

20 November 2018	ITEM: 5
Corporate Overview and Scrutiny Committee	
Long Term Investment Strategy	
Wards and communities affected: All	Key Decision: Key
Accountable Assistant Director: Jonathan Wilson, Assistant Director Corporate Finance	
Accountable Director: Sean Clark, Director of Finance and IT	
This report is public	

Executive Summary

Since the Summer of 2016, the council has adopted an approach to budget setting known as the Council Spending Review (CSR). The key themes to this approach have been:

- Income generation – becoming more commercial in the service offer and through an investment strategy;
- More or same for less – from improved contracts, efficiencies, new ways of working, etc.; and
- Reducing the amount built into growth allocations through, for example, improving early intervention.

This has been underpinned through a systematic review of services that, in these first years, has largely concentrated on high value cross cutting expenditure areas.

The aim of this approach has not just been about balancing the budget whilst protecting services but to create surpluses that can be used to enhance existing services and provide new services where appropriate.

This report provides an update on the Investment Strategy approach and covers not only progress to date but also background on the approach to due diligence.

1 Recommendations:

1.1 That the Committee considers the report and comments on the content.

2 Introduction and Background

2.1 Treasury Management is the management of the council's finances including its cash flows, borrowing and investments.

- 2.2 The council's Constitution delegates treasury and related cash functions to the Director of Finance and IT, the council's s151 Officer. However, this is carried out within parameters that are set, at least annually, by the council.
- 2.3 Councils have always carried out investments but, more traditionally, these have been with fund managers as well as inter authority transactions. The need to identify new income streams has led to a number of authorities branching out into issuing Bonds – lending to other bodies, private or public sector - and the purchase and/or construction of properties for investment returns.
- 2.4 It is important to note that all of these investment approaches have been open to councils in the past and so this is not a new phenomenon. However, the scale, both nationally and within Thurrock Council, has increased in recent years.

3 Thurrock Council's Investment Strategy

- 3.1 On 25 October 2017 the council agreed an Investment Strategy with associated financial parameters. These were then updated at the council meeting on 28 February 2018 and will be considered at least annually going forward.
- 3.2 Key principles included within the report are:
- The agreement to invest does not supersede existing work streams such as the service review process, asset utilisation, etc;
 - Council should consider a diversified investment approach. This could include further cash investments, (developing the Thurrock Regeneration Ltd offer and ownership of income generating assets, especially where these support strategic objectives);
 - Investments should favour short-term borrowing by the council;
 - Appropriate due diligence, including the assessment of borrowing risk, must take place before new significant investments are made;
 - Accountability and governance to the Executive / wider council must be a critical component of “open” investments and an overview of any new investment in excess of £10m and for longer than one year be presented to the three group leaders and their deputies before any firm commitment; and
 - There has to be firm differentiation between investments which have an implied municipal duty and investments made in private sector markets. Where the latter, appropriate expertise must be procured so to ensure that the council does not obscure its role and manage entities outside of its expertise. In any case, property transactions should add further benefits to Thurrock over and above straight income.
- 3.3 Since agreed, further investments have been completed in line with the principles and targets and have created surpluses that will be allocated to new and enhanced services at the Cabinet meeting in December.
- 3.4 Additionally, the council meeting on 28 February 2018 also agreed an ambitious target of 1,000 homes through Thurrock Regeneration Ltd.

3.5 It should be noted from the above that the strategy includes property transactions. Whilst there have not been any completed to date, officers have been in discussions on opportunities that may well come to fruition.

4 Investment Considerations

4.1 Relevant due diligence takes place before any investment is committed. The key objectives of due diligence is to gain confidence in the borrower's ability to both make the returns within the agreement and that the council's capital is secure.

4.2 For small simple investments this can simply be an analysis of the organisations' existing programmes, credit checks and company searches.

4.3 For more complex investments underpinned by capital schemes, industry experts have been used for advice on including:

- Finance – Deloitte and Grant Thornton;
- Legal – TLT and Bevan Brittan;
- Technical – Fichtner; and
- Valuations and Project Overview – The Association for Public Service Excellence (APSE).

