

Committee: Investment Board

Date:

Title: Government reviews into local authority commercial investments

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Summary

1. This report summarises the recent findings from Government reviews of commercial investments at Thurrock Borough Council and Woking Borough Council.

Recommendations

2. Members note the report.

Financial Implications

3. None

Background Papers

4. The following papers were referred to by the author in the preparation of this report and are available for inspection from the author of the report.

None

Situation

5. As a local authority Investment Board, it is good practice to review reports into failed investments at other local authorities. Only by doing this can this council ensure its policies and procedures remain fit for purpose.
6. Over the last couple of months there have been reports issued into the failings at two councils: Thurrock and Woking. The Government reports are attached as Appendices One (Thurrock) and Two (Woking).

Thurrock

7. The main findings can be found from paragraph 38 onwards and can be summarised as follows.
 - a. An investment strategy unique within local government predicated on borrowing money solely on a short-term basis to fund longer term investments.

- b. A lack of Member governance and oversight.
 - c. A lack of oversight by the Chief Executive and member of the corporate management team (other than the Section 151 Officer).
 - d. A lack of skills, capability, advice and resource to deliver major projects
8. The Section 151 Officer had delegated authority to make investments without financial limit or sign-off by others, be that Members or the Chief Executive.
9. Despite having a strategy promoting diverse investments, the vast majority of funding was invested in a single entity, operating in a single market, that ultimately did not deliver on its commercial commitments.
10. The scale of the financial loss is not fully known but estimated to be in the region of £650 million.
11. With regard to the findings in point 7 above, at this council
- a. The investment strategy has a mix of short, medium and long term borrowing, from local authorities, the Public Works Loan Board and the wider financial markets.
 - b. The Investment Board provides the member governance and oversight.
 - c. The Corporate Management Team receive quarterly updates on the finances of the Council, including on commercial investments.
 - d. From day one, the Council has used highly regarded industry expertise in both asset identification (e.g. [Jason Winfield](#), Cushman and Wakefield) and asset acquisition (e.g. [Dion Panambalana](#), Hogan Lovells).

Woking

12. The most indebted local relative to its size in the UK, with borrowing of £2.4 billion compared to a net budget of £24 million.
13. The main spend has been on regeneration of the borough (paragraph 28 of Appendix Two) rather than in direct commercial activity.
14. Paragraph 31 of Appendix Two sets out how a 'revolving' loan facility has been used to fund the wholly owned regeneration companies. Effectively each year the council loans the company money to pay back the interest owed to the council. This has created an extremely high debt profile that is not matched by the value of assets.
15. Woking has not applied Minimum Revenue Provision (MRP) to its commercial investments and loans to subsidiaries. If it does seek to apply MRP as per statutory guidance it has insufficient funds to cover the additional costs.
16. The main findings can be summarised as follows.

- a. A lack of commercial skills and capacity to manage complex commercial activity.
- b. The Corporate Leadership Team did not have sufficient information to properly monitor the situation.
- c. No MRP applied

17. Of the points highlighted in paragraph 16 above it is interesting to note that a and b also appear in the Thurrock review. AT this council full MRP is applied to all commercial activity, including loans to the wholly owned subsidiaries.