

# 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 2.

## Service Investments: Loans

- 1.4 As at 31.03.19 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 £</b>
Kent Empty Property Initiative - No Use Empty	9.0m
Marsh Millions	0.2m
Kent PFI Company 1 Ltd	2.5m
Marlowe Theatre	2.0m
Invicta Law	1.8m
<b>Total service investments - loans</b>	<b>15.5m</b>

### Kent Empty Property Initiative - No Use Empty

- 1.5 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 2019 the debt due to KCC under the scheme totalled £9.0m. The scheme has been running since 2005 and since then has awarded £33.6m in loans, of which only £143k has been written off as a bad debt. This represents a mere 0.4% 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

## Appendix 5

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.

### Marsh Millions

- 1.6 KCC contributed to the Marsh Millions loan scheme. This was set up to aid small businesses in the Romney Marsh area. As at 31.03.19 the balance outstanding to KCC was £0.2m.

### Kent PFI Company 1 Ltd

- 1.7 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 31.03.19 the balance outstanding to KCC was £2.5m.

### Marlowe Loan

- 1.8 In 2010-11 KCC loaned £2m to aid the refurbishment of the Marlowe Theatre in Canterbury. Repayments are due to commence in 2020-21.

### Invicta Law Ltd

- 1.9 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.

### Others

- 1.10 During 2019-20, two additional loan agreements were drafted, 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.

### **Service Investments: Shares**

- 1.11 As at 31.03.19 the Council had the following equity investments:

<b>Company</b>	<b>Investment Value £</b>
GEN2 Property Ltd	1
Kent County Trading Ltd (Commercial Services)	4.0m
Invicta Law Ltd	2.0m
Kent PFI Company 1 Ltd	1.9m
Cantium Business Solutions	1.9m
<b>Total service investments - shares</b>	<b>9.8m</b>

## Appendix 5

- 1.12 The Council considers each investment on a case by case basis and uses a number of criteria to obtain a risk/benefit analysis for the Council. Overall the value of loans outstanding and equity investments as at 31.03.19 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.
- 1.13 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. Any future dividends will come through Kent Holdco Ltd.

### **Commercial Investments: Property**

- 1.14 The Council operates a Property Investment Fund (PIF) which is currently capped at £17m. This was established in 2015-16 the purpose of which is threefold:
- To create a pipeline of capital assets for future disposals to support the capital programme,
  - To deliver a return to the Council either through income generation and /or capital growth,
  - To support the regeneration and economy in Kent.
- 1.15 Within the capital programme there is also up to £100m which is set aside for acquisition of strategic assets, which will create an income stream and cover the associated debt costs. Opportunities are considered on a case by case basis with a rigorous investment appraisal process prior to requesting a decision to invest or acquire. Decisions to invest or acquire are made in accordance with the Council's constitution, in particular the Property Management Protocol, and after consultation with the Corporate Director of Finance.
- 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 at 31 March 2019:

<b>Property</b>	<b>Purchase cost (including fees)</b>	<b>Value in accounts as at 31.03.19</b>
	£m	£m
Sheehan House	0.723	1.140
Royal Mail Site	3.309	3.413
Eurogate	2.275	4.621
<b>Total commercial investments - property</b>	<b>6.307</b>	<b>9.174</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 is forecast to provide an income stream over the short to medium term.
- 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 2019-20 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.
- 1.20 The total value of property investments is immaterial compared to the total asset value on the Council's balance sheet. 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**

- 1.21 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>31.03.19 Actual £</b>
Service investments: Loans	15.5m
Service investments: Shares	9.8m
Commercial investments: Property	9.174m

- 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 in order to encourage take up, for regeneration or other service delivery reasons. These are

## Appendix 5

correctly treated and accounted for as soft loans in the Statement of Accounts.

<b>Investments net rate of return</b>	<b>2018-19</b>
Service investments: Loans*	12.0%
Service investments: Shares**:	
- Kent County Trading Ltd	0.0%
- Kent PFI Co 1 Ltd	5.8%
- Invicta Law	0.0%
- Cantium Business Solutions	17.9%
Commercial investments: Property:	
- Eurogate	12.0%
- Royal Mail Site***	See note below

\*only includes Kent PFI Company 1 Ltd as loans on Empty Property Initiative and Marsh Millions are at 0%, and repayments are not yet due on the loans to the Marlowe Theatre and Invicta Law.

\*\*Rate of return excludes Gen2 as the £1 shareholding is immaterial.

\*\*\*Royal Mail Site – The short-term strategy was implemented during 2017-18 and continues to generate income to mitigate the site holding costs. It is anticipated that a small surplus will be generated from 2019-20 onwards. The main purpose of this site is for future regeneration rather than rental income.

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:

As the Council's overall investment exposure in relation to service investments – loans, service investments – shares and commercial investments – property, is immaterial, it is not considered necessary to publish any additional investment indicators at this time, but this will be reviewed annually.