

By: Kevin Lynes, Cabinet Member for Regeneration and Enterprise  
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To: Superannuation Fund Committee – 1 July 2011

Subject: **KENT & MEDWAY INVESTMENT FUND**

Classification: Unrestricted

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Summary: To update on proposals by KCC to develop a Kent and Medway Investment Fund

## **FOR INFORMATION**

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### **PURPOSE OF THE REPORT**

1. This report sets out proposals to establish a Kent and Medway Investment Fund. The intention is to provide an outline of the concept and model, with a view to presenting more a detailed investment proposition to the Committee in September.

### **INTRODUCTION**

2. CBRE has been appointed by KCC to develop proposals for a Kent and Medway Investment Fund. A Feasibility Report has been produced which outlines how the KMIF could operate. It also identifies the key issues to be taken forward by KCC in partnership with Medway and the District and Borough Councils to set up the KMIF. This follows an initial Scoping Paper prepared in February and presented to Kent Forum. The Feasibility Report was presented to the Kent Joint Chief Executives on 21<sup>st</sup> June. Medway, District and Borough partners are currently considering whether they want to participate, subject to internal decision making processes.

### **AIMS AND PURPOSE OF KMIF**

3. The KMIF aims to unlock regeneration and development by using local authority assets and funds to lever significant private sector investment. It will generate returns to be reinvested in a revolving fund in order to maximise benefits.

4. The purpose of KMIF is to:
  - continue to deliver economic growth in a context of reduced central and local government funding streams;
  - maximise value towards this from local authority owned assets and support the delivery of asset management strategies that assist regeneration;
  - lever and unlock significant private sector investment across Kent.
5. KMIF provides a direct response to current constraints on public sector funding and offers an alternative approach to traditional grant funding streams by maximising the efficient and effective use of local authority assets. It provides an opportunity for achieving a commercial return on investments whilst delivering against the primary goal of regeneration and economic growth across Kent.

### **THE KMIF MODEL**

6. The model outlined in the Feasibility Report proposes the creation of a local authority led partnership that will pool cash and assets to create a Fund. The partnership agrees an Investment Strategy that determines how the Fund will be invested, including output targets, level of risk and rate of return on investment. Only projects that meet the criteria set out in the Investment Strategy will be supported by the Fund.
7. The partnership appoints an independent, professional Fund Manager to deliver the Investment Strategy. Investment may be in the form of debt, equity or guarantee and returns will be recycled back into the Fund for reinvestment. At this stage it is anticipated that investments will be locked into the Fund for an initial period of 10 years.
8. KMIF will provide a commercial market return on investments and is not intended to provide gap funding. It will only invest in circumstances where it can enable projects to become financially viable and where they would otherwise not proceed if purely privately financed. In this way, KMIF will complement, not supplant, existing private finance to deliver benefits for Kent. It will provide finance for both public and private sector led projects that deliver against regeneration outputs.
9. KMIF will harness the benefits of scale that can be realised through local authorities working in partnership. It is hoped that KMIF will be joined by most authorities within Kent to create a critical mass of projects and access to finance which makes it a size that becomes of interest to the private sector. Based on the experience of setting up the North West Evergreen Fund, the KMIF will need to be seeded with cash and assets totalling £20m to £30m in value from the local authority partners. All

partners will be required to make a minimum contribution towards this to participate in the Fund. It will be for each authority to determine whether their contribution is in cash or assets. The model makes provision for Local Asset Backed Vehicle to enable local authority partners to pool high quality assets and package these in a way that is attractive to the market and can lever investment.

10. The intention is that KMIF will attract a broad mix of finance at both Fund and project levels. In developing the concept, the aim has been to create a model that would be of interest to investors, including potentially the Kent Pension Fund. Private sector funding can be invested at either Fund level in the entire portfolio, or project level enabling investors to select which projects they invest in.
11. The level of return achieved by the Fund is dependant upon the risk profile partners choose to invest in which will be defined in the Investment Strategy. In order to comply with state aid rules, the Fund can only invest on commercial terms and in accordance with EU reference rates. It is therefore likely that the lending rate offered will be somewhere between a high single figure return and a double figure mezzanine position. The Investment Strategy and target return will be defined as the next stage of developing KMIF progresses. This will include financial modelling to assess different pricing structures and potential returns.

## **GOVERNANCE**

12. The proposed governance structured for KMIF is intended to be as simple and transparent as possible so that it remains attractive to the market whilst protecting the interests of the public sector partners. The Feasibility Report recommends that the KMIF is established through a Limited Partnership as the simplest and most tax efficient structure that is also widely recognised by the market. A structure chart for the proposed governance arrangements is attached as appendix 1.
13. In order to operate KMIF through a Limited Partnership structure (within which partners will have limited liability) a General Partner (with unlimited liability) will also need to be established. The founding partners will need to decide the extent to which they would like to be involved in the day to day operation of the fund. They will be presented with two options based on differing levels of engagement:
  - (1) The partners form a special purpose vehicle to act as the General Partner. A separate Fund Manager is then appointed and managed by the General Partner. The General Partner can then determine the extent to which it delegates responsibilities to the Fund Manager.

