

INVESTMENT STRATEGY

Introduction

This investment strategy is a new report for 2019-20, which meets the statutory guidance issued by the government in January 2018 (Statutory Guidance on Local Government Investments 3rd Edition).

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).

The Investment Strategy focusses on the second and third of these categories. Treasury management investments are covered separately in the Treasury Management Strategy (see [LINK](#)).

Service Investments: Loans

As at 31.03.18 KCC had the following amounts outstanding in relation to loans distributed by it's own funding:

Loans in relation to:	Investment Value £
Kent Empty Property Initiative - No Use Empty	7.8m
Marsh Millions	0.4m
Kent PFI Company 1 Ltd	2.5m
Marlowe Theatre	2.0m
Invicta Law	1.8m
Total service investments - loans	14.5m

Further details on each loan is provided below:

Kent Empty Property Initiative - No Use Empty

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 2018 the debt due to KCC under the scheme totalled £7.8m. The scheme has been running since 2005 and since then has awarded £22.5m in loans, of which only £143k has been written off as a bad debt. This represents a mere 0.6% 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.

Marsh Millions

KCC contributed to the Marsh Millions loan scheme. This was set up to aid small businesses in the Romney Marsh area. As at 31.03.18 the balance outstanding to KCC was £400k.

Kent PFI Company 1 Ltd

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 31.03.18 the balance outstanding to KCC was £2.5m.

Marlowe Loan

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

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.

Service Investments: Shares

As at 31.03.18 KCC had the following equity investments:

Company	Investment Value £
GEN2 Property Ltd	1
Kent County Trading Ltd (Commercial Services)	4.0m
Invicta Law Ltd	2.0m
Kent PFI Company 1 Ltd	1.9m
Total service investments - shares	7.9m

KCC 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 31.03.18 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 authority 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

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.

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 KCC's constitution, in particular the Property Management Protocol, and in consultation with the Director of Finance.

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 2018:

Property	Purchase cost (including fees)	Value in accounts as at 31.03.18	Subsequent sale value during 2018-19 (if applicable)	Gain/ (loss) on disposal *
	£m	£m	£m	£m
Cherry Trees	0.365	0.853	0.910	0.545
George Turle House	1.115	1.486	1.360	0.245
Lenworth House	0.338	0.484	0.730	0.392
Orchard House	0.459	1.130	0.985	0.526
Royal Victoria Hospital	0.518	0.816	1.250	0.732
Sheehan House	0.723	1.140		
Royal Mail Site	3.309	3.413		
Eurogate	2.275	4.474		
Total commercial investments - property	9.102	13.796	5.235	2.440

*figures are indicative as there may be further costs to go through in 2018-19.

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.

Security: In accordance with government guidance, the Authority 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 Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2018-19 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 and any revenue consequences arising therefrom.

The total value of property investments is immaterial compared to the total asset value on the Authority's balance sheet. The Authority 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

The Authority 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 Authority's total exposure to potential investment losses.

Total investment exposure	31.03.18 Actual £
Service investments: Loans	14.5m
Service investments: Shares	7.9m
Commercial investments: Property	13.8m

- 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 Local Authority'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. These are correctly treated and accounted for as soft loans in the Statement of Accounts.

Investments net rate of return	2017-18
Service investments: Loans*	12.0%
Service investments: Shares**:	
- Kent County Trading Ltd	12.5%
- Kent PFI Co 1 Ltd	4.3%
- Invicta Law	0.0%
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 £1m shareholding is immaterial.

***Royal Mail Site – During 2017-18 the short term strategy was being put into place so the car park and rental income was only for part of the year, hence a slight deficit. Moving forward the indicated returns are more positive. The main purpose of this site is for future regeneration rather than rental income.

Any dividends are included within the revenue budget. It is not possible to accurately forecast dividends/asset values for the current or future years so these have not been included.

3) Other investment indicators:

As KCC'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.