



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET - APRIL 2022
Report Number	AGENDA ITEM 8
Subject	REFRESH OF RECOVERY INVESTMENT STRATEGY
Wards affected	All
Accountable member	Cllr Tony Dale, Cabinet Member for the Economy and Council Transformation Email: tony.dale@cotswold.gov.uk
Accountable officer	Jenny Poole , Deputy Chief Executive and Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	To refresh the Recovery Investment Strategy framework within which the Council can invest in the infrastructure of the Cotswold District that delivers on the Council's Priorities.
Annexes	Annex A Medium Term Financial Strategy Annex B Draft Recovery Investment Strategy
Recommendation(s)	That Cabinet recommends the Strategy attached at Annex B to Council for adoption.
Corporate priorities	<ul style="list-style-type: none">● Respond to the Climate Crisis● Provide Socially Rented Homes● Enable a Vibrant Economy
Key Decision	YES
Exempt	NO
Consultees/ Consultation	Capital Programme Investment Board



1. BACKGROUND

- 1.1 In September 2020 the Council approved its first Recovery Investment Strategy to support the key priorities in the Corporate Plan 2020- 2024. The Strategy recognised the financial challenges facing the Council and sought to guide investment decisions to ensure that investments delivered a return to cover the cost of capital and, where possible, an additional return, to cover risk and the financial gap identified in the Medium Term Financial Strategy.
- 1.2 The Strategy also took account of the changing landscape around commercial investment with a clear 'steer' from Government and professional bodies that pure commercial investments should be avoided. To this end the Strategy clearly set out a framework which put delivery of corporate priorities as the key driver on investment decisions with yield being a secondary factor.
- 1.3 The Strategy sought to balance the delivery of local priorities with the principles of affordability and value for money. In essence, the Strategy formed a framework within which the Council can operate to deliver on its priorities whilst also closing the emerging budget gap without the reliance upon service cuts.
- 1.4 The impact of the global pandemic has slowed both the delivery of actions within the Strategy but also the fundamental review of the local government funding regime that was anticipated and has driven the financial considerations. As a consequence the Council has received a series of largely 'standstill' financial settlements from Government although the consequence of these is that the funding 'cliff edge' identified has actually worsened.
- 1.5 Whilst opportunities to deliver against the approved Strategy have proved difficult to achieve in light of the Pandemic some useful groundwork has been done which has identified a pipeline of opportunities to deliver on the Council's Priorities.

2. MAIN POINTS

- 2.1 The Council's Medium Term Financial Strategy (MTFS), approved by Council in February 2022, identified an overall funding gap of almost £8.9m by March 2026 if left unaddressed. For convenience this is attached at Annex A as this forms the basis for the updated Recovery Investment Strategy.
- 2.2 The updated Recovery Investment Strategy attached at Annex B sets the revised framework within which the Council can consider investment opportunities that deliver on the agreed corporate priorities. Whilst the previous version did not in itself present any specific opportunities (but rather a mechanism by which the Council can assess how opportunities are developed) this version sets out a clearer delivery plan with a pipeline of opportunities.



- 2.3 The delivery plan is principally based upon the work of the officers recruited to lead on the key corporate priorities of Climate Change and Economic Development. The posts have been identified as crucial to leading on these priority themes and have now been embedded within the permanent establishment as they are crucial to the delivery of the Corporate Plan and this Strategy.
- 2.4 The Strategy sets out the financial context within which the Council finds itself based upon the known position in February 2022. Regrettably many of the uncertainties around funding that existed when the first Strategy was written remain, although it is anticipated that these will become clearer over the summer of 2022.
- 2.5 As a consequence of this continuing uncertainty the financial targets need to be taken as a guide rather than an absolute position. This relates not only to the funding gap the Council faces, but also debt financing costs, return yields, and therefore the level of capital investment necessary to deliver the revenue returns.
- 2.6 Whilst the first generation of the Strategy set the tactical plan to be coherent with the Budget and MTFS this version presents a tactical delivery plan that is based upon clearer opportunities and delivery timescales that are consistent with those opportunities whilst retaining an eye on the overall targets.
- 2.7 As a consequence of moving to a more realistic delivery plan there is an increasing emphasis on Green Infrastructure within the Strategy. This is because it is both consistent with the Council's Climate Emergency announcement but also recognises the deliverability of these schemes with partners.
- 2.8 Whilst the Strategy identifies the key project opportunities that could be considered to meet the priorities, the Council will need to take individual decisions on these that come forward with the overall Strategy in mind. It is very clear from guidance that schemes should not be pursued 'primarily' for yield. The key driver must be the delivery of Council priorities. This will not mean for example sticking slavishly to investment returns on individual schemes as long as, in the round, the investment returns are being achieved.

