INVESTMENT STRATEGY 2025/26

1. INTRODUCTION AND BACKGROUND

1.1 In 2018, the Department for Levelling Up, Housing and Communities ('DLUHC' as it then was – now Ministry of Housing Communities and Local Government 'MHCLG') revised their *Statutory Guidance on Local Government Investments* mainly as a response to the increased commercial investment activity in the sector. The MHCLG Guidance requires all local authorities to produce an annual Investment Strategy for their non-treasury management investments which has to be approved by full Council. The MHCLG Guidance also requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy ('CIPFA') publications of *The Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services* which both complement it.

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 main purpose of the investment strategy is to identify the level of the authority's service and commercial investments and to set risk management parameters around these.

1.4 Treasury management investments and borrowing continue to be covered by a separate annual Treasury Management Strategy Statement (TMSS) which is due to be considered and approved by Cabinet as part of this agenda. However, the MHCLG Guidance requires some limited treasury management information to feature in the investment strategy, including the level of interest received by the General Fund.

1.5 The investment strategy, set out in **appendix 8.1** to this report, is based on the authority's existing and planned service-related and commercial investments and is consistent with the proposed General Fund Medium Term Capital Programme due to be considered by Cabinet as part of this agenda before being submitted for approval to full Council on 26 February 2025. The investment strategy 2025/26 is also required to be approved by full Council on 26 February 2025, as part of the budget process.

1.6 It is anticipated that the investment strategy will continue to develop and evolve over time in line with the council's own capital investment aspirations and plans. The intention is to review the investment strategy annually as part of the authority's budget setting process and in line with the statutory guidance. However, if the nature and structure of the authority's proposed service and commercial investments was to change during the year it may be necessary to revise the strategy at the same time.

1.7 **Environmental, Social and Governance (ESG) Considerations** – In line with statutory guidance and the CIPFA Treasury Management Code, the proposed TMSS includes an ESG Policy for the authority's treasury investments. For other investments the authority has committed to reducing its own carbon footprint to a net zero target by 2030 through the **Folkestone and Hythe District Carbon Action Plan** which sits within the framework provided by the draft Corporate Plan 2021-30, 'Creating Tomorrow Together'.

Appendix 8.1 Draft Non-treasury Investment Strategy Report 2025/26

1. INTRODUCTION

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).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2 TREASURY MANAGEMENT INVESTMENTS

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 and collects local taxes on behalf of other local authorities and central government. 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. The balance of treasury management investments is expected to fluctuate between £15m and £30m during the 2025/26 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities. These investments also contribute an income stream to support the General Fund budget position annually.

Further details: Full details of the Authority's policies and its plan for 2025/26 for treasury management investments can be found in the 25/26 Treasury Management Strategy report as presented to Cabinet on 10 February 2025.

3 SERVICE INVESTMENTS: LOANS

Contribution: The Authority lends money to its subsidiaries, its suppliers, its charities where the Council is the trustee, its external service providers, local residents and its employees to support local public services and stimulate local economic growth. In the future the council may also lend money to joint ventures it decides to enter into to help deliver its major corporate investment initiatives. Examples of loans the Council makes are shown in the table below*:*

Table 1 - Example of Loans made for service investments

Organisation	Relationship	Purpose	Service Objective
Oportunitas Ltd	Housing and Regeneration subsidiary company	Primarily for the acquisition of residential property for rent	Provision of good quality homes for rent Generate additional revenue stream for the General Fund
Folkestone Parks and Pleasure Grounds Charity	Council is the trustee	Refurbishment and replacement of Beach Huts	Improve the appearance of the district and to improve the financial resilience of the Charity through additional income generated
Local property owners	Jointly funded empty homes initiative with Kent County Council	Interest free loans to property owners to bring empty properties across the district back in to residential use	Bringing empty residential properties back into use and the provision of additional good quality homes
Otterpool Park LLP	Otterpool Park Delivery Vehicle subsidiary company	Delivery of the Otterpool Park Garden Town development	Provision of new homes, generate economic benefits and provide a financial return to the Council

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 2: Loans for service purposes

Category of borrower	31.3.2024 actual			2025/26
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Subsidiary – Oportunitas Ltd	6.4	(0.1)	6.3	6.3
Subsidiary _ Otterpool Park LLP	15.9	(2.6)	13.3	69.3
FPPG Charity	0.4	0	0.4	0.4
Local residents/ landlords (Housing)	2.3	0	2.3	3.1
TOTAL	**25.0**	**(2.7)**	**22.3**	**79.1**

The approved limits for 2025/26 not only include the estimated amounts to be lent in the year but also provide for any accrued interest, future loan commitments within the loan agreement and the repayment of principal expected to be received.

