



Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>COUNCIL – 16 NOVEMBER 2022</b>
Report Number	<b>AGENDA ITEM 10</b>
Subject	<b>RECOVERY INVESTMENT STRATEGY</b>
Wards affected	All
Accountable member	Cllr Tony Dale, Cabinet Member for the Economy and Council Transformation Email: <a href="mailto:tony.dale@cotswold.gov.uk">tony.dale@cotswold.gov.uk</a>
Accountable officer	David Stanley, Deputy Chief Executive and Chief Finance Officer Email: <a href="mailto:david.stanley@cotswold.gov.uk">david.stanley@cotswold.gov.uk</a>
Summary/Purpose	To rescind the Recovery Investment Strategy
Annexes	None
Recommendation(s)	That Council rescinds the Recovery Investment Strategy for the reasons as set out in this report.
Corporate priorities	<ul style="list-style-type: none"><li>● Respond to the Climate Crisis</li><li>● Provide Socially Rented Homes</li><li>● Enable a Vibrant Economy</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



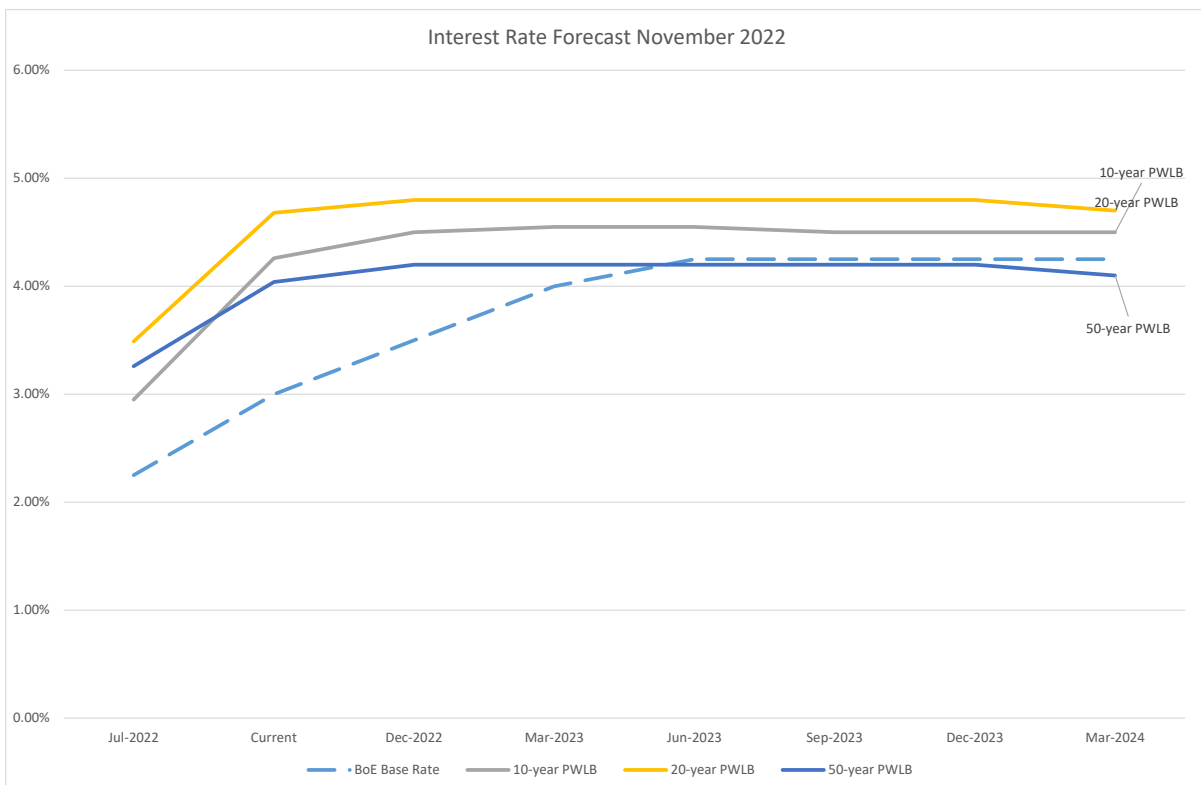
## 1. BACKGROUND

- 1.1 Cabinet considered this report on the Recovery Investment Strategy on 07 November 2022.
- 1.2 In September 2020 the Council approved its first Recovery Investment Strategy (“the 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.
- 1.3 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.
- 1.4 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.
- 1.5 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.
- 1.6 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.
- 1.7 Council approved the refresh of the Strategy on 20 July 2022.



## 2. MAIN POINTS

- 2.1** Since the Council approved the refreshed Strategy in July 2022 a number of external, economic factors have made borrowing and investment decisions more complex given both the level of uncertainty and the impact of both higher inflation and interest rates. The mini-budget of 23 September 2022 was poorly received by the markets, with a significant impact on gilts with a huge spike in yields and a further fall in sterling. Whilst the fiscal statement from the new Chancellor on 17 October 2022 has calmed markets, there remains a significant degree of economic and political uncertainty.
- 2.2** The Bank of England increased the Base Rate from 1.25% to 3.00% with a forecast of further rate rises in the short-term. The most recent interest rate forecast provided by Arlingclose, the Council's Treasury Management advisors, indicates that the base rate may reach 3.50% by the end of 2022 and remain at around 4.00% until late 2024
- 2.3** The uncertainty and instability in the financial markets since July has seen upward pressure on UK Gilt prices which inform the Public Works Loans Board (PWLB) borrowing rates. At the time of writing longer-term borrowing rates are in the range of 4.46% (10-year maturity) to 4.78% (20-year maturity) with 50-year maturity borrowing being 4.26%. Short-term borrowing rates (for periods up to 1 year) range from 2.29% to 3.97%. The chart below shows the current and forecast interest rates (as at 07 November 2022).





