ANNEX 5: THANET DISTRICT COUNCIL - NON-TREASURY INVESTMENTS REPORT 2021-22

1. Background

A revision to the CIPFA Treasury Management in the Public Services Code of Practice was issued in December 2017 (with guidance notes issued in July 2018), with a new requirement being that local authorities produce a Non-Treasury Investments Report for consideration and approval by Members.

'Treasury management investments' activity covers those investments which arise from the council's cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business.

'Non-treasury investments' are investments in financial assets and property primarily for service purposes and/or financial return that are not part of treasury management activity.

2. Permissible non-treasury investments

This council may:

a) purchase property for service and/or commercial purposes.
b) make investments for service and/or commercial purposes.
c) make loans for service and/or commercial purposes.

Service investments are held in relation to operational services (including regeneration) whereas commercial investments are held for mainly financial reasons.

3. Existing non-treasury investments

This council's existing non-treasury investments include:

a) Investment Property

The council's 2019-20 draft Statement of Accounts shows a 31 March 2020 balance sheet value of £22,965,000 for investment property. These accounts disclose a net yield of £689,000 from investment property (rental income less direct operating expenses), which represents an annual percentage yield of 3.0%.

b) Investments and Loans

East Kent Housing Limited (EKH): EKH is a company limited by guarantee without share capital, owned and controlled by this council, together with Canterbury City Council, Dover District Council and Folkestone & Hythe District Council. EKH, which was incorporated on 11 January 2011, was run as an Arms Length Management Organisation (ALMO) and its principal activity was to manage and maintain each of the four council's housing stock.

On 17 October 2019 Cabinet agreed that the council's preferred option is to withdraw from EKH and return housing management services back in-house under direct management of the council, subject to formal consultation with all tenants (and leaseholders, as required) to satisfy the requirements of Section 105 of the Housing Act 1985.

On 17 February 2020 Cabinet noted the results of the consultation, cost/benefit analysis and risk analysis, and confirmed that the management of the council's housing stock would be brought back in-house. This transfer happened on 1 October 2020 (for all four local authorities) and it is intended for EKH to be wound-up.

Your Leisure Kent Limited (YL): This council engages YL, which is an Industrial and Provident Society with charitable status, to run its leisure facilities. YL was registered on the Mutuals Public Register on 16 April 1999 and was called Thanet Leisure Force Limited until 26 March 2013. The principal activity of YL is to manage leisure, catering and entertainment facilities and associated service provision for the local communities of Dover and Thanet.

East Kent Opportunities LLP (EKO): To aid economic development and regeneration in Thanet, this council in partnership with Kent County Council set up EKO as a limited liability partnership. EKO was incorporated on 4 March 2008 with this Council and Kent County Council having 50:50 ownership, control and economic participation in EKO.

The council acts as guarantor for YL in respect of certain loans taken out by YL. These arrangements are described in the 'Critical Judgements in applying Accounting Policies' note to the council's Statement of Accounts.

In addition, the council makes loans from time to time to one or both of YL and EKO for service purposes.

The council acted as guarantor for EKH in respect of its pension liability and made loans to EKH for service purposes. These arrangements are being dealt with as part of the transfer of housing management services out of EKH and the subsequent winding-up of this company.

4. Investment Management Practices

Non-treasury investments are subject to the council's normal approval processes for revenue and capital expenditure and need not comply with the specific requirements of the council's annual Treasury Management Strategy Statement and Investment Strategy. These processes ensure effective due diligence and consideration of the council's risk appetite (including proportionality in respect of overall resources), that independent and expert advice is taken where appropriate, that scrutiny arrangements are properly made, and that ongoing risk management is properly undertaken and acted upon.

Details of risk management, performance measurement and management, decision making, governance, due diligence, reporting and knowledge and skills are shown below and in the following documents (which are all available on the council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy
b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy
c) Flexible Use of Capital Receipts Strategy
d) Statement of Accounts
e) Capital Strategy

The key principle of control of risk, and optimising returns consistent with the council's risk appetite, is applied across all investment activities (including any commercially based investments). Where any commercial investment does not give priority for security and liquidity over yield, whether because of the nature of the asset itself or for service reasons, then such a decision should be explicit, the additional risks set out clearly, and the impact on financial sustainability identified and reported.

5. Risk Management

The council's risk appetite for any non-treasury investment should be clearly determined, both individually and collectively, including the potential impact on the overall sustainability of the council if the investment does not perform as intended. Key considerations also include:

a) The significance of the amount and variability of both the investment income and capital value to balancing the council's budget.
b) How the investment is financed and its liquidity, given the council's cash flow requirements.
c) Maximum periods for which funds may prudently be committed.
d) The setting of quantitative indicators to better assess risk exposure (including how investments are funded and the rate of return over both the payback period of the investment and the length of any associated borrowing).

6. Performance Measurement and Management

Performance measurement and management of any non-treasury investment should include both the ongoing capital value/security and yield. Key considerations include:

a) Regular fair value assessments (at least annually), including the limitations and assumptions inherent in such assessments.
b) Procedures to highlight key ongoing risks and changes in market conditions that may adversely impact the security, liquidity and/or yield of any investment.
c) Ongoing repairs and other costs to maintain the income and value of any property investment.
d) Any mitigating action required and undertaken to protect the income and value of any investment.

7. Decision Making, Governance and Due Diligence

Decision making will be as open and transparent as possible, after allowing for any commercial sensitivity needs. Key considerations include:

a) The formulation and developments of business cases for approval.
b) Enhanced decision making and scrutiny, according to risk.
c) Arrangements for professional due diligence, including obtaining professional advice where appropriate.
d) The identification and quantification of any implied material subsidies in investments for service/regeneration purposes.

8. Reporting, Knowledge and Skills

Robust arrangements will be made for the assessment, implementation and monitoring of any non-treasury investments; including:

a) Reporting any material increase in risk to capital and/or yield.
b) Regularly reviewing performance and risk reporting arrangements.
c) Ensuring that the range of skills required (including finance, property and economic regeneration) are available, either in-house or externally sourced.
d) Arranging any specific staff training or qualifications that may be needed to meet future requirements (capacity, skills, knowledge and culture).