

Cotswold District Council  
Recovery Investment Strategy 2020-2024

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# Foreword

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At Cotswold District Council we recognise that we are facing a future funding challenge due to anticipated cuts in government funding and increased service cost pressures. Whilst central government has recently increased funding levels to local government in general this has been clearly focused upon upper tier services such as Adult Social Care and Children's Services.

Additional resources to finance district level services are likely to be limited in the future at level lower than that historically delivered through incentive based funding such as New Homes Bonus.

Before the coronavirus pandemic we had an ambitious agenda of change to deliver better services for our residents. The impact of the crisis on our council, our residents and our place has made this strategy even more important. To match our delivery ambitions to our revenue streams will require the whole Council to be more creative and commercially minded with all our services – reassessing the delivery of efficiencies, savings and income generation.

This Recovery Strategy sets out the Council's framework to deliver 'more for less' for our residents in respect of all of our services – as such this represents an approach which all Councillors, Officers and Partners should adopt.

Our approach to deliver the much needed capital investment for our Housing, Jobs and Green Infrastructure is to ensure that the Council makes an appropriate return on capital employed to support the cost of capital and an appropriate return to support the revenue budget.

With an estimated funding gap of £4.83m against a net service cost of circa £12m this represents a significant challenge and requires us to be innovative, bold and ambitious in our approach. To meet this challenge we must focus on delivering the Council priorities whilst also at the same time closing the funding gap.

Joe Harris  
Leader of the Council

Mike Evemy  
Deputy Leader of the Council and  
Cabinet Member for Finance

Tony Dale  
Cabinet Member Economy and Skills

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# Scope

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The scope of this Recovery Strategy is to cover the range of tools and activities that help to improve the general approach to matching income and expenditure across the activities of the district council.

It is recognised that it is neither possible nor necessarily desirable for all the activities of the council to be funded from the users of those services alone, but, the approach of this strategy is to propose that ‘user funding’ should be the ‘normal’ position and exceptions to this be specifically approved. This strategy does this by seeking to improve the general awareness amongst councillors and officers of commercialisation as a major tool for raising revenue.

The strategy focuses strongly on how future capital investments should be appraised to ensure that they do not add to the burden on residents via Council Tax unless there is a clear social value reason for this and it is affordable and sustainable for the council to support over the long term.

The strategy starts from a premise that there is a significant funding gap that needs to be closed and capital investment is a major tool available to the council to achieve this as long as it covers the revenue implications of that investment and makes an appropriate return.

Capital investment is also key to delivering the ambitious programme of the Council and the strategy sets out some general principles to support business case decision making.

# Council Aim

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The Council's aim is to:-

“Rebuild the Council so it can be proactive and responsive to the needs of our residents and businesses in a fast changing environment, building for the future whilst respecting our heritage”.

The objective of the Recovery Investment Strategy is to ensure the Council has the necessary resources to deliver its overall aim and ensure investment decisions are aligned with the overall Council aim and priority themes whilst contributing to the financial viability of the Council.

The Council approved its Priorities in September 2019 as:

## **Our priorities**

Working towards our aim, we have the following key areas of focus:

- Respond to the challenges presented by the climate change emergency
- Deliver good quality social rented homes
- Present a Local Plan which is green to the core
- Ensure that all services delivered by the council are delivered to the highest standard
- Help residents, businesses and communities to access the support they need to ensure a high level of health and well-being

The priorities are underpinned by the following principles:

## **Our principles**

Everything we do will be built on the following principles:

- Rebuilding trust and confidence in the council by promoting a culture of openness and transparency
- Value for money - we will use the council's resources wisely, but will invest in the fabric and future of the district
- Listen, hear, act - we will seek thoughts and ambitions from our residents to inform our decision making

# Strategic Aims of the Recovery Investment Strategy

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To become a more commercially focused Council we will need to deliver on the following key strategic aims:-