2.4 The table below provides members with an overview of the financial impact of increased borrowing costs.

	July 2022 RIS Refresh	21 October 2022 (am)	07 November 2022 (pm)
PWLB-30 year (Certainty rate)	2.50%	4.88%	4.60%
PWLB-50 year (Certainty rate)	2.40%	4.52%	4.26%
<b>Interest Cost per annum (per £10m)</b>			
PWLB-30 year (Certainty rate)	250,000	488,000	460,000
PWLB-50 year (Certainty rate)	240,000	452,000	426,000
<b>Change since July 2022</b>			
PWLB-30 year (Certainty rate)		238,000	210,000
PWLB-50 year (Certainty rate)		212,000	186,000

2.5 It is also worth noting the Government position regarding capital expenditure and financing in Local Authorities. The external environment can be viewed as more prescriptive following a series of guidance updates and consultations:

- Revised *Lending Arrangements for PWLB Loans* from November 2020 (updated in August 2021)
- Government position as stated in *the Local Authority Capital Finance Framework: planned improvements* document published in July 2021
- Revised CIPFA *Prudential Code for Capital Finance in Local Authorities* (Prudential Code) and *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes* (the Treasury Management Code).
- Consultation on *Changes to the capital framework: Minimum Revenue Provision* (closed February 2022)
- Provisions set out in the *Levelling-Up and Regeneration Bill* (Section 71, Capital Finance risk management) which would require a Local Authority to operate within a broad set of capital risk metrics and gives the Secretary of State power to give risk-mitigation directions.

2.6 Under the revised CIPFA Codes, the Council should have due regard to the risks associated with service and commercial investments should be proportionate to their financial capacity (i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.)



**2.7** In addition, there has been a tightening of the renewable energy exemption to the investment for yield rules. This clearly has an impact on the level of investment returns the Council would realise and reduces the viability of this element of the strategy.

**2.8** In light of the level of economic uncertainty, the increased cost of short-term and long-term borrowing, and the tightening of the capital finance environment, it is appropriate to rescind the Strategy.

### **3. NEXT STEPS**

**3.1** Subject to the decision outlined above, the Capital Programme will be amended to remove planned activity and associated capital financing. Therefore, the Council will remove £75m of associated planned capital expenditure and prudential borrowing of the MTFS period.

**3.2** Cabinet and Council will consider the final budget position in February 2023 and will include a review of the funding position set out in Section 4 below and how that can be addressed over the medium-term.

### **4. FINANCIAL IMPLICATIONS**

**4.1** The Council faces a significant financial challenge over the Medium-Term Plan period with the *Draft Budget Proposals 2023-24 and Refreshed MTFS Forecasts* report being considered alongside this report.

**4.2** Whilst the report should be seen as an indicative view of the Council's financial position given the uncertainty around Government funding and policy, the emerging position is a potential funding gap of £1.5m in 2023/24.

**4.3** When Cabinet and Council considered the refresh of the strategy it was stated that there was a risk to the Council's financial stability if it was not adopted (i.e. do nothing). These risks remain and require an alternate approach to balancing the budget over the medium-term such as significant Council Tax rises or service cuts.

**4.4** With this in mind and in light of the indicative funding gap and the wider the challenges faced by the Council to remain financially sustainable over the medium-term, there is a need to develop a balanced and proportionate savings and transformation programme that mitigates the risk to the Council's financial resilience. The Council will need to consider the contribution future capital investment can make to the delivery of additional income streams and/or cost reduction and efficiencies.



- 4.5** Rescinding the Strategy will allow the Council to consider the broader financial position and develop revenue and capital savings and transformation proposals that address the indicative funding gap.
- 4.6** As stated in the *Draft Budget Proposals 2023-24 and Refreshed MTFS Forecasts* report, there may still be opportunities that arise from time-to-time but these will be considered strictly on a business case basis taking into account any refresh of the budget and MTFS proposals and the affordability of any borrowing at the time. If approved, any such initiatives will be added to the capital programme.

## **5. LEGAL IMPLICATIONS**

There are no legal implications arising directly from this report.

## **6. RISK ASSESSMENT**

- 6.1** The Refresh of the Strategy approved by Council in July 2022 sets out the key risk is deliverability. The key risk to the Council now is the continuation of the Strategy in light of the issues outlined in this report. If the Council was to deliver the Strategy as approved it is likely that the Council's financial position would not be enhanced and that elements of the current Strategy are outside of the current rules and guidance.

## **7. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

- 7.1** None

## **8. ALTERNATIVE OPTIONS**

- 8.1** With the economic factors and capital finance framework issues set out in the report, there are no viable alternative options regarding the continuation of the Strategy. As set out in the *Draft Budget Proposals 2023-24 and Refreshed MTFS Forecasts* report, there may still be opportunities that arise from time to time but these will be considered strictly on a business case basis taking into account any refresh of the budget and MTFS proposals and the affordability of any borrowing at the time. If approved, any such initiatives will be added to the capital programme.

## **9. BACKGROUND PAPERS**

- 9.1** None