GREATER**LONDON**AUTHORITY

[redacted]
(By email)

Our Ref: MGLA080620-4034

6 July 2020

Dear [redacted]

Thank you for your request for information which the Greater London Authority (GLA) received on 7 June 2020. Your request has been dealt with under the Freedom of Information Act 2000.

You asked for:

> *I wish to make an FOI request for the Group Investment Syndicate which is the pooled investment vehicle and in connection with money lent to Thurrock Council.*
>
> *I understand that concerns about Thurrocks overall level of borrowing and investments were discussed at the GIS quarterly reviews and weekly Treasury management meeting. I would like:*
>
> *a copy of the sections of the minutes referring to those discussions*
>
> *a copy of any papers, presentations or other documents relating to Thurrock presented to those meetings*
>
> *I understand that the Chief Investment officer carried out due diligence calls with Thurrocks's s151 officer - I would like a copy of the notes of those calls*

The discussion at the GIS quarterly reviews was informal and included the confidential views of our external advisers, Link Asset Services; as such there is no specific reference in the minutes nor were there any papers. This approach is important as we balance between being alert to informal market intelligence against avoiding speculation or hearsay.

For the reasons I have outlined in the attached briefing for the office Caroline Pidgeon AM, which I understand has been shared with you, the syndics were in any case not of the view that the investments presented any financial risks to the GIS. However, as subsequent press comment has suggested, we noted that Thurrock's investment and borrowing strategy were not typical. I therefore undertook to discuss this with the Section 151 Officer of that authority. A summary of our conversation is contained in the attached email, together with a briefing prepared by Mr. Clark. As set out in my earlier briefing, I saw no grounds for attempting to reduce GIS exposure at that time.

You are welcome to contact me directly if there are further issues you wish to discuss.

Yours sincerely

Luke Webster
Assistant Director – Group Treasury, Chief Investment Officer
Group Treasury | Resources

[redacted]

If you are unhappy with the way the GLA has handled your request, you may complain using the GLA's FOI complaints and internal review procedure, available at:

https://www.london.gov.uk/about-us/governance-and-spending/sharing-our-information/freedom-information

From:	Clark, Sean
To:	Luke Webster
Subject:	Thurrock Council
Date:	21 June 2019 12:03 02
Attachments:	image001.png image002.png Financial Resilience TC.docx

Hi Luke, thank you for the call earlier and I hope that it was useful to you. As I said, I am also more than happy to meet at any time if you think this would be of use. Also, the number you called earlier is my personal number and more than happy for you to contact me directly.

Attached is the briefing note I have used for journalists from the LGC and MJ this week – after the BBC and MJ stories we invited them in – time will tell if they publish anything positive! Happy to add anything else to this if you think it would be useful as this is quite basic.

We also spoke about the Council's short term borrowing. As discussed, plus a little extra:

In 2010, the Council repaid PWLB debt linked to historic capital expenditure that was averaging some 6% - we repaid all of that and had intended to replace with lower PWLB – however, at the time and since then, temporary borrowing rates have been significantly lower and this accounts for approximately £100m.

The Council has a number of 'bond' style investments that are short term. There are a number of considerations as to why we fund these short term:

1. We have not invested in any real estate such as shopping centres and so the assets are generally short term with repayment mechanisms;
2. Being short term, the risk of significant increases in rates is not seen as likely – and there will have to be quite significant increases to reach current PWLB rates;
3. All assets are backed with security trustee type protections; and
4. The borrower has the ability to repay early if they see fit and so it is preferable to match with short term borrowing so debt can be repaid quickly if this should happen.

I hope that this meets your needs and has allayed any concerns you may have had but more than happy to speak further.

Kind regards

Sean

Sean Clark I Director of Finance and IT
thurrock.gov.uk **I** [redacted]
Thurrock Council, Civic Offices, New Road, Grays, Essex RM17 6SL

Thurrock: A place of opportunity, enterprise and excellence, where individuals, communities and businesses flourish

Briefing Note on Financial Resilience.

On 29 May 2019 the BBC reported they had identified 11 Councils that CIPFA said would have ‘fully exhausted’ their reserves within 4 years if current spending patterns continued. Thurrock Council was included on the list of 11 Councils with a position presented showing a 58% reduction in ‘earmarked and unallocated reserves’ between 2015 and 2018. The Municipal Journal then ran the same story as a cover feature on the 30 May 2019 (print edition).

This note considers the position presented and sets out a response from the Council.

Executive Summary

The articles have concluded the Council has specific financial resilience concerns based on their definition of the reserves that provide this resilience and by comparison between two specific points in time. This has been done without reference to the wider context.

The wider context is that few of these reserves provide financial resilience and the period assessed included a specific invest to save decision.

The cost of insourcing services was £13.4m and hence initially reduced reserves. The assessment does not consider the reason for this decision or understand the significant contribution this has made to the ongoing financial resilience of the Council through saving circa £4m per annum. This is now clear in the 2018/19 financial accounts which demonstrate a significant increase in reserves.

The earmarked reserves at Thurrock were not held for general financial resilience in this period as all were allocated for specific purposes. As the purpose of reserves was not fully considered the judgement made on the reduction of these reserves is inherently flawed.

Furthermore the assertions made have not cross referenced to wider indicators of financial resilience and particularly the unqualified Value for Money conclusions issued by external audit every year between 2014/15 and 2017/18.