- (2) A General Partner is appointed by the Limited Partnership to also be the Fund Manager. Although this is a more arms length option for the partners, they retain control over the General partner / Fund Manager through the Partnership Agreement and the Investment Strategy.
14. In practice the approach is likely to be a combination of the two options above, with an SPV General Manager established (option 1) to oversee operations in the early days and this function then transferring to option 2 at a later date.

## **CONSULTATION**

15. In developing the KMIF proposals, KCC and CBRE have met with the Chief Executives of Medway and all Borough and District councils who expressed an initial interest. The purpose of these meetings was to introduce the KMIF concept and explore the extent to which it could deliver against a range of aspirations. The response from these meetings has been positive with eleven of the twelve continuing to be involved in discussions to understand more and consider whether it is an appropriate vehicle for them.
16. Initial soft market testing suggests there is private sector interest for KMIF. Skanska, Denne and Aviva have all expressed an interest and invited further discussions.

## **TIMETABLE AND NEXT STEPS**

17. The Feasibility stage of work completed to date has focused on the Fund concept, how it could operate and the key decisions that will need to be made by the founding partners in setting up the KMIF. The next stage of work will comprise three main workstreams:
- Development of the Investment Strategy
  - Development of the Project Pipeline
  - Development of the Governance Structure
18. The development of the Investment Strategy will also include financial modelling to determine the risk profile and target return. An Indicative timetable is attached at Appendix 2. This is intended to outline the principle work-streams for the next stage of work. This will be developed in more detail following the appointment of consultancy support.
19. A further report providing a more detailed proposition for investment will be presented to the Superannuation Fund Committee in September.

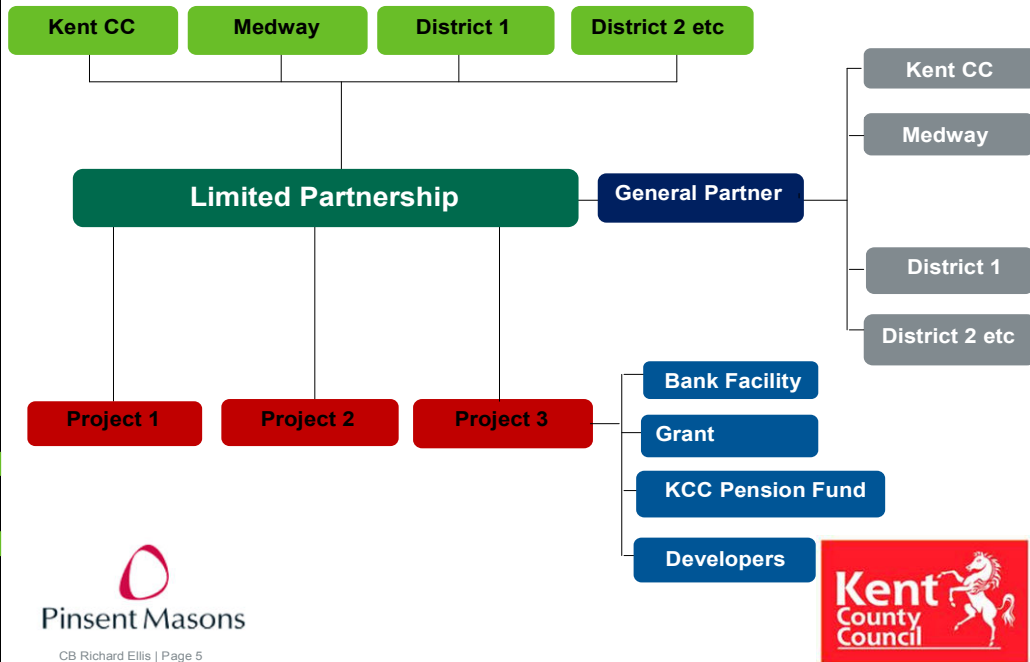
## **RECOMMENDATIONS**

20. Members are asked to note the proposals set out in the report.

**Adele Harrison**  
**Regeneration Manager**

# Appendix 1

## Governance Structure – Kent & Medway and Districts



**Appendix 2  
Kent and Medway Investment Fund  
Indicative Timetable**

	2011							2012				
	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May
Establish Interim Governance												
Procure Advisors												
Legal review and governance					+							
Set up Limited Partnership												
Investment Strategy												
Call for projects												
Project Pipeline Development												
Agree Partner Contributions								+				
Financial modelling												
Risk Register												
Decision to implement KMIF												+
Procure LABV partner												Post KMIF set up

denotes key decision / break points