8 July 2020	ITEM: 3
Extraordinary Council	
Investment Briefing	
Wards and communities affected: All	**Key Decision:** No
Report of: Councillor Shane Hebb, Cabinet Member for Finance	
Accountable Assistant Director: Not Applicable	
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property	
This report is Public	

Executive Summary

On 22 May 2020, the Financial Times published a story on Thurrock Council's investments and borrowing position. Whilst the FT asked a number of questions, the council was not given sight of the article or the right to respond before publication and it therefore did not fully reflect the council's investment approach since 2014.

In response to this printed article, the Leader of the Opposition, supported by members of the Labour Group, has called for an Extraordinary Council meeting to "address the issues of concern raised by the Financial Times article".

Whilst we do not recognise the concerns set out within the article – and all questions from the reporters were responded to in the lead up to the publication of the article – this report sets out a formal response to the key themes included within the article.

The investment approach to generating income to protect council services, began in 2014 and was supported by the unanimous agreement at Full Council of a new Investment Strategy in October 2017. The implementation of this Strategy has achieved, and continues to achieve, significant income giving the council the ability to protect services for the most vulnerable in the borough, provide time to reform services, provide additional services that are important to residents, and increase the council's overall financial resilience. This approach has been agreed at Full Council since 2017.

1. Recommendations:

That the Council:

1.1 Notes this report.

2 Introduction and Background

Article Introduction

2.1 Whilst the FT article focused on Thurrock Council, the introduction provides the context of “the build-up of debt by local authorities since the financial crisis in 2008 as spending cuts forced councils to look for ways to supplement their income”.

2.2 This position reflects the experience of the wider public sector as authorities have considered a range of approaches to ensure key services can be delivered within a budget that must be balanced annually, as well as being able to fund services above and beyond the statutory minimum, and build further financial resilience.

2.3 Members will recall that, previously in Thurrock, the Medium Term Financial Strategy (MTFS) forecasts only presented a one year balanced budget up until the Investment Strategy was agreed. Future years were shown with significant deficits projected for the remaining years. This short term approach meant the Council had to focus on efficiencies and service reductions to deliver the budget in the relevant financial year without the ability to think longer term to transform services more effectively.

2.4 While there has been a greater focus on commercial investment in the public sector in the last five years, it is important to note that councils have always carried out investments – traditionally through money markets but also including commercial property such as industrial units.

2.5 In 2014, the council changed its approach with its first investment in the Churches, Charities and Local Authorities (CCLA) property fund of £20m. In 2015, two further investments were made in this fund bringing the overall total to £50m. In May 2016, the council made its first investment in the renewable energy sector. These two investment streams have different characteristics.

2.6 Whilst it is possible to withdraw funding from CCLA, with notice, this is more unusual. It is seen as a long term investment and has no pre-agreed repayment dates.

2.7 The renewable energy investments are different though. They are all for set periods but, in each case, the bond issuer – the borrower – has the right to repay the bond in full to the bond holder – the council in this case – at any earlier time.

2.8 Following the success of the initial investments in CCLA and renewable energy, the council unanimously agreed a new, formal Investment Strategy at its meeting in October 2017. This was again supported by Council in February 2018, February 2019 and February 2020. Whilst the approach was again agreed at Council in February 2020, a specific request was raised to further improve democratic oversight of the investment process – a commitment that the Cabinet had already given. A report will come forward in due course.

2.9 Whilst there has also been significant focus on the council's level of debt, it is important to remember that the amounts relating to these investments will all be repaid at the end of the term or, as explained in 2.7 above, earlier.

2.10 Set out below is key financial information on the council's investment performance and position as at 31 March 2020. The overall debt position is £100m higher than it would normally be as the Council, like a number of authorities, increased its cash balances as the COVID restrictions commenced. As the year progresses, this will naturally reduce.

Source	**£m**	**£m**
PWLB – GF (March 2020)	100	
PWLB – HRA (2012)	161	
LOBOS (Various Pre May 2005)	29	
Other Public Bodies – Short Term (rolling debt built since start of council)	1,063	
Other Public Bodies – Long Term (rolling debt built since start of council)	63	
Gross Debt		**1,416**
Less:		
COVID Related Borrowing	100	
Investments – Bonds, CCLA, etc	985	
Total Repayable		**1,085**
Net Debt		**331**

2.11 The net hard-debt shown above largely relates to the historic and current capital programme expenditure.

The overall surplus from investments in 2019/20 was a net position, after borrowing costs and fees where applicable, of £35.7m, annually (or circa £80m since October 2017), which is delivering services beyond statutory minimum.

Scrutiny

2.12 The FT article comments on the approval process associated with new investments and states these decisions are signed off by an unelected official without an appropriate level of scrutiny.

2.13 It is common practice for Treasury and, therefore, investment decisions to be delegated to the responsible financial officer so that day to day activity can be managed and opportunities taken as they arise. The council's constitution delegates this authority to the S151 Officer. It was this delegation that was followed for the first three investments in the CCLA property fund in 2014 and 2015 as well as for the first renewable energy bond in May 2016. The Investment Approach was then further developed to set out a formal approach to be followed.