4.4 In addition, all investments to date have been in capital schemes that have completed the construction phase and are fully operational and so have benefitted from:

- Construction complete and so no capital over run risk;
- Any plant involved in a scheme tested under live operational conditions; and
- A period of operational activity allowing scrutiny of actual as well as projected Profit and Loss positions.

4.5 Finally, where applicable, the council has security over the assets and/or parent company guarantees.

4.6 All investments are then monitored throughout their life to ensure they meet expectations and to re-examine risk. To date, both aspects have been positive to the council.

5 Benefit to Thurrock Council

5.1 The Council has developed a balanced MTFs over four years that enables a more strategic view of the longer term funding requirements of the council to be taken. This view is vital in an area with projections for significant increases in the population over the next 20 years with associated demand for homes, schools, healthcare and council services.

5.2 The delivery of council priorities has also been enabled by the approach and examples include:

- Significant improvement in the cleanliness and appearance of the borough;

- Improved quality of local highways;
- Actions taken to tackle specific Anti-Social Behaviour issues;
- Funding to challenge Highways England on the Lower Thames Crossing;
- Allocated funding for additional Police resource in the borough; and
- Local funding allocated to supporting residents with mental health and debt problems.

5.3 The relationships the Council has developed through the implementation of the investment strategy have further potential benefits going forwards in considering wider opportunities that may have direct impacts on residents in the borough. This could be through energy generation addressing fuel poverty issues, support for local businesses or meeting wider regeneration objectives for example.

5.4 The Council will ultimately become financially self-sufficient over the next 2 years and has developed the independence to continue to deliver key priorities for the benefit of residents.

6 Next Stages

6.1 The nature of the investments to date have been medium term although further investment in Thurrock Regeneration Ltd creates longer term benefits. Whilst this has allowed the council to both invest in new and enhanced services, it has also afforded the council the time to consider longer term investment opportunities to turn medium term security into longer term stability.

6.2 As previously mentioned, officers have been looking at property related opportunities. These provide an annual return, the potential for capital appreciation and additional benefits to the borough.

6.3 Officers have also taken the opportunity to revisit existing investments that are often linked to assets with lives that far out live the life of the underlying investment. As such, there is a continuing need for the asset to be re-financed and it can be beneficial to both the borrower and the council to negotiate a longer term relationship.

7 Reasons for Recommendation

7.1 The report is to provide Members an update on the Investment Strategy and the recommendation is for members to acknowledge the information provided.

8 Consultation (including Overview and Scrutiny, if applicable)

8.1 This report is based on consultation with the services, Directors' Board and portfolio holders.

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

9.1 Investment Income for Thurrock Council is far more than just maintaining current services but seeks to provide surpluses to enhance services and provide new services where necessary. These provide additional benefits to the whole community.

10 Implications

10.1 Financial

Implications verified by: **Jonathan Wilson**
AD, Corporate Finance

The MTFs considered by council on 28 February 2018 included new income of £17m over the five year period. As set out in the report, this has been used to enhance a number of services but to also add benefit to the borough through additional services.

10.2 Legal

Implications verified by: **David Lawson**
Deputy Head of Law & Governance

In determining its affordable borrowing limits under section 3 of the Local Government Act 2003, the Council must have regard to the "Prudential Code for Capital Finance in Local Authorities" (revised Edition 2017) published by CIPFA. In carrying out its functions under Chapter 1, Part 1 of the Local Government Act 2003, the Council must have regard to the code of practice contained in the document "Treasury Management in the Public Sector : Code of Practice and Cross-Sectoral Guidance Notes" (Revised Edition 2017) published by CIPFA.

10.3 Diversity and Equality

Implications verified by: **Becky Price**
Community Development and Equalities

There are no specific diversity and equality implications arising from this report.

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

The Investment Strategy has provided stability to Thurrock Council, staff and residents. The surplus income is being used across a number of areas including the environment, mental health, anti-social behaviour, additional police and provides funding for the council to challenge Highways England on the Lower Thames Crossing.

11 **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):

There are various working papers retained within the finance section.

12 **Appendices to the report**

- None

Report Author:

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