Investment Strategy

Here we outline the principles of the investment strategy for RegenCo and reflect the current stage of evolution around the role that RegenCo will play in the Dover local area. RegenCo's overriding strategy will be to facilitate and promote the regeneration of Dover. RegenCo will be operated by a chief executive assisted by a very small team of employees who will have the following broad responsibilities:

Negotiate, structure and invest in assets and projects that fit within the agreed investment strategy Where appropriate, secure co-investments for the identified projects, leveraging maximum available investment from public funding sources such as EBRD ,and ensure that the value of RegenCo is maximised at all times. Monitor compliance and risk. Recommend and manage appropriate exit strategies from investments.

The investment strategy covers the following four areas:

Focus of investment â€“ outlining the type of projects targeted by RegenCo - Nature of investment â€“ reviewing the way in which RegenCo can invest in projects - Appraisal â€“ the criteria by which RegenCo will select investments - Performance â€“ the options for return rates targeted by RegenCo

Focus of Investment

Policy rationale â€“The fundamental criteria would be to focus on projects that facilitate and promote the regeneration of Dover and , generally, they will be expected to provide an acceptable financial return (as discussed further below).

It is suggested that RegenCo should not be just a vehicle for charitable donations like the Lottery fund. Were it to be structured that way, it would be unmanageable and unless limited to donations out of income would have a very finite existence. It is instead recommended that RegenCo is structured as a growing sustainable fund where capital is ultimately recycled and increased, leveraging further and further regeneration. Because the Trust will be mutually owned and is concerned predominantly with the regeneration of Dover, RegenCo's attitude to investment risk may well be different to a more traditional investment vehicle. Decisions to invest in projects, although supported by the need to create a cyclical fund to invest further, are likely to consider the outcomes of the specific projects in terms of social and economic impact, as well as the potential return. It would also take into considerations whether projects have been identified as a part of the wider development frameworks by Dover District Council and other local masterplans.

Geographic rationale â€“ The recommendation is that RegenCo's investment strategy should be primarily focused on Dover itself rather than the wider district and that within Dover there should be a bias, at least initially, towards investments within the town centre and Waterfront as those will create maximum impact. Target projects â€“ RegenCo aims to focus development initially on the Waterfront and other property assets currently owned by the Harbour Board. It will also seek to invest in other projects that can generate an acceptable return, as well as supporting the broader economic development goals. These will be further supplemented by smaller investments in business support, community engagement and other public realm improvements. Detail on target projects are further explained in Sample Projects.

Nature of Investment

The fund will have four main investment categories:

Capital Investment in RegenCo's own property assets to improve income and capital returns. Equity â€“ providing actively-managed but longer term investment usually in property, land or development projects, primarily focusing on capital returns from the exit of the investment. Equity investments are expected to be made for commensurate return. It is also expected that investments will not generally be long term 'holding position' investments though DPPT/ RegenCo will always retain the freehold to key waterfront sites . Typical investment life would be no more than 5 years.Loans â€“ these could comprise fixed term and/ or contingent repayment terms. RegenCo will assess each investment on merit and apply a credit scoring process to 'price' each loan against suitable market / commercial drivers. Grant â€“ expected to be a relatively small component of the fund, grants or subsidy arrangements may be made for projects that meet the fund's criteria for community development and wherever possible serve to leverage returns from RegenCo's commercial investments. If so, project outputs will generally be tied to the grant award, which will be clawed-back if some/all of the outputs are not achieved. See further detail in, Strategy implementation - Business Support, Community Engagement and Public Realm Improvements.

RegenCo will be expected to seek directly or encourage relevant public sector bodies to seek external sources of funds (generally public sector) for which RegenCo and others can then provide match funding. Examples could include:

European Regional Development Fund (ERDF)

The ERDF is focused on reducing economic disparities within and between member states by supporting economic regeneration and safeguarding jobs.

All ERDF funded projects must:-

be located in the eligible area;contribute to one or more of the programme objectives;identify and provide details of clear and attainable targets;demonstrate an additional and sustainable benefit to the socio-economic development of the area;have a sound funding package in place, identifying the recipient of the funds and the sources of match funding;not duplicate existing activity, but could extend such activity;not be a substitute for existing or planned domestic expenditure;respect State Aid rules; andfollow public procurement rules where applicable.

