9 July 2020	ITEM: 10
Standards & Audit Committee	
Investment Briefing	
Wards and communities affected: All	**Key Decision:** No
Report of: Sean Clark, Corporate Director of Finance, Governance and Property	
Accountable Assistant Director: Jonathan Wilson, AD Finance	
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property	
This report is Public	

Executive Summary

Further to the impacts of COVID-19 and the various media reports on the council's borrowing levels and investments, the Chair of the Standards and Audit Committee has asked for a report to cover:

- How the £1.2bn rising to £2bn has been invested;
- How safe are the investments; and
- The impact should there be a collapse brought about by the looming economic depression.

This report sets out the actual level of investments and related financial returns, a section on the security and viability of the solar portfolio, especially in the current economic climate.

1. Recommendations:

1.1 That the Standards and Audit Committee note the report.

2 Introduction and Background

2.1 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.

2.2 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.

2.3 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.

2.4 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.

2.5 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.

2.6 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.

2.7 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.

2.8 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**

2.9 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.

2.10 The spread of the investments are as follows:

- Renewable Energy Sector 79.8% (spread over approx 60 interests)
- CCLA 10.5%
- Other, including TRL 9.7%

2.11 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.

2.12 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.

2.13 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.

2.14 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,

2.15 With regard to security and viability, the following should be noted for the council's solar investments:

- 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.

2.16 Whilst the above covers the viability of the most significant portion of the council's investments, the following should also be noted:

- CCLA has a track record of continuous delivery and the bounce back of capital values through two previous economic crashes, in part, due to the diversity of its portfolio; and
- Other investments provide diversity through other renewable sources such as wind farms and biomass across additional sites.

2.17 Due to the nature, diversity and spread of locations of the investments that the council holds, they have been deemed as low risk and this has been substantiated in the current climate to date. Additionally, there has been no adverse impact from COVID on the council's investments and income streams remain stable.

3 Issues, Options and Analysis of Options

3.1 There are no options related to this report as it is simply a briefing on the council's investment position.

4 Reasons for Recommendation

4.1 The recommendation is simply to note the report as it is a report for information only.

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.

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):

- None

9 Appendices to the report

- None

Report Author:

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