- Develop Commercial Skills across the Council and embed within the organisation;
- Improve our overall financial position by closing the gap between income and expenditure;
- Maximise income generation opportunities whilst not losing sight of social value;
- Leverage the intrinsic strength of our balance sheet to generate returns to support our service priorities for residents;
- Deliver projects that meet our priorities in an environmentally and financially sustainable way;

# Priority Delivery Themes

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The delivery themes that the Council will focus on in meeting its ambitions are:-

- Affordable Social Housing;
- Green Energy & Carbon Reduction;
- Delivering Infrastructure for Jobs & Economic Growth;
- Reinvigorating Commercial Centres to ensure our economic vibrancy;
- Maximising existing and new income streams from service delivery;
- Developing a commercial culture to our decision making whilst retaining a public service ethos

# Required Outcomes

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The Councils emerging Medium Term Financial Strategy sets out the following high level budget targets:-

Overall Unfunded Budget Gap to March 2024 is £4.83m.

This gap is envisaged to be filled through the following funding mechanisms:-

Replacement of Incentive Based Funding Schemes by Govt	£1.0m
Income per annum from capital investment	£1.54m
Rural Grant Replacement Scheme	£0.5m
Increasing existing / new revenue streams	£1.077m
Efficiency from existing service provision partners	£0.713m
Total	£4.83m

# Tactical Delivery Plan

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	Total	2020/21	2021/22	2022/23	2023/24	Total
<b>Cotswold Recovery Investment Strategy Tactical Plan</b>	£	£	£	£	£	£
Core MTFS Savings - with existing delivery plans	394,000	294,000	78,000	22,000	-	394,000
<b>MTFS Additional Target</b>	<b>4,830,000</b>	<b>695,000</b>	<b>639,000</b>	<b>2,208,000</b>	<b>1,288,000</b>	<b>4,830,000</b>
Replacement of incentive based funding schemes by government	1,000,000			600,000	400,000	1,000,000
Local Government Pensions Scheme advance payment April 2020 savings	184,000	184,000				184,000
Income per annum from capital investment	1,356,000	-	381,000	500,000	475,000	1,356,000
Rural Services Grant	500,000			500,000		500,000
Increasing existing revenue streams/new streams	1,077,000	421,000	215,000	308,000	133,000	1,077,000
Efficiency from existing service provision partners	713,000	90,000	43,000	300,000	280,000	713,000
<b>Total</b>	<b>4,830,000</b>	<b>695,000</b>	<b>639,000</b>	<b>2,208,000</b>	<b>1,288,000</b>	<b>4,830,000</b>
Income per annum from capital investment	1,356,000	-	381,000	500,000	475,000	1,356,000
<b>Capital Required to Deliver</b>	<b>54,200,000</b>	<b>-</b>	<b>15,200,000</b>	<b>20,000,000</b>	<b>19,000,000</b>	<b>54,200,000</b>

# Resource Requirements

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The Council has matched its ambition with a resource allocation of £350,000 to pump prime the work to deliver the development and implementation of the Investment Recovery Strategy, including enhanced support for economic development activity, actions to tackle climate change, and the delivery of social rented housing.

By definition the activity required to deliver this approach will be front loaded in the Recovery Strategy to enable delivery over the full timeframe. It is envisaged at this stage that the following resources will be required:-

	2020/21	2021/22	2022/23	Total
Economic Development Delivery Officer	38,000	50,000	12,000	100,000
Programme Manager – Housing Delivery	38,000	50,000	12,000	100,000
Specialist Advice & Due Diligence	50,000	50,000	50,000	150,000
Total	126,000	150,000	74,000	350,000

# Constraints – Powers and Guidance

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The landscape around local authority involvement in commercial property has changed significantly over the last twelve to eighteen months with the production of statutory guidance from the Ministry of Housing, Communities and Local Government (MHCLG) and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Prudential Property Investment (Investments financed through Prudential Borrowing).

