Coventry City Council

Agenda

Council

Time and Date
2.00 pm on Tuesday, 11th November, 2014

Place
Council House, Coventry

Public Business

1. **Apologies**

2. **Minutes of the Meeting held on 7th October 2014** (Pages 5 - 14)

3. **Exclusion of the Press and Public**

   To consider whether to exclude the press and public for the items of private business for the reasons shown in the report.

4. **Coventry Good Citizen Award**

   To be presented by the Lord Mayor and Judge Griffith-Jones, Honorary Recorder

5. **Correspondence and Announcements of the Lord Mayor**

6. **Petitions**

7. **Declarations of Interest**

Matters Left for Determination by the City Council/Recommendations for the City Council

It is anticipated that the following matters will be referred as Recommendations from the Cabinet, 4th November 2014. In order to allow Members the maximum opportunity to acquaint themselves with the proposals, the reports are attached. The relevant Recommendations will be circulated separately.

8. **Medium Term Financial Strategy 2015-18** (Pages 15 - 30)

   Report of the Executive Director, Resources

9. **2014/15 Second Quarter Financial Monitoring Report (to September 2014)** (Pages 31 - 56)

   Report of the Executive Director, Resources

10. **Investment in an Energy Performance Contract (Re:Fit)** (Pages 57 - 70)

Joint Report

Items for Consideration

11. **Question Time**

11.1 Written Questions - Booklet 1 (Pages 71 - 72)

11.2 Oral Questions to Chairs of Scrutiny Boards/Chair of Scrutiny Co-ordination Committee

11.3 Oral Questions to Chairs of Other Meetings

11.4 Oral Questions to Cabinet Members and Deputy Cabinet Members on any matter

12. **Statements**

13. **Debates**

13.1 To be moved by Councillor Howells and seconded by Councillor Singh

"While wounds may need to be healed following the robust debate that preceded the referendum in Scotland, there was a noticeable success that emerged; a clear majority of the public were engaged in the political discussion that decided the future of Scotland and the United Kingdom. Notably this, for the first time, included 16 year olds. Coventry City Council wishes to lead the way nationally by calling for a widening of the franchise to include 16 year olds in all future political elections as soon as possible"

13.2 To be moved by Councillor Taylor and seconded by Councillor Sawdon

Coventry City Council welcomes the result of the recent referendum held in Scotland and is pleased that the people of Scotland have decided to maintain the Union of the United Kingdom. However, as the devolved Parliament in Scotland will receive new and increased powers, we believe now is the time to ensure that only MPs representing a constituency in England are able to vote on matters that affect England.

There is an important issue of national fairness involved. We therefore urge the Government to bring forward a timetable for legislation to ensure that the voices of millions of people living in England are heard."

Note: The above debates have been deferred from the Council meeting, 7th October 2014

Private Business

Matters Left for Determination by the City Council/Recommendations for the City Council

It is anticipated that the following matter will be referred as a Recommendation from the Cabinet, 4th November 2014. In order to allow Members the maximum opportunity to acquaint themselves with the proposals, the report is attached. The relevant Recommendation will be circulated separately.

14. **Investment in an Energy Performance Contract (Re:Fit)** (Pages 73 - 86)

Joint Report.

(Listing Officer: Parmi Mudhar, Tel: 024 7683 1970)

Chris West, Executive Director, Resources, Council House Coventry

Monday, 3 November 2014

Note: The person to contact about the agenda and documents for this meeting is Carolyn Sinclair/Suzanne Bennett 024 7683 3166/3072

Membership: Councillors F Abbott, N Akhtar, M Ali, A Andrews, M Auluck, R Bailey, S Bains, L Bigham, J Birdi, J Blundell, R Brown, K Caan, D Chater, J Clifford, G Crookes, G Duggins, C Fletcher, D Galliers, D Gannon, A Gingell, M Hammon (Deputy Chair), L Harvard, P Hetherton, D Howells, J Innes, L Kelly, D Kershaw, T Khan, A Khan, R Lakha, R Lancaster, J Lepoidevin, A Lucas, K Maton, J McNicholas, C Miks, K Mulhall, J Mutton, M Mutton, H Noonan (Chair), J O'Boyle, E Ruane, R Sandy, T Sawdon, B Singh, D Skinner, T Skipper, H Sweet, K Taylor, R Thay, S Thomas, P Townshend, S Walsh and D Welsh

Please note: a hearing loop is available in the committee rooms

If you require a British Sign Language interpreter for this meeting OR it you would like this information in another format or language please contact us.

Carolyn Sinclair/Suzanne Bennett
024 7683 3166/3072

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Coventry City Council
Minutes of the Meeting of Council held at 2.00 pm on Tuesday, 7 October 2014

Lord Mayor (Councillor Noonan)
Deputy Lord Mayor (Councillor Hammon)

Councillor Abbott
Councillor Akhtar
Councillor Andrews
Councillor Auluck
Councillor Bailey
Councillor Mrs Bigham
Councillor Birdi
Councillor Blundell
Councillor Brown
Councillor Caan
Councillor Chater
Councillor Clifford
Councillor Crookes
Councillor Duggins
Councillor Fletcher
Councillor Galliers
Councillor Gannon
Councillor Gingell
Councillor Harvard
Councillor Hetherton
Councillor Howells
Councillor Kelly
Councillor Kershaw
Councillor A Khan
Councillor T Khan
Councillor Lakha
Councillor Lancaster
Councillor Lepoidevin
Councillor Mrs Lucas
Councillor McNicholas
Councillor Maton
Councillor Mrs Miks
Councillor Mulhall
Councillor J Mutton
Councillor M Mutton
Councillor O'Boyle
Councillor Ruane
Councillor Sandy
Councillor Sawdon
Councillor Singh
Councillor Skipper
Councillor Mrs Sweet
Councillor Taylor
Councillor Thay
Councillor Thomas
Councillor Townshend
Councillor Walsh
Councillor Welsh

Honorary Aldermen Mr J Gazey, Mrs J Wright

Apologies: Councillor M Ali, S Bains, J Innes and D Skinner

Public Business

69. **Minutes of the Meeting held on 9th September, 2014**

The minutes of the meeting held on 9 September 2014 were signed as a true record.

70. **Exclusion of the Press and Public**

RESOLVED that the press and public be excluded under Section 100(A)(4) of the Local Government Act 1972 relating to the private reports detailed below on the grounds that the reports involve the likely disclosure of information defined in Paragraph 3 of Schedule 12A of the Act, as they contain information relating to the financial and business affairs of a particular person (including the authority holding that information) and that in all

circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

- **Coventry Investment Fund Investment into Finance Birmingham Mezzanine Fund (Minute 82)**

- **Public Realm Phase 3 (Minute 83)**

- **Asset Review (Minute 84)**

*Note: in respect of the item entitled "Asset Review" (referred to in Minute 87 below) which related to Coventry City Council's share in ACL and which was considered and voted on in private for the above mentioned reasons, it was agreed that due to the level of public interest and Members' commitment to ensure public open and transparent debate wherever possible, there would be a discussion in public on this matter (Minute 84 refers).

71. **Debates**

RESOLVED that the debates set out at items 13.1 and 13.2 on the agenda, submitted by Councillor Howells and Taylor respectively, be postponed to the next meeting of Council on 11th November 2014.

72. **Coventry Good Citizen Award - Mr John 'Nobby' Clarke**

On behalf of the Council, the Lord Mayor presented Mr John 'Nobby' Clarke with the Coventry Good Citizen Award. His citation read:

"John 'Nobby' Clarke has been instrumental in the setting up and operation of the Coventry winter night shelter, which has been organised under the 'Hope Coventry' churches banner. He has worked extremely hard from taking on the Project Co-ordinator role on 13th December 2013 to the first night of opening the shelter on 18th January 2014, and of course over the weeks that followed. The night shelter could not have been set up without the phenomenal efforts and enthusiasm of Nobby in co-ordinating and organising the project and getting everything off the ground; the night shelter ran until the 31st March 2014.

Nobby has worked with the venues and volunteers to provide an atmosphere of safety, welcome and hospitality ensuring that people connected with people; gradually building confidence and developing trusting relationships. Nobby has ensured that lives of vulnerable people have been positively affected through the simple act of generous hospitality shown to them along with genuine love and care.

As part of this project Nobby has co-ordinated 7 different churches and over 450 volunteers in order to provide a shelter for up to 20 rough sleepers, with a different church providing shelter on each day of the week. A hot evening meal was provided at each venue by a variety of volunteers, including Sikh and Muslim groups. Ninety individual guests have been registered over the period that the night shelter ran, with up to 22 staying on any one night. Over 1000 bed nights were provided and 25 people have been supported to access more permanent accommodation.

Nobby is truly an inspiration to us all and richly deserves the Coventry Good Citizen award."

73. **Local Democracy Week**

The Lord Mayor referred to the forthcoming Local Democracy Week during 13th – 17th October 2014. The Council would be hosting a programme of events aimed at encouraging greater democratic engagement, especially among younger people.

As part of Local Democracy Week, the Lord Mayor would be hosting a Youth Quiz at the Herbert Art Gallery and Museum on Wednesday 15th October and invited Members to join in. Other events included Virtual Council, Question Time, A Democracy Workshop and a Year 12 School Debate.

74. **Petitions**

RESOLVED that the following petitions be referred to the appropriate City Council bodies:

(1) Request for dropped kerbs on Rylston Avenue, Beake Avenue, Headington Road, Instone Road and the Scotchill – 110 signatures – presented by Councillor Birdi.

(2) Speeding on Earlsdon Avenue South – 25 signatures – presented by Councillor Taylor.

(3) Request for improvement to pavements in Cannon Close and Stareton Close – 35 signatures – supported by Councillor Taylor.

(4) Objection to Planning Application FUL/2014/2855 – 77 signatures – presented by Councillor Akhtar.

(5) Request for Joan Ward Street, Wrigsham Street, Thomas Landsdale Street and Hocket Street be included in the Cheylesmore East residents parking scheme – 205 signatures – presented by Councillor Bailey

(6) Request to reconsider residents parking scheme for The Martyrs Close and Mile Lane – 86 signatures – presented by Councillor Bailey.

75. **Declarations of Interest**

Councillor Hammon declared disclosable pecuniary interests in the matters referred to in Minutes 78 and 83 (Public Realm Phase 3 - public and private reports). He withdrew from the meeting for the consideration of these matters.

76. **Changes to the Constitution: Appointments to Appeals Committee**

Further to Minute 39/14 of the Cabinet Member (Policing and Equalities) meeting, the City Council considered a report of the Executive Director, Resources which outlined proposals to change the Constitution to allow Cabinet Members to sit on Appeals Committees.

The Appeals Committee had responsibility for the determination of appeals against any decision made by or on behalf of the Council where there is a statutory right of appeal. Some appeals, such as school admission appeals, were excluded from its terms of reference. In practice most, if not all, appeals heard by employees although occasionally there is an appeal in connection with social services home care charges. Membership of the Committee is drawn on an ad hoc basis from a pool of members who have received relevant training.

At present, the Appeals Committee Procedure Rules at Part 3J of the Constitution did not allow Cabinet Members to sit on the Committee. The report recommended that the Constitution should be amended to permit Cabinet Members to sit on the Committee provided that they have received appropriate training. The ability to do this would be restricted to appeals by employees only and there is no proposal to extend membership to non-employee appeal hearings such as care charge appeals. It was also proposed to extend membership to non-employee appeal hearings such as care charge appeals. It was also proposed that the operation of the new arrangements should be reviewed in the next municipal year to ensure that they are delivering the anticipated improvements.

RESOLVED that the City Council approve the amendment of paragraph 1 of Part 3J of the Constitution to remove the prohibition on Cabinet Members sitting on the Appeals Committee in connection with appeals by employees only, subject to their receiving appropriate training beforehand.

77. **Coventry Investment Fund Investment into Finance Birmingham Mezzanine Fund**

Further to Minute 62/14 of the Cabinet, the City Council considered a report of the Executive Director, Place, and the Executive Director, Resources, that sought approval of proposals to invest funds from the Coventry Investment Fund in to the Finance Birmingham Mezzanine Fund.

A corresponding private report detailing the commercially confidential aspects of the proposals was also submitted to this meeting for consideration.

The Coventry Investment Fund (CIF) had been put in place to invest in real growth opportunities and grow Coventry's business rates. Investment was envisaged right the way through from manufacturing businesses to retail businesses, leisure services and road improvements and include the development of the Council's commercial property portfolio, with a view to getting the best return possible from its assets.

Finance Birmingham recently launched a £56m mezzanine based business support loan programme in the West Midlands. Finance Birmingham had approached the City Council for investment in the mezzanine fund with an offer to match any contribution the Council would make up to the value of £5m. For a £5million investment by the Council a further £5m would be added through the Fund. Finance Birmingham would not require any resources from the Council until 2015/2016 at the earliest and would effectively be the managing agent for the Council for its investment, but would not take any management fee from the

Council. The investment by the council would be ring fenced for businesses within Coventry.

The allocation of £5m would enable projects to progress in the City that would not otherwise be able to, in addition to generating substantial returns on investment.

RESOLVED that the City Council

(a) Approves the investment of £5m of the Coventry Investment Fund in the Finance Birmingham Mezzanine Fund.

(b) Approves that investment decisions involving the use of the Coventry Investment Fund allocated to the Finance Birmingham Mezzanine Fund be delegated to the Investment Committee of Finance Birmingham.

78. **Public Realm Phase 3**

Further to Minute 63/14 of the Cabinet, the City Council considered a report of the Executive Director, Place, which sought approval for a programme of works for Public Realm Phase 3 as a result of the existing public realm works attracting significant further funding.

A corresponding private report detailing the commercially confidential aspects of the proposals was also submitted to this meeting for consideration.

Coventry's very successful programme of public realm improvements in the city centre had attracted significant further funding totalling £18.8m, which included £7.5m European Regional Development Fund (ERDF) grant, £5m Growth Deal, £3.6m private sector investment, £0.642m Growing Places funding and £0.164m from Centro.

Including previously approved resources, this would provide £18.8m for a third phase of public realm improvements. Phase 3 would include improvements at 5 strategic locations in the city centre:

- Gosford Street and Coventry University campus
- Belgrade Plaza
- Junction One and pedestrian link to the Canal Basin
- Broadgate/Hertford Street
- Lidice Place

These schemes would complete the 'medieval-cross' of improvements, as originally set out in Coventry City Centre Public Realm report to Cabinet in October 2012, to connect major development sites, visitor attractions and shopping areas. Once completed the routes between the Friargate/Railway Station and the Canal Basin and Far Gosford Street to Spon Street would have been transformed and would complete an important element of the Council's ambitious programme to transform the city centre and make Coventry great again.

