ANNEX 5: THANET DISTRICT COUNCIL - NON-TREASURY INVESTMENTS REPORT 2024/25

1. Background

This Non-Treasury Investments Report is produced in connection with the CIPFA Treasury Management in the Public Services Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities.

'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. The council's permitted treasury investments are set out in the Annual Investment Strategy.

'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

As per Non-Treasury Investments Reports to 30 March 2022, this council could:

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.

This was amended from 1 April 2022 so that, for a new non-treasury investment in a new asset, the council may only purchase property, make investments and/or make loans for service purposes (i.e. not for purely/primarily commercial purposes, though it may still generate revenue).

Service investments are held in relation to council services (including service delivery, housing, regeneration and preventative action) whereas commercial investments are held for mainly financial reasons.

If a local authority is planning to acquire investment assets bought primarily for yield then it is now unable to borrow from the Public Works Loan Board (PWLB) to finance any expenditure in its capital plan. PWLB guidance is that investment assets bought primarily for yield would usually have one or more of the following characteristics:

i) buying land or existing buildings to let out at market rate.

ii) buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification.

iii) buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly.

iv) buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose.

3. Existing non-treasury investments

This council's existing non-treasury investments include:

a) Investment Property

The council's 2022/23 draft accounts show a 31 March 2023 balance sheet value of £25.288m for investment property. These accounts give a net yield of £1.182m from investment property (rental income less direct operating expenses), which represents an annual percentage yield of 4.7%. It is considered that any plausible losses from the council's investment property could be absorbed in budgets or reserves without unmanageable detriment to local services.

As at 31 March 2023 the council had approximately 200 investment properties of various types with an average balance sheet value of £126,000 per unit; including retail premises, leisure and sporting facilities, maritime related assets, land and industrial units.

The council undertakes periodic reviews of its property, including evaluation of whether to meet expected borrowing needs by taking new borrowing or by property disposal.

b) Investments and Loans

<u>Your Leisure Kent Limited (YL):</u> 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 the management of leisure, hospitality and entertainment facilities and associated service provision for the local communities in the Dover and Thanet districts.

<u>East Kent Opportunities LLP (EKO):</u> 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.

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) Statement of Accounts
d) 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.

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. 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).