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans. This includes:

Ensuring the authority has the legal power to make the loan to the entity in the first place.

Assessing loan applications against the type of market the entity is operating and competing in:

Loans to the Council’s subsidiary company, charities where it is the trustee, joint ventures or external service providers require a business case and, possibly, business model to be prepared in advance. This needs to demonstrate the entity’s long term financial viability, its ability to meet the loan repayment terms and also the internal governance arrangements in place to support their operations. The entity also needs to demonstrate how it will evolve over time against both market conditions and its customer needs. The entity needs to identify any ongoing or future investment requirements to support it over the to support it over the term of the loan. The authority’s loan agreement may require the entity to provide regular performance information to enable an assessment to be made of their ability to continue to meet its terms and conditions. Unless otherwise agreed, loans made are secured against the property or other assets of the entity to help mitigate the risk of default.

Loans to local property owners for housing improvements schemes are made in accordance with the criteria of the specific scheme agreed by the Council. All previous and existing housing improvement schemes offer interest free loans (soft loans) with the requirement that the principal sum is repaid to the authority at an agreed trigger point such as after an agreed period of time or when the property is eventually sold. Loans are secured as a charge against the property to help mitigate the risk of default.

External advisors can be used to support the authority in assessing investment opportunities and preparing loan agreements. This can include advising on investment options appraisal, business plan or case submissions, relevant commercial lending terms compliance for state aid, taxation and other statutory issues and reporting obligations for the borrower.

The authority has established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses.

This can involve;-

Interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,

Liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,

Focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and

Utilising our own professional judgement to consider the advice received.

Credit ratings are not currently applicable as part of the assessment process for checking the financial status of entities or individuals who apply for a loan. This may alter if the nature and scope of loans made was to change in the future.

The authority may require other sources of information to help assess the suitability of the entity requesting a loan such as financial accounts or a bank reference.

4 SERVICE INVESTMENTS: SHARES AND OTHER EQUITY

The Authority invests in the share equity for Oportunitas Limited and Otterpool Park LLP. In the future the authority may also acquire shares in either other subsidiaries companies it may choose to establish or joint venture companies it decides to enter into to help deliver its major corporate investment initiatives.

Oportunitas Limited: The authority's investment in the shares of Oportunitas supports its operational trading activities including its acquisition of residential property to increase the supply of good quality housing for rent to local people. No dividend return is expected in medium term from this investment, however the authority's overall investment in Oportunitas provides an additional revenue stream to the General Fund.

Otterpool Park LLP: The authority's equity investment in Otterpool Park LLP, as a capital contribution through the Members' Agreement, support its operational activities to act as the Master Developer for the proposed scheme. The LLP's main income stream will be from selling serviced parcels of land to housing developers and this will provide the opportunity to make a return to the Council. No capital receipts or contributions from the development have been anticipated for the period of the latest Medium Term Financial Strategy to 2028/29.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 3: Shares held for service purposes

Category of company	31.3.2024 actual			2025/26
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiary – Oportunitas Ltd	4.9	(4.9)	0	4.9
Subsidiary – Otterpool Park LLP	1.8	0	1.8	7.5
TOTAL	**6.7**	**(4.9)**	**1.8**	**9.9**

The approved limit for 2025/26 includes;

The cash value of the Council's share equity investment in Oportunitas Limited, and

The proposed equity in Otterpool Park LLP being a maximum of 10% of the agreed total equity and loan funding package profiled for the period to 31 March 2025.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding shares of its subsidiaries or joint ventures. This includes:

Ensuring the authority has the legal power to acquire the share capital or make the equity investment in the entity in the first place.

Preparing a long-term business case and business model for the company identifying the level, structure and time scale of the investment required to enable it to become financially viable and sustainable and provide the authority with an appropriate financial return.

Requiring the company to develop and maintain a business plan outlining how it will meet the objectives of the authority as shareholder including identifying associated risks, including market conditions, and measures to mitigate these.

Requiring the company in the event it was to cease trading or become insolvent to dispose of its assets and transfer the net receipt to the authority or transfer the assets to the control of the authority itself, to help mitigate the risk of financial loss.

Using external advisers if required to support the authority in preparing its business planning and modelling to support the creation and development of the company and also structure the shareholder agreement.

Using the authority's established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses.

This can involve;-

Interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,

Liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,

Focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and

Utilising our own professional judgement to consider the advice received.

Credit ratings are not currently applicable as part of the assessment process for checking the financial status of entities or individuals who apply for a loan. This may alter if the nature and scope of loans made was to change in the future.