## Statutory and Advisory Guidance

CIPFA Prudential Property Investment Guidance (Nov 2019)

MHCLG 2018 Statutory Guidance on Local Government Investments

MHCLG 2018 Statutory Guidance on Minimum Revenue Provision

“ The Investment Guidance recognises that it cannot prohibit the acquisition of commercial/investment property funded by borrowing but authorities not following the Prudential Code and the Investments Guidance are expected to provide an explanation in their investment strategy”

The effect of this is to require the full Council to endorse the policy (of non-compliance with the code) and make the strategy publicly available.

# Governance Framework

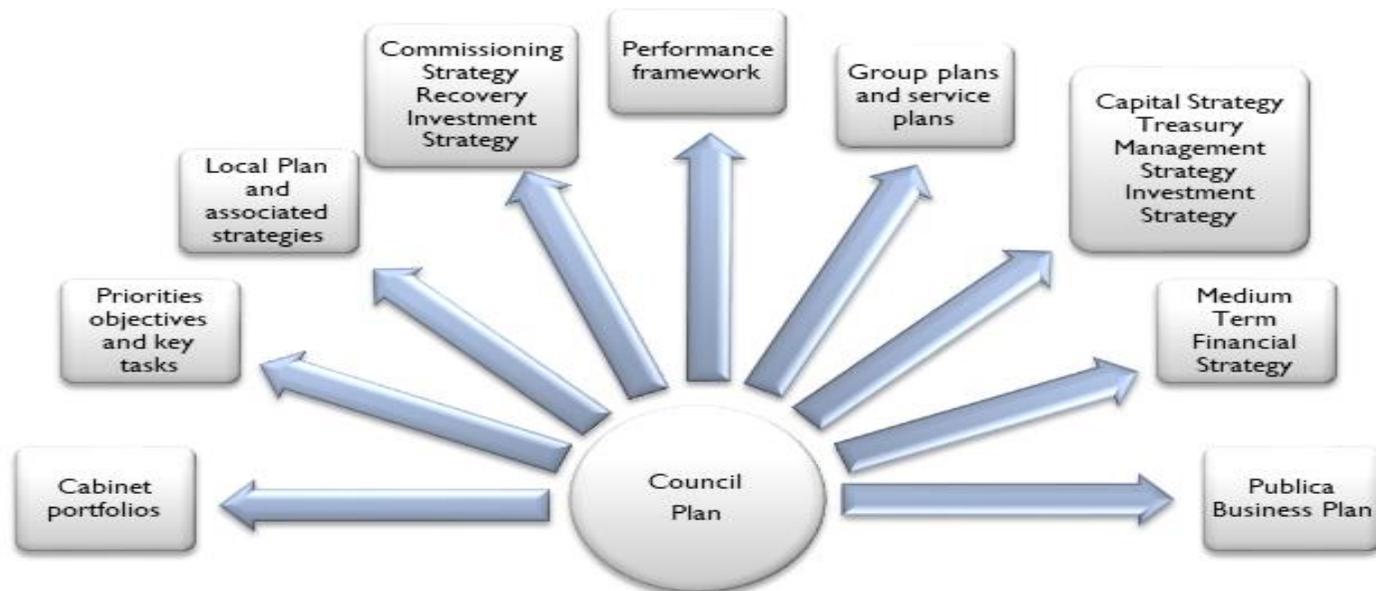
The Commercial Recovery Strategy helps to guide all outcomes and deliverables from all other strategies and plans of the Council – programmes and projects need to be aligned with the Strategy in the same way as it needs to be aligned with the Council or Corporate Plan.

As the strategy is a guidance framework it, of itself, does not have any other governance arrangements as these sit within the overall governance framework of the Council. Key controls around investment decisions remain with Cabinet and Council as currently expressed within the Capital Strategy, Investment Strategy and Treasury Management Strategy. This strategy seeks to guide all the council investment decisions to meet the challenges and constraints set out in the Medium Term Financial Strategy.

No new capital expenditure funding bids will be placed before decision making meetings without the express approval of the Leader, Deputy Leader and Cabinet Member for Finance, Cabinet Member for Economy and Skills and the Council Chief Financial Officer.

An open and inclusive approach is recommended to governance with meetings open to all councillors to observe.

