Kent and Medway Investment Fund
Frequently Asked Questions

KCC has appointed CBRE and Pinsent Masons to develop proposals for a Kent and Medway Investment Fund. The KMIF model was presented to a special meeting of Kent Joint Chief Executives in July alongside proposals to take forward the development and set up of the fund in partnership with local authorities.

KMIF is a revolving fund providing finance to unlock regeneration and economic development across Kent. It will invest on commercial terms in both public and private sector led projects that deliver regeneration outcomes. Through shared local authority resource commitments it aims to lever significant private sector investment.

The following 'frequently asked questions' have been prepared to assist Kent borough and district partners with internal decision making processes.

Rationale

Q. How will KMIF provide added value for local authority partners over and above alternative LABV arrangements and / or investment in individual projects?

A. Through local authorities working in partnership, KMIF will provide a critical mass of projects and access to recycled funds that could not be achieved by each local authority working in isolation. Crucially, the proposed structure creates the potential for attracting a much broader mix of private sector investment – including institutional investors – that individual projects are unlikely to be able to access.

Q. What is the justification for local authorities locking away investment over 10 years?

It is proposed that investments will be locked in for the life of the Fund to maximise benefits. The benefit to local authority partners is the potential for investment in regeneration projects in their area. Funds could be recycled up to 3 times over the 10 year period increasing the opportunity for all authorities to benefit. At the end of the Fund's life the partners will be paid a return on their investment.

Governance

Q. Are membership rights determined by the level of investment made by a local authority?

A. No. The current proposals are for an equal partnership, subject to each partner meeting a minimum investment. Any additional investment over this level will however attract a commensurate rate of return.

Q. What is the General Partner and what are the options for local authorities in its governance?

A. To retain their limited liability status, the Limited Partners cannot be involved in the day to day management and operation of the Fund. The General Partner is therefore part of the governance arrangements to protect the interests of the local authorities. There are two main options for the local authority partners to consider in respect of the General Partner – the partners form a special purpose vehicle to act as the General Partner; or a General Manager is appointed to also be the Fund Manager. Both options ensure limited liability status is retained. The distinction between them is differing levels of involvement in the management of the Fund. Appointing a General Manager to act as a Fund Manager provides a more arms length arrangement for local authority partners regarding day to day operations, which could potentially make KMIF more attractive from a private sector investor perspective. In practice the approach taken could embrace both options with a special purpose vehicle being created by the partners to act as General Managers in the early days of KMIF being established, and this role then transitioning to the Fund Manager at a later date.

Investment & Return

Q. What level of investment will the local authority partners need to make?
A. 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. It is suggested that each partner authority will contribute around £2m in cash or equivalent assets to seed the fund. The precise level of investment will be determined through the next stage of developing KMIF and is dependant upon the number of committed founding partners as well other potential investment such as the Kent Pension Fund.

Q. How will the local authorities raise the £2m?
A. It is for each local authority to decide how they contribute towards seeding the fund and whether this is through cash or equivalent value in assets. Cash contributions are the most straightforward and tax efficient means of seeding the Fund. The proposed KMIF model includes a LABV arm as a mechanism for utilising local authority assets within the Fund (as an alternative to cash) where there is a delivery strategy for these assets capable of providing a viable project.

Q. When will local authority partners need to commit their contribution to the Fund?
A. Commitments will need to be in place before the Fund is ready to be launched. Drawdown of funds will be phased as projects become ready for investment and are brought forward from the pipeline.

Q. What level of return can the local authority partners expect to achieve on their investment in the Fund?
The level of return is dependant upon the risk profile the partners chose to invest in, as defined by the Investment Strategy. It is also dependant upon the pipeline of projects coming forward and subsequent investment portfolio. It is therefore difficult to predict the level of return expected this stage; however a higher risk strategy might deliver a 12% return before costs and a lower risk strategy deliver up to 8 % before costs. The key added benefit is the delivery of regeneration outputs from this investment.

Running Costs

Q. What are the ongoing running costs and how will these be met?

A. Running costs are estimated to be in the region of £500k p.a. based on Evergreen. Once the Fund is fully operational these costs will be met through project fees and investment returns once they become available. In the short term these costs would need to be met by the local authority partners.

Project Pipeline

Q. What type of projects would the fund support?

A. It is proposed that KMIF will support both public and private sector led projects that are have difficulty in obtaining finance from traditional sources but are otherwise commercially viable (with KMIF investment) and which also deliver against regeneration targets. The Investment Strategy, which defines investment priorities and guides the Fund Manager, is agreed by the KMIF partners.

Q. Who decides which project receive funding and in what order?

A. Investments are made by an independent Fund Manager in accordance with the Investment Strategy. Only those projects supported by the local authority in which they fall will be considered for investment. Projects that fulfil the investment criteria and are ready to be delivered will be supported first. Where more than one project is ‘investment ready’ the project scoring the highest against weighted investment criteria (and therefore offers greatest benefit to the Fund and the partners) will receive funding first.

Q. Can a member of the KMIF partnership specify which project its funding contribution is invested in?

A. No. Partners investing at fund level commit to the Investment Strategy and the full investment portfolio.

Q. Is there scope to ring-fence investment to geographical areas?

A. Evergreen is made up of two pools – one specifically for Greater Manchester and one for Cheshire, Cumbria and Lancashire. The potential for replicating this approach, based for example on an East / West split, could be explored further through the next stage of developing KMIF.

Q. What reassurances are there that projects will be funded in each of the local authority partners’ areas and when can they expect to see investments made?

A. Investments will be made according to the availability of suitable projects and the timing of investment is therefore dependant on the project pipeline. The proposed KMIF model in its current format does not however undertake project development and delivery. The founding partners will therefore need to consider whether they want to jointly fund a shared project development resource to provide additional capacity for the local authority partners to help bring forward viable projects.

Q. Will KMIF assist in indentifying development opportunities and developing project strategies?

A. No. The model proposed is for an investment, not development, vehicle. If a separate shared project development resource is established (or existing regeneration vehicles utilised) then it will undertake this role.

Development & Set up of KMIF

Q. What is included in the next stage of work, how much will it cost and how long will it take?

The next stage of work will focus on three key elements: the Investment Strategy; governance arrangements (including Vires and a review of legal issues); and the project pipeline. It will flesh out the proposals and take KMIF forward to the point of being ready to launch. It is expected to cost around £650,000. Borough and District partners are being asked to contribute £25,000 each, with KCC to fund the remainder up to £500,000. The development stage will take 9 – 12 months to complete.

Q. How will consultants be appointed to support the next stage of work?

It is proposed that the next stage is openly procured as a single package. Due to the value of the contract, it will be subject to OJEU. The tender brief and specification will be developed by KCC Regeneration and Economy working with local authority partners. Project governance arrangements will be established with partners to agree and oversee the procurement and delivery of this work.

Q. How is the Fund Manager appointed?

A. Procurement of the KMIF development will need to include specialist fund management advice. This could be the same Fund Manager who will run the Fund on behalf of the KMIF partnership once it is established. Alternatively, the Fund Manager that will take forward delivery of the KMIF could be procured separately at the Fund set up stage. The approach to be taken will be agreed by the partners.