

Cotswold District Council
Recovery Investment Strategy 2022-2026

Foreword

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 and at level lower than that historically delivered through incentive based funding such as New Homes Bonus. These reductions in funding have already started to bite.

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 Strategy builds upon our initial plans which were set out immediately after the start of the global pandemic but updates the finances based upon latest information and the increasing challenges in a post-Covid economy. The Strategy re-emphasises the Council Plan framework to provide value for money for our residents and businesses 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 £8.9m against a net service cost of circa £12.5m 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 for the Economy and Transformation

Scope

The scope of this 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 whilst delivering upon the Council Priorities.

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 the Council has a clear need to deliver on its priorities and that capital investment is a tool to deliver these priorities and it needs to be bold if it is going to deliver on these. However it also recognises that there is a significant funding gap that needs to be closed and that the capital investment required to deliver on priorities also needs to support the underlying revenue budget by making 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

The Council's aim is to:-

“Recreate a council that's 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 2020 as:

Our priorities

- delivering our services to the highest standards
- responding to the challenges presented by the climate crisis
- providing good quality social rented homes
- presenting a local plan that's green to the core
- helping residents and communities access the support they need for good health and wellbeing
- supporting businesses to grow in a green, sustainable manner, and to provide high value jobs

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
- providing value for money for our residents and businesses by using our resources wisely and investing in the district's fabric and future
- listening to the needs of our community, and acting on what we hear

Strategic Aims of the Recovery Investment Strategy

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

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

The Council's Medium Term Financial Strategy sets out the following high level budget targets:-

| Cotswold Commercial Strategy - Tactical Plan | Total £ | 2022/23 £ | 2023/24 £ | 2024/25 £ | 2025/26 £ | Total £ |
|---|------------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| MTFS Target Annual Revenue Savings | 8,868,000 | 822,000 | 3,824,000 | 2,062,000 | 2,160,000 | 8,868,000 |
| Policy Change & Efficiency | | | | | | |
| Replacement of Incentive Based Funding Schemes by Govt | 900,000 | | 900,000 | | | 900,000 |
| Environmental Services Improvement Programme | 995,000 | 145,000 | 250,000 | 200,000 | 400,000 | 995,000 |
| Increasing existing revenue streams /new streams | 701,000 | 592,000 | - | 106,000 | 3,000 | 701,000 |
| Efficiency savings from Publica | 612,000 | 25,000 | 74,000 | 156,000 | 357,000 | 612,000 |
| Sub Total Policy & Efficiency | 3,208,000 | 762,000 | 1,224,000 | 462,000 | 760,000 | 3,208,000 |
| Income per annum from capital investment | | | | | | |
| Housing Association Loans | 60,000 | 60,000 | - | - | - | 60,000 |
| Climate Change & Green Energy Investments | 4,000,000 | - | 2,000,000 | 1,200,000 | 800,000 | 4,000,000 |
| Economic Development & Assets | 1,600,000 | - | 600,000 | 400,000 | 600,000 | 1,600,000 |
| Sub Total Capital Investment | 5,660,000 | 60,000 | 2,600,000 | 1,600,000 | 1,400,000 | 5,660,000 |
| Total MTFS Target | 8,868,000 | 822,000 | 3,824,000 | 2,062,000 | 2,160,000 | 8,868,000 |
| | | | | | | |
| Investment Return Required from Capital Expenditure | 5,660,000 | 60,000 | 2,600,000 | 1,600,000 | 1,400,000 | 5,660,000 |
| | | | | | | |
| Capital Exp Required to Deliver @ 7.5% ROI Loan @ 3.3% | 7.5% 76,500,000 | 1,800,000 | 34,700,000 | 21,300,000 | 18,700,000 | 76,500,000 |

These targets represent the revenue savings that need to be made to achieve a balanced budget over the medium term and are a mixture of policy changes, efficiency savings and investment returns. The investment returns are targeted to ensure the investment delivers a return that covers the capital financing costs (principal and interest) and a return on capital employed. Please note that the capital expenditure required to deliver the assets may fall into an earlier year for financing purposes.