It is anticipated that all investment decisions will initially require full Council approval although Council may wish to revisit this based upon experience. A diagrammatic representation of how this strategy fits with other Council Strategies is set out below.



# RECOVERY INVESTMENT PROGRAMME DECISION MAKING FRAMEWORK

<b>A U D I T  A N D  S C R I T I N Y</b>	<b>FULL COUNCIL</b>	Approve Strategy Set Budget & Borrowing Approvals Approve Investment decisions (where not delegated)
	<b>CABINET</b>	Approve investment decisions in line with strategy (where delegated authority from Council) Monitor Delivery
	<b>CAPITAL PROGRAMME INVESTMENT BOARD</b>	Consider option appraisals and business cases and recommend to Cabinet Review due diligence Review Performance
	<b>MEMBER/OFFICER WORKING GROUPS</b>	Prepare options appraisals Conduct due diligence Prepare Business Case Determine Financing

# Key Actions

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## **Affordable Social Housing**

- Develop business case methodology that enables delivery of affordable housing
- Identify existing and potential future sites for development and acquisition
- Consider long term vehicle for holding housing and housing sites

## **Green Energy & Carbon Reduction**

- Develop business case methodology that enables delivery of green energy
- Identify existing and potential future sites for development and acquisition
- Explore partnership delivery options

## **Delivering infrastructure for high value, highly skilled jobs, green economic growth, and supporting businesses to embrace digital technology**

- Develop business case methodology that enables delivery of sites for jobs and growth
- Identify existing and potential future sites for development and acquisition
- Explore partnership delivery options

## **Reinvigorating Commercial Centres to ensure our economic vibrancy**

- Develop business case methodology that enables delivery of sites for commercial development
- Identify existing and potential future sites for development and acquisition
- Explore partnership delivery options

### **Maximising existing and new income streams from service delivery**

- Develop model to ensure all service revenue streams meet full cost recovery principles
- Undertake benchmarking for all existing revenue streams with LG comparators
- Review all fees and charges in light of service cost and market potential
- Review local government comparators to identify new income streams for existing service lines
- Review services to identify any complimentary services that could deliver revenue stream (e.g. Commercial Waste or Recycling)
- Review existing asset footprint to deliver further rental opportunities

### **Developing a commercial culture to our decision making whilst retaining a public service ethos**

- Deliver commercial skills training for staff via a series of masterclasses in “Commercial Councils” for Councillors and staff
- Support our service leaders by providing service diagnostics to understand cost drivers
- Actively seek to move transactional services to self service
- Support our service leaders to move towards the desired operating model
- Review service provision to consider whether Council remains best delivery vehicle
- Review availability of external grant programmes to support Council and partner services

# Technical Appendices

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Baseline Income Data

Cost of Capital and Target Returns

Funding Cost Baseline Calculations

Business Case Decision Tool Example

Example Investment Opportunities

# Base Data – Income Streams

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Cotswold 2019/20 Estimated Key Existing Revenue Streams      £5.70m

Key income streams that the Council can control and have growth potential:-

	Existing	Target
	19/20	22/23
Car Parks	£2.30m	£2.75m
Green Waste	£0.66m	£1.00m
Planning Pre App	£0.06m	£0.10m
Other Waste	0.05m	£0.10m
Accommodation Letting	£0.09m	£0.10m
Commercial Property	<u>£0.55m</u>	<u>£0.60m</u>
	£3.71m	£4.65m
Other	£2.00m	£2.20m
Total	<u>£5.70m</u>	<u>£6.85m</u>
Uplift Potential		<u>£1.15m</u>

# Cost of Capital & Target Returns

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To deliver capital investment schemes that meet the ambitions of the Council but do not worsen the ongoing revenue position of the Council requires the Council to at least meet the annual revenue cost of capital. This cost is made up of two elements:-

- Minimum Revenue provision (in effect principal debt repayments)
- Interest Charges

In addition to this the Council has identified a requirement to deliver a return on capital above cost to close the budget gap. This equates to 2.5%.

