assets was consistently followed up by LSH with a limited number of expressions of interest being received and two separate transactions actually being concluded. Part of Cogan Hall, Penarth, sold for £185,000, and part of Brackla Industrial Estate, sold for £60,000.
- c. This has been answered in responses at 2 (a) and (b) above.

3.82

“On 1 June 2011, Amber summarised Board Members areas of concern about the proposed sale in an e-mail to LSH querying: “Is it appropriate to sell the properties now without a formal market test” and noting that soft market testing yielded 2 offers only”. A RIFW Portfolio Transaction Report “Supplement” dated 2 June 2011 stated “the portfolio has not been openly marketed but has been considered by a number of developers and investors who are active in the Welsh market...the portfolio of properties has not yet been marketed as a whole and the bids received have been opportunistic, but encouraged, with the majority of parties expressing interest in the whole portfolio initially showing interest in individual assets and progressing their interest to the whole”.

This statement is correct, having regard for the extremely poor prevailing economic and market conditions, the issues relating to the saleability of the individual assets as a result of their impairments combined with the lack of availability of debt finance (highlighted as this is the reason why RIFW was established) LSH made a recommendation based upon commercial circumstance to progress with the cash offer on a “warts and all” portfolio sale as we believed that this would be the correct decision for the Fund as it offered certainty of disposal at what was deemed to be an extremely good market price with upside potential on the two most valuable sites if they achieved a planning consent.

3.83

“Offers and expressions of interest from prospective purchasers were not always reported to the RIFW Board and were not dealt with consistently by LSH. On 13 April 2011, LSH received an e-mail from Legat Owen advising that one of their clients would be interested in all of the North Wales sites as a single portfolio and had requested a meeting. LSH promptly responded back: “...it is a little premature at this stage and we still have to collate significant amounts of information”.

We have not found any records of the interest being reported to the RIFW Board and, in contrast, we note that GST Investments were not advised that their own interest in the portfolio, received some 5 weeks earlier, was premature. In addition, LSH’s Manchester office received an unconditional offer of £2,000,000 for the Bangor site in July 2011, after the terms of the portfolio sale were agreed. This offer was not included in LSH’s report to the RIFW Board. An LSH report to the Board reported that a Company had “expressed an

interest” in the site and in a paper for a meeting with Amber, that LSH met the Company in relation to Bangor, Llandudno and Abergele”.

As stated in our letter to the Public Accounts Committee on 28 October 2015 the enquiry from Legat Owen in respect of possible client interest in a North Wales portfolio sale in April 2011 was followed up, however nothing arose as a result of their enquiry. Legat Owen continued a dialogue with LSH Manchester through to August 2011 when tracking interest in the Llandudno site. Legat Owen did not raise their client’s interest in the North Wales portfolio any further and no offer was ever received.

The offer from Redrow on the Bangor site was received on 22 July 2011, five weeks after the offer from GST had been accepted and one week after solicitors had been instructed to proceed with the agreed Heads of Terms on the “warts and all” portfolio sale to GST. The offer was verbally reported to the Fund Manager in the week leading up to the RIFW Monthly update meeting on 1 August 2011. Redrow was specifically named in the August 2011 monthly report to the Fund Manager as having interest in Bangor, Llandudno and Abergele.

This offer was not progressed as terms for a sale had been agreed on the portfolio. The offer was at a price below the Asset Specific Business Plan figure of £3m placed on the asset if sold individually, and the asset was greatly impaired at the time and incapable of being sold without additional legal work being undertaken.

The Asset Specific Business Plans presented with the First Business Plan at the March 2011 Board meeting also record Redrow’s offer of £150,000 for the two assets at Llandudno Junction and Abergele against the combined ARP value of £1,150,000.

- 3. In your letter dated 28 October, on page 5, you list a number of Lambert Smith Hampton’s staff who had business dealings with Langley Davies (or with Companies with which he is involved) which occurred between June 2007 and February 2010. Please can you confirm:**
- a) That the list in your letter comprises a complete list of all business dealings between Lambert Smith Hampton and Langley Davies or with companies of which he is a Director, including outside the period covered by the list in your letter).**

We confirm that our records show the list provided in our letter dated 28 October is complete, other than the instruction that was confirmed in March 2012, following the sale of the assets.

- b) Did any of the named individuals attend any RIFW Board meetings or provided any advice (directly or indirectly) to the RIFW Board in relation to asset values, asset disposals or the portfolio sale to SWLD?**

One of the named individuals did attend a number of RIFW Board meetings, as did others within the LSH team who attended as observers. The team collectively provided advice to the RIFW Board as they were working on the Asset Specific Business Plans from an agency, valuation and planning background. The team was also involved with the identification of the asset impairments, working alongside Morgan Cole, Solicitors on RIFW’s behalf, and

were therefore involved on a technical basis in respect of the portfolio sale as well as providing valuation advice to Amber.

c) If so, were these individuals' relationships with Langley Davies declared to the RIFW Board and when?

Our disclosure was at a corporate level (as LSH) and was made to Amber.

d) What specific measures did Lambert Smith Hampton put in place to avoid or mitigate conflicts of interest in relation to any / all of these individuals?

LSH had a conflicts of interest protocol in place, which was agreed with Amber at the outset of the appointment. The specifics of this situation were that there were no active instructions at the time that involved these individuals and therefore no requirement to invoke the conflict of interest protocols.

Can Lambert Smith Hampton confirm that any such declarations and measures were compliant with the terms of their appointment under the RIFW Investment Manager's Agreement; RICS Professional Standards; and Lambert Smith Hampton's own policies and procedures?

We believe that all declarations and measures were compliant with the terms of our Appointment under the RIFW Investment Manager's Agreement, RICS Professional Standards and LSH's own policies and procedures.

4. In an email dated March 11 2011 (referred to in the Deloitte report), Mr Mogridge states that there was "a need to respond formerly to GST...this is a genuine cash offer...knowing the individual involved". Please confirm the identity of "the individual" as the Committee is currently unsure whether this is a reference to Mr Langley Davies or to Sir Stanley Thomas. Can you also confirm the nature of Mr Mogridge's knowledge of / relationship with "the individual" to whom Mr Mogridge refers.


This statement is made in respect of Sir Stanley Thomas. Mr Mogridge had no personal knowledge of, or relationship with, Sir Stanley Thomas prior to receipt of the offer made on behalf of GST by Barclays Wealth on 4 March 2011. The phrase "knowing the individual involved" was in reference to his reputation. The first and only meeting with Sir Stanley Thomas took place on 30 March 2011.

5. The Committee would like to clarify the status of the supplemental transaction report for RIFW assets, dated 15 December 2011 including who prepared it and whether (and if so when) it was shared with the RIFW Board.

The Supplemental Transaction Report dated 15 December 2011 was prepared by LSH. It was the third of four Reports that were submitted prior to exchange of Contracts. The Report was submitted to Amber. It was for Amber to report to the Board, which we understand they did.

We trust that the above answers all the points raised and would ask that if you require any further clarification that you contact either Lee Mogridge or Jeremy Green directly.

Yours faithfully



Jeremy C Green
Director
For and on behalf of
Lambert Smith Hampton

████████████████████
■ ██████████

Encs.

Cc: Lee Mogridge – LSH