



Department for Levelling Up,
Housing & Communities

Lee Rowley MP

*Parliamentary Under-Secretary of State
for Local Government and Building Safety*

**Department for Levelling Up, Housing
and Communities**

2 Marsham Street
London
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Councillor Mark Coxshall
Leader of Thurrock Council

By email

1 March 2023

SUPPORT FOR THURROCK COUNCIL

I am writing in relation to your Council's request of 17 January 2023 for exceptional financial support in respect of 2022-23 and 2023-24. I am grateful for the seriousness and the work that the new leadership has done in recent months to start taking the difficult decisions which will begin Thurrock's very long journey back to sustainability.

As a result of the Council's serious past failings, you have made a request for exceptional financial support of an unprecedented scale. This is deeply concerning and clearly demonstrates the gravity of the challenges facing the Council. While I hope and expect the Council will take the lead on the long path to improvement, it is also important to recognise that this is just the start of the process of the Council's recovery, and there is significant further work to be done. In this context, I have considered very carefully the Council's position including the interests of local people in Thurrock, and the need to provide sufficient stability to the Council and to make sure that service delivery, especially for the most vulnerable citizens, is not disrupted.

The Secretary of State's Commissioner for your Council, Essex County Council (appointed on 2 September 2022), will provide their second report in June, which will be an opportunity to further assess the scale of the leadership, financial, and managerial challenges faced by the Council. It is critical that you continue to cooperate closely with the Commissioner, as you have been providing regular assurance that you are working at sufficient pace to deliver the scale of change that is needed. The Best Value Inspection has now concluded and the Secretary of State and I are carefully considering that Report, together with the representations made by your Council and others on our proposal to expand the intervention.

It is within this context that the Secretary of State has considered your Council's capitalisation request. The Secretary of State has also not opposed your request for a higher council tax referendum threshold of 9.99% to be applied in 2023-24 (i.e. an additional 5% above referendum principles applied to other councils).

This letter sets out the Department's current position but does not constitute a capitalisation direction.

The consideration of your request has been based on the estimates that the Council has provided to date of its significant budget gaps. The Commissioner has provided assurance, as far as possible, that these estimates are reasonable and appropriate. I recognise, however,

that these estimates are based in significant part on assumptions, and that final amounts will only be confirmed as part of the closure of the Council's financial accounts, which are significantly overdue. I am conscious that during this process some of these estimates may change and the Council's projected budget gaps could increase. I am clear, however, that the Council should take all reasonable action and necessary steps to minimise this risk, and reduce pressures where possible, without incurring additional borrowing – this is because reducing the Council's indebtedness is critically important to its long-term financial sustainability.

With respect to the period between 2022-23 to 2023-24, the Secretary of State is minded to approve capitalisation directions totalling £632.661 million. This total is broken down by each financial year as follows:

- 2022-23 – £452.491 million
- 2023-24 - £180.17 million

I understand that adjustments relating to accounting periods prior to 2022-23 have not yet been calculated, and therefore the total adjustment for all prior years is reflected in the 2022-23 figure reported above.

As you would expect, there is a considerable process to undertake before capitalisation directions in respect of any of the above years are approved. The Council will need to demonstrate that it continues to take the necessary steps towards improvement, and I will need assurance from the Commissioner that you are making good progress against the Improvement and Recovery Plan, as per the directions issued to your Council on 2 September 2022, and any subsequent directions issued in the future relating to the intervention. In addition, if the Secretary of State decides to approve any capitalisation directions, he would confirm in due course any conditions that would be applied. Finally, any decisions would, amongst other factors such as demonstration of adequate progress, be contingent on the Council reporting to the Department the final amounts identified for which you need capitalisation for each year, with the agreement of the Council's external auditors and endorsed by the Commissioner. Each of these steps is addressed in more detail in the attached annex.

I also recognise that you included in your request an indication of support required for future years beyond 2023-24. As you will understand, we cannot make any spending commitments beyond the period covered by the current Local Government Finance Settlement. We will also need to see significant ongoing progress from the Council, for example in delivering against the Improvement and Recovery Plan, before we can consider the provision of any Government support for future years. The Department will continue to engage closely with your officers in the coming months to understand your position going into the financial year 2024-25.

A meeting will be scheduled with the Department and your officers to discuss the position set out in this letter.

I should be grateful if the Council confirm to me in writing by 10 March that you wish to proceed in accordance with the conditions outlined in this letter. I am copying this letter to the Commissioner. This letter will also be published on GOV.UK.

Yours ever,

A handwritten signature in black ink, appearing to read 'Lee Palmer', with a long horizontal flourish underneath.

LEE ROWLEY MP

**Parliamentary Under Secretary of State
for Local Government and Building Safety**

Annex – Process for approving capitalisation directions

Assurance

If the Secretary of State decides to give any directions, he would confirm in due course the final amount of capitalisation support and any conditions that would be applied. The Department's consideration will include evidence from the Commissioner of the Council's progress against the actions it is required to take, as per the Secretary of State's directions (dated 2 September 2022) made under section 15(5) and (6) of the Local Government Act 1999. This will include evidence of the Council's:

- Progress in delivering against an Improvement and Recovery Plan to the satisfaction of the Commissioner, including an action plan to achieve financial sustainability and to close any short and long-term budget gaps identified by the Authority across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan;
- Progress in delivering against plans to ensure the Council's capital, investment and treasury management strategies are sustainable and affordable. The plans should include specific targets for the delivery of capital receipts, when the Commissioner has agreed those targets.
- Progress in delivering against a strict debt reduction plan, and an updated minimum revenue provision (MRP) policy in line with all relevant rules and guidelines; an action plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority; and a suitable scheme of delegations for financial decision-making.
- Progress in delivering further savings in 2023-24 in addition to those put forward in the budget. These savings should include changes to fees and charges; draft savings concepts not finalised at the point of setting the budget; a full review of the capital programme; and the transformation of the operating model.
- Overall financial position and its ability to meet any or all of the identified budget gap without additional borrowing.

Your plan to achieve financial sustainability, which will be a significant component of the Improvement and Recovery Plan, must include an ambitious and deliverable asset disposal strategy, including specific targets for the delivery of capital receipts, when the Commissioner have agreed those targets.

Conditions

Such directions may be subject to conditions, which would be set out in any capitalisation directions should the Secretary of State decide to exercise his powers under sections 16(2)(b) and 20 of the Local Government Act 2003.

If the Secretary of State decides to give any directions, he is minded to attach the following conditions:

- The Authority may only capitalise expenditure when it is incurred;
- Where expenditure is capitalised, that the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with relevant guidance;
- Where the Authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the Public Works Loan Board and must

be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing;

- The Authority makes good progress against its Improvement and Recovery Plan, as assessed by the Best Value Commissioner, in their regular reports to the Secretary of State.

With this in mind, the Secretary of State also reserves the right to attach additional bespoke conditions to any directions issued in respect of the financial years above, depending on the Council's individual circumstances.

Confirming final amounts

Although the Secretary of State is minded to approve capitalisation directions for the period between 2022-23 to 2023-24, this would be contingent on the Council reporting to the Department the final amounts identified for which it requires capitalisation for each year, with the agreement of the Council's external auditors and endorsed by the Best Value Commissioner.

