



Ryedale District Council

REPORT TO: Community Services & Licensing Committee

DATE: 10 April 2008

REPORTING OFFICER: Steve Richmond, Environmental Health Manager

SUBJECT: Salix Local Authority Scheme operational issues.

1.0 PURPOSE OF REPORT

To summarise the operational situation with regard to the Salix Finance Local Authority Scheme for energy efficiency improvements, following a resolution at the Council Budget meeting on 25th February 2008.

2.0 RECOMMENDATIONS

It is recommended that:

- a. the Council accepts that the original planned programme of work is unachievable;
- b. that negotiations continue with Salix Finance Ltd regarding an alternative programme of schemes for the Ryedale fund;
- c. that negotiations take place with Community Leisure Ltd in relation to realising energy savings from the completed and future programme of investment in the Council's leisure facilities.

3.0 REASONS SUPPORTING DECISION

The original programme of work agreed under the Salix contract included the provision of energy saving projects in capital schemes that have subsequently been withdrawn from the Council's capital programme.

Members were advised at the Resources Working Party on 27 November 2007 that it was unlikely that this programme would be achievable and that we were waiting for confirmation from Salix Finance Ltd in this regard. Members of the Working Party noted this position.

Discussions with Salix Finance Ltd have taken place and there is an opportunity to revisit the Council's programme with a view to retaining all or part of the grant drawn to date through the identification of alternative proposals.

4.0 BACKGROUND

Officers became aware in June 2006 that the Carbon Trust had created Salix Finance as a new company in order to deliver a grant scheme to local authorities. This grant scheme offered up to £200,000 per authority in match funding for energy efficiency measures, with certain financial restrictions.

Due to the extremely tight timescales involved, approval to proceed could not be taken through the ordinary Committee structure. The Council's initial tender for involvement in the scheme was approved and supported by Senior Management, Chairs of both Community Services and Policy & Resources Committees, and the Chairman of the Council. The Council's application was initially rejected, but was accepted in the second round of applications. Ryedale District Council was one of the smallest authorities involved in the scheme, and significant work went into both the application to and preparation for the scheme.

The spending schedule and terms of the grant were predicated upon the delivery of certain capital building projects and the arrangement of a specific contractual agreement with the leisure centre operators. The programme as agreed with Salix has not been achieved and as such, the scheme as originally envisaged is unworkable.

This does not impact upon the Council's ability to deliver alternative projects that will reduce energy consumption and carbon emissions from the Council's estate and as such investigations have been made with Salix Finance Ltd regarding the potential to revise the programme.

6.0 POLICY CONTEXT

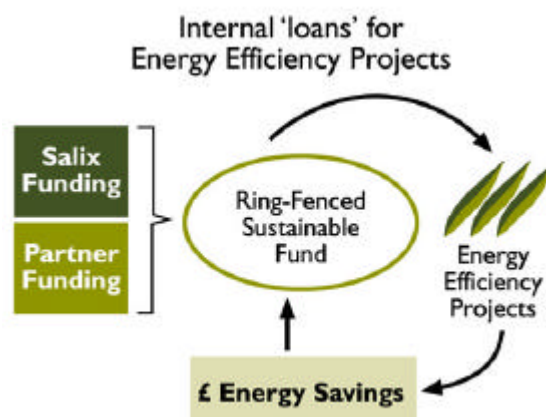
The aim of the Salix scheme was to reduce energy use, reduce carbon emissions and realise revenue savings. This is in accordance with all of the Council's environmental policies, corporate objectives and values, and financial management policies.

7.0 REPORT

7.1 The Revolving Fund Mechanism

The Council signed a contract with Salix Finance to provide a grant of £50k in three tranches over two financial years (06/7, 07/8). The Council was required to supplement this grant to make up the total "invest to save" ring-fenced fund of £100k for improvements to the Council's building estate and potentially, some partner organisations.