2.14 The Council Spending Review (CSR) is a meeting open to the Leaders and Deputy Leaders of the main political parties of Thurrock Council and was set up to consider the council's financial position and options to close any forecast deficits. The CSR considered taking an Investment Approach as a key contributor to the MTFS at the meeting on 20 September 2017 and this was fully endorsed with a request to report to Full Council. On 25 October 2017 the referral from CSR was unanimously agreed by Full Council. The new Strategy set out a process that for any new investment opportunities, of greater than one year and higher than £10m, the opportunity would be shared with Leaders and Deputy Leaders of the Opposition thus introducing a greater level of transparency.

2.15 A briefing on the largest single council investment was then provided at an Extraordinary CSR on 2 November 2017 and was fully supported.

2.16 Reports were taken to CSR between August to October 2018 to consider the opportunity to refinance some existing investments that resulted in increases to both the period of investment and financial returns. These were fully supported. There has also been discussion at Corporate Overview and Scrutiny Committee on more than one occasion on investments.

2.17 A new opportunity was then discussed at CSR on 23 January 2019 and again, fully supported. These investments have formed the basis of the majority of the council's investments along with CCLA, with other investments being far smaller in nature or as a result of changes to existing investments. In line with the Investment Strategy agreed by Full Council in October 2017, those investments which required discussion at CSR were all supported at these meetings.

2.18 In summary, there is a formal approach in place which has been followed to deliver a sustainable income stream which supports the delivery of core services and enables additional spend in priority areas.

Inter-Local Authority Borrowing

2.19 The Council has borrowed from other public bodies. The overall total is set out above with the reasons for the approach set out below alongside some further wider context to consider.

2.20 In March 2020, CIPFA published an article in the Municipal Journal that included:

"Inter-authority lending may well appeal as a low-risk strategy. It can be mutually beneficial for both the lending and borrowing council.

This is because lenders should benefit from the higher credit quality that local authorities offer, while borrowers get a rate preferable to sources like PWLB and can earn more interest, with similar low risk, than by investing elsewhere.

While this short-term rate is variable, as each month might be slightly different, cumulatively the savings could be significant. There is a risk that rates may go up, but it can be expected that a one-month rate will not change too drastically in the short term. Short-term inter-authority lending can also prove cheaper than variable rate PWLB due to the higher flexibility of rates, whereas the PWLB rate reset is at least once a quarter."

2.21 Up to August 2010, the council was more traditional in its approach with the majority of funding coming from the PWLB with inter-local authority borrowing being used for short periods to meet temporary cash flow requirements.

2.22 In August 2010 the council redeemed its PWLB debt that was circa 6% on average with the intention of replacing it with cheaper PWLB debt. However, accounting requirements meant that this could not be done simultaneously and so the council needed to use a different source for a short period of time. This started the council's approach to significant borrowing from other local authorities but at much lower rates. Whilst rates between local authorities for short periods have stayed significantly below PWLB and the level of those funds – a £12bn market – has remained available, there has been no reason to change track.

2.23 The MTFS assumes a gradual switch to longer term debt when deemed prudent to do so but this would largely focus on the council's net debt position.

2.24 A question was raised as to why the council would concentrate its borrowing on short term loans. The reason is two-fold. Firstly, the rates are far more favourable but secondly, and as importantly, is the ability for the bond issuer to repay earlier. The council would be open to criticism for taking out a ten year loan to finance something that could be repaid after a much shorter period.

Commercial Property Investments

2.25 The impact of COVID restrictions has now highlighted the likely loss of income for those authorities who purchased, for example, shopping centres, airports or retail parks. Some councils are reporting up to 25% loss of income in property-related investments.

2.26 The administration have always maintained that owning a shopping centre or retail park leaves any council with long term borrowing costs – fixed costs – but variable income streams, as has been evidenced in recent months.

2.27 This potential risk is not the case for Thurrock where the investments have been in bonds and where the drive to increase investment in renewable energy schemes is well documented at a national level.

2.28 There has been no adverse impact from the start of the COVID pandemic on the council's investments, through to current day. Income streams remain stable,

Rockfire

2.29 Further information relating to Rockfire Capital in terms of the council's investments into solar energy. Rockfire Capital was the promoter of the Bonds and the council does not have any legal agreement with Rockfire Capital. This was misrepresented in the article despite clarification having been provided.

2.30 Instead, the bonds are held between the Council and RIF PLC with the funds then made available to Toucan Gen Co Ltd that is the company that oversees a portfolio of solar farms.