The public realm improvements had been instrumental in attracting significant interest in the leasehold of Cathedral Lanes shopping centre to create a new restaurant/bar quarter. In addition, many targets from the original public realm programme for the attraction of new businesses and the creation of new jobs had been exceeded. The 2013 Coventry City Centre Survey reported some encouraging results compared to previous years, with an increase in visitor spend, an 8% rise in the number of people visiting the city centre in the evening, and also a rise in the number of people that stated visiting city centre events had increased their use of the city centre. 59% of those questioned were in agreement that the public realm Phase One works had improved the city centre.

It was proposed that the works would be delivered between autumn 2014 and spring 2016. The ERDF funding had been allocated against Gosford Street, Belgrade Plaza and the Canal Basin public realm improvement schemes. Spend and delivery of these projects would need to have been made by 31st December 2015. There was more flexibility regarding the Growing Places, Growth Deal and Coventry Investment Fund funding timescales. The Growth Deal money available was £2m for 2015/16 and a further £3m for 2016/17 so expenditure would be accelerated under the capital programme, subject to formal award of the funding.

The Public Realm Programme had been designated a West Midlands ‘sink fund’ by Department for Communities and Local Government (DCLG). This was a fantastic opportunity, as it meant that should other projects in the region underspend and grant becomes available, there would be an opportunity for further funding to be awarded to Public Realm Phase 3.

RESOLVED that the City Council:

1. **Authorises the new programme of works for Public Realm Phase 3 totalling £18.8m to be added to the approved capital programme for 2014/15 and 2015/16, utilising £7.5M European Regional Development Fund to part fund Gosford Street, Belgrade Plaza and the Canal Basin Junction One Public Realm improvements.**

2. **Subject to funding agreement and conditions, authorises the accelerated expenditure of £5m Growth Deal grant to part-fund the Public Realm Programme, £2m will be made available in 2015/16 and a further £3m in 2016/17 but will all be spent in 2015/16 and cashflowed by the Capital Programme.**

3. **Delegates authority to the Executive Director, Place, in consultation with Cabinet Members (Public Services) and (Business, Enterprise and Employment) to agree the detailed works for Schemes in Coventry City Centre Public Realm Phase 3 as set out in Appendix A of the report submitted and their implementation.**

4. **Authorises the City Council to act as guarantor and delegates authority to the Executive Director, Place, in conjunction with the Executive Director, Resources, to enter into grant aid agreements with Department for Communities and Local Government (DCLG) on European Regional Development Fund (ERDF) terms and conditions for the £7.5M ERDF awarded, and any further funding that becomes available from DCLG as part of the ‘sink fund’.**

79. **Question Time**

There were no questions.

80. **Statements**

The Cabinet Member (Children and Young People), Councillor Ruane, made a statement in respect of the "Children's Services Improvement Plan".

Councillor Lepoidevin responded to the statement.

81. **Asset Review - Discussion in Public**

In relation to Minute 84 below relating to "Asset Review", and in light of Members' commitment to ensuring public, open and transparent debate wherever possible, the City Council debated and discussed the issues and principles that they were able to before going into private session as it would entail the disclosure of commercially sensitive information which included the sale of the City Council's shareholding in Arena Coventry Ltd to London Wasps Holdings Ltd (Wasps). The effect of the proposed commercial transaction is that the City Council would no longer be involved in the management or operational running of the Ricoh Arena.

In particular, Members discussed and debated:

- The importance of having the interest of people of Coventry at the heart of any decision about the future ownership of ACL.

- The commitment that any deal relating to the Ricoh Arena would not be approved unless the following three tests were satisfied:
  (1) A good deal for the City
  (2) The security and future of Coventry City Football Club
  (3) The security and future of Coventry Rugby Club

- The need to ensure the continued regeneration in the North East of the City.

- The long term commitment to the City given by Wasps, who are focussed on the success of their Club and were committed to delivering an ambitious programme for the community and to bringing more sport to Coventry.

- The expectation that the Ricoh Arena could now go from strength to strength, raising Coventry's profile both nationally and internationally.

- The intention of Wasps to develop the Ricoh Arena as a conference centre plus a training facility in the future would benefit the City.

Private Business

82. **Coventry Investment Fund Investment into Finance Birmingham Mezzanine Fund**

Further to Minute 67/14 of the Cabinet and Minute 77 above, the City Council considered a report of the Executive Director, Place, detailing the commercially confidential elements of the proposals to invest funds from the Coventry Investment Fund in to the Finance Birmingham Mezzanine Fund.

RESOLVED that the City Council:

(a) Approves the investment of £5m of the Coventry Investment Fund in the Finance Birmingham Mezzanine Fund.
(b) Approves that investment decisions involving the use of the Coventry Investment Fund allocated to the Finance Birmingham Mezzanine Fund be delegated to the Investment Committee of Finance Birmingham.

83. **Public Realm Phase 3**

Further to Minute 68/14 of the Cabinet and Minute 78 above, the City Council considered a report of the Executive Director, Place, detailing the commercially confidential elements of the proposals for a programme of works for Public Realm Phase 3 as a result of the existing public realm works attracting significant further funding.

RESOLVED that the City Council:

1. **Authorise the new programme of works for Public Realm Phase 3 totalling £18.8m to be added to the approved capital programme for 2014/15 and 2015/16, utilising £7.5M ERDF to part fund Gosford Street, Belgrade Plaza and the Canal Basin Junction One public realm improvements.**

2. **Subject to funding agreement and conditions, authorise the accelerated expenditure of £5m Growth Deal grant to part-fund the public realm programme, £2m will be made available in 2015/16 and a further £3m in 2016/17 but will all be spent in 2015/16 and cashflowed by the capital programme.**

3. **Retrospectively authorise expenditure at risk to date of the sum indicated in the report on the Gosford Street scheme until the Joint Working Agreement with Coventry University is in place, and approve further spend at risk to the sum indicated up to the signing of the Joint Working Agreement**

4. **Authorise the City Council to enter into a Deed of Grant and Covenant with Coventry University for a term indicated in the report based on the Heads of Terms agreed between both parties in line with the plan illustrating the area referred to, as shown in Appendix E.**

5. **Delegate authority to the Executive Director, Place, in consultation with Cabinet Members (Public Services) and (Business, Enterprise and Employment) to agree the detailed works for schemes in Coventry city centre Public Realm Phase 3 as set out in Appendix A and their implementation.**

6. **Authorise the City Council to act as guarantor and delegate authority to the Executive Director, Place in conjunction with the Executive Director, Resources to enter into grant aid agreements with DCLG on ERDF terms and conditions for the £7.5M ERDF awarded, and any further funding that becomes available from DCLG as part of the 'sink fund'.**

84. **Asset Review**

Further to Minute 70/14 of the Cabinet and Minute 81 above, the City Council considered a report of the Assistant Director, Financial Management, which detailed commercially confidential matters in relation to asset review.

Since it opened in August 2006 the Arena has been a significant success. In that time it has created in excess of 3,500 jobs, including the associated retail park, and has become a high profile venue for concerts, conferences, exhibitions and sporting events. In the summer of 2012 Coventry became an Olympic city as the Ricoh Arena played host to Olympic football matches. The Arena has also hosted European Cup rugby matches, under 21 football internationals and professional darts, tennis and snooker competitions. It has also played host to some major music concerts including Take That, Oasis, Coldplay and Bruce Springsteen. In addition it was the home venue for Coventry City Football Club from 2006 until the end of the 2012/13 season.

The report set out the proposal that the City Council (through North Coventry Holdings Ltd) sells 100% of its shares in Arena Coventry Ltd to London Wasps Holdings Ltd for the sum indicated in the report. This represents 50% of the total shares of Arena Coventry Ltd. The effect of this commercial transaction is that the City Council would no longer be involved in the management or operational running of the Ricoh Arena.

The Arena is managed by Arena Coventry Limited (ACL), a company which is owned 50% by the City Council (via North Coventry Holdings Ltd [NCHL]) and 50% by the Alan Edward Higgs Charity (AEHC) (via Football Investors Ltd [FIL]). ACL 2006 is a wholly owned subsidiary of ACL and for the purposes of this report where ACL is referred to unless otherwise stated this comprises ACL and its subsidiary ACL 2006. ACL 2006 holds a lease to operate the Arena site dated 19th December 2003 and for a term of 50 years. The term of existing lease expires in 39 years' time on 16th December 2053. There was a proposal for the lease to be extended to a term indicated in the report.

It is proposed that the £14m existing loan provision would remain in place so that the City Council would maintain its position as banker for this commercial loan facility. As part of the future governance arrangements for ACL it has been agreed that, for at least as long as the City Council's loan is still outstanding, the City Council will have the right to appoint a non-executive director to the Board of the Company. In the short-term, the Council's nominee will have observer status but may assume full rights and responsibilities of a non-executive director at a later date or remain as an observer.

RESOLVED that the City Council unanimously:

a. **Approves the sale of shares in Arena Coventry Limited currently held by the Council via North Coventry Holdings Limited for the sum indicated in the report to London Wasps Holdings Limited.**

b. **Approves the sale of a lease extension to Arena Coventry (2006) Limited for a term indicated in the report.**

c. **Delegate authority to the Chief Executive in consultation with the Leader of the City Council to determine whether or not to appoint an observer or Non-Executive Director to the Board of ACL following the sale of the Council's shares and if so to nominate the observer/NED and terms of that appointment and any subsequent replacement.**

d. **Endorse the delegation of authority to the Assistant Director Finance and the Council Solicitor as appropriate, in consultation with the Leader and Deputy Leader of the Council, to make any variations or new requirements to give effect to the proposals that are deemed necessary.**

(Meeting closed at 5.10 pm)

Chair

Date

Coventry City Council

Public report
Cabinet Report

Finance and Corporate Services Scrutiny Board (1)	3rd November 2014
Cabinet	4th November 2014
Council	11th November 2014

Name of Cabinet Member:
Cabinet Member (Strategic Finance and Resources) – Councillor Gannon

Director Approving Submission of the report:
Executive Director Resources

Ward(s) affected: All

Title:
Medium Term Financial Strategy 2015-18

Is this a key decision?
Yes
Cabinet and subsequently Council are being recommended to approve the Medium Term Financial Strategy for 2015-2018

Executive Summary:

This report presents a Medium Term Financial Strategy (MTFS) for 2015-2018 for adoption by the City Council. The previous strategy was approved in December 2013. This Strategy sets out the financial planning foundations that support the Council's vision and priorities and leads to the setting of the Council's revenue and capital budgets. Following the Strategy's consideration by Council, the subsequent meeting of Cabinet will consider the Pre-Budget report that sets out the work undertaken in preparation for the 2015/16 and future years' revenue budgets and capital programme.

The key backdrop to the Council's financial position is provided by the Government's June 2013 Spending Round and subsequent indicative announcements of the main political parties nationally. These confirm or give notice of continued cuts in Revenue Support Grant for local government on a trajectory which is broadly consistent with cuts made since 2010. Therefore, the fundamental factor shaping the City Council's MTFS continues to be one of unprecedented financial pressure leading to further significant reductions in spending levels that are likely to continue in the period up to 2020 and possibly beyond. Indeed, if the current pattern of local government funding continues, this indicates that in real terms, for every £10 of net budget the Council had available in 2010/11 it has just over £7 now and will have nearer £5 in 2024/25.

In summary, the national and local contexts that frame this Strategy include:

- A paramount need to protect the most vulnerable people in the city including children at risk, children and young people in care, victims of domestic abuse and vulnerable adults and older people;
- Year-on-year 10% headline cuts to Government resources and a move towards greater complexity and ring-fencing in areas such as social care, health and regeneration;
- Fast population growth causing greater demand or expenditure pressures in areas such as housing, social care and waste disposal;
- Changes to the national frameworks for delivering social care, including where this interacts with the health sector, driven through the Care Act and the Better Care Fund.
- The impact of continued difficult economic circumstances for many, affecting both the number of people seeking support from Council services and the financial performance of the Council's income based services;
- An increasing Council focus on promoting growth in the local economy
- Upward pressure on Pension Fund contributions, in particular to fund pension past service costs;
- Management of responsibilities adopted relatively recently in the areas of Business Rates and Council Tax Support that carry with them the risk of significant financial volatility;
- Business Rates and Council Tax income plus locally generated rents, fees and charges becoming an increasing proportion of the Council's funding as government grant falls;
- The transfer of schools to Academy status putting increasing pressure on the Council's core education functions and other services that trade with the city's schools.
- More complex service delivery models across the Council driven by the need to modernise and rationalise services and work in tandem with partners and neighbouring authorities.
- Continued expectations on the Council to maintain service levels and standards across the full range of core services despite the financial challenges;

This represents a combination of reducing resources, challenging underlying economic and demographic conditions, increased demand in some areas, a heightened need to improve the quality of service in others and new challenges represented by government reform. In these circumstances it is crucial that the Council's financial strategy is both robust and flexible. This will provide the financial foundations required to ensure that Council services are fit for purpose to protect the most vulnerable as well as providing decent core services for every citizen in the city.

In support of these aims, the City Councils strategic financial approach to the demands that it faces includes:

- A fundamental commitment to protecting the city's vulnerable children, adults and older people.
- Identifying unprecedented savings from new strategies incorporating Kickstart, the Customer Journey and City Centre First.
- Integral to these new strategies, changing the relationship between the Council and its citizens reflecting the reality that the Council will provide a smaller range and lower level of services in new ways and out of far fewer locations.
- Moving the Council's main office based activities into a new city centre Customer Services Centre and a purpose built office block within the forthcoming Friargate business district in order to regenerate the City, transform the Council and deliver savings.
- A new Workforce Strategy requiring a significantly smaller workforce working in flexible ways consistent with a modern organisation, ensuring that the Council has the talent in place necessary to deliver the challenging agenda that it faces.

- Doing things differently by considering alternative service delivery models and options for delivering service outcomes in different ways with less reliance on Council delivered services.
- Seeking to optimise the use of pooled or new funding available to support social care and health
- Leading the drive for economic growth through the Coventry Investment Fund to help stimulate the local economy alongside externally funded Regional Growth Fund, Growing Places Fund and other Local Enterprise Partnership funding streams in addition to supporting the City Deal initiative in the sub region, as a way of unlocking major projects and initiatives that will stimulate growth;
- Providing the local planning and infrastructure environment to enable the level of housing growth required to match the growth in the city's population
- Investing in the environmental elements that support the regeneration of the city including its public realm, the city's highways network and its cultural and leisure offer to make Coventry an attractive place to live and work.

Based on initial estimates of both future funding settlements the City Council's indicative financial position moving into the 2015/16 budget setting process shows a major funding gap increasing to £65m in 2017/18 as shown below. This picture will be refined as part of the forthcoming Pre-Budget Report but gives a clear picture of massive financial challenges. This position will become yet more acute in the period beyond this MTFS based on ministerial announcements about continued spending cuts.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**
Revised Revenue Budget Gap	15.1	44.2	65.0

Recommendations:

(1) Scrutiny Board 1 is recommended to:
  (a) Consider whether there are any comments/recommendations that they wish to make to Cabinet.

(2) Cabinet is recommended to:
  (a) Consider any recommendations from Scrutiny Board 1
  (b) Agree the report and recommend that Council approve the Strategy.

(3) Council is recommended to:
  (a) Approve the Strategy as the basis of its medium term financial planning process.

List of Appendices included:
None

Other useful background papers:
None

Has it been or will it be considered by Scrutiny?
Yes
Finance and Corporate Services Scrutiny Board (1), 3rd November 2014

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?
No

Will this report go to Council?
Yes
Council, 11th November 2014

Report title: Medium Term Financial Strategy 2015-18

1. Context (or Background)

1.1 Financial Background

1.1.1 This Strategy sets out the financial planning foundations that support the Council's vision and priorities and leads to the setting of the Council's revenue and capital budgets.

1.1.2 The Government spending round announced in June 2013 re-affirmed the unprecedented scale of the pressure on local authority finances, confirmed subsequently by local government finance announcements in February 2014. Resources available to Coventry will have fallen by £55m over a four year period to 2014/15, with its Settlement Funding Assessment likely to fall by a further £47m by 2017/18. Taken together, the austerity measures implemented by the Government will have led to cuts in Coventry's core government funding of approaching 50% over 7 years.

1.1.3 Local government has delivered significant savings in recent years and in broad terms the most straightforward savings have already been made. The continued downward pressure on public service resources will have significant future impacts on what councils do and how they do it. A need to radically reassess which services continue to be provided and their nature and scale is further accentuated by the ever increasing demand for services, particularly in the social care arena.

1.2 National Developments

1.2.1 Apart from the increasing financial pressures that all public bodies face, there is a range of national developments set out below, which impact on local authorities.

1.2.2 There is a move towards greater complexity and/or ring-fencing in certain areas of funding. The Better Care Fund has been established with the intention of integrating health and social care activity and incentivising the National Health Service and local government to work together. This will involve significant pooling of resources between the local authorities and Clinical Commissioning Groups to deliver improved outcomes for citizens.

1.2.3 The Care Act represents the most significant reform of care and support in more than 60 years, putting people and their carers in greater control of their care and support. The main provisions are implemented on 1 April 2015 with further changes including a cap on the total amount anyone will have to pay for the cost of their care coming into effect on 1 April 2016. Significant uncertainty remains regarding the impact on demand as the Act provides support to greater numbers of service users and carers.

1.2.4 In the regeneration arena, a range of different funding streams have been made available on a sub-regional basis for local government an businesses to allocate through Local Enterprise Partnerships.

1.2.5 Economic growth has been an important part of the Government's financial recovery plans with the intention that tax revenues will recover to help bridge the national budget deficit. The change in the Business Rate regime whereby local government can retain a share of local business rates growth has created a direct link between growth and income for local authorities.

1.2.6 Population growth and demographic and socio-economic trends are causing increases in demand or expenditure pressures in areas such as housing, social care and waste disposal. There is a continued dialogue between national and local government on the need for a greater level of new housing building across the country. The ageing population represents an increasing pressure on social care services for older people whilst a range of other societal and health related trends has increased demand both in other adult social care services and in children's social care.

1.2.7 Notwithstanding the gradual economic recovery over the past year or so, there are continued difficult economic circumstances for many, affecting the number of people seeking to access local government services and those provided by the voluntary sector, working in partnership with local councils.

1.2.8 The schools sector continues to experience greater fragmentation with the move towards free schools and academy schools. This is changing the face of local education provision and reducing the role of councils as local education authorities, putting pressure on the remaining rump of local authority education services and budgets.

1.2.9 The Government continues to have a tight rein on the level of Council Tax increases nationally. Council Tax Freeze grants (equivalent to a 1% rise) have been provided for authorities that have frozen tax rates whilst caps have been placed (equivalent to a 2% rise) on the level of increase that can be approved without the need for a local referendum.

1.2.10 National pension reforms have failed to address the long-term problems of public sector pensions, including the local government scheme. On a national basis, many local councils will face massive increases in employer pension costs over the coming years at a time when budgets are under severe pressure from the reduced grant settlements referred to above.

1.3 The Local Economic and Financial Context

1.3.1 Coventry has significant potential for growth with two global universities, an unrivalled location, exceptional transport infrastructure links and a talent pool for employers to recruit across the region. However, Coventry's economy is underperforming by nearly £1bn pa and its City centre performs poorly, being 47th in the UK list of shopping Centres despite being the 13th largest City. As the gateway to the Coventry and Warwickshire regional economy the City Centre is underperforming. There is headroom for growth and the City requires economic stimulus to reverse the decline.

1.3.2 The financial starting point for the Council's MTFS is the forecast position as at budget setting in February 2014. There have been a number of revisions to this base position including lower financing costs due to reduced capital programme borrowing and lower inflation contingencies. However, the unprecedented level of activity within children's social care services is creating very large cost pressures within and beyond 2014/15 and it will be necessary to make financial provision for this. Further work is on-going to establish the likely medium term implications of this and the strategies for addressing it but the current financial planning estimates are included below pending an update within the Pre-Budget Report. The revised gap now stands as follows (prior to strategic initiatives set out in Section 2.3 below):

	2015/16 £m	2016/17 £m	2017/18 £m
Revenue Gap per 2014/15 Budget (Feb 2014)	15.1	44.2	65.0
Revisions to the Base Position including additional Children's Services Pressures	3.0	(5.7)	(12.2)
Updated Revenue Gap	**18.1**	**38.5**	**52.8**

This table shows a snapshot of a fluid position. This will be updated as part of the Pre-Budget Report.

1.3.3 The above position assumes that £12m of savings from the previously approved abc Transformation Programme that remain in the 2015/16 programme are achieved over the medium term, the main elements of which relate to the A Bolder Community Services programme and cross cutting savings relating to income generation, property and procurement.

The current Capital Programme approved in February 2014 provided for a number of large investment programmes across the city including the changes to the ring road to create a bridge deck as part of the Friargate regeneration project, the city's public realm, the Nuckle rail project, highways infrastructure and school building, business investment and investment in leisure facilities. The medium term Capital Programme approved in February 2014 has been updated for any changes reported so far during 2014/15 and is reflected below. The programme will be financed from a number of sources, including government grants as well as local resources such as capital receipts, revenue contributions and borrowing.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Capital Programme Spend	107	62	29	24

1.3.4 The current level of **reserves** (£81.0m as at 31st March 2014) has previously been assessed as adequate for current known liabilities and approved policy commitments. The Council's uncommitted working balance which stands currently at £7.3m, equivalent to 2.8% of the net revenue budget, is maintained to cover unforeseen financial problems. Since the 2013/14 year-end, part of the reserve balances referenced above have been identified to support strategically important areas of expenditure including the Council's voluntary redundancy programme and costs incurred in response to the Ofsted Report on the Council's Children's Services.

1.3.5 Detailed three year changes to resource levels, cost pressures and proposed savings will be set out in the Pre-Budget report due to be considered by Cabinet on 2nd December 2014 including the detailed proposals in relation to the 2015/16 budget.

2. **Options Considered and Recommended Proposal**

2.1 The remainder of the report contains the proposed Medium Term Financial Strategy. It is recommended that Cabinet and Council approve the Strategy subject to any comments or changes from Finance and Corporate Services Scrutiny Board. The Strategy is structured around three core elements:

- The Council Plan;
- Strategic Policy Assumptions within the MTFS;
- Strategic Financial Management Framework;

2.2 Council Plan

2.2.1 The MTFS rests on the principles, visions and priorities set out for the City within the Council Plan. In summary these are:

- Globally Connected: promoting the growth of a sustainable Coventry economy that benefits the city and making sure that residents share in the benefits;
- Locally Committed: improving the quality of life for Coventry people by working with local communities and especially for our most vulnerable resident;
- Delivering our Priorities:
  - maximising the use of our assets;
  - reducing operating costs;
  - with active citizens and;
  - strong and involved communities

The full plan is available on the Council's website or via the following link: Coventry Council Plan - December 2013

2.2.2 Since the full Plan was approved the Council has received the 2014 Ofsted Inspection Report which assessed the Council's Children's Services as inadequate. Amongst other measures this has led to a need to increase capacity within the service to ensure appropriate caseload levels for social workers. In addition, there has been a very significant increase in the number of referrals to the Council's social care service causing a heightened focus on this area. Protection of these vulnerable children is the paramount policy priority for the Council and the Council's financial strategy must ensure that the service is resourced to meet its immediate demands across the city. Over the medium term, it will be necessary to ensure that social care and early intervention services are delivered in a way that strikes an appropriate balance between service need and the achievement of value for money.

2.3 Strategic Policy Assumptions within the MTFS

2.3.1 At a strategic level the strategic policy assumptions that will drive the Council's financial strategy are set out below.

2.3.2 The Council is adapting the latter stages of its previous abc transformation programme into a new range of strategies incorporating Kickstart, the Customer Journey, City Centre First and the Workforce Strategy and Doing Things Differently. The new strategies are aligned to and are being driven by an extensive rationalisation of the Council's office estate, investment in new technology to support agile working and an improved customer experience including a shift towards enabling the Council's customers to self-serve on line. During 2015/16 this will deliver a new Customer Services Centre in the city centre, a new administrative centre to kick-start the Friargate business district, a democratic centre and a series of suburban hubs. Together these will replace the vast majority of the Council's previous operational property estate and the locations from which a wide variety of Council services will be delivered.

2.3.3 Integral to the strategies will be the need to communicate the need to actively manage the level and range of services provided by the Council and where they are delivered from. This means changing the relationship between the Council and its citizens and encouraging those who are able to, to do more for themselves so that the Council can focus its scarce resources on the most vulnerable citizens;

2.3.4 The Council will continue to actively support the Friargate business district regeneration project adjacent to Coventry railway station, relocating the Council's office base into the first office building as an anchor to the scheme. This regeneration project is critical for delivery of jobs and business rate growth for the City, to attract new businesses, boost confidence, to increase city centre footfall, improve the prospects for the City Centre South development and to generate economic prosperity for the City;

2.3.5 The Kickstart and the Customer Journey projects will provide a platform for modernising many of the ways that the Council works and be a springboard for Council members and officers to operate in far more streamlined and cost effective ways. A key focus will be to consolidate in one place the Council's main Customer Service activities and to seek to change the way that citizens access services, with decreasing dependence on face to face services except for the most vulnerable and increasing use of web-based solutions which are more convenient for many of the Council's customers;

2.3.6 The City Centre First project will deliver savings directly through rationalising the Council's suburban estate reducing the number of locations from which services are delivered. This is likely to result in a main city centre facility and a small number of suburban hubs from which a range of services are delivered or co-ordinated.

2.3.7 The Council's Workforce Strategy has already seen a number of actions put into practice including a new voluntary redundancy programme, centralising the management of salary budgets and tight control over filling any vacant posts. The next steps will, depending on final policy decisions, seek to consider a range of potential steps that could affect pay and conditions including narrower pay bands, the distribution of car park passes and expenses and allowances. Any such changes will be subject to member approval and consultation with the Trades Unions.

2.3.8 The Council will work co-operatively alongside the local (Coventry and Rugby) Clinical Commissioning Group with the intention of optimising health and care outcomes for local residents derived from the pooled resources available through the Batter Care Fund.

2.3.9 The Council will consider the implications of the Care Act as the precise details of their implementation emerge. From a financial perspective the starting point is that the New Burden funding will enable the act to be implemented in a way that is cost neutral to the City Council. However, there are a number of strands to the Act that may result in some financial volatility and the overall financial picture will need to be re-assessed over time.

2.3.10 The next planning period will radically redefine what a local authority is for and reframe the relationship between Coventry citizens and the Council, which will need to review the range and level of services that it provides currently. The Council will engage in a new conversation with the people of Coventry about their expectations of local services, requiring changes in behaviours and managing down the demand for services as key characteristics that reflect the reality of the Council's new financial position. It will increasingly need to do things differently in order to reduce the reliance of residents and service users on Council services. To achieve this, the Council will gain greater understanding of its communities and insight into what the different needs are across the city. This will put it in a stronger position to roll out new service delivery models and options for delivering service outcomes including co-designed services, social and mutual enterprises and Coventry citizens playing a greater role in the future of the City. In addition, the Council will engage in new ways of working across the City embracing digital platforms to reach new sections of the community.

2.3.11 The Council is working with partner organisations to invest in the regeneration of the City and lead a drive for economic growth. The Coventry Investment Fund (CIF) was established in 2013 to provide investment in projects designed to maximise business related capital investment either by the City Council or via local partners. CIF investment is backed by £50m of resources set aside in 2013/14 Budget Setting to support such initiatives and will be vital to facilitating growth. The CIF builds on the success of other externally funded programmes such as the Regional Growth Fund, Growing Places and the City Deal initiative, complementing existing funding streams and meeting the gap not addressed by these funds.

2.3.12 The Council will continue to consider the timing and options to proceed with plans for the City Centre South project, designed to regenerate a significant part of the city centre. The will only go forward on the basis of an improved leisure and retail offer within the city based on a sustainable financial model.

2.3.13 On a case by case basis the Council will provide commercial loan finance to key organisations, such as Coombe Abbey Hotel, to give opportunities for important local businesses to develop and flourish. The starting point for this type of arrangement is that it will be no worse than cost neutral to the Council and that it will support the regeneration of the city and/or that it will protect the Council's financial or strategic interests.

2.3.14 Through the Local Plan (the consultation for which finished on 31st October 2014) the Council will work with its neighbours to secure the most appropriate and sustainable locations for housing growth across the housing market area. In order to facilitate the growth in the local population and housing stock, work will continue to invest in the city's highways network and local transport infrastructure which will help to ensure that Coventry both is, and is perceived to be, open for business. Investment will also continue in the making Coventry an attractive place to live and work, with further works on the city's public realm and local leisure facilities for instance. The Council will take advantage of opportunities offered by the Community Infrastructure Levy, chargeable on new developments, to support improvements in infrastructure to support growth within the city.

2.3.15 The Council will continue to drive towards **Income Maximisation** through a number of routes:

- maintaining the Council's default position that **fees and charges** should increase annually in line with inflation;
- **generating capital receipts** by disposing of property, thereby providing funds for capital reinvestment in services, driving growth or making savings through the repayment of debt.

2.3.16 The Council is obliged to work towards ensuring that 100% of its pension liabilities within the West Midlands Pension Fund are funded. The current level of funding is c70%. In the light of this the Council's contributions to the pension fund, in particular in relation to the costs of past service, are planned to increase very significantly up to 2016/17 and this increased cost is included within the Council's financial plans. The period beyond 2016/17 will see further pressure to increase contributions. The Council will work with the West Midlands Pension Fund to agree employer pension contributions that strike a balance between increasing the funding level over the long-term and being sustainable and affordable in relation to the council's overall financial position.

2.3.17 Local authorities continue to be responsible for setting levels of **Council Tax Support**, but with a 10% reduction in resources. The financial risk therefore remains with local government. The Council's existing policy is to maintain the level of benefit, ensuring that low-income households do not suffer any reduction in support. This policy will be subject to annual review.

2.4 Strategic Finance Management Framework

2.4.1 The Strategic Financial Management Framework encompasses the Council's strategic financial management processes and also the key financial assumptions on which the MTFS rests.

2.4.2 The **financial management process**es that underpin the MTFS are:-

- A corporate planning and monitoring process that considers capital and revenue together;
- Overall direction undertaken by Strategic Management Board (SMB);
- A framework founded on delegation and clear accountability, with budgets managed by the designated budget holder, reported through Directorate Management Teams, SMB, Cabinet and Audit and Procurement Committee;
- A drive to identify efficiencies and achievable savings to enable the Council to optimise delivery of its policy priorities
- Strong project management approaches, including a specific focus on cost control;
- The establishment of a balanced revenue budget and capital programme over the medium term planning period.
- The **management of reserves** in a way that supports the MTFS. In particular, the City Council's approach continues to be based on:
  - A policy that reserves are not to be used to meet on-going expenditure;
  - The classification of reserves as a corporate resource, with Cabinet via Strategic Management Board considering the application of budgeted amounts unspent at year end;
  - Holding reserves for a clearly identifiable purpose. This will include protecting against known or potential liabilities, at a minimum level consistent with adequate coverage of those liabilities, taking into account the overall level of risk faced by an organisation of the City Council's size.

2.4.3 The key financial or technical assumptions that underpin the MTFS are:

- The Council will plan based on the figures released in the Central Government's Finance Settlement issued in February 2014. Although significant uncertainty remains about specific aspects of the years after 2015/16 the Council will plan based on a continued downward trajectory of Government resources with a planning assumption of on-going reductions of c10%;

- As a technical assumption, Council Tax increases of 1.5% per annum will be built into the MTFS. This will be subject to political debate and decision as well as any changes in the Government's capping criteria and interaction with Council Tax Freeze Grant proposals;
- 1% pay awards will be assumed for 2015/16 in line with indicative Government announcements, rising to 2% for 2016/17 and 2017/18. This will be kept under close review pending a potential multi-year deal currently being discussed by Employers and Unions nationally;
- Business Rate income will be assumed to be inflated broadly in line with existing CPI inflation levels (currently c2.5%). In addition, the Council's local share of Business Rate growth has been built in equivalent to £1m in 2015/16. Further increases in future years will be subject to review during the Budget Setting process;
- The Council's Tax-Base is assumed to grow at 0.6% per annum in line with recent trends;
- Forward financial estimates will be guided broadly by existing RPIY inflation levels. This will provide the financial planning benchmark for increases in fees and charges and any areas of expenditure subject to specific inflation requirements. Actual increases in fees and charges will depend upon local factors such as the need to generate sufficient income to meet the cost of trading services. The majority of non-employee based expenditure budgets will not be inflated – the assumption will be that continued procurement and commissioning work plus underlying efficiency savings and downsizing will deliver savings equivalent to the cost of inflation.

3. Results of consultation undertaken

3.1 No consultation has been undertaken as part of the MTFS. The implementation of the Strategy through Budget Setting and other individual projects, programmes and initiatives will be accompanied by specific consultations as appropriate.

4. Timetable for implementing this decision

4.1 The MTFS will underpin the proposals and approaches that will be set out in the forthcoming Pre-Budget Report and will be implemented in parallel to the proposals for setting the 2015/16 Budget.

5. Comments from the Executive Director of Resources

5.1 Financial implications

The main body of this report is concerned wholly with financial matters. It is important that the assumptions and principles detailed in the Strategy are adopted in order for the City Council to be able to deliver balanced budgets over the medium term.

Taking into account both the Strategic Policy and Financial Management assumptions set out in the report, some revisions to the base position that have emerged since February and some initial estimates of savings that may derive from the strategies outlined in the report, a revised projected gap is shown below. The detail that lies behind this will be set out in the forthcoming Pre-Budget Report.

Revised Projected Gap	2015/16 £m	2016/17 £m	2017/18 £m
Updated Revenue Gap	**15.1**	**44.2**	**65.0**
Revisions to Base Position	**3.0**	**(5.7)**	**(12.2)**
Initial Savings from New Strategies	**(12.1)**	**(23.6)**	**(36.1)**
Updated Revenue Gap	**6.0**	**14.9**	**16.7**

This table shows a snapshot of a fluid position. This will be updated as part of the Pre-Budget Report.

Even after taking into account the measures outlined above, there is still a forecast gap rising to £16.7m in 2017/18. Coventry now faces the challenges and major policy choices faced by many other authorities in recent years. Specifically, the Council will need to decide which areas of service are open to review and which are to be outside of scope for savings. The greater the number of areas that are outside the scope for savings, the greater will be the impact on the remaining services. However, the size of the gap makes it inevitable that areas not previously considered will now need to be reviewed and some services will be delivered differently or quite possibly not at all.

5.2 Legal implications

The proposals in this report provide the foundations to allow the Council to meet its statutory obligations in relation to setting a balanced budget by mid-March each year, in accordance with Section 32 of the Local Government Finance Act 1992 and section 25 of the Local Government Act 2003.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The Council will be faced with increasingly challenging resource constraints over the remainder of this decade. Over time the initial focus to identify savings options that are intended to have as little adverse impact as possible on services to the people of Coventry will inevitably give way in the future to service changes that will have a more marked effect on front-line services.

Within these very difficult circumstances, the MTFS is closely aligned to the Council Plan priorities that are so critical to ensuring the city's success.

6.2 How is risk being managed?

Inability to deliver a balanced budget is one of the Council's key corporate risks. The proposals within this report are aimed at mitigating this risk by providing a robust platform from which to deliver balanced budgets. The Council’s process for addressing risk is being reviewed currently and will be the subject of a forthcoming report to Cabinet.

6.3 What is the impact on the organisation?

The Council will need to make some decisions about which are its core priorities and which services it considers that it can no longer afford. It will also need to become more flexible about the mechanisms through which it delivers its services. In addition, the Council continues to use Early Retirement/Voluntary Redundancy opportunities as the key mechanism by which it is able to reduce staffing levels across the Council. It is anticipated that this mechanism will continue to be used and that the Council will continue to reduce employee numbers over the course of the Strategy.

6.4 Equalities / EIA

Equality impacts that flow from proposals within the Council's budget will be subject to assessment prior to the relevant decisions being taken. The forthcoming Pre-Budget Report will provide a further indication of how any equality issues will be managed.

6.5 Implications for (or impact on) the environment

No specific impact

6.6 Implications for partner organisations?

The Council's financial plans will have a significant impact upon the way in which it works with its partners over the coming years. The implications of these changes will become clear as individual changes are identified.

Report author(s):

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Contributor/approver name	Title	Directorate or organisation	Date doc sent out	Date response received or approved
Contributors:				
Michael Rennie	Lead Accountant	Resources Directorate	8/10/14	8/10/14
Lara Knight	Governance Services Team Leader	Resources Directorate	9/10/14	9/10/14
Lisa Commane	Assistant Director ICT Transformation and Customer Service	Resources Directorate	8/10/14	8/10/14
Rachael Sugars	Finance Manager	Resources Directorate	8/10/14	13/10/14
Ewan Dewar	Finance Manager	Resources Directorate	8/10/14	13/10/14
Martin Reeves	Chief Executive	Chief Executives	20/10/14	20/10/14

Names of approvers for submission: (officers and members)				
Legal: Carol Bradford	Solicitor	Resources Directorate	9/10/14	10/10/14
Director: Chris West	Executive Director Resources	Resources Directorate	8/10/14	20/10/14
Members: Cllr Damian Gannon	Cabinet Member (Strategic Finance and Resources)		14/10/14	14/10/14

This report is published on the council's website:
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Coventry City Council

Public report
Cabinet Report

Cabinet — 4th November 2014
Audit and Procurement Committee — 1st December 2014

Name of Cabinet Member:
Cabinet Member (Strategic Finance & Resources) – Councillor Gannon

Director approving submission of the report:
Executive Director, Resources

Ward(s) affected:
City Wide

Title:
2014/15 Second Quarter Financial Monitoring Report (to September 2014)

Is this a key decision?
Yes – Council is being asked to approve new capital expenditure of £2m

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Executive summary:

The purpose of this report is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity as at the end of September 2014. The headline revenue forecast for 2014/15 is an underspend of £0.4m.

The report incorporates three further issues that require approval by Cabinet, the first two of which also require Council approval.

- A change to the Council's Treasury Management Strategy and Investment Policy involving the lowering of minimum credit rating criteria permitted by the Council for its investment counterparties to ensure continued inclusion of mainstream banks on the lending list (section 2.4).
- The incurring of additional costs of £2m for a revised and enhanced scheme to construct the new Customer Service Centre as a change to the Capital Programme. This is a key part of the Council's wider customer transformation and property rationalisation plans which will secure existing £0.5m p.a. savings targets and further savings of £5m p.a. associated with the Kickstart and Customer Journey programme that will be set out within the forthcoming Pre-Budget Report (section 5.3).
- A revision to the Council's multi storey car park lease to City College Coventry to defer the payment of rent by the college for 3 years resulting in a cash-flow impact on the Council of £210,000 p.a. for three years, recovered in the period after this (section 5.4).

The overall £0.4m revenue underspend incorporates significant areas of overspend within the People Directorate, balanced largely by underspends within the Asset Management Revenue Account. At the same point in 2013/14 there was a reported overspend of £1.5m. Given previous budgetary control trends and management expectations of continued robust control of expenditure it is anticipated that the Council will be underspent at year-end and will be available to commit to corporate expenditure priorities. Subject to Council approval, the first call on this will be the Customer Service Centre scheme referred to above.

People Directorate overspends resulting from high numbers of looked after children and increasing numbers of referrals into the service have occurred despite additional budgetary provision being provided previously by Council. Cabinet is reminded that this is one of the key issues that will need to be addressed in the forthcoming 2015/16 Budget Setting process.

The Capital spending forecast as at the second quarter is projected to be £148m. This represents a net decrease of £7.5m compared to the £155.5m reported at the first quarter. This decrease in the Capital Programme comprises £13.6m rescheduling of expenditure into 2015/16, £6.6m new spending approvals, and a small underspend of £0.4m. Spending at this revised level will be met by resources identified previously.

Recommendations:

Cabinet is recommended to:

1. Note the projected revenue underspend prior to any new expenditure commitment approvals.

2. Approve the revised capital estimated outturn position for the year of £148.2m incorporating: £6.6m net increase in spending relating to approved/technical changes (Appendix 2), £13.6m net rescheduling of expenditure into 2015/16, (Appendix 4) and £0.2m net underspend on schemes (Appendix 5).

3. Approve an additional £2m one off capital investment to fund a revised and enhanced scheme for the new Customer Services Centre remodelling work to floors 1 and 2 of Broadgate House to incorporate a new ground floor shop and enhanced access to meet accessibility requirements. This will be funded from any underspending on the revenue and capital programmes and if needed a contribution from reserves.

4. Approve a variation to the City College Car Park lease, by way of a £210,000 p.a. reduction in rent for up to 3 years from 2014/15, to be recovered through increased rent over a maximum of 7 years, and to delegate responsibility to the Executive Director Resources to agree the detailed terms of the variation to the lease, as outlined in section 5.4.

5. Recommend to full Council the revisions to the Treasury Management Strategy and Investment Policy as outlined in section 2.4 including the lowering of minimum credit ratings to BBB+.

6. Recommend to full Council the £2m additional cost of works required for the Council's Customer Service Centre and the associated funding proposals outlined in sections 5.3.

Audit and Procurement Committee are recommended to:

7. Consider whether there are any comments they wish to be passed to Cabinet.

Council is recommended to:

8. Approve the revisions to the Treasury Management Strategy and Investment Policy as outlined in section 2.4 including the lowering of minimum credit ratings to BBB+.

9. Approve the £2m additional cost of works required for the Council's Customer Service Centre and the associated funding proposals outlined in section 5.3.

List of Appendices included:

Appendix 1	Revenue Position: Detailed Directorate breakdown of forecast outturn position
Appendix 2	Capital Programme: Analysis of Budget/Technical Changes
Appendix 3	Capital Programme: Estimated Outturn 2014/15
Appendix 4	Capital Programme: Analysis of Rescheduling
Appendix 5	Capital Programme: Analysis of Over/Under Spending
Appendix 6	Prudential Indicators

Background Papers
None

Other useful documents:
Budgetary Control 2014/15 file, location CRH 3

Has it or will it be considered by scrutiny?
No

Has it, or will it be considered by any other council committee, advisory panel or other body?
Audit and Procurement Committee, 1st December 2014

Will this report go to Council?
Yes

Report Title:
2014/15 Second Quarter Financial Monitoring Report (to September 2014)

1. Context (or Background)

1.1 Cabinet approved the City Council's revenue budget of £258.5m on the 25th February 2014 and a Capital Programme of £149.3m. This is the second quarterly monitoring report for 2014/15 to the end of September 2014 (period 6) the purpose of which is to advise Cabinet of the forecast outturn position for revenue and capital expenditure and to report on the Council's treasury management activity.

1.2 The current 2014/15 revenue forecast is an underspend of £0.4m. The reported overspend at the same point in 2013/14 was £1.5m. This incorporates a People Directorate overspend which is due in large part to high numbers of looked after children and increasing numbers of referrals into the service. It is now anticipated that despite additional budgetary provision being provided for children's social care within the 2013/14 Outturn and 2014/15 Budget Setting processes, the increase in costs indicated within this report will create further expenditure pressures in the medium term. It is important to reiterate here, the message reported at the first quarter that this is one of the key issues that will need to be addressed for 2015/16 Budget Setting.

1.3 Capital spend is projected to be £148m, a decrease of £7.5m since the Quarter 1 report. This is due in large part to new member approvals and technical changes that have arisen since Quarter 1 offset by expenditure rescheduled into 2015/16. This spend will all be met by resources identified previously.

1.4 The report incorporates three further issues that require approval by either Cabinet or Council:

- A change to the Council's Treasury Management Strategy and Investment Policy involving the lowering of minimum credit rating criteria permitted by the Council for its investment counterparties to ensure continued inclusion of mainstream banks on the lending list (section 2.4).
- The incurring of additional costs of £2m required to fund a revised and enhanced scheme for the Customer Services Centre remodelling work to floors 1 and 2 of Broadgate House to incorporate a new ground floor shop and enhanced access to meet accessibility requirements as a change to the Capital Programme (section 5.3).
- A revision to the multi storey car park lease to City College Coventry to defer the payment of rent by the college by up to 7 years (section 5.4).

2. Options considered and recommended proposal

2.1 Revenue Forecast - The Quarter 2 revenue budget monitoring exercise has identified an overall underspend of £0.4m. Table 1 below provides details of the forecast directorate variances.

Table 1 - Forecast Variations

Directorate	Revised Budget	Forecast Spend After Action/ Use of Reserves	Net Forecast Variation
	£m	£m	£m
Chief Executives	2.0	2.0	0.0
Public Health	0.1	0.1	0.0
People	162.0	166.5	4.5
Place	27.7	28.4	0.7
Resources	13.1	12.6	(0.5)
	204.9	**209.6**	**4.7**
Contingency & Central Budgets	53.6	48.5	(5.1)
Total	**258.5**	**258.1**	**(0.4)**

The key reasons for the predicted directorate overspends are set out below. Management action will continue to focus on delivering savings, achieving income targets and controlling expenditure effectively over the remainder of the financial year.

2.2 Individual Directorate Comments for Revenue Forecasts

A summary of the forecast year-end variances is provided below. Further details are shown in Appendix 1.

People Overspend £4.5m

The People Directorate is reporting a net overspend of £4.5M. The two most significant pressures across the People Directorate, continue to be Community Purchasing spend within adult social care and the continued increased high levels of activity within childrens' social care. Community Purchasing, and Looked After Children (LAC) Placements forecast a total overspend of £3.3M for the 2014/15 financial year.

A further £1.6M of pressure is as a result of costs linked to the OFSTED Action plan, largely additional social work staffing to lower caseloads as per OFSTED recommendations. The total forecast additional costs at quarter 2 are £6.7M but this is offset by additional funding from corporate reserves of £1.1M (agreed in October 2013 for additional social work staffing), and £4.0M (agreed in the 2013/14 financial outturn report for OFSTED Action Plan). This will be rigorously monitored as we move through the financial year.

Place Overspend £0.7m

Place Directorate is reporting a net £0.7m deficit which is primarily due to 2 main factors:

Firstly, the projected cost of waste disposal and collection is significantly in excess of available budget (£0.8m), the main cause being an increase in the expected level of disposal tonnages. Secondly, whilst commercial property rental yields are good in the context of the economic climate, the portfolio will not achieve rental levels budgeted for which were set prior to the downturn in the economy (£0.4m).

A handful of other variations exist which relate to achievement of income targets for Repairs & Maintenance, project management and Bereavement Services. These are being managed by underspends and management actions in other operational budgets.

Resources Underspend £0.5m

The Resources Directorate is reporting a net £0.5M underspend at quarter 2. Although there are some significant additional cost such as the legal costs relating to judicial review, and pressures within ICT, this is offset by underspends in all other divisions within the directorate.

Contingency & Central Budgets Underspend £5.1m

Actions taken at 2013/14 outturn to repay debt plus the rescheduling of capital spend has reduced the Council's planned borrowing needs and consequently reduced debt costs to help deliver a £5.4m underspend within the Asset Management Revenue Account revised upwards from £4.5m at quarter 1. This together with underspends across pay, price and energy contingency budgets provides the flexibility to set aside £3m contribution to fund redundancy and early retirement costs approved in the 5th August 2014 Cabinet reports relating to Staffing Reduction Consultation and Quarter 1 Financial Monitoring. The underlying on-going underspends within this position are being factored into 2015/16 Budget Setting plans.

2.3 Capital Position 2014/15

Table 2 below updates the budget to take account of £6.6m new approved/technical changes that have arisen since Quarter 1, £13.6m net expenditure rescheduled into 2015/16 and an underspend of £0.2m. This gives a revised projected level of expenditure for 2014/15 of £148.2m. Appendix 3 provides an analysis by directorate of the movement since Quarter 1. The Resources Available section of Table 2 explains how the capital programme will be funded in 2014/15. It shows that over half of the capital programme is funded by external grant monies (62%), whilst (25%) is funded from borrowing. The latest projections of capital receipts, arising predominantly from the sale of our assets, show £6.3m capital receipts expected by year end against a target level of £6.2m. Overall, the capital programme and associated resourcing reflects a forecast balanced position in 2014/15.

Table 2 - Movement in the Capital Budget

CAPITAL BUDGET 2014-15 MOVEMENT	£m
Estimated Outturn Period 3	155.5
Approved / Technical Changes (see Appendix 2)	6.6
"Net" Underspending	(0.2)
"Net" Rescheduling into future years (see Appendix 4)	(13.6)
Revised Estimated Outturn 2014-15	148.2
RESOURCES AVAILABLE:	
Unsupported (Prudential) Borrowing	37.9
Grants and Contributions	92.4
Capital Receipts	6.3
Revenue Contributions	11.3
Leasing	0.3
Total Resources Available	**148.2**

2.4 Treasury Management Activity in 2014/15

Interest Rates
There has been a gradual improvement in growth in the UK economy up to Q2 2014. However, this growth is fragile in nature due to its reliance on the housing market. As a result of this growth the rhetoric released by the Monetary Policy Committee has indicated that interest rates may rise sooner than financial markets were expecting. Currently, there has been no change to interest rates as these increases are expected to take place next year and will rise at a slow, incremental level and they will be to a lower overall level than in the past.

Long Term (Capital) Borrowing
The net long term borrowing requirement for the 2014/15 capital programme is £25.7m, taking into account borrowing set out in Section 2.3 above (total £37.9m), less amounts to be set aside to repay debt, including non PFI related Minimum Revenue Provision (£12.2m). No long term borrowing has been undertaken for several years, in part due to the level of investment balances available to the authority. Any future need to borrow will be kept under review in the light of a number of factors, including the anticipated level of capital spend, interest rate forecasts and the level of investment balances.

During 2014/15 interest rates for local authority borrowing from the Public Works Loans Board (PWLB) have varied within the following ranges:

PWLB Loan Duration (maturity loan)	Minimum 2014/15 to P6	Maximum 2014/15 to P6	As at the End of P6
5 year	2.68%	3.07%	2.77%
50 year	3.92%	4.48%	4.03%

The PWLB now allows qualifying authorities, including the City Council, to borrow at 0.2% below the standard rates set out above. This “certainty rate” initiative provides a small, but welcome reduction in the cost of future borrowing. This trend is set to be extended with the planned introduction of a “project rate” which will enable authorities, working with their Local Enterprise Partnership (LEP), to access PWLB borrowing at 0.4% below the standard rate.

Regular monitoring continues to ensure identification of any opportunities to reschedule debt by early repayment of more expensive existing loans with less expensive new replacement loans. However, the current premiums payable on early redemption currently outweigh any potential savings.

Short Term (Temporary) Borrowing and Investments

In managing the day to day cashflow of the authority, short term borrowing or investments are undertaken with financial institutions and other public bodies. Up to period 6, no short term borrowing was taken out.

Short term investments were made at an average interest rate of 0.55%. This rate of return reflects low risk investments for short to medium durations with UK banks, Money Market Funds, Certificates of Deposits, other Local Authorities as well as with the Government through the Debt Management Office (DMO).

Treasury advice indicates that it is likely that there will soon be a move by credit rating agencies whereby they will no longer include government support in banks’ credit ratings. This will mean there is a chance that institutions such as Barclays, Lloyds, Nationwide and Santander could become BBB+ rated, down from their current rating of A- or better. The BBB+ rating is below the Council’s current threshold of acceptable credit ratings of A-. In line with advice from the Council’s Treasury Management Advisors, in order that we have a sufficient number of counterparties to make investments with, it is proposed that the council adjusts its Treasury Management Strategy and Investment Policy to enable investments to be made with BBB+ rated institutions. BBB ratings indicate a “good credit quality”. In addition, it is proposed that a total limit for such non-specified investments is set at £32m. This proposed change is reflected in recommendations 5 and 8.

Although the level of investments varies from day to day with movements in the Council’s cash-flow, investments held by the City Council identified as a snap-shot at each of the reporting stages were: -

	As at 30th June 2014 £m	As at 30th Sept 2014 £m
Banks and Building Societies	59.8	47.8
Money Market Funds	7.2	24.3
Government Debt Management Office	0	0
Local Authorities	29.0	13.0
Total	**96.0**	**85.1**

External Investments

In addition to the above investments, a mix of Collective Investment Schemes or "pooled funds" is used, where investment is in the form of sterling fund units and not specific individual investments with financial institutions or organisations. These funds are generally AAA rated, are highly liquid, as cash can be withdrawn within two to four days, and short average duration of the intrinsic investments. The intrinsic Sterling investments include Certificates of Deposits, Commercial Paper, Corporate Bonds, Floating Rate Notes and Call Account Deposits. These pooled funds are designed to be held for longer durations, allowing any short term fluctuations in return to be smoothed out. In order to manage risk these investments are spread across a number of funds.

As at 30th September 2014 the pooled funds were valued at £17.4m, spread across the following funds: Payden & Rygel; Federated Prime Rate and CCLA.

Prudential Indicators and the Prudential Code

Under the CIPFA Prudential Code for Capital Finance authorities are free to borrow, subject to them being able to afford the revenue costs. The framework requires that authorities set and monitor against a number of Prudential Indicators relating to capital, treasury management and revenue issues. These indicators are designed to ensure that borrowing entered into for capital purposes was affordable, sustainable and prudent. The purpose of the indicators is to support decision making and financial management, rather than illustrate comparative performance.

The indicators, together with the relevant figures as at 30th September 2014 are included in Appendix 6. This highlights that the City Council's activities are within the amounts set as Performance Indicators for 2014/15. Specific points to note on the ratios are:

- The Ratio of Financing Costs to Net Revenue Stream (indicator 1) is 13.02% compared to 14.24% within the Treasury Management Strategy, due in the main to lower levels of Prudential Borrowing resourced capital spend in 2013/14;

- The Upper Limit on Variable Interest Rate Exposures (indicator 10) sets a maximum amount of net borrowing (borrowing less investments) that can be at variable interest rates. The Period 6 value is -£62.5m (minus) compared to +£88.3m within the Treasury Management Strategy, reflecting the fact that the Council has more variable rate investments than variable rate borrowings at the current time.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a financial monitoring report.

5. Comments from Executive Director, Resources

5.1 Revenue

The current revenue forecast for 2014/15 is a projected underspend of £0.5m.

The financial position facing the Council remains very challenging for 2014/15 with continued implementation of unprecedented cuts in formula and specific grants. In parallel with this the Council's budget incorporates very large savings targets resulting from abc service reviews. Whilst it is important to reiterate that the 2014/15 budget is a robust one, this report reflects that there are some areas with challenging budget pressures that need to be addressed.

The most challenging areas are children's social care services, which continue to face very significant service and financial challenges this year. The volume of cases and the cost of care for looked after children and for safeguarding other children and young people who cannot otherwise live safely with their families continues to represent a large service and budget pressure. Notwithstanding additional resources approved for this area within the 2013/14 financial monitoring process (£1.1m), 2013/14 Outturn Report (£4m) and 2014/15 Budget Setting Report (£3.4m), there are further pressures of £4.8m forecast within this report. It is clear that a very significant medium term expenditure pressure is emerging that will need to be addressed within the 2015/16 Budget Setting process.

We are forecasting that the Asset Management Revenue Account will continue to deliver significant savings attributable in large part to efforts to minimise the level of borrowing that the Council has required. As these crystallise they will be built into future medium term financial forecasts.

5.2 Capital

The Capital Programme shows a projected balanced position for 2014/15.

The overall level of prudential borrowing required in 2014/15 has decreased by £12.9m (£50.8m at quarter 1). Of the £37.9m total borrowing now forecast, £24.3m relates to spending on specific schemes approved by Cabinet. This figure has decreased by £5.8m since Quarter 1 as a result of delaying the purchase/lease of new vehicles and the resource switch from prudential borrowing to revenue contribution approved as part of the 2013/14 Outturn Report in relation to leisure facilities. Borrowing which has previously been approved but not undertaken has also reduced from Quarter 1 by of £7.1m

The Executive Director Resources will review the overall level of prudential borrowing undertaken in 2014/15 together with other sources of funding as part of the year end process and continue to re-evaluate future capital spending profiles taking into account economic circumstances, the ability to generate capital receipts and the profile of other areas of significant investment managed by the Council.

5.3 The Customer Services Centre

The Customer Services Centre (CSC) over floors 1 and 2 of Broadgate House is a key part of the Council's wider customer transformation and property rationalisation plans which will secure existing £0.5m p.a. savings targets within the abc programme and further proposed savings of £5m p.a. that will be set out as part of the forthcoming Pre-Budget Report associated with the Kickstart and Customer Journey programme which will modernise and improve the way the Council interacts with its customers. The changes will bring together into one place by September 2015 improved conferencing facilities for customers attending safeguarding and youth offending appointments, the Council's currently disparate city centre based customer facing reception points (including housing benefits, council tax, planning and social care) and the contact centre. The CSC will provide for the first time a modern and efficient city centre based environment for our customers. The remodelled building will also include a variety of self service facilities to encourage customers to interact with us in different ways, which is an important part of the Council being able to focus diminishing resources and face to face support on the most vulnerable in the City.

The original report to Members in June 2013 approved all of the changes to kickstart the Friargate business district, transform the Council and deliver savings. At that stage, the Broadgate House CSC had not been through a full feasibility study and an early capital estimate of £1m was included in the one off capital cost of £59m for the overall programme, all of which is financed and delivers ongoing revenue savings. This £1m scheme was always recognised as sub-optimal, as it did not include ground floor access to the new customer facility. Finance and budgetary risk has always been recognised on the programme, reported and actively mitigated where possible.

A full CSC feasibility study has now been completed, and a revised and much improved scheme has been developed, which recognises the importance of using this one-off opportunity to provide the best possible facilities for the Council's customers. The costs of delivering the required changes are now estimated at £3m. This has been arrived at following the appointment of the architect and cost consultants and a subsequent review of all elements of the project to reduce them to their lowest cost. There are several reasons for the revised estimate. Firstly, the level of remodelling required on the second floor of the building which is much greater than originally anticipated at business case stage when the exact layout and nature of the CSC had not been developed. Refurbishment projects are inherently more difficult to deliver and cost for compared with new build projects, given the need to work with the challenges of the existing building – in this case the cellular nature of the second floor, its access and the fact that the building has listed status. The designs have also introduced a new ground floor access from a vacant shop in the upper precinct, which will also enable lift access via the shop to the first and second floor. This will provide very significantly improved customer experience within the new CSC, and allow it to meet accessibility requirements which are essential for our customers – previously access would have been via the ramp to the first floor level. Higher than expected construction inflation has also contributed to the increase in costs.