Monies dedicated to implementing energy saving projects were to be provided by this fund through interest free internal 'loans'. Loans were to be repaid using 100% of annual savings. Once the project loan has been repaid to the fund the project recipient will continue to benefit from the ongoing energy savings. As repayments are recycled back into the fund they become available for re-investment, hence creating a self-sustaining fund for projects which must save energy and CO₂, giving a payback within 5 years, or 7.5 years for projects with high CO₂ savings.



7.2 Continuation

Council officers have worked with Salix Finance to provide a continuation of the scheme, and have secured the offer of a 12 month freeze on the fund to seek to identify alternative investment opportunities. The removal of some major schemes from the Council's programme means that the scale of the fund may need to be reconsidered and re-profiled. The offer of the 12 month freeze on the fund offers the Council however the ability to revise its strategy and identify some alternative, albeit on a reduced scale, energy saving schemes. Salix has indicated that they cannot retrospectively fund schemes however they will support bringing forward schemes which have already been planned for later in the Council's existing capital programme to an earlier date.

The contract with Salix requires the Council to make the provision to realise the revenue savings generated by the capital investment and repay these into the ring-fenced sustainable fund. This applies equally to assets owned or managed by the Council or where investment has been made in assets managed externally. A mechanism to reclaim the savings therefore should be in place.

Initial discussions with Salix would suggest that providing the Council is able to put in place a mechanism where this is achieved on projects already completed these can continue to be included in the programme. It is suggested therefore that this negotiation takes place with Community Leisure Ltd as part of the Council's grant agreement with them.

7.3 Administration

This is a sophisticated grant programme. The creation of an on-going sustainable ring-fenced fund from savings is very different to the majority of external grant arrangements previously managed or administered by the Council. As such, it is recognised that it requires some resource to administer. The process of delivering outcomes is relatively complex as they include a combination of environmental benefits and financial benefits. This is recognised and will be addressed if Members agree to review the programme.

8.0 OPTIONS

There are 2 principal options:

- a. Withdraw from the scheme, repay all grant received to date and continue with energy improvements provided for only within the Council's capital programme resources;
- b. Accept Salix Finance Ltd's offer to freeze the fund for 12 months and continue negotiations with them with a view to submitting an alternative proposal for all or part of the fund. This option includes examining the savings being realised from completed works, assessing how sustainable these savings are and putting in place mechanisms to recoup the savings.

9.0 RESULT OF OPTION APPRAISAL

It is acknowledged that the grant programme has encountered some contractual difficulties and delivery difficulties. It may be that following an appraisal of future eligible schemes the Council needs to reconsider the size and scope of the programme however, it is suggested that the offer from Salix for additional time is accepted and that officers meet with them as a matter of urgency with a view to revising or re-profiling the programme.

10.0 FINANCIAL IMPLICATIONS

Withdrawal from the scheme would mean that the grant payments received so far (£35k) will be repaid to Salix. In addition, withdrawal from the scheme will mean that the final grant tranche of £15k will not be paid. A re-profiled programme may result in retention of the whole sum or a reduced repayment.

11.0 SUSTAINABILITY ASSESSMENT

The Council has a capital scheme in place for energy improvement schemes.

12.0 RISK ASSESSMENT

When the Council originally applied to be part of this scheme, the risk of failing to identify or implement suitable projects was identified. This course of action does not prejudice our involvement with other possible sources of external funding in the future. Continuation of the scheme does involve significant financial administration and there is the risk that this is not cost effective in the long term however this risk may be reduced for with a smaller programme.

13.0 LEGAL IMPLICATIONS

Notwithstanding the time extension offered by Salix the Council still carries legal obligations to comply with the contract and any subsequent revisions to that contract.

14.0 CONCLUSION

It is recognised that the scheme as originally agreed has faced operational difficulties. However, the offer from Salix to give the Council time to consider the programme and identify alternatives is welcomed and should be actively pursued.

OFFICER CONTACT:

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