Since 2000, England has benefited from more than â‚¬5bn of ERDF funding, with a further â‚¬3.2bn being invested in projects for the current round of programmes (2007-13). These programmes are designed to meet current needs by targeting employment, small and medium-sized enterprises, innovation, high-tech business investment, among other key priorities identified by each region.Although Â£1.4bn of funding theoretically remains available to applicants ,the eligible geographic asreas for the 2007-13 programme are already finalised and with the end of the current programme period approaching, any major new project is more likely to need to come within the 2014 &ff round of programmes. The programmes for the 2014 period have not yet been agreed.

The European Regional Development Fund (ERDF) is aimed at economic regeneration projects promoted primarily by the public sector. This involves government departments,regional development agencies,local authorities,further and higher education establishments,other public bodies and voluntary sector organisations.The private sector can also promote high quality projects that meet ERDF objectives generally in partnership with a public sector body.

The operational programmes cover specific geographical areas and are aimed at supporting economic regeneration in areas in need. This is through projects in the areas of innovation, business support and sustaining communities. ERDF helps projects which offer substantial benefits that meet the needs of the region and its local areas that wouldn't take place without a grant. The rest of the funding, known as 'match funding', comes from other sources such as: local authorities, government schemes, other public bodies and the private sector.

Local authorities have traditionally received considerable financial support through the ERDF and in the future the approved local enterprise partnerships (LEP's)are expected to also receive funds. Currently, SEEDA as the regional development agency is the conduit for sifting and advising on potential projects and their eligibility for ERDF funding before submission to the Department of Communities and Local Government which manages the ERDF programme in the UK.With SEEDA closing, it is assumed that this responsibility will pass to the relevant LEP.The new "Kent , Greater Essex and East Sussex" LEP has just been implemented in April 2011.

Tax Increment Financing(TIF) Scheme

TIF allows a local authority to borrow money to fund improvements to local infrastructure. These improvements to local infrastructure are used to enable more development in an area, and increase the amount of business rates that the council gets. The amount the council borrowed under TIF is then paid back from the increased amount of income it makes from these higher rates.

The Government announced in Autumn 2010 that tax increment financing will be introduced in England. TIF has been a popular form of regeneration funding in the United States for decades, and the Scottish Executive has already approved Scotland's first scheme and is considering a number of others. In the UK context, TIF can offer a solution for regeneration projects which depend on the delivery of a piece of infrastructure for which funding cannot be found from other, public or private, sources.

TIF is in its embryonic phase in the UK so it is not yet clear how popular and successful it will be.It is interesting to note that one of the first TIF-funded schemes in the UK was a waterfront development project. In September 2010 ,the City of Edinburgh Council gave backing to use tax increment financing (TIF) to support investment worth Â£84m on the Scottish capital's waterfront.The Scottish Government Finance Secretary John Swinney was quoted as saying that the government-backed plan to use TIF funding to support the development of a cruise liner terminal, lock gates and a link road in Edinburgh could lead to private investment in the area worth Â£660m and create up to 4,900 jobs.

The other key issue is flexibility. There is a broad range of schemes which TIF could unlock, and different schemes will almost certainly need different solutions â€“ as regards the allocation of risk (between central government, local government and the private sector), the source of upfront funding (from the Public Works Loan Board, the debt markets or a developer's existing resources), and other aspects. It is vital that the way TIF is implemented does not limit what is possible in a way that prevents the use of TIF for schemes where it would make sense â€“ and the sooner the government sets out its developing thinking in some detail, the better.

Joint European Resources for Micro to Medium Enterprises (JEREMIE)

Appraisal of Investment

The Chief Executive of RegenCo will be responsible for undertaking appropriate levels of due diligence/ underwriting of each investment opportunity prior to presenting a recommendation to RegenCo's board. The exact requirements of each project investment will vary, but key principles should be present in each appraisal by the Chief Executive:

Financial modelling of the project 'base case', plus variant options and sensitivities to illustrate the impact of risks and market variations on the performance of the project.Market analysis for the context of the project.Economic impact assessment to show the potential impacts on the community.Draft term sheet/ investment agreement that includes a clear identification of the project terms and the nature of any security being taken.Summaries of other investors.Key points of contact with the project, key individuals delivering the project, track record and credibility of the project promoters.Adequate and appropriate internal controls, accounting and reporting procedures for the project.Risk assessment.

Performance of Investments

It will be important for DPPT to set specific investment return targets (e.g. around risk adjusted returns, payback periods, etc.) and potentially other objective non-financial regeneration benefits to the community (e.g. increase in aggregate business rates for Dover town, number of jobs created, etc.).

It is also recommended that guidelines be set for dates by which the fund should be invested e.g. Â£10m within 12 months, Â£25m within 18 months and Â£40m within 24 months but always subject to the target return criteria being met and in the recognition that it may be impracticable to be overly prescriptive on timing.