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14 July 2011

To: All Members of the Cabinet
c.c. All other persons receiving Cabinet agenda

Dear Member,

Cabinet - Tuesday, 19th July, 2011

I attach a copy of the following reports for the above-mentioned meeting which were not available at the time of collation of the agenda:

7. FINANCIAL MONITORING

(Report of the Director of Corporate Resources – To be introduced by the Cabinet Member for Finance and Carbon Reduction): To consider a monitoring report on Services' budgets and requests for virements.

8. FINANCIAL PLANNING 2012/13 - 2014/15

(Report of the Director of Corporate Resources – To be introduced by the Cabinet Member for Finance and Carbon Reduction): To set out financial strategy issues for the three year planning period and to propose a process for setting the budget for 2012/13.

11. CHILDREN AND YOUNG PEOPLE'S SERVICE CAPITAL PROGRAMME UPDATE

(Report of the Director of the Children and Young People's Service – To be introduced by the Cabinet Member for Children's Services): To provide an update on projects, risks and budgets comprising the Building Schools for the Future and Primary Capital Programmes.

22. SOLAR PHOTOVOLTAIC PROGRAMME ON CORPORATE AND SOCIAL HOUSING BUILDINGS

(Joint Report of the Director of Place and Sustainability and the Director of Corporate Resources – To be introduced by the Cabinet Member for Finance and Carbon Reduction): To consider the business case for the installation of roof mounted solar photovoltaic on Council buildings.

Yours sincerely,

Richard Burbidge
Cabinet Committees Manager

Agenda Item 7

Haringey Council

Agenda item:

Cabinet 19 July 2011

Report Title.	The Council's Budget Management Performance – May 11
Report of	Director of Corporate Resources (Chief Financial Officer)
Signed :	J. Parker 12/7/11
Contact Officer :	Kevin Bartle – Lead Finance Officer Telephone 020 8489 5972 Graham Oliver – Head of Finance – Budgets, Accounting and Systems Telephone 020 8489 3725
Wards(s) affected: All	Report for: Key Decision

1. Purpose of the report (That is, the decision required)

1.1. To report, on an exception basis, the Council's budget management performance for the year to May 2011.

1.2. To agree the budget virements set out in this report in accordance with financial regulations.

1.3. To agree the recommendations set out in paragraph 4.

2. Introduction by Cabinet Member for Finance & Sustainability (Cllr Joe Goldberg)

2.1. The level of savings this Council has had to implement in 2011/12, and going forward, is unprecedented. I am particularly concentrating on ensuring close monitoring of the budget is being carried out and am personally involved in a regular monitoring meeting with the Heads of Finance.

2.2. I am most concerned that a net £1.6m overspend is being forecast and I shall be monitoring the position closely and intend to be reporting an improved position over the next few months.

3 State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 This report sets out performance against a number of indicators that measure progress against the Council's priorities.

4 Recommendations

4.1 To consider the report and the progress being made against the Council's 2011-12 budget.

4.2 To agree the budget changes (virements) set out in Appendix 2.

4.3 To require the Director of the Children's Service to take necessary action to bring current year spending to within the approved budget.

5 Reason for recommendation(s)

5.1 To ensure that Members are kept informed about the current financial position of the Council and actions being taken to ensure the Council delivers a balanced budget position at the year end.

6 Head of Legal Services Comments

6.1 There are no specific legal implications in this report.

7 Equalities & Community Cohesion Comments

7.1 Equalities are a central thread throughout the Council's performance and many of the indicators have equalities implications. Equality impact is considered alongside performance by services.

8 Consultation

8.1 Periodically throughout the year the report will show, as appropriate, the results of consultation with residents, service users and staff.

8.2 The Council consults widely on its budget proposals with residents, businesses,

service users and other interested parties.
9 Use of appendices /Tables and photographs 9.1 Appendix 1 - The aggregate projected revenue position in 2011/12. 9.2 Appendix 2 – Proposed Virements.
10 Local Government (Access to Information) Act 1985 10.1 Budget management papers 10.2 Business Plans

11. Background

11.1 This is the first budget management report for the current financial year, 2011/12 and provides the projected spend position for the Council based on the actual spend incurred to May 2011. The financial projections are based on the financial monitoring reports prepared for the budget review meetings for period 2.

11.2 This is the first of a new quarterly budget management report that Cabinet will receive. Following the Financial Management Support Functions Review and the consequent reductions to finance staff required to meet the savings targets the budget management process has changed and will now only be reporting to Cabinet on a quarterly basis. In the intervening period the high risk and volatile budgets of the Council will continue to be reviewed and challenged at the monthly meeting with the Director of Resources (Chief Financial Officer) and Chief Executive.

12 Budget Projections

12.1 There is a projected net over-spend at the year end of £1.6m based on the position as at the end of May. The reason for this projected overspend is the pressure within the Children's Service which is explained below. An analysis of the main variations, pressures and risks within each directorate is set out in the following paragraphs.

Adults and Housing

12.2 The Adults and Housing Directorate is currently projecting a balanced position by the year end. However, there are a number of risks which could impact this position. For both areas even a small increase in client numbers or cost of placement/accommodation could have significant effect on the year end projection. Specifically for Adult and Community Services it is anticipated that NHS North Central London will continue to review jointly or wholly NHS funded clients. At this time it is not possible to estimate the impact on the Council with certainty but the risk is highlighted in this report and mitigation plans are being put into place.

12.3 It should also be noted that there are pressures associated with achieving the Supporting People budget reductions approved in the Council's savings programme. However, these pressures are being mitigated by management action and should not cause a year end adverse variance.

Children's Services

12.4 A budget pressure is reported due to the continuing demands in the Looