



# Ryedale District Council

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**REPORT TO:** Community Services & Licensing Committee

**DATE:** 29 May 2008

**REPORTING OFFICER:** Marie-Ann Jackson, Corporate Director

**SUBJECT:** Salix - Local Authority Scheme

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## **1.0 PURPOSE OF REPORT**

1.1 To update Members regarding the issues encountered in the operation of the Council's agreement with Salix Finance, and to seek approval from Members for immediate withdrawal from the contract.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that:

- a. the Council withdraws from the contract with immediate effect;
- b. the Council takes the necessary steps to reimburse Salix Finance.

## **3.0 REASONS SUPPORTING DECISION**

3.1 It was reported to Members at the April meeting that 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the Salix contract included the provision of energy saving projects in capital schemes that have subsequently been withdrawn from the Council's capital programme.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 resolved at that meeting to accept that the original planned programme of work is unachievable, but that officers continue to negotiate with Salix Finance regarding alternative schemes.

3.2 Discussions with Salix Finance have taken place and the "recovery" options were presented and considered. Salix also outlined their position in relation to non deliverable programmes.

3.3 It should be noted that subsequent to previous discussions between the Council and Salix, stricter administration and repayment processes have been adopted and implemented as a result of both better business management procedures and tighter controls put in place by the ultimate funding providers, Defra and The Carbon Trust. As such, the degree of flexibility previously available is no longer an option.

## **4.0 BACKGROUND & INTRODUCTION**

4.1 This report will update Members on the recent discussions and negotiations between Officers and the Recovery Manager at Salix Finance and make recommendations to withdraw from the contract and re-pay the grant previously received.

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**COMMUNITY SERVICES & LICENSING COMMITTEE**  
**29 May 2008**

## **5.0 REPORT**

- 5.1 The current position is that in December 2007, following informal discussions with Salix Finance regarding the operational difficulties with the Ryedale contract, an informal arrangement was made whereby Salix offered to “freeze” the fund for a 12 month period in order for the Council to re-profile our contract with them and seek to identify a new programme of schemes to replace the original projects which for a variety of reasons are not now being pursued. This was discussed prior to with Salix as a possible way forward prior to the introduction of a formalised recovery procedure. It is upon this basis that Officers reported to Members in April 2008 and this was the starting point for our subsequent discussions.
- 5.2 However, subsequent to the informal arrangement being put in place Salix Finance has adopted and implemented a new formal “Recovery Model”. This is being applied nationally across any organisation involved in the Salix Finance scheme who are encountering difficulties. The recovery model has 4 options which are discussed in paragraph 6.0
- 5.3 The recovery option chosen by the Council is not imposed by Salix Finance however it was clear from the discussion that without a major, high energy use capital scheme to replace the schemes that have fallen out of the original contract, the view was that the Council’s existing property portfolio was not of a scale or type that would easily deliver eligible projects.
- 5.4 A range of alternative projects were discussed including ICT; biomass; double glazing, however none met the range of specific project eligibility criteria, including payback potential and carbon savings.
- 5.5 It should be emphasised that a withdrawal from the current agreement would not preclude the Council from re-applying at a future date. Furthermore, it should be noted that the Council will continue to benefit from projects completed to date, through both carbon and revenue savings.

## **6.0 OPTIONS APPRAISAL**

- 6.1 There are four possible options available in the Recovery Model. These supersede the arrangement to freeze the fund for 12 months and re-profile. Although in practical terms this is replaced by a combination of Options 2 and 3.
- 6.2 **Option 1 - Existing Agreement**  
Retain the current Fund total and milestones. As the Fund is currently in default, this option would require evidence that there are a sufficient number of projects, with a sufficient level of expenditure, to justify drawing down the outstanding tranche of £15,000. This would need to be demonstrated and fully evidenced within the next month.
- 6.3 **Option 2 - Revised Fund**  
This would involve agreeing a revised Local Fund Specification incorporating a reduced (or, if appropriate, increased) Fund total and adjusted milestones. The size of the revised Fund would need to reflect a realistic assessment of potential project spend. New schemes would need to be worked up with approvals (planning and budgetary) and evidence that they will be delivered within the contract period. This would also need to be demonstrated and fully evidenced within the next month.
- 6.4 **Option 3 – Deferral**  
Freeze the Fund for a period of up to six months. Evidence would be required to
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demonstrate that circumstances would have improved sufficiently within the timescale to justify the delay. The existing agreement would then continue to be delivered.

6.5 Option 4 – Termination

Withdrawal from the contract and recovery of outstanding funds. This option would not preclude application for a Salix Fund in the future, should circumstances become more favourable.

6.6. In considering the options it is important to note that in seeking to identify new projects for continued operation of the fund, Salix will require worked up projects that it considers are deliverable within the timescales.

6.7 The advice from the Recovery Manager states that the following should be allowed for:

- a) Timescales for taking projects through to completion must account for a number of time consuming activities including identification, costing, tendering, approval and commissioning.
- b) Projects with a value in excess of £50,000 require a business case, the preparation of which can add to the original timescale.
- c) As Salix is a re-cycling fund, there needs to be sufficient projects to allow for funds to be re-used after the initial Fund total has been spent.

6.8 Options 1,2 and 3 all rely on the Council identifying major projects which will be delivered and will start to repay the investment within the contract period of 4 years. The scope to consolidate a number of smaller projects is very limited even if the fund is significantly reduced. This is due to the fact that the smaller the project is, the less ability it has to significantly reduce energy costs and thus repay the fund. Additionally, a significantly reduced fund is not cost effective to administer.

6.9 Finally, it should also be noted that should the Council determine to continue with the contract, there is a risk that the capital programme becomes artificially skewed to projects that meet Salix criteria only, rather than being targeted towards energy efficiency projects that meet the needs of the Council and the Council's property.

6.10 It is therefore proposed that Option 4 is pursued and that the Council withdraws from the contract with Salix Finance and repays to them the grants received to date.

## **7.0 FINANCIAL IMPLICATIONS**

7.1 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. Of the £35k received, a sum of £19k has been utilised.

## **8.0 LEGAL IMPLICATIONS**

8.1 Salix has indicated that should the Council decide on any of Options 1-3 there will be a tightening of their contractual controls with us. Quarterly evidenced returns will be required for any retained project in the programme.

8.2 Withdrawal from the scheme is permissible within the contract on repayment of any grant.

## **9.0 CONCLUSION**

9.1 It is with regret that Officers recommend withdrawal however at the current time there is no real viable alternative. The demands of the repayment mechanism are such that the Council does not have any suitable alternative projects deliverable within the

required timescales. There is however, nothing that precludes the Council from re-applying in the future or indeed operating an internal energy efficiency invest to save fund through the capital programme.

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