3. FINANCIAL IMPLICATIONS

- 3.1 The Council is facing a significant challenge to its financial sustainability brought about by significant real term reductions in Government funding over the last ten years. This funding has been supplemented through incentivised funding streams such as Business Rates Retention and New Homes Bonus.
- 3.2 Over the last few years New Homes Bonus has started to be phased out and the government seem committed to its eventual withdrawal. The Business Rates Retention



scheme is due to have a reset in April 2023 and this will potentially remove all the business growth received since 2013.

- 3.3 In addition to this further changes to Local Government Finance are planned via the Fairer Funding Formula. It is not yet known how this will affect this Council but there are risks that this will alter the balance of funding in favour of Councils who provide Social Service functions.
- 3.4 The Council's Medium Term Financial Strategy, approved in February 2022, identified an overall funding gap of almost £8.9m by March 2026 if left unaddressed.
- 3.5 The guidance within the Council's Recovery Investment Strategy seeks an average return of 7.4% to cover the cost of capital (principal and interest repayments) and a return consistent with the MTFs funding gap. The actual return will vary from scheme to scheme based upon asset life and market conditions. For example a solar scheme would face higher capital financing costs because the asset life is shorter than say the construction of a building supporting economic growth. Under accounting regulations the maximum asset life is 50 years.
- 3.6 To be clear taking no action will leave the Council with a very significant funding gap which would require alternative resolutions such as significantly raising Council Tax, in accordance with the Government requirement to hold a referendum for increases which exceed the limit determined by the Secretary of State, or significantly cutting services. Neither of these solutions will deliver on the priorities of the Council indeed they will weaken the outcomes deliverable by the Council.

4. LEGAL IMPLICATIONS

- 4.1 The focus of the Strategy is delivering on the priorities of the Council. It is likely therefore that almost all investments will be within the District. The Council will be reliant upon its legal powers to invest that are related to the social, environmental and economic prosperity of the place to support its actions rather than investment powers more recently highlighted and criticised by the Government and others in respect of commercial property.
- 4.2 Any investment brought forward will clearly state the legal powers being utilised. This is important to ensure that the lower rates for local government borrowing can be achieved.

5. RISK ASSESSMENT

- 5.1 The key risk with regard to adopting this Strategy is around deliverability. It is a bold Strategy which delivers against Council Priorities but has significant borrowing and



investment targets to meet. The availability of opportunities within the District to meet these targets will be challenging and should not be underestimated.

- 5.2 Risks around individual investments projects will be set out clearly in each business case that is presented for Council to consider at the time the proposal comes forward.
- 5.3 There remains a risk that the Government may further alter the borrowing rules to prevent Councils from borrowing for some of the potential opportunities set out in this Strategy but with the focus of this Strategy on place based investment that is largely mitigated.
- 5.4 The Strategy makes a number of assumptions around borrowing rates, rates of return on investment categories and requirements for 'Minimum Revenue Provision'. All of these may change and alter the balance of funding required to deliver the revenue returns.
- 5.5 The review of local government funding may impact on the MTFS which may subsequently alter the targets set out in this Strategy and it therefore also needs to be further reviewed in light of any changes and in light of any other Government funding announcements.
- 5.6 Should the Council not adopt this Strategy (ie. do nothing) the risks to the delivery of the Council priorities and its overall financial stability are very significant and would require an alternate approach to balancing the budget such as significant Council Tax rises or service cuts.

6. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

- 6.1 There is a strong focus within this Strategy to deliver green infrastructure that will have a positive impact on the climate emergency declaration.
- 6.2 Any investment opportunity brought forward will clearly set out the implications in respect of climate change.
- 6.3 Investment opportunities that make a positive change to the carbon footprint of the District are a fundamental part of this Strategy and therefore this Strategy should be seen as a key tool to help deliver this Council priority.

7. ALTERNATIVE OPTIONS

- 7.1 The Council could chose not to support this Strategy and seek to reduce the funding gap it faces through other means such as raising Council Tax, further significantly increasing fees and charges such as Car Parking and Garden Waste or cutting service provision.

8. BACKGROUND PAPERS

- 8.1. None



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(END)