2.31 With regard to security and viability, the following should be noted:

- Approximately 63% of the portfolio's total forecast revenue over the period of the bond term consists of government backed subsidies;
- The UK solar and power industry is underpinned by a strong regulatory framework;
- Baringa forecasts GB power prices will increase by real terms in the medium term, driven by rising commodity prices, tighter capacity margins and higher profit margins of conventional power producers;
- The largest site has a long term PPA with a large bank, which increases the power price we receive and continues for over 10 years from now;
- Solar irradiance can be seen over the past years to be relatively consistent. The geographical spread of the portfolio in the UK helps reducing local area variances against long term averages;
- Toucan has a diverse portfolio of 56 assets and generally performs preventive maintenance in the winter (as solar resource is lower) so the assets are ready for the summer;

- All the assets were constructed between Q1 2014 and Q1 2017, ahead of Thurrock's involvement, and the portfolio has a history of performing strongly since being constructed, and put into operational sites;
- Key equipment was sourced from reputable manufacturers with the latest available technology;
- O&M agreements provided by experienced operators;
- Quintas Energy have been appointed as the asset manager. Quintas Energy specialises in and is the leading provider of solar asset management services in Europe and manages more than 400 sites with capacity over 3 GW across 8 countries with a team of 170+ people;
- The portfolio benefits from full market standard insurance cover, provided by a regulated insurer, to protect against the risk of interruption to revenues received owing to damage of the solar PV projects;
- All sites have lease agreements and planning approval to more than cover the Bond term;
- The council holds security against each of the assets; and
- The bond issuer has always paid the bond coupon in full and on time.

Advisers

2.32 The FT article further went on to report that the Council had previously used Arlingclose as its Treasury Advisers but terminated this arrangement in March 2019.

2.33 Arlingclose provided the Council credit rating advice for other financial institutions such as building societies and banks, interest rate forecasts, and treasury related accounting advice, especially for end of year accounts. In addition the Council used them to invest with money market funds such as Investec and Investco.

2.34 Arlingclose still provide an excellent service to the market in these areas and, rather than pay an annual fee, the council has since used Arlingclose on an ad hoc fee basis when required.

2.35 The agreement with Arlingclose never covered investment advice on the types of investments that the council has entered into more recently. For that reason, the council has never received any advice on these investments nor sought any advice from Arlingclose.

2.36 Instead, the council has taken advice from other institutions depending on the nature of the investment being considered. These have included but are not limited to: Grant Thornton, APSE, Eversheds, Bevan Brittain, TLT, Deloittes and Fitchner.

3 Issues, Options and Analysis of Options

3.1 There are no options related to this report as it is simply a commentary on the article published by the Financial Times on 22 May 2020.

4 Reasons for Recommendation

4.1 The report outlines the council's position and provides further context to the operation of the investment strategy.

5 Consultation (including Overview and Scrutiny, if applicable)

5.1 Whilst there has been scrutiny through the Corporate Overview and Scrutiny, Council Spending Review and Council annually, there has been no consultation on this information report.

6 Impact on corporate policies, priorities, performance and community impact

6.1 The council made a unanimous decision in October 2017 to supplement the council's budget through an investment approach. This has allowed investment across all of the council's front line services and includes additional services such as increasing the police presence across the borough.

6.2 There are other obvious benefits such as supporting renewable energy, a key approach against the impact of climate change.

7 Implications

7.1 Financial

Implications verified by: **Sean Clark**

Corporate Director of Finance, Governance and Property

The benefit of the investment approach has been set out in the report.

It is clear that the approach has significantly contributed to the provision of services to Thurrock's residents against a national norm of service reductions and closures.

It had always been intended that the level of investment would reduce over time and the nature of the bond periods facilitated this.

Members need to be aware that there are significant commercial considerations when discussing investments and Local Authority inter-lending.

7.2 **Legal**

Implications verified by: **Ian Hunt**

Assistant Director of Legal & Governance - Monitoring Officer

The Council has a requirement to finance its operation in order to deliver services to residents and to have a balanced budget.

The legislative framework underpinning local government financing permits Councils to undertake borrowing and lending activities as part of their routine treasury management.

In considering the approach to scrutinising the Councils activities Members should have regard to the commercial sensitivities which can arise from detailed discussions of the Councils investment and borrowing portfolio. Members are reminded that the Councils own commercial interests can be considered as a ground for excluding the press and public from a meeting under schedule 12A Local Government Act 1972, however in assessing the need for this Members should also consider the public interest and need for transparency in the Councils operations. The information contained in this report is provided in a public form balancing the competing interests.

7.3 **Diversity and Equality**

Implications verified by: **Natalie Smith**

Community Development and Equalities Manager

There are no specific diversity and equalities implications as part of this report. A comprehensive Community and Equality Impact Assessment (CEIA) will be completed for any specific savings proposals developed to address future savings requirements and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

7.4 **Other implications (where significant – i.e. Staff, Health, Sustainability, Crime and Disorder)**

The Council's financial position has allowed for additional investment across all services with additional funding, specifically, for services to the vulnerable, fighting Anti-Social Behaviour and Climate issues including allocations for tree planting and air quality measures.

8 Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Financial Times, 22 May 2020.

9 Appendices to the report

- None

Report Author:

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Corporate Director of Finance, Governance and Property