The Council accepted it had to make a significant decision and fund the insourcing of services from Serco for the ongoing financial health of the Council. This combined with a more commercial approach has reaped rewards which are now clearly reflected in the 2018/19 financial accounts.

It is disappointing the BBC/MJ have not sought to understand this wider context and have produced articles which are reputationally damaging to the Council.

A more detailed assessment of the issues raised by the article is considered below:

1. **Reserves and Financial Resilience.**

The key piece of supporting evidence presented in both articles is the calculated reduction in ‘earmarked and unallocated’ reserves. This assumes both combined are a reasonable measure of financial resilience and so both elements are considered below with detail of how they interact at Thurrock Council specifically:

- Unallocated Reserves – At Thurrock Council the only unallocated reserve is the General Fund balance. In the period in question this increased from £8m to £11m (37.5% increase). This is considered a measure of financial resilience and represents approx. 9% of General Fund net expenditure in 2018/19. (Previous guidance was circa 5%).

- Earmarked reserves – These reserves consist of a number of items which, in the period in question, were held only for specific purposes and were NOT considered to be providing financial resilience funding to the Council. These purposes include:

    - Ring fenced funds for specific services
    - Balances held to support specific transformational projects.
    - Balances held for schools funding
    - Grants carried forward to future periods
    - Balances held to deliver agreed member priority projects.

The current administration have been clear throughout this period that funding should not be held on the balance sheet but spent on local priorities. Hence earmarked reserves have historically been held only for the purposes above.

2. The Reduction in Reserves 2015-2018.

The General Fund plus earmarked balances fell from £30.05m to £13.33m – a reduction of £16.72m (56%)

The key movements in the balances are set out below with comments:

- £13.4m spent insourcing services previously provided by Serco (£6.7m funded from reserves).

  Comment – The Council made an invest to save decision to realise ongoing savings of £4m per annum which have been included in the Medium Term Financial Strategy. This was a decision taken to support the long term financial resilience of the Council.

- The Dedicated Schools Grant reserve moved from a surplus of £2.9m to a deficit of £4m (£6.9m reduction)

  Comment - The DSG is a ring-fenced grant and a deficit position is reflective of national trends in the sector. In 2018/19 the deficit has improved to £2.6m and there is an agreed plan in place to balance within 3 years. This is managed outside of GF resources and hence has no relevance to the financial resilience of the Council.

- A reduction in schools balances of £2.3m.

  Comment – this reflects schools transferring to academies and hence the balances relating to the remaining LA maintained schools is reducing as they transfer. These amounts are ring-fenced to the schools and do not provide any financial resilience to the Council.

- A reduction in grants carried forward of £1m

  Comment – Grants carried forward are held for specific purposes and the balance at any year-end is ring fenced to spend in future periods. Hence these do not provide any financial resilience to the Council and just reflect timing differences between receiving and spending specific grant funding.

In summary the only change with direct relevance to the financial resilience of the Council is the decision to insource the Serco services. This had a significant short term impact for a larger longer term benefit which starts to be reflected in the 2018/19 position.

3. <u>31 March 2019 Reserves Position</u>

Measuring financial resilience on a like for like basis to the BBC/MJ articles shows that General Fund unallocated and earmarked reserves have increased in 2018/19 by £10.5m or a 79% increase on the prior year.

This reflect the following key changes:

- Ongoing savings from the 'insourcing' of Serco have supported the development of an improved financial resilience position.
- The Council's commercial strategy has further developed income to provide further specific financial resilience.
- To provide further resilience funding has been earmarked against interest rate risks and potential funding changes. (£4m)
- This has also enabled the Council to set aside additional funding to support transformation projects (£3.5m)
- The DSG deficit position has improved by £1.5m.
- Further funding is available to meet Member priorities (£0.73m).

In summary the Council has significantly strengthened the financial resilience of the Council by bringing services back in house and gaining the benefits of income generated from a commercial approach.

<u>4. Further Evidence to Support the Strategic Approach of the Council</u>

The following further evidence supports the strategic approach taken to address the challenges of funding reductions from CG since 2010.

- External Audit opinions 2014/15 to 2017/18

During the period under consideration the Council has received unqualified audit opinions and an unqualified Value for Money conclusion in each year. The work on the VFM conclusion has considered the reasonableness of the MTFS, the delivery of planned savings and the wider financial resilience of the Council.

This also considers the wider context of Local Government funding and specific sector issues which may have significant financial impacts. This has also specifically considered the commercial approach the Council has taken to addressing wider funding cuts.

- Balanced Budgets 2010/11 to 2018/19

During the period under consideration the Council has set a balanced budget annually and delivered the core financial budget **without the use of reserves**. The only occasion reserves were used was outside of the core budget delivery and was to fund the invest to save decision to bring services back in house from Serco.

The s151 officer has issued a positive s25 statement in each of these years on the adequacy of balances and the robustness of the budget.

- Medium Term Financial Strategy

The Council has a balanced MTFS up to and including 2022/23 which includes surplus funding which, if required, would provide further financial resilience going forwards. This was approved by Council on 27 February 2019.

- Delivery of Member Priorities 2017/18 and 2018/19

Surplus funding has been identified in the budget setting process over the last 2 years. This is then allocated to specific projects once it has been confirmed the core budget will be delivered. This has been the case in each of the last 2 years and funding has been allocated to a range of priority projects including:

- Equipment to support environmental improvements in the borough.
- Funding to address Anti-Social Behaviour
- Funding to support outcomes from the Debt and Mental Health summits
- Funding for additional policing
- Funding to support schools in the borough.