This one off investment will be funded from any underspending in this year's revenue and capital programmes and if necessary a contribution from reserves. It will enable the Council to continue with its plans to transform the customer experience and deliver on-going revenue savings as part of the Kickstart and Customer Journey business case.

5.4 City College Car Park

In 2009, as part of the Swanswell development, the Council granted a long lease to the City College for a multi-storey car park, at a rent of £315k p.a. over 30 years. To date, the College has made 5 payments covering the period 2009/10 to 2013/14. In recent times the City College has received an "inadequate" rating from Ofsted and a notice of concern issued by the Skills Funding Agency (SFA). Following a re-inspection by the SFA the notice of concern was lifted in July 2014. However, the significant financial cost of investing in the post inspection action plan together with the underachievement of income targets have resulted in a forecast deficit of approximately £2.5m in 2013/14, before restructuring costs which will be over £1 million. A detailed Recovery Plan has been produced and the college is in discussion with its partners and stakeholders, including the City Council. As part of a package of measures under consideration within the recovery plan, the college has requested a temporary reduction in the rent payable in order to help manage the financial pressures.

Discussions with the College have been undertaken and it is proposed that the car park lease is varied to reduce the rent payable by a maximum of £210,000 p.a. over 3 years from 2014/15, with the rent being recovered over a maximum period of 7 years from 2017/18. It is further proposed that responsibility for finalising the lease variation is delegated to the Executive Director Resources in line with the above.

5.5 Legal implications

None

6. Other implications

6.1 How will this contribute to achievement of the council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / LAA (or Coventry SCS)?

The Council strives to monitor the quality and level of service provided to the citizens of Coventry and the key objectives of the Council Plan despite financial pressures. As far as possible we will try to deliver better value for money in the services that we provide and achieving the same or better level of service with fewer resources.

6.2 How is risk being managed?

The need to deliver a stable and balanced financial position in the short and medium term is a key corporate risk for the local authority and is reflected in the corporate risk register. Budgetary control and monitoring processes are paramount to managing this risk and this report is a key part of the process.

6.3 What is the impact on the organisation?

In Quarter 2 there is a forecasted underspend. The Council will continue to ensure that strict budget management continues to the year-end.

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

No impact

6.6 Implications for partner organisations?

None

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Revenue Position: Detailed Directorate Breakdown of Forecasted Outturn Position

Appendix 1 details directorates forecasted variances.

	£m	**People Directorate**
Child Protection	2.0	A combination of various pressures in children's social care ranging from: a) social work and admin staffing costs due to high levels of activity, meaning we are using agency staff and permanently recruiting additional social workers in line with the OFSTED action plan b) the implementation of the Multi-agency Safeguarding Hub and a Child Sexual Exploitation team c) legal costs driven by high activity levels (currently around 100 cases) and barrister fees, and additional staffing in line with the OFSTED action plan d) discretionary payments to prevent children from becoming looked after, largely made up of housing costs for families who are homeless or in temporary accommodation, or for families awaiting benefits or with no recourse to public funds.
Mental Health & Learning Disabilities	1.9	Mental Health Community Purchasing continues to see a forecasting increase with an overspend position of £1,013k as a result of increasing numbers of service users requiring city council funding. Packages continue to be reviewed to ensure all funding options are identified. LD Community Purchasing is overspent £954k, mainly as a result of transitions and on-going out of city placements.
Looked After Children Services	1.7	The main overspend of £1.0m is due to high looked after Children (LAC) activity - quarter 2 financials are based on 616 LAC. However, numbers and costs have decreased significantly since quarter 1 when the forecast was based on 628 LAC. The most significant variations have arisen as fostering numbers are not as expected. The target for internal fostering is 180 - actual is only 150, while the target for more expensive external fostering placements is 233 - actual is 270. Special Guardianship payments are over budget by £407k. This is due to the approved increase in allowances, and higher SGO numbers.
Catering	0.7	The Introduction of Universal infant free School Meals and the associated forecast income would have provided the income required to reduce the services corporate overhead commitment. The loss of a number of schools to other contractors has resulted in the service being unable to achieve the income target that has been set.
Strategy & Commissioning (CYLP)	0.6	Contract efficiencies & vacant post savings of (£269k) off-set by supported accommodation & 'staying put' contract pressure of £853k.
Adult Social Care Provider Services	0.6	Housing with Care & Older People Day Opportunitiess over-spend of £448k arising from salary related pressure and short-fall of income against budget. This is partly offset by an underspend of £122k within Residential Services. Mental Health & Learning Difficulty services are showing a forecast over-spend of £248k arising from salary related pressure & a short-fall of income against budget.
Safeguarding	0.3	Difficulties in recruiting to IRO and Manager vacancies has resulted in requirement to use significantly higher cost agency staff.
Strategy, Commissioning &Transformation	0.2	This overspend relates to project delivery costs to deliver the A Bolder Community Services Savings targets

Inclusion & Participation	0.2	Mainly down to the SEN transport overspend of £212k
Public Safety	0.1	Shortfall in meeting Management of Vacancy target based on existing establishment
SCTEI Strategic Management	(2.1)	This is the financial strategy deployed to balance the directorate's bottom line including contributions from reserves, and utilisation of non-ring-fenced grant funding for existing expenditure. The variance against this relates to additional contributions from reserves, and additional savings identified throughout the year.
Strategic Commissioning (Adults)	(0.7)	This underspend is the effect of staffing efficiencies and a number of contractual changes and efficiencies over and above the A Bolder Community Services **programme.**
Older People & Physical Impairment	(0.5)	OP Community Purchasing is overspent by £894k. There has been a positive impact resulting from Electronic Call Monitoring with package costs reducing, however numbers of packages have increased. Residential Home costs have increased; this is attributable to a slight increase in number of admissions. Management actions associated with the implementation of telecare and further benefits from ECM will improve the position further. Alongside this overspend is a continuing underspend within Physical Impairment Services of (£1,323k) as well as a (£78k) salary saving across the teams
Early Years, Parenting and Childcare	(0.4)	An additional £100k income has been received for 2 year olds for Access & Inclusion. Savings have been achieved through holding vacancies, pending finalisation of the service reviews for Nurseries and Children's Centres.
Business Performance (SPQ)	(0.2)	Two thirds of this underspend is attributable to a windfall underspend from budgets which relate to closed historic pension payments. This budget is no longer active, but will gradually reduce over time. The other third of the underspend relates to the holding of vacancies pending a restructure in the service.
	0.1	Other Variations Less Than £100k
	4.5	**Forecast Overspend**

	£m	**Place Directorate**
Waste and Fleet Services	0.8	This is primarily pressure on the cost of domestic waste disposal arising as a result of a combination of increased tonnages (more properties and more waste per property) and increased gate fees. As well as a reduction in clients, Commercial Waste has also seen an increase in tonnages and waste disposal costs, the majority of which cannot be passed on to customers until prices have been reviewed. There are also expected to be some salary pressures and additional fleet costs on Domestic Waste, which are being partly offset by reduced spend on Fleet & Workshops.
Streetpride & Greenspace	0.5	This overspend is due partly to income pressures, in particular Crematorium income and parking income at Coombe, together with the need to maintain service continuity for the Streetpride team
Commercial Property	0.4	Rental income forecast is greater than the previous year, however historic financial performance cannot be achieved in the current market. This, combined with associated void rate pressures (despite significant management actions) forms the basis of the overspend.
Technical Services	0.1	Projected pressure primarily due to lower than required volumes of project work in Project Delivery
Directorate and Support	(0.4)	Management action planned to offset wider directorate pressures
Property Asset Management	(0.3)	This largely reflects the delivery of some savings towards the Strategic Property FSR in advance of 15/16.
Building Sustainable Communities	(0.2)	This is primarily due to overachievement of income in relation to the establishment of a new emissions trading scheme and from an increase in fees to schools for the provision of Display Energy Certificates.
Cultural and Sport	(0.1)	Underspend is due to staff freeze pending a review
Building Control	(0.1)	The forecast over-recovery is based on the current Building Control shared service operating model. It assumes same level of income performance with a reduced number of Building Control staff.
	0.7	**Forecast Overspend**

	£m	**Resources Directorate**
Resources Mgt Team & Overheads	0.9	Salary overspend plus additional costs for judicial review
HR Support	0.4	Underachievement of Turnover Target for all HR areas
ICT operations	0.3	Procurement savings targets not being delivered due to delays and other difficulties; Mobile phone dual running; Software pressures mainly arising from inflation on systems plus some underachievement of Turnover Target.
Post and Print	0.2	This relates to corporate MFD expenditure. A greater level of control may need to be put in place to ensure adoption of Kickstart principles and so reduction in spend.
ICT Strategy & Architecture	0.1	Procurement savings targets not being delivered due to delays and other difficulties, plus some underachievement of Turnover Target.
Talent & Skills Team	(0.7)	Vacancies plus underspend on external training partly due to a period of transition both in People's Directorate and Workforce Development and better management of external training spend
HR recruitment	(0.5)	Increase in Agency Rebate due to increased use of Agency staff in People Directorate.
Financial Mgt	(0.3)	Underspend on salaries; Income Nuckle & RGF; additional income from schools; underspend on Other Local Authorities.
Benefits	(0.2)	Underspend on Community Support Grants
Customer Service Centre	(0.2)	Salary underspend - restructure in progress.
Electoral Registration	(0.1)	Funding contribution to IER has offset Electoral registration costs
ICT Mgt	(0.1)	Staff vacancies on ICT Management Team - Management Restructure in progress. Overall salaries across ICT show minimal variance.
	(0.3)	Other Variations Less Than £100k
	(0.5)	**Forecast Underspend**

	£m	<u>**Contingency & Central Budgets**</u>
ER/VR Contribution	3.0	Recommended contribution to set aside resources to fund future costs arising from redundancy and early retirement decisions
ABC Savings	1.0	Overspend relating principally to non-achievement of previous abc target saving relating to Demand Management. For future years this will be incorporated within overarching strategies balance the budget.
Asset Management Revenue Account	(5.4)	£4.5m within the Asset Management Revenue Account relating in large part to reduced previous capital spend and planned borrowing needs with consequent reductions in debt costs.
Pay, Price and Energy Contingencies	(3.3)	Lower than anticipated costs across contingencies. Further work is now being implemented to centralise management and control of salaries budgets that will help to maximise future savings in this area.
	(0.4)	Other Variations Less Than £100k
	(5.1)	**Forecast Underspend**

Capital Programme: Analysis of Budget/Technical Changes

SCHEME	EXPLANATION	£m
PEOPLE DIRECTORATE		
Housing Policy (Siskin Drive)	The HCA element is being taken out of the capital programme (see report managemant of council land - Cabinet on 07/10/2014)	-1.1
SUB TOTAL - People		**-1.1**

SCHEME	EXPLANATION	£m
PLACE DIRECTORATE		
Integrated Transport Programme	£150k from Centro for Major Scheme Develoment Coventry Station Masterplan.	0.2
South West Coventry Jnct Imp Programme	University of Warwick contribution to the works that the City Council is carrying out around the University.	6.6
Canely Crematorium - New Burial Graves	As per report taken to Cabinet Member (Public Services) 'Creating additional Burial Space at Canley Garden Cemetery adjacent to Charter Avenue' on Tuesday 29th July 2014.	0.1
Super Connectivity	Expected outcome given the substantial change in the project. DCMS has reduced the number of businesses we are due to connect from 800 to c260. Equally some of the more expensive connection mechanisms proposed by suppliers have not been deemed eligible The budget therefore overstates the likely position and has been amended to reflect the forecast	-1.5
Tackling Fuel Poverty	The contractor (Kier Services) were able to raise an additional c.£230k by exceeding carbon savings targets. This has resulted in a reduction in the grant required to fund the Scheme.	-0.2
Public Realm 3	New programme of works utilising ERDF to part fund Gosford Street, Belgrade Plaza and the Canal Basin Junction 1 public realm improvements. (see report Public Realm 3 - Cabinet on 07/10/2014)	3.0
SUB TOTAL - Place Directorate		**8.1**

RESOURCES DIRECTORATE		
Strategic ICT Projects	£450k resourced switched to revenue for the Microsoft Enterprise Licences, £44k switched to revenue for INFORM	-0.5
SUB TOTAL - Resources Directorate		**-0.5**

TOTAL PROGRAMME CHANGES	**6.5**

Capital Programme: Estimated Outturn 2014/15

The table below presents the revised estimated outturn for 2014/15.

DIRECTORATE	ESTIMATED OUTTURN PERIOD 3 £M	APPROVED / TECHNICAL CHANGES £M	OVER / UNDER SPEND NOW REPORTED £M	RESCHEDULED EXPENDITURE NOW REPORTED £M	REVISED ESTIMATED OUTTURN 14-15 £M
PEOPLE	43.0	(1.1)	0.0	(4.1)	37.8
PLACE	105.2	8.1	(0.2)	(9.5)	103.6
RESOURCES	7.3	(0.5)	0.0	0.0	6.8
TOTAL	**155.5**	**6.6**	**(0.2)**	**(13.6)**	**148.2**

*The "Feb 2014 Directorate Programme" figure presented in the above table reflects the capital programme as presented in the February Budget Setting report, revised to take into account the net impact of rescheduling expenditure between 2013/14 and 2014/15.