Minimum Revenue Provision is typically related to the lifespan of an asset with a maximum of 50 years. An asset with a lifespan of 25 years will require a Minimum Revenue Provision twice that of an asset that lasts 50 years.

Example target returns are set out below for different asset classes:-

<u>Target returns :</u>	<u>MRP*</u>	<u>+ Interest</u>	<u>+ Return</u>	<u>= Total Return</u>
Renewable Energy	4	+ 1.7	+ 2.5	= 8.2%
Housing Schemes	2	+ 1.3	+ 2.5	= 5.8%
Commercial Dev Scheme	2	+ 1.3	+ 2.5	= 5.8%

In addition any investment needs to consider risk provisions that may be required and any repair or renewal obligations.

PWLB funding for commercial property investments not aligned to service provision will likely have a higher cost of capital

# Constraints - Funding Costs

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Borrowing Availability £54m – return required 2.5% =£1.36m

Minimum Revenue Provision: Asset Life Method

Typical Renewable Energy Schemes (25 year) 4%

Typical Housing Schemes (50 year) 2%

Typical Commercial Property (50 year) 2%

## Borrowing Rates\*

PWLB Certainty rate less 100 basis points 25 year 1.7%

50 year 1.3%

Loans - no MRP required as matched to principal repayments

## Statutory and Advisory Guidance

CIPFA Prudential Property Investment Guidance

MHCLG Statutory Guidance

On-lending and Forward Financing rules

\* This assumes borrowing costs under PWLB rates from alternate providers such as Municipal Bonds Agency

# Business Case Decision Tool

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Any business case requiring capital investment will need to complete a business case worksheet to assess whether a proposal will meet the appropriate test of affordability.

A capital investment that delivers a cost reduction will be dealt with in the same way with cost reduction replacing the income line.

An example worksheet is attached – all need to be signed off by the relevant Council Chief Finance Officer and Group Finance Director.

Pass/Fail decisions do not automatically lead to equivalent funding decisions but are advisory to decision makers.

# Business Case Worksheet

<b>Capital Scheme:</b>	Housing Scheme A						
Net Yield Required to deliver financial target		3.50%		to deliver financial priority			
<b>Capital Expenditure</b>		1,400,000		to deliver service priority			
Net Income Target to support Council services	3.50%	49,000					
<b>Gross Income</b>	10.00%	140,000					
<b>Expenses</b>							
Voids	5%	7,000					
Maintenance	5%	7,000					
Miscellaneous		-					
Management	4%	5,600					
Irrecoverable VAT	2%	2,520					
Replacement Fund	5%	7,000					
Total deductions	21%	29,120					
<b>Net income before financing</b>	8%	110,880					
<b>Debt Financing</b>	5%	70,000					
<b>Net Income after financing</b>		<b>40,880</b>		Service Business Case Pass /Fail		<b>PASS</b>	
Net Income Yield		2.92%					
<b>(Shortfall) to Target</b>		<b>- 8,120</b>		Council Business Case Pass /Fail		<b>FAIL</b>	

# Examples of Investment Opportunities

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This list is neither prescriptive nor exhaustive – it gives some typical examples how we might meet our service delivery priorities whilst also delivering on the financial challenge of commercialisation.

- ❑ Delivery of Affordable Housing on Council Owned Land – part financed through market housing sale;
- ❑ Delivery of Solar PV Generation Capacity on owned or leased land/buildings to deliver reduced utility cost or generate a revenue stream;
- ❑ Delivery of Business Park with infrastructure delivered in partnership with Local Enterprise Partnership – ground rent or leased units delivering revenue stream to partners and improving local economy;
- ❑ Regeneration of Town Centre site to deliver long term rental stream from commercial tenants in respect of mixed uses such as offices, leisure and retail;
- ❑ Acquisition of Commercial Property within district to secure revenue stream but also enable better control of Town Centre;
- ❑ Investment in Electric Vehicles to deliver reduced fleet costs;
- ❑ Investment in new technology to reduce cost of existing service provision;
- ❑ Loan to a Housing Association / Council Company.