Liquidity: The authority' equity investments in Oportunitas Limited and Otterpool Park LLP are both long term commitments with no specified end date. The business cases and model supporting the authority's investment in Oportunitas and Otterpool are based on original 45 year and 30 periods respectively. The authority's future capital investment plans do not require the repayment of the equity investments. However, in the case of Otterpool the long-term modelling assumes the authority's total investment in the project can be met from the schemes projected net proceeds. The Council has overall control of both companies and can decide if it wants to review the level of its equity investment. For any future share or equity investment in other subsidiary companies or joint ventures it is likely these will also be a long-term commitment, however this will be determined at the time the investment is being considered for approval

Non-specified Investments: Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5 COMMERCIAL INVESTMENTS: PROPERTY

Contribution: The Authority invests in local commercial and residential land and property with the intention of making a profit that will be spent on local public services. The authority currently holds investment property for the following main reasons;

Residential property and minor parcels of land to support the proposed Otterpool Park Garden Town development of up to 10,000 new homes over an approximate 30-year period. The major land holdings of Otterpool Farm and the former Folkestone Racecourse site have both been reclassified as Property, Plant and Equipment – Surplus Assets from 2020/21 as they are no longer viewed as being held solely for their investment return. Both sites will equally contribute towards the housing development and the wider community aspects of the Otterpool Park Garden Town development. Similarly, Westenhanger Castle, which while part of the Garden Town development, is planned to be used for is community benefit rather than a direct financial return and is not classified as an Investment Asset.

Land for other commercial and residential development

Commercial and light industrial units for local businesses providing employment opportunities and the authority with a net rental stream.

The Connect 38 office accommodation in Ashford to provide the authority with an additional net revenue stream.

The table below summarises the value of the Council's investment assets grouped by property type measured against the original purchase or construction cost.

Table 4: Property held for investment purposes in £ millions

Property Type	Actual	31.3.2024 actual		31.3.2025 expected	
	Purchase cost £m	**Gains or (losses) £m**	**Value in accounts £m**	**Gains or (losses) £m**	**Value in accounts £m**
Commercial and light Industrial (existing)	1.3	0.6	1.9	0.6	1.9
Other Land	2.9	(2.4)	0.5	(2.4)	0.5
Otterpool land and property	10.2	(0.6)	9.6	(0.6)	9.6
Connect 38 Offices	17.9	0.4	18.3	0.4	18.3
TOTAL	**32.3**	**(2.0)**	**30.3**	**(2.0)**	**30.3**

All land and property classified as Investment Assets is required to be measured at its market value as at 31 March each year for inclusion in the authority's Statement of Accounts. At the time of writing, no information was available regarding potential changes in the market value of these assets as at 31 March 2025 meaning, where appropriate, they are shown at either their value as at 31 March 2024 or purchase cost if planned to be acquired or constructed in 2024/25 or 2025/26 in table 4, above. Similarly, the accrued gains and losses only reflect those recorded at 31 March 2024.

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. However, it is recognised the authority is acquiring land and property for development reasons and therefore its existing use value as n investment asset may be significantly lower than its future potential value.

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 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 and any revenue consequences arising therefrom.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments by preparing a business case to support the proposed investment. This includes:

Assessing the current and expected future market demand and need for relevant property by reference to local, reginal, or national data, including rental and occupancy levels.

Assessing the current and expected future market competition for the type of property being considered.

Identifying the relevant legal power the authority is using to undertake the purchase and whether or not it may need to purchase and operate it through a separate entity such as a company or joint venture.

Identifying how the authority can recover or dispose of its interest in the property without financial loss.

Undertaking a whole-life financial assessment of the proposed scheme to identify any on-going investment that may be required.

Using specialist eternal advisors such as, valuers, surveyors, property agents, solicitors and taxation and other finance specialists to hep evaluate the proposed investment if required.

Using the authority's established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses.

This can involve:

Interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,

Liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,

Focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and

Utilising our own professional judgement to consider the advice received.

Using Credit checks if required to assess the financial strength of third parties the authority proposes to purchase an investment property which has existing commercial tenants. Credit ratings are not applicable as part of the assessment process for property investment.

The authority has established a proactive risk management culture within the organisation, including all key projects being required to consider risks, as well as quarterly monitoring and reporting of key corporate risks which includes, at times, key investment plans such as the delivery of Otterpool.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions.

The authority's commercial and light industrial units' portfolio is viewed as a long-term commitment providing valuable local jobs and supporting the local economy. Any decision to dispose of existing units would need to be balanced against providing alternative employment opportunities, continuing to support the local economy as well as the direct financial impact to the authority.

Where property is held for future development reasons the authority will identify how it intends to recover or access the cost of its capital investment as pat of any proposal for the specific development.

6 PROPORTIONALITY

The current MTFS does include property and service investment income as part of its projections from schemes and initiatives already in place or agreed. The MTFS anticipates accrued interest from the capital funding being made available to Otterpool Park LLP but excludes the benefit from any potential capital gains or other new revenue streams from the proposed Otterpool Park development.

