

# INVESTMENT STRATEGY

## Introduction

- 1.1 This investment strategy meets the statutory guidance issued by the government in January 2018 (Statutory Guidance on Local Government Investments 3<sup>rd</sup> Edition).
- 1.2 The Authority invests its money for three broad purposes:
- Because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
  - To support local public services by lending to or buying shares in other organisations (service investments), and
  - To earn investment income (known as commercial investments where this is the main purpose).
- 1.3 The Investment Strategy focusses on the second and third of these categories. Treasury management investments are covered separately in the Treasury Management Strategy – see appendix M to the final draft budget report.
- 1.4 The Authority will also be looking to invest in schemes where there is an environmental benefit in its future strategy linked to the Council's desire to achieve the net zero target by 2030.

### Service Investments: Loans

- 1.5 As at 31.03.21 the Council had the following amounts outstanding in relation to loans distributed by its own funding:

<b>Loans in relation to:</b>	<b>Investment Value £m</b>
Kent Empty Property Initiative - No Use Empty	8.741
Marsh Millions	0.223
Kent PFI Company 1 Ltd	2.365
Marlowe Theatre	2.000
EDSECo (Trading as The Education People)	2.200
Kent Holdco Ltd	0.500
Invicta Law	0.800
Visit Kent	0.100
<b>Total service investments - loans</b>	<b>16.929</b>

### Kent Empty Property Initiative - No Use Empty

- 1.6 The Council runs a “No Use Empty” initiative, which was set up in 2005 with the aim of returning long term empty properties back into use. This operates as a revolving loan fund and is open to those who currently own or have acquired a long-term empty property which needs financial assistance to bring the property back into use for rental or sale. As at 31 March 2021 the debt due to KCC under the scheme totalled £11.5m. The scheme has been running since 2005 and since then has awarded £45.8m in loans, of which only £143k has been written off as a bad debt. This represents a mere 0.3% of the total loans awarded. The extremely low value of bad debts is aided by the scheme operating a robust application and assessment process, which includes ID checks and proof of additional funds. The applicant must provide at their cost an independent valuation undertaken by a Chartered Surveyor (RICS) to establish current and future values. This is also used within the assessment process as any loan awarded is secured as a charge and registered with Land Registry or Companies House if applicable. Loans are typically offered over 2 or 3 years. A supplementary scheme began in 2020-21 which has allowed an additional £19m of loans to be approved for new builds. These loans provide a 1.5% return to the Council and there are currently no bad debts associated with these loans.

### Marsh Millions

- 1.7 KCC contributed to the Marsh Millions loan scheme. This was set up to aid small businesses in the Romney Marsh area. As at 31.03.21 the balance outstanding to KCC was £0.223m.

### Kent PFI Company 1 Ltd

- 1.8 In 2013-14 KCC purchased loan notes in Kent PFI Company 1 Ltd, which is the holding company to the contractor who runs six schools for KCC under a Private Finance Initiative (PFI) arrangement. As at 31.03.21 the balance outstanding to KCC was £2.365m.

### Marlowe Loan

- 1.9 In 2010-11 KCC loaned £2m to Canterbury City Council to aid the refurbishment of the Marlowe Theatre in Canterbury. The balance as at 31<sup>st</sup> March 2021 was £2m, however this was repaid in full in April 2021.

### Invicta Law Ltd

- 1.10 Invicta Law Ltd is a law firm, wholly owned by KCC. It commenced trading on 1 June 2017. KCC provided a £1.8m working capital loan to aid the start-up of this company. The balance of this loan as at 31.03.21 was £0.8m.

Other Loans

1.11 During 2019-20, two additional loan agreements were drawn up, one with EDSECo, trading as The Education People, for £2.2m to aid the start-up of the company and one for Kent Holdco Ltd for £0.5m.