Tactical Delivery Plan

A delivery plan to meet the targets set out in Medium Term Financial Strategy is shown below. The nature of the transactions requires confidentiality to be maintained until appropriate levels of approvals are reached. It should also be regarded as a working document through which we can monitor progress of delivery against the plan. The Capital Programme Investment Board will review confidential information to ensure appropriate due diligence is conducted.

| Cotswold Investment Strategy - Delivery Plan Public | Capex | Thematic Target £ | Pre Debt ROI | 2022/23 £ | 2023/24 £ | 2024/25 £ | 2025/26 £ | Total £ |
|--|-------------------|----------------------|--------------|----------------|------------------|------------------|------------------|------------------|
| Thematic Council Priority / Target | 76,500,000 | 5,660,000 | | 60,000 | 2,600,000 | 1,600,000 | 1,400,000 | 5,660,000 |
| Housing | 1,800,000 | 60,000 | | 60,000 | 0 | 0 | 0 | 60,000 |
| Loan to Cottsway | 1,800,000 | 60,000 | 3.3% | 60,000 | | | | 60,000 |
| Shortfall to Target | | 0 | | 0 | 0 | 0 | 0 | 0 |
| Climate Change & Green Energy Investments | 49,700,000 | 4,000,000 | | 0 | 2,000,000 | 1,200,000 | 800,000 | 4,000,000 |
| Solar Provision 1 | 25,000,000 | 2,000,000 | 8.0% | | 1,000,000 | 1,000,000 | | 2,000,000 |
| Solar Provision 2 | 7,350,000 | 588,000 | 8.0% | | 588,000 | | | 588,000 |
| Solar Provision 3 | 7,350,000 | 588,000 | 8.0% | | 400,000 | 188,000 | | 588,000 |
| Solar Provision 4 | 5,000,000 | 400,000 | 8.0% | | | | 400,000 | 400,000 |
| Solar Provision 5 | 5,000,000 | 400,000 | 8.0% | | | | 400,000 | 400,000 |
| Shortfall to Target | 0 | 24,000 | | 0 | 12,000 | 12,000 | 0 | 24,000 |
| Economic Development & Asset Utilisation | 25,000,000 | 1,600,000 | | 0 | 600,000 | 400,000 | 600,000 | 1,600,000 |
| Trinity Road Commercial | 1,345,000 | 202,000 | 15.0% | | 202,000 | | | 202,000 |
| EVCPs Phase 1 | 163,000 | 36,000 | 22.1% | 9,000 | 27,000 | | | 36,000 |
| EVCPs Phase 2 | 163,000 | 18,000 | 11.0% | | 9,000 | 9,000 | | 18,000 |
| Employment Land | 15,000,000 | 900,000 | 6.0% | | 350,000 | 300,000 | 250,000 | 900,000 |
| Cirencester Strategic Site | 5,500,000 | 330,000 | 6.0% | | | | 330,000 | 330,000 |
| Other e.g. Green Burials | 2,829,000 | 114,000 | 4.0% | | 14,000 | 100,000 | | 114,000 |
| Shortfall to Target | | 0 | | (9,000) | (2,000) | (9,000) | 20,000 | 0 |
| Overall Delivery Plan Shortfall | | 24,000 | | (9,000) | 10,000 | 3,000 | 20,000 | 24,000 |
| Current Planned Return on Investment | 76,500,000 | 5,636,000 | 7.4% | 69,000 | 2,590,000 | 1,597,000 | 1,380,000 | 5,636,000 |

Resource Requirements

The Council has matched its ambition by investing in resources to deliver the development of strategies and policies that support the implementation of the Recovery Investment Strategy, including enhanced support for economic development activity, actions to tackle climate change, and the delivery of social rented housing. These have now been included in the base revenue budgets as permanent additions. In addition the Council is supporting additional project management capacity within Publica to deliver a range of projects including those within the strategy.

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | Total |
|------------------------------|---------|---------|---------|---------|---------|
| Economic Development Officer | 47,000 | 48,000 | 49,000 | 50,000 | 194,000 |
| Climate Change Officer | 65,000 | 66,000 | 67,000 | 68,000 | 266,000 |
| Project Management Resource | 60,000 | 61,000 | 62,000 | 63,000 | 246,000 |
| Total | 172,000 | 175,000 | 178,000 | 181,000 | 706,000 |

Constraints – Powers and Guidance

The landscape around local authority involvement in what is loosely described as commercial activity continues to change. It is clear that Government is keen to ensure that investment is not driven primarily for yield and additional guidance has been produced by Department for Levelling Up Housing, and Communities (DLUHC) 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's Code of Practice for Treasury Management in the Public Services (revised December 2017 and 2021 code)

CIPFA's Prudential Code for Local Authority Capital Finance (revised December 2017 and 2021 code)

CIPFA Prudential Property Investment Guidance (Nov 2019)

MHCLG 2018 Statutory Guidance on Minimum Revenue Provision

The Council's Chief Finance Officer, Deputy Finance Officer and the Public Finance Director are all aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate. There are a number of changes to how the prudential framework will operate from 2023/24.