Appendix 4

Capital Programme: Analysis Of Rescheduling

SCHEME	EXPLANATION	£m
PEOPLE DIRECTORATE		
Basic Need - Primary Schools Expansion Programme	Rescheduling of £3.6million into 2015/16 – funding was to support the delivery of three further primary school expansions at Mount Nod, Pearl Hyde and Keresley Grange. These have been deferred pending further review of pupil numbers/ forecasts in the respective planning areas to quantify potential implications for neighbouring schools.	-3.6
Condition	The Service currently occupies the annexe building at Whitmore Park Primary School, which is in a poor state of repair. £335k was allocated in 2014/15 to address the condition issues but this scheme has been put on hold as a result of the on-going review of educational services. Now rescheduled into 2015/16.	-0.3
Early Years	Demand led and therefore extremely difficult to forecast outturn position.	-0.2
SUB TOTAL - People		**-4.1**

SCHEME	EXPLANATION	£m
PLACE DIRECTORATE		
Nuckle	The final construction contract awarded to Buckingham has a different cash flow profile than that assumed in January 2014, principally because it is based on the profile of actual construction activities for this project rather than the generic project cost s-curve that the previous estimate was based upon. Built within the cash flow includes an element of contingency for unforeseen risk and these follow the construction costs. The final construction programme is still on target for completion by May 15 so still within the original timescale.	-3.3
Growing Places Fund	The delivery partner has found that it has taken longer than anticipated to complete loan offers and draw down the cash.	-2.8
RGF3 Business Grants	Re-profiling RGF to align with when the activity is now planned to happen.	-0.6
RGF3 Friargate Bridgedeck	The Friargate bridge expenditure profile has been accelerated to reflect the latest contractor programme and cash flow. Costain are forecasting £14.93M expenditure by end of March 2015, and additional to this is professional fees, all of the programme design fees, Network Rail fees, other contractor works and enabling works.	2.3
RGF3 M40 Junction 12	Re-profiling RGF to align with when the activity is now planned to happen.	-0.4
RGF4	Re-profiling RGF to align with when the activity is now planned to happen.	-0.6

RGF2 Wave 2 Growth Hubs	Re-profiling RGF to align with when the activity is now planned to happen.	-0.5
Lythalls Lane (CIF)	The programme has slipped by at least 6 months as we found out that part of the development still had on-going leases until February 2015 which had not been declared as part of the due diligence . We have consequently revised the programme and reduced the amount of budget required as it is likely March will be the first significant claim by a contractor.	-0.1
Play Areas (NEW)	The primary reason for rescheduling is due to a decision to delay spend on sports pitch improvements pending the outcome of external funding bids to the Football Foundation, which if successful, will match the funding the Council has for this work. As the funding process and timescale is dictated by the potential funder, there are no firm dates at present when these S106 contributions will be spent, however, progress on the bids will be provided via the quarterly reporting process	-0.5
Vehicle & Plant Replacement	Delay in the purchase of 5 Cars, 5 Refuse lorries, 28 mini buses and 8 Other vehicles.	-2.7
Integrated Transport Programme	Additional costs will be incurred as a result of unplanned optioneering work that has been required to address previously unidentified land issues impacting the deliverability of the originally planned works. Also in order to ensure the deliverability of key elements of the project, some design work for new station canopies and a footbridge between station platforms previously planned for 2015/16 needs to be bought forward to the current financial year.	0.1
Miscellaneous	Net Rescheduling	-0.5
SUB TOTAL - Place Directorate		**-9.5**

TOTAL RESCHEDULING	**-13.6**

Capital Programme: Analysis of Over / Under Spend

SCHEME	EXPLANATION	£m
PLACE DIRECTORATE		
AT7 Centre	The forecast underspend has resulted as a consequence of careful monitoring of the contract against the original target budget. Throughout the process a ‘ best value ’ approach was adopted by the Client Team and a number of potential variations presented opportunity to challenge certain design concepts resulting in significant savings being realised. An example being a £40k saving being achieved through a redesign of the perimeter access route”.	-0.2
SUB TOTAL - Place Directorate		**-0.2**
TOTAL RESCHEDULING		**-0.2**

Prudential Indicators

Indicator	per Treasury Management Strategy	As at 30th Sept 2014
Ratio of Financing Costs to Net Revenue Stream (Indicator 1), illustrating the affordability of costs such as interest charges to the overall City Council bottom line resource (the amount to be met from government grant and local taxpayers).	14.24%	13.02%
Gross Borrowing should not, except in the short term, exceed the estimated Capital Financing Requirement (CFR) at the end of 3 years (Indicator 3), illustrating that, over the medium term, net borrowing (borrowing less investments) will only be for capital purposes. The CFR is defined as the Council's underlying need to borrow, after taking account of other resources available to fund the capital programme.	Year 3 estimate / limit of £539.8m	£375.0m Gross borrowing within the limit.
Authorised Limit for External Debt (Indicator 6), representing the "outer" boundary of the local authority's borrowing. Borrowing at the level of the authorised limit might be affordable in the short term, but would not be in the longer term. It is the forecast maximum borrowing need with some headroom for unexpected movements. This is a statutory limit.	£515.4m	£375.0m is less than the authorised limit.
Operational Boundary for External Debt (Indicator 7), representing an "early" warning system that the Authorised Limit is being approached. It is not in itself a limit, and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.	£475.4m	£375.0m is less than the operational boundary.
Upper Limit on Fixed Rate Interest Rate Exposures (Indicator 10), highlighting interest rate exposure risk. The purpose of this indicator is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position.	£441.5m	£250.7m
Upper Limit on Variable Rate Interest Rate Exposures (Indicator 10), as above highlighting interest rate exposure risk.	£88.3mm	-£62.5m
Maturity Structure Limits (Indicator 11), highlighting the risk arising from the requirement to refinance debt as loans mature: < 12 months 12 months – 24 months 24 months – 5 years 5 years – 10 years 10 years +	 0% to 30% 0% to 20% 0% to 30% 0% to 30% 40% to 100%	 15% 0% 9% 6% 71%
Investments Longer than 364 Days (Indicator 12), highlighting the risk that the authority faces from having investments tied up for this duration.	£10m	£0

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Coventry City Council

Public report
Cabinet Report

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet	04 November 2014
Council	11 November 2014

Name of Cabinet Member:
Cabinet Member (Strategic Finance and Resources) – Councillor Gannon
Cabinet Member (Business, Enterprise and Employment) – Councillor Maton

Director Approving Submission of the report:
Executive Director, Resources
Executive Director, Place

Ward(s) affected:
City wide

Title:
Investment in an Energy Performance Contract (Re:Fit)

Is this a key decision?
No

Although the proposals in the report will have an effect on all wards in the city, it is not anticipated that the effect will be significant

Executive Summary:

The Council has made a commitment in its Carbon Management Plan, to achieve a 35% reduction in carbon emissions by 2020. The refurbishment of existing buildings is a key requirement to reduce the carbon emissions to support the achievement of the ambitious carbon reduction targets. The use of an energy performance contract like Re:Fit will support the Council in being able to make energy cost and carbon savings. This contract model transfers risk of performance to the Re:Fit contractor / Energy Services Company (ESCo's) as they have to guarantee the energy savings to be made over an agreed period. The initial capital investment is offset by the guaranteed savings offered by the ESCo's, providing a cost neutral solution for energy efficiency projects (from low energy lighting to solar pv etc) over a specific term.

In addition to the Council buildings, the initial phase of the project includes a number of schools and Coombe Abbey Park Hotel. The total value of the project and the capital investment

required for Re:Fit is estimated to be £1.00m (plus fees for due diligence and for access to the framework contract), with over 60% of the required funding being sought from Salix Finance. Salix provide interest free loans for public sector investment in low carbon and energy efficiency measures, with the remaining funding being sought from prudential borrowing.

Approval of the recommendations would mean the Council will prudentially borrow up to a cap of £0.37m to provide investment for the Re:Fit programme as an addition to the existing approved capital programme. Local Partnerships, a joint local government association (LGA) and Treasury agency have undertaken some initial work on the selected buildings. For the Council owned and occupied buildings they have estimated savings of £0.03m pa, for a capital investment of £0.23m funded from prudential borrowing and Salix Finance.

The majority of the prudential borrowing will be used to provide a loan to Coombe Abbey Park Limited (CAPL) to enable them to meet the capital costs for the project. This funding would be provided on commercial terms, allowing the Council to generate a surplus on the margin applied to the capital financing costs. Any costs associated with the due diligence for loan financing will be passed to the CAPL, by adding it to the value of the loan. Energy savings will be used to repay the loan finance secured.

The exact value of the capital investment will not be known until the contractors on the framework return their procurement response. This project has already received approval to proceed to procurement by the Place Panel, subject to the availability of funding as requested in this report.

Recommendations:

Cabinet is asked to recommend that Council:

(1) Approve the use of its powers under the Local Government Act 2003 to prudentially borrow the sum of £0.37m to provide investment for the Re:Fit programme as an addition to the existing approved capital programme.
(2) Approve the Council entering into a contract with Salix for access to interest free loan finance (£0.16m) for investment in the Council buildings, where the energy efficiency measures meet the conditions for such funding, reducing the need for prudential borrowing.
(3) Approve the Council acting as a guarantor for the Salix funding (£0.50m) provided to schools participating in the Re:Fit programme.
(4) Approve the use of its powers under the Localism Act 2011 to provide a loan to Coombe Abbey Park Limited (CAPL) plus the costs of any due diligence, on commercial terms to be met from prudential borrowing (as detailed in recommendation 1).
(5) Delegate authority to the Executive Director, Resources and the Council Solicitor to agree detailed terms of the transaction between CAPL and the Council.
(6) Delegate authority to the Executive Director, Resources and the Council Solicitor as appropriate, to sign the loan agreement and other ancillary documentation as is necessary to complete the financing transaction with CAPL, based on the proposals detailed in this report.

Council is asked to:

(1) Approve the use of its powers under the Local Government Act 2003 to prudentially borrow the sum of £0.35m to provide investment for the Re:Fit programme as an addition to the existing approved capital programme.
(2) Approve the Council entering into a contract with Salix for access to interest free loan finance (£0.16m) for investment in the Council buildings, where the energy efficiency measures meet the conditions for such funding, reducing the need for prudential borrowing.

(3) Approve the Council acting as a guarantor for the Salix funding (£0.50m) provided to schools participating in the Re:Fit programme. Energy savings will be used to repay the loan finance secured.
(4) Approve the use of its powers under the Localism Act 2011 to provide a loan to Coombe Abbey Park Limited (CAPL) plus the costs of any due diligence, on commercial terms to be met from prudential borrowing (as detailed in recommendation 1).
(5) Delegate authority to the Executive Director, Resources and the Council Solicitor to agree detailed terms of the transaction between CAPL and the Council.
(6) Delegate authority to the Executive Director, Resources and the Council Solicitor as appropriate, to sign the loan agreement and other ancillary documentation as is necessary to complete the financing transaction with CAPL, based on the proposals detailed in this report.

List of Appendices included:
None

Other useful background papers:
None

Has it been or will it be considered by Scrutiny?
No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?
No

Will this report go to Council?
Yes – 11 November 2014

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Report title: Investment in an Energy Performance Contract (Re:Fit)

1. Context (or background)

1.1 Coventry City Council (CCC) is determined to lead the city to a sustainable and low-carbon future that will ensure that residents, visitors and businesses choose Coventry as a preferred location in which to live, work and invest. Investments in Heatline, Coventry's district heating network and low carbon vehicles highlight areas where the Council has led by example. The use of an energy performance contract (EPC) provides another opportunity for the Council to invest now to deliver financial savings and reduce carbon emissions. This programme allows for a joined up approach towards investment in low carbon technology, with guaranteed savings.

1.2 The Council has made a commitment in its Carbon Management Plan, to achieve a 35% reduction in carbon emissions by 2020. The use of an energy performance contract like Re:Fit will support the Council in being able to make energy cost and carbon savings. The refurbishment of existing buildings is a key requirement to reduce the carbon emissions to support the achievement of the ambitious carbon reduction targets.

1.3 Re:Fit was procured by the Greater London Authorities (GLA) to allow cost neutral low carbon investment (from low energy lighting to solar pv etc) in public sector buildings with guaranteed savings for an initial investment. There are 12 Energy Service Companies (ESCos) on this ready to use procurement framework. The companies on the framework have already undergone part of the procurement process, so the process for selecting and appointing a contractor to deliver an energy performance contract is much quicker than a full Official Journal of the European Union (OJEU) procurement.

1.4 The rationalisation of Council buildings as part of the Property Fundamental Service Review (FSR) and the relocation of the Council's back office functions to Friargate, has limited the buildings that could be included as part of the first phase of this project. The properties that are being considered as part of Re:Fit are key operational properties the Council will continue to operate, including a number of schools, Canley Crematorium, Coombe Abbey Visitors Centre and Coombe Abbey Hotel. Details for the buildings that will be part of phase 1 are included in Table 1.

1.5 Details of the proposal were shared with the Coventry and Warwickshire Local Enterprise Partnership (CWLEP) Energy Business Group; and Warwickshire County Council and some of the District authorities are considering being part of phase 1 of the project. Each Council would be responsible for financing their own capital costs and for meeting a proportion of the project management costs. Discussions are also taking place with Orbit Housing and Coventry University, who are considering being included in Re:Fit phase 1. The benefit of other authorities and partners being part of phase 1 is the increased scale and variety of buildings, which may attract more competitive bids from the suppliers on the framework.

1.6 Leeds Council and Nottingham Council have both used the Re:Fit framework, for investment in 10 buildings and a capital investment of £1.0m. Most energy efficiency initiatives have resulted in a guaranteed payback over 5-7 years.

2. Options considered and recommended proposal

2.1 Option 1: Do nothing

2.2 The Council has a commitment to achieve a 35% reduction in carbon emissions by 2020. Not retrofitting / refurbishing the retained Council buildings with energy efficiency measures will put achieving the Council' target reduction in carbon emissions at risk. Phase 1 alone would reduce the Council's emissions by 2%.

2.3 Option 2: Adhoc / one off investment in energy efficiency and low carbon projects

2.4 The Council has already invested in separate initiatives such as the replacement of lighting within buildings from fluorescent bulbs to LED.

2.5 We have explored opportunities for solar PV and biomass in some schools and the Council buildings, but many of these projects in isolation resulted in a long payback. If initiatives are considered as a package, it may make the initial capital investment more appealing, as some projects would deliver financial benefits sooner.

2.6 If energy efficiency measures are considered as separate projects, the lead in time for procurement and implementation would be duplicated for each initiative.

2.7 Option 3: Procure an ESCo partner outside of the Re:Fit framework

2.8 The Council could undertake a full procurement exercise to secure an ESCo partner outside the Re:Fit framework, but the timescales for this would be longer and the process would be more costly for the Council and partners. The companies on the Re:Fit framework have already undergone part of the procurement process, so the process for selecting and appointing a contractor to deliver an energy performance contract is much quicker than a full OJEU procurement.

2.9 This option may deliver the same financial benefit and carbon benefits as Re:Fit, but the costs to undertake this procurement would be greater as use of the Re:Fit framework also includes technical support from Local Partnerships through the procurement process, including access to template documents and contracts.

2.10 Option 4 and the recommended option: Procure an ESCo partner through the Re:Fit framework

2.11 Re:Fit is a ready for use, low cost procurement initiative that allows the public sector to carry out energy efficiency retrofit measures on existing buildings to cut energy costs, reduce carbon emissions and therefore carbon reduction commitment (CRC) liability.

2.12 The ESCo's on the Re:Fit framework will be invited to submit tenders outlining the type of technology, cost and impact for the stated capital investment to achieve a minimum level of energy / financial savings over a specific payback period.

2.13 The Invitation to Tender (ITT) documents for the procurement will include a number of specific conditions to ensure the procurement delivers the outcomes required.

- Minimum average reduction in carbon emissions of 15% (carbon tonnes) across all the buildings included in phase 1.
- Minimum average financial savings of 15% should be delivered as part of overall energy savings for the buildings included in the project.
- A minimum of 10% savings for the current energy costs associated with each building.
- Investment of £1.00m capital, with LEA schools being funded through Salix. A maximum investment for Coombe Abbey Park to the sum equivalent to the loan finance.