Table 5: Proportionality of Investments

	2023/24 Actual £m	**2024/25 Forecast £m**	**2025/26 Budget £m**	**2026/27 Budget £m**	**2027/28 Budget £m**
Investment income	2.0	2.7	3.1	3.6	4.6
Gross service expenditure	110.6	113.9	117.3	120.9	124.5
Proportion	2%	2.4%	2.6%	3%	4%

7 ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

In line with statutory guidance and the CIPFA Treasury Management Code, the proposed TMSS 2025/26 includes and Environmental, Social and Governance (ESG) Policy for the authority's treasury investments. When investing in banks and funds, the authority will prioritise banks that are signatories to the UN principles for Responsible Banking and Funds operated by managers that are signatories to the

UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

For service investments the authority has committed to reducing its own carbon footprint to a net zero target by 2030 and will take the opportunity to be an influencer of change within the district and plans to support local communities, organisations and businesses in the implementation of measures designed to reduce the CO2e footprint to net zero by 2030 of the district as a whole.

This Carbon Action Plan sits within the framework provided by the council's draft Corporate Plan 2021-30, 'Creating Tomorrow Together' that sets out guiding principles and service ambitions that have helped influence the Carbon Action Plan which has been developed alongside it. The purpose of which is to identify an evidence-based pathway to deliver cleaner growth, and specifically, strategies and actions to eliminate poor air quality, reduce fuel poverty and deliver an affordable, clean, and secure energy supply.

Implementing carbon reduction actions and specific targeted measures may have a significant cost as well as many benefits (social, economic, environmental). Sourcing of funding to deliver the Carbon Action Plan objectives for the Council's own estate and to support/ encourage the transition across the district will require careful and deliberate targeting of funds.

8 CAPACITY, SKILLS AND CULTURE

Elected members and statutory officers:

All members have previously been provided with training on treasury management and investment by the authority's Treasury Management advisors (Arlingclose Ltd). It is planned to provide further training on this subject and will encompass all members and not just those on the relevant committees. Training is also held on specific issues for nominated councillors (such as on Investment appraisals) and there are ongoing briefings for individual members with specific responsibilities such as the Finance Portfolio holder, the Chair of the Audit and Governance committee and the Group Leaders of the political parties represented on the Council. All members have a wide exposure to investment decisions and are able to interrogate officers either formally or informally.

Commercial deals:

The authority has a process in place whereby all proposed capital investment decisions are referred to Financial Services and Legal Services to ensure compliance with the principles of the prudential framework and of the regulatory framework for local authorities. For individual major projects, including commercial property investments, a project board or working group is established at the outset which includes officers from financial services and Legal Service who advise on compliance with statutory guidance and regulatory issues.

Corporate governance:

The authority has a clearly articulated corporate plan and associated values which have recently been refreshed as part its transformation programme. It also has a long-standing practice of regular and transparent decisions in relation to investments held for both treasury management purposes and for investment purposes. The governance structure includes scrutiny of certain decisions, including those relating to the council's budget-setting process, through the Overview and Scrutiny Committee or it's Finance and Performance Scrutiny Sub-Committee prior to these being considered by Cabinet. Any new investment decisions need to be approved by Full council with a full explanation of the benefits, opportunities and risks associated with any proposal. The ongoing performance of investments is regularly reported back to Members and is subject to ongoing review and monitoring.

8 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.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 6: Total investment exposure in £millions

Total investment exposure	**31.03.2024 Actual £m**	**31.03.2025 Forecast £m**	**31.03.2026 Forecast £m**
Treasury management investments	20.2	14.0	14.0
Service investments: Loans	22.3	31.5	35.1
Service investments: Shares	1.8	2.5	2.9
Commercial investments: Property	30.3	30.3	30.3
TOTAL INVESTMENTS	**74.6**	**78.3**	**82.3**
Commitments to lend	50.0	43.0	38.0

TOTAL EXPOSURE	**124.6**	**121.3**	**120.3**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 7: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2024 Actual**	**31.03.2025 Forecast**	**31.03.2026 Forecast**
Service investments: Loans	22.3	31.5	35.1
Service investments: Shares	1.8	2.5	2.9
Commercial investments: Property	27.9	27.9	27.9
TOTAL FUNDED BY BORROWING	**52.0**	**61.9**	**65.9**

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.

Table 8: Investment rate of return

Investments net rate of return	**2023/24 Actual %**	**2024/25 Forecast %**	**2025/26 Forecast %**
Treasury management investments	5.0	4.5	3.75
Oportunitas	4.2	4.2	4.2
Otterpool	6.9	6.9	6.9
Commercial investments: Property	0.9	0.9	0.9