One key change, which came in to effect from December 2021, related to the approach to borrowing in advance of need in order to profit from additional sums borrowed. This has been updated to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code.

Officers will work with a team of specialist officers to prepare business cases for consideration by Members under the Council's Recovery Investment Strategy. It is the responsibility of the Finance Team to ensure that the implications of the prudential framework and the regulatory regime are considered as business cases are developed.

Governance Framework

The Recovery Investment 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 they are aligned with the 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 Financial Rules, Capital Strategy, Investment Strategy and Treasury Management Strategy. However, a Capital Programme Investment Board has been established to ensure that Members from the Administration and the Opposition Group have the opportunity to oversee the implementation of the Strategy and to consider draft business cases before they are presented for formal decision making.

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's Chief Financial Officer. An open and inclusive approach is recommended to governance with meetings open to all councillors to observe.

All investment decisions will be taken in line with the Council's Financial Rules which permit the Cabinet to take investment decisions up to £3 million. Investments in excess of this will require full Council approval. A diagrammatic representation of how this strategy fits with other Council Strategies is set out below.



RECOVERY INVESTMENT PROGRAMME DECISION MAKING FRAMEWORK

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

Key Actions

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 local government 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

Cost of Capital and Target Returns

Funding Cost Baseline Calculations

Business Case Decision Tool Example

Example Investment Opportunities

Cost of Capital & Target Returns

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%.

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:-

| <u>Target returns:</u> | <u>MRP</u> | <u>+ Interest</u> | <u>+ Return</u> | <u>= Total Return</u> |
|------------------------|------------|-------------------|-----------------|-----------------------|
| Renewable Energy | 3.3 | + 2.5 | + 2.2 | = 8% |
| Housing | 2.0 | + 2.4 | + 1.0 | =5.4% |

Returns will reflect market conditions and risk assessed at the time of capital investments.

Constraints - Funding Costs

Borrowing Availability £76.5m – gross average return required 7.4% =£5.6m

Minimum Revenue Provision: Asset Life Method

Typical Renewable Energy Schemes (30 year) 3.3%

Typical Housing/ Econ Dev Schemes (50 year) 2%

Borrowing Rates

PWLB Certainty rate 30 year 2.5%

50 year 2.4%

Statutory and Advisory Guidance

CIPFA Prudential Property Investment Guidance

MHCLG Statutory Guidance

On-lending and Forward Financing rules

Business Case Decision Tool

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 Council's Chief Finance Officer and Publica Group Finance Director.

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

| Business Case worksheet | Revenue Account Impact | Scenario | Medium Use Scenario I |
|---|------------------------|----------|------------------------------|
| MANUAL INPUT | | | |
| Capital Scheme: | | | |
| | All CDC Sites | | Average Annual Return |
| Net Yield Required to deliver cap ex financial target | | | 2.50% |
| Capital Expenditure | | | 259,123 |
| less Govt Grant | | | (96,000) |
| Net Financing Required | | | 163,123 |
| Net Income Target to support Council Budget | | | 4,078 |
| Gross Income | | | 141,091 |
| Expenses | | | |
| Electricity | | | 92,156 |
| Service & maintenance | | | 1,835 |
| Software and Back office | | | 1,700 |
| Bank Charges | | | 1,411 |
| Admin Officer Contribution | per charger | | 7,792 |
| | | | - |
| Total deductions | | | 104,893 |
| Net income before financing | | | 36,197 |
| Debt Financing incl MRP | | 2.25% | 10,212 |
| Net Income after financing | Revenue Account Impact | | 25,985 |
| Net Income Yield on debt | | | 16% |
| Income above Target Return | | | 21,907 |

Examples of Investment Opportunities

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 or Council Company.