- To maximise the investment, where possible funding should meet the criteria for Salix.
- Savings should be delivered to reduce the on-going gas and electricity costs.
- Majority of savings proposed should result in the capital invested in an energy efficiency measure having a payback of between 5-8 years.

2.14 This contract model transfers risk of performance to the ESCo's as they have to guarantee the energy savings to be made over an agreed period. The initial capital investment is offset by the guaranteed savings offered by the ESCo's, providing a cost neutral solution for energy efficiency projects over a specific term.

2.15 The Council will seek to utilise Salix funding where possible. Salix Finance are an independent, not for profit company funded by the Department for Energy and Climate Change, who provide 100% interest free loans to the public sector to improve their energy efficiency and reduce their carbon emissions. Projects are required to have a payback period of up to 5 years for public buildings and up to 8 years for schools. Schools would apply directly to Salix for access to this funding and the agreement for repayment of the loan would be direct to Salix, but the Council will be required to approve the application for funding and act as a guarantor.

2.16 Department for Education has granted permission to Salix to provide loan funding to Academy schools, however a limited number of applications are supported each year, with a waiting list for further allocations. Academies are not able to borrow money from banks or other bodies, limiting the amount of external funding they are able to secure. If Finham Park School are unable to secure Salix funding, they will have to seek funding from alternative sources, or be excluded from phase 1 of the Re:Fit programme.

2.17 Salix funding can be used to invest in various energy efficiency measures such as insulation and building fabric improvements including draught proofing, lighting upgrades, building management system controls and boiler replacements etc. It can also be used to part fund a project that has a longer payback than Salix would allow, but it cannot be used to support the investment in onsite renewable energy eg solar PV, biomass etc, as these projects will attract government financial incentives such as feed in tariffs (FITs) or renewable heat incentives (RHI). Any proposals in relation to this type of investment would need to be funded through other means.

2.18 The initial phase of the Re:Fit contract will cover the Council, Coventry school buildings (included in Table 1) and Coombe Abbey Park Hotel.

Table 1: Estimated savings from the buildings included in Re:Fit phase 1

Buildings		Projected annual tonnes of CO2 saved	Total existing energy costs	Projected energy savings[1]	% Saving	Capital investment
Council owned and occupied						
1	Coombe Abbey Visitors Centre	11 tonnes	£11,126	£1,978	18%	£14,000
2	Canley Crematorium, Chapels & Lodge	44 tonnes	£67,678	£6,768	10%	£56,000
3	Council House	118 tonnes	£193,945	£23,273	12%	£148,000
4	Cheylesmore Manor House	6 tonnes	£8,534	£1,146	13%	£8,000

[1] The calculation of the energy savings is based on a desktop exercise comparing Chartered Institution of Building Services Engineers (CIBSE) benchmark energy consumption data with actual energy consumption figures. The CIBSE benchmarks provide representative values of energy consumption for common building types in kWh/m2/yr.

	Buildings	Projected annual tonnes of CO2 saved	Total existing energy costs	Projected energy savings[1]	% Saving	Capital investment
Total for Council owned and occupied			£281,292	£33,165	12%	£226,000
5	Barrs Hill Secondary School	73 tonnes	£78,747	£13,085	17%	£91,000
6	Stoke Park Secondary School	84 tonnes	£85,269	£15,676	18%	£106,000
7	Grangehurst Primary School	27 tonnes	£36,544	£5,290	14%	£34,000
8	Holbrook Primary School	62 tonnes	£39,843	£3,973	10%	£78,000
9	Stoke Primary	19 tonnes	£30,679	£3,677	12%	£23,000
10	Finham Park Secondary School	141 tonnes	£117,442	£26,053	22%	£177,000

2.19 Public buildings from other Coventry and Warwickshire organisations may be included in phase 1. Each organisation will be responsible for financing their own capital costs and for meeting a proportion of the project management costs.

2.20 Local Partnerships are a jointly owned Local Government Association (LGA) and Treasury agency; that are supporting the Council to deliver the Re:Fit programme. They have estimated an average savings of 15% across all buildings, with some buildings potentially being able to deliver up to 18% savings. The majority of savings relating to electricity usage rather than gas. Savings from the review by Local Partnerships appear low compared to RE:FIT in other local authorities, but this maybe due to the mix of properties being considered.

2.21 Over 70% of the proposed energy savings relate to schools. The Council should realise annual savings of £0.03m, based on the Council owned and occupied buildings alone. The age, building type and use of the building makes it difficult to realise further savings for the handful of operational Council buildings that will be affected. Actual savings will be known once the ITT documents including an investment grade proposal (business case) for each building and measure have been returned and the project has awarded a contract with a preferred bidder.

2.22 Savings are guaranteed by the energy company at the level included in the investment grade proposals. The Re:Fit contractor is obliged to deliver the financial savings, make payment at the same value, or invest their own capital in additional energy efficiency measures that will deliver additional the savings going forward.

2.23 To deliver this level of savings, Local Partnerships estimate c£1m capital investment will be required across all buildings. It is estimated that over 60% of the total funding will be from the Salix resource with the balance met by prudential borrowing.

2.24 In addition to financial savings this project supports the non-financial benefits associated with reducing carbon, which could support the Council remaining outside the scope for Carbon Reduction Commitment (carbon) tax. The Council buildings included in Re:Fit will reduce the Councils carbon emissions by 2%.

2.25 Further tranches of buildings will be pursued if additional finance becomes available and approval will be sought through the appropriate channels.

3. Results of consultation undertaken

3.1 The Council's Low Carbon and Sustainability Team have shared details of the Re:Fit scheme with all schools to understand the level of interest to participate as part of phase 1. No other consultation has been undertaken.

4. Timetable for implementing this decision

4.1 If the recommendations in this paper are approved, the project will publish the required procurement documents for the end of November. Estimated dates of project are summarised below:

- Procurement and ITT by end of November 2014
- Evaluation and contract award by end of January/ Mid February 2015
- Agree final proposals (IGP) and agree monitoring and verification plans by end of April 2015
- Plan works and mobilise by end of May 2015
- Start works July 2015
- Complete works by end of December 2015.

4.2 The project will be managed by the Low Carbon and Sustainability Team and energy savings will be monitored in line with the Council's existing energy management process,

4.3 The provision of any loan financing will be monitored by the Council's Corporate Finance Team, alongside existing Council investments.

5 Comments from Executive Director, Resources

5.1 Financial implications

5.2 The report proposes to invest up to £1.04m (including Schools) in energy saving initiatives, funded from a combination of an interest free (Salix) loan and prudential borrowing. In each case, the initial investments made will be repaid over short periods of time from the savings made. Table 2 summarises the indicative investment values.

5.3 The Council will incur a cost of 2% (£0.02m) of the contract value for the support of Local Partnerships. This cost will be added to the contract. This will not only provide their experience and hands on support to prepare and evaluate bids, but it provides access to tender document templates to reduce the timescales and effort on behalf of the Council. This cost will be shared with other partners who may participate in the scheme, reducing the cost burden for the Council.

5.4 Where the energy efficiency measure meets the conditions attached to Salix, this funding stream will be used in the first instance, before utilising Council resource. Of the total £1m capital investment, it is estimated that 23% will be required for the Council owned and occupied buildings to generate savings of £0.03m pa. Over 70% of the capital investment will be through Salix, with prudential borrowing being used for the balance.

5.5 Schools will apply directly to Salix for loan financing, but the Council will have to act as guarantor (LEA schools). The Council acting as a guarantor is perceived to be low risk and the Re:Fit model transfers the risk to the ESCo contractor, who guarantees the financial savings. Schools will need to be able to create a direct debit mandate from their bank account for the Salix loan repayments. If they are not able to do this, they will not be able to apply for funding. Any additional funding required by schools can be secured through a loan from the Credit Union facility available to schools.

5.6 Approval of the recommendations in this report would result in the Council providing a commercial loan to Coombe Abbey Park Limited (CAPL) the company that operates Coombe Abbey Park Hotel, to meet the capital investment required for Re:Fit. The Council will generate a surplus on the loan financing provided. The commercial terms of the loan are still to be finalised and it is proposed that the final details are delegated to the Executive Director, Resources and the Council Solicitor. The costs associated with due diligence are to be added to the value of the loan.

5.7 It is proposed that the savings in energy costs and the margin on the loan be used to support the savings targets as part of the Commercialisation and Income Maximisation review set out in the 14/15 budget.

5.8 The recommendations specifically for the Council are being made because Cabinet is minded to recommend to Council to approve the level of prudential borrowing up to £0.37m and the related loan to CAPL , which is in addition to the current agreed capital programme. The amount of prudential borrowing is greater than the amount required for the Council's investment and the provision of loan financing, to take account of the potential costs that would be incurred as part of the due diligence process and fees to use the Re:Fit framework. Only capital funding required for the programme will be requested through prudential borrowing.

5.9 There are financial and reputational risks associated with the recommended option, but there would be risks with alternative actions as well.

5.10 Legal implications

5.11 The Council will use its general power of competence (GPOC) under section 1 the Localism Act 2011 (the Act). This is a very broad power and Section 1 states that:-

I. A local authority has the power to do anything that individuals generally do. [The power] applies to things that an individual may do even though they are in nature, extend or otherwise:
II. Unlike anything the authority may do apart from subsection
III. Unlike anything that other public bodies may do.

5.12 Section 2 of the Act provides that where the GPOC is conferred on the authority to do something, it confers the power to do it in any way whatever, which includes the power to do it for, or otherwise than for the benefit of the authority, its area or persons resident or present in its area.

5.13 The limitations set out in Section 2 of the Act imposed on the GPOC do not apply to the loan to be made to CAPL and these are :

I. If the exercise of the GPOC overlaps with a pre-commencement power, then GPOC is subject to the same restriction as that power,
II. GPOC does not allow the Council to do anything which it is unable to do because of a pre-commencement limitation,
III. GPOC does not enable the Council to do anything which it is unable to do because of a post commencement limitation which is expressed to apply to GPOC.

5.14 The power to the Council to borrow funding to support investment in this programme is contained in section 1 (b) Local Government Act 2003 which allows the Council to borrow money for the purposes of the prudent management of its financial affairs.

5.15 The Council has the vires, to demonstrate that taking all circumstances into account that this is a reasonable decision to be taken by the Council and in accordance with its fiduciary duty.

5.16 Under EU legislation the public sector cannot support commercial organisations in such a way that would be seen as disadvantaging EU competitors and distorting the market. This is referred to as state aid. A due diligence exercise will need to be undertaken to assess whether any proposed loan arrangement falls within the market economy investor principle, where the basis of any loan arrangement is on terms that a private operator acting under normal market conditions would provide, so as not to constitute State Aid or can otherwise be made in compliance with the State Aid Rules

5.17 The Council is in a unique position as a landlord and shareholder for CAPL, not just a private investor. This supports the decision for the Council to provide additional finance to CAPL, on the commercial terms as detailed in the report, with security against the assets of CAPL from the previous refinancing undertaken in November 2013. The Council's position is secured because it is the freehold reversioner of the hotel property, so it cannot lose control of the asset if proactive action is taken. The Council already has a first ranking debenture from CAPL including a legal charge over the lease between the Council and CAPL as security for the loan.

5.18 The Council will enter into individual and separate Memorandums of Understanding with the Coombe Abbey Park Hotel, all Academies and all Schools involved in the initial phase of the Project to regularise the relationship between the Parties and evidence the method of financing to be employed for and by each organisation engaged in the project moving forward.

5.19 In undertaking a procurement by way of the Refit Framework Contract from which the Council shall "call off" an energy performance contractor, the Council shall be following a lawful process that is fully compliant with EU Procurement Regulations 2006 (as amended) and the Council's Rules for Contract.

6 Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

Retrofitting energy efficiency measures within Council buildings will reduce spends on energy and fuel. This contributes to delivering the Council Plan priority of reducing operating costs (low carbon).

A Re:Fit programme that includes public buildings owned by other organisations will contribute to reducing the spend on energy and fuel within the city, reduce carbon dioxide emissions and help tackle climate change.

6.2 How is risk being managed?

As part of the procurement documents, the Council will state the minimum outputs, as detailed in section 2.14, that are required as part of the project. If the contractors are not able to meet these requirements, no contract will be offered under this project. This will also mean any financing referred to as part of the report and project will not be provided.

Key risks associated with the proposal are in relation to the loan financing arrangements. The value of any finance provided to CAPL will be equal to the capital investment (plus due diligence costs) required for the related buildings as part of Re:Fit. The guaranteed savings from the Re:Fit programme will be used to repay the loan to the Council. This will be covered as part of the legal agreements in relation to the provision of financing and a back to back agreement with the Re:Fit Contractor in relation to the use of savings. If the energy savings are not sufficient to meet the capital financing costs, then the organisation that the loan is provided to will have to use their existing resources to meet any gap in repayments.

6.3 What is the impact on the organisation?

Reducing spend on energy and fuel contributes to delivering the Council Plan priority of reducing operating costs (low carbon) and so will result in saving's that can be used to support the Medium Term Financial strategy.

6.4 Equalities / EIA

An equality and consultation analysis was completed for the Coventry Re:Fit programme. This indicated that the programme has a neutral impact on equalities.

6.5 Implications for (or impact on) the environment

The estimated reduction in the Council's carbon footprint due to retrofitting tranche 1 Council buildings with energy efficiency measures is 180 CO_2 tonnes per annum.

A Re:Fit programme for Coventry led by the City Council demonstrates our commitment to becoming a 'resource efficient city and using energy wisely' as stated in the Climate Change Strategy for Coventry.

It will also contribute to maintaining the excellent performance in reducing carbon dioxide emissions of the City.

We will ask potential contractors about how much of the work they'd envisage could be carried out by local companies, which would not only reduce the impact on the environment, but will also support the local economy.

6.6 Implications for partner organisations?

The Energy Business Group of Coventry and Warwickshire Local Enterprise Partnership has been briefed on the Re:Fit model by Local Partnerships and has expressed a strong interest in adopting the Re:Fit model. Initially, this may involve public sector buildings across the county but there is also scope for buildings in the health, police and fire sectors to use the model. If approved, Coventry's experience with Re:Fit will be valuable in encouraging and assisting other partners across the county to join future schemes.

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Council Meeting

11 November 2014

Booklet 1

Questions

1.	**QUESTION SUBMITTED BY: Councillor Lepoidevin** **TO BE ANSWERED BY: Councillor Ruane**

TEXT OF QUESTION:

With the success of the governments Troubled Family programme, and the further announcement that this programme will be expanded until 2020. Could the Cabinet Member explain why Coventry
Was not in the top 51 performing authorities' to commence this programme as an early starter?

Could the Cabinet Member provide details of how many families have been identified to date? If any of these families have refused to engage with the programme, how many have refused?

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 14

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