1.12 Visit Kent

During 2020-21 KCC gave a loan to Visit Kent and the balance as at 31.03.21 was £0.1m

**Service Investments: Shares**

1.13 As at 31.03.21 the Council had the following equity investments:

<b>Company</b>	<b>Amount Invested £m</b>	<b>Value in Accounts (Fair Value) £m</b>
Invicta Law Ltd	0	0
Kent PFI Company 1 Ltd (Note 1)	1.902	1.312
Kent Holdco	7.890	15.719
<b>Total service investments - shares</b>	<b>9.792</b>	<b>17.031</b>

Note 1: Kent PFI Company 1 Ltd is the special purpose vehicle (SPV) for the BSF School's PFI contract. The PFI contract is the only asset of the SPV and, as such, the value of the investment in Kent PFI Company 1 Ltd is expected to diminish over the remainder of the PFI contract term.

1.14 During 2019-20 Kent Holdco Ltd was established and the shares that the Council held in Gen2, Cantium Business Solutions and Kent County Trading were all transferred to Kent Holdco Ltd. During 2020-21 the shares in Invicta Law were also transferred to Holdco.

1.15 The Council considers each investment on a case-by-case basis and uses several criteria to obtain a risk/benefit analysis for the Council. Overall, the value of loans outstanding and equity investments as at 31.03.21 are immaterial in relation to the Council's balance sheet as a whole. The service benefits derived from these investments are deemed to outweigh the risks. The Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue payments.

### **Commercial Investments: Property**

- 1.16 The following table provides details of the individual properties that meet the definition of investment (as per the Statutory Guidance on Local Government Investments), that were owned by KCC as of 31 March 2021:

<b>Property</b>	<b>Purchase cost (including fees)</b>	<b>Value in accounts as at 31.03.21</b>
	£m	£m
Sheehan House	0.723	1.080
Royal Mail Site	3.309	2.413
Eurogate	2.275	4.229
1 & 42 Kings Hill Avenue	23.000	24.591
<b>Total commercial investments - property</b>	<b>29.307</b>	<b>32.313</b>

- 1.17 The Royal Mail site is being held for future regeneration purposes. For this reason, the value in the accounts is based on existing use value, rather than fair value, in accordance with CIPFA guidance.
- 1.18 Towards the end of 2019-20, the Council purchased 2 office buildings at Kings Hill, totalling £23m, which was intended to provide an income stream over the short to medium term. Both buildings have retained their existing tenants during the covid-19 pandemic. One of the buildings is fully let whilst the other is 62% let.
- 1.19 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs, which the table above shows is the case for all such properties.
- A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021-22 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments including any revenue consequences. However, the Council is not specifically relying on the sale of these assets to fund future expenditure, therefore the risk relating to fluctuations in the property market is minimal.

## **Investment Indicators**

1.20 The Council has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions:

- 1) Total Risk Exposure: the first indicator shows the Council's total exposure to potential investment losses.

<b>Total investment exposure</b>	<b>31.03.21 Actual £m</b>
Service investments: Loans	16.929
Service investments: Shares	9.792
Commercial investments: Property	29.307

- 2) Rate of return received: this indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred. It should be noted that it is not always the Council's aim to achieve the highest rate of return on investments, for example, some loans are given at a rate below market value to encourage take up, for regeneration or other service delivery reasons. These are correctly treated and accounted for as soft loans in the Statement of Accounts.

<b>Investments net rate of return</b>	<b>2020-21</b>
Service investments: Loans*	12.0%
Service investments: Shares:	
- Kent PFI Co 1 Ltd	6.5%
- Kent Holdco Ltd**	19.6%
Commercial investments: Property:	
- Eurogate	7.7%
- Royal Mail Site**	See note below
- Kings Hill ***	5.3%

\*Kent PFI Company 1 Ltd only.

\*\*Royal Mail Site – The short-term strategy was implemented during 2017-18 and up until the start of the pandemic was expected to generate sufficient income to mitigate the site holding costs, with a small surplus from 2019-20 onwards. The covid-19 pandemic has had a significant detrimental impact on the income generated from the site, particularly from the public car park. However, the main purpose of this site is for future regeneration rather than rental income.

\*\*\*Kings Hill Although there had been demand for the vacant space at Kings Hill, the covid-19 pandemic has meant that it has not yet been possible to let the remaining vacant space at Kings Hill.

It is not possible to accurately forecast dividends or asset values for the current or future years, so these have not been included.

3) Other investment indicators:

It is not considered necessary to publish any additional investment indicators at this time, but this will be reviewed annually.