

## 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 L to the final draft budget report.
- 1.4 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.
- 1.5 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 1.6 **Further details:** Full details of the Authority's policies and its plan for 2025/26 for treasury management investments are covered in a separate document, the Treasury Management Strategy, at Appendix L.
- 1.7 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 2050.

### Service Investments: Loans

- 1.8 The Council lends money for service and regeneration purposes, and to subsidiaries.

1.9 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk financial vetting is done prior to distributing loans and the value of the loans is immaterial.

1.10 As at 31.03.24 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	16.078
Marsh Millions	0.048
Kent PFI Company 1 Ltd	2.201
EDSECO Ltd (Trading as The Education People)	0.000
Visit Kent	0.150
Loan to Developer re Chilmington Green	2.580
<b>Total service investments - loans</b>	<b>21.057</b>

Kent Empty Property Initiative - No Use Empty

1.11 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 2024 the debt due to KCC under the scheme totalled £16.078m. Since its inception, the scheme has awarded £61.7m in loans, of which only £143k has been written off as a bad debt. This represents a mere 0.23% 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 £42m of loans to be approved for new builds. These loans provide a 4% return to the Council and there are currently no bad debts associated with these loans.

Marsh Millions

1.12 KCC contributed to the Marsh Millions loan scheme. This was set up to aid small businesses in the Romney Marsh area. As at 31.03.24 the balance outstanding to KCC was £0.048m.

Kent PFI Company 1 Ltd

- 1.13 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 31.03.24 the balance outstanding to KCC was £2.201m.

EDSECO Ltd (Trading as The Education People)

- 1.14 During 2019-20 a loan agreement was drawn up with EDSECo, trading as The Education People, for £2.2m to aid the start-up of the company. The loan was repaid in full on 28<sup>th</sup> April 2023 so the balance as at 31.03.24 was £nil.

1.15 Visit Kent

During 2020-21 KCC gave a loan to Visit Kent and the balance as at 31.03.24 was £0.15m. Repayment is due in April 2026.

1.16 Loan to Developer re Chilmington Green

The Council entered into a loan agreement with a developer in March 2024, in order for the developer to deliver infrastructure works which are required before the site transfers to the Department for Education (DfE), for the DfE to then build a new secondary school at Chilmington Green, Ashford. The loan is due to be repaid before 1<sup>st</sup> March 2027.

**Service Investments: Shares**

- 1.17 As at 31.03.24 the Council had the following equity investments:

<b>Company</b>	<b>Amount Invested £m</b>	<b>Value in Accounts (Fair Value) as at 31.03.24 £m</b>
Kent PFI Company 1 Ltd (Note 1)	1.902	0.950
Global Commercial Service Group Ltd (previously Kent Holdco Ltd)	7.890	15.530
<b>Total service investments - shares</b>	<b>9.792</b>	<b>16.480</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.

1.18 **Service Investment: Property**

As at 31.03.24 the Council had the following service investments in property:

<b>Property</b>	<b>Initial Investment (Build Costs) £m</b>	<b>Value in Accounts (Fair Value) as at 31.03.24 £m</b>
Creative Enterprise Quarter Industrial Units, Ashford units 1, 2, 3, 14, 18, 19, 20, 21, 22, 23, 24	2.474	2.605
Jasmin Vardimon Dance Laboratory	6.401	4.542
Kings Hill Solar Park	4.230	5.146
<b>Total service investments - property</b>	<b>13.105</b>	<b>12.293</b>

Creative Enterprise Quarter, and Jasmin Vardimon Dance Laboratory, Ashford.

KCC has invested in the Creative Enterprise Quarter in Ashford, using both own resources and a significant amount of external funding to create a suitable space for the Jasmin Vardimon Dance Laboratory. This investment included the build of industrial units to ensure a financially viable project. Some of the units have been sold and those identified in the table are being retained for rental income.

Kings Hill Solar Park

KCC has invested in the construction of a solar park as part of its Net Zero strategy, by using a significant amount of public sector decarbonisation grant funding and its own resources. This came into operation in October 2023 and provides an income stream through the Global Commercial Service Group (previously Kent Holdco Ltd).

- 1.19 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 31.03.24 are immaterial in relation to the Council's balance sheet. 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**

- 1.20 The Council invests in property with the intention of making a profit that will be spent on local public services. The main property investments are listed below:

<b>Property</b>	<b>Purchase/ build cost (including fees)</b>	<b>Value in accounts as at 31.03.23</b>	<b>Value in accounts as at 31.03.24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Sheehan House	0.723	1.080	0.780
Eurogate	2.275	3.511	3.398
1 & 42 Kings Hill Avenue	23.000	25.883	26.095
<b>Total</b>	<b>25.998</b>	<b>30.474</b>	<b>30.273</b>

- 1.21 There are several other properties that now come under the definition of investment, because they are held by the Council for no other purpose other than for income or appreciation, although the original acquisition was not for investment purposes. The total value of these properties owned by the Council as at 31.03.24 is disclosed below:

	<b>Value in accounts as at 31.03.23</b>	<b>Value in accounts as at 31.03.24</b>
	<b>£m</b>	<b>£m</b>
Total of other property investments	5.582	3.993

- 1.22 **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 2024-25 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**

1.23 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>Investment exposure</b>	<b>31.03.24 Actual £m</b>
Service investments: Loans	21.057
Service investments: Shares	9.792
Service investments: Property	13.105
Commercial investments: Property	25.998
<b>Total</b>	<b>69.952</b>

- 2) Net income from commercial and service investments to net revenue stream: This prudential indicator is calculated to show the proportion of income from commercial and service investments to the Council's net revenue stream and is included in the Council's Capital Strategy document at Appendix N. This indicator shows that the proportion of income from commercial and service investments to net revenue stream is forecast to be 0.34% for 2024-25.

1.24 Other investment indicators:

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