

FINANCE ADVISORY GROUP – 2 NOVEMBER 2011

KENT AND MEDWAY INVESTMENT FUND

Report of the: Deputy Chief Executive and Corporate Resources Director

Also considered by: Cabinet – 3 November 2011

Status: For consideration

Executive Summary: District and Borough Councils in the County have been approached by Kent County Council to take part in a proposed Kent and Medway Investment Fund. The proposal is aimed at providing an investment opportunity for all councils in the County at the same time as ensuring a supply of funding for development and attracting development to the County.

Taking part in the next phase of the development of the proposed Fund would require from the Council a non-refundable contribution of £25,000. This phase will involve agreeing an investment strategy and partnership structure. After this phase, the Council would be invited to make an investment contribution of £2million in cash or property. The investment period would be 10 years. A Fund Manager would be appointed to run the Fund, ensuring the maximum return for investors.

This report may support the Key Aims of Value for Money and the Community Plan priority 'A thriving economy'.

Portfolio Holder Cllr. Ramsay, Finance Portfolio Holder

Head of Service Head of Finance and Human Resources – Tricia Marshall
Head of Community Development – Lesley Bowles

Recommendation: Members views are sought.

Background

- 1 Kent County Council is seeking support from District Councils to create a Kent and Medway Investment Fund (KMIF).
- 2 The County Council has appointed consultants CBRE to develop proposals based on experience of setting up an 'Evergreen Fund' in the North West of England. The CBRE feasibility study is attached at Appendix A and a summary is given on page 6 of the appendix. Answers to Frequently Asked Questions are attached at Appendix B.

Introduction

- 3 The primary purpose of the proposed fund is to enable regeneration. The KMIF would provide a commercial market return on investments.
- 4 The KMIF would be structured as a fund with an independent professional fund manager appointed to deliver an investment strategy agreed by the partners. The investment strategy would set out the objectives of the fund, determine the rate of return and risk profile as well as the type of investment the Fund Manager makes.
- 5 Projects for investment would be selected not only on the basis of a sound business case but also for the regeneration benefits that they will deliver. At the moment, it is understood that applications for funding will only be considered in districts where the district or borough council is an investor.
- 6 The Fund would be set up for an initial ten year term with the option for partners to agree to extend the fund for a further ten years.
- 7 The County Council is inviting all district and borough councils to be part of the scheme and has indicated that other investors, e.g. the Kent Pension Fund and the Homes and Communities Agency may also wish to be involved.
- 8 In order to take part in the scheme each district is being asked to commit £25,000 to enable the next stage of work to take place. Kent County Council will contribute up to £500,000 and Medway Council £50,000. This stage will involve drawing up the investment strategy and the terms of the partnership. This sum is not refundable.
- 9 Following the next stage of work, district councils will be invited to invest a very significant amount in the Fund. The amount currently being discussed is £2million per district, which can be contributed in cash or in property.
- 10 All district and borough councils in Kent have been invited to take part in an asset review, conducted by CBRE, to help assess whether they wish to use assets rather than cash as their investment.
- 11 Another option may be to take part in the subsequent phase of the scheme, which would be the full investment stage. At that stage an equalisation payment would have to be paid in order to compensate original partners for their higher level of risk. It is not known at this stage what size of payment this might be.
- 12 In essence, the KMIF proposal could have the ability to provide district councils with regeneration and/or financial returns.

Regeneration objectives

- 13 The consultants' study identifies that the Fund needs to deliver regeneration outputs to Kent and Medway. The regeneration that is achieved will depend upon a series of quantifiable outputs that will be used as an important part of

the project selection mechanism. These might include for example the number of jobs or the number of affordable housing units created.

- 14 Different parts of the County will have different priorities for these quantifiable outputs and these will be set as part of the next phase of the development of the fund.
- 15 Although it is possible that local regeneration projects could benefit from the fund, there is no guarantee of this. The Fund Manager's role will be to ensure that the schemes that best meet the objectives and, most importantly, those that are fully worked up, achievable and offer the best returns, are funded. The purpose of the Fund is not to provide gap funding for schemes that would otherwise fail.

Key Implications

Financial

- 16 Should Members wish to consider taking part in the scheme, it would be necessary to make a £25,000 contribution which is non-refundable. Following this, Investment in the Fund will require a contribution of £2 million in cash or property assets the ownership of these assets would then pass on to the fund. Rates of return will depend on the level of risk adopted as part of the investment strategy. It has been suggested that these could be as high as 10%. However, if a lower level of risk is decided upon, rates could be much lower.
- 17 Under the Council's current Investment Strategy, lending is restricted to counterparties based in either the UK or the EU, satisfying the credit rating matrix supplied by Sector, the Council's investment advisers. The minimum acceptable long term credit rating is AA- or better. Investments are currently in place for a maximum of one year, although in the current climate new investments are being placed for no longer than three months.
- 18 No more than £5m is placed with any single counterparty, increased to £6m including call accounts. A maximum of 25% of the total fund is be lent to any single counterparty or counterparties in the same group. Current investment rates with institutions on our lending list vary between 1.65% and 2.1% for one year. Looking at some low or non rated building societies (that fall outside the current Strategy) rates are around 2.0% to 2.2%.
- 19 Should the Council wish to pursue this beyond the feasibility stage and in recognition of the fact that the KMIF is not credit rated and that the lending would be in excess of one year, the Investment Strategy would need to be amended by full Council in order to invest in the Fund.

Legal, Human Rights etc.

- 20 The Feasibility Report recommends that the KMIF is established through a limited partnership. Appendix C is a copy of a report written by Kent County

Council Officers. Page 7 of Appendix C sets out the legal implications. However, if Members wish to pursue the proposal further, it would be necessary for Officers to obtain the Council's own legal advice.

Resource (non-financial)

- 21 It would be possible to invest in the Fund using property assets instead of cash. The CBRE property review report is attached at Appendix D. This has just been received from Kent County Council and the Property Manager is in the process of reviewing its findings and these should be tabled at the meeting.

Value For Money and Asset Management

- 22 It is not possible to assess value for money until more information is known about the investment strategy and what sort of yield is anticipated. It is hoped that once the feasibility study has been completed, more detailed information to enable decision making will be available.

Equality

- 23 There are no equality issues associated with this report.

Community Impact

- 24 There may be some positive community impact associated with the scheme. For example, in the right circumstances the Fund could lever in funding for housing or regeneration. However this cannot be measured in advance.

Conclusions

- 25 The proposed purpose of the Kent & Medway Investment Fund is to enable development and lever private finance across the area at a time when it is difficult for developers to attract investment funding. At the same time it is intended to provide an investment opportunity for local authorities.
- 26 In terms of the investment opportunity, the level of return is dependent upon the risk profile that partners decide upon in drafting the proposed investment strategy as well as the success of the projects in the development pipeline.
- 23 The scheme falls outside the District Council's own Investment Strategy as it stands at the moment.
- 24 The regeneration benefits to this District will be dependent upon the regeneration outcomes decided in the next phase of the development of the Fund. However, Members should note that although the Council would be keen to move forward projects in the District, there is no guarantee that any of the projects accepted for funding will be in this District.

Risk Assessment Statement

| Risk associated with the £25,000 investment in the next stage | Mitigation |
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| The Council cannot be assured that there is value in investing £25,000 in the next phase of the project. | It may be possible to enter the Fund at a later stage once the investment strategy is set, although there would be financial penalties associated with this. |
| If the Council does not take part in the next phase, it will not be able to influence the regeneration outputs which may then favour other parts of the County. | |
| If the Council does not take part in the investigation phase of the project, and subsequently does not invest in the Fund, developments in the District may not be able to access the Fund and the Council may be criticised for this. | Because of high property values in the District it may be easier for developments in the District to be funded by private funders than is experienced elsewhere in the County. |
| If the Council does not investigate investment in the scheme, it may miss the opportunity to benefit from a higher rate of interest on its investments. | The Council's investment policy has been extremely sound and subject to minimal risk. |

Note: if, after the next phase, there was a proposal to invest in the scheme, a full risk assessment would be carried out as part of the decision-making process.

Sources of Information: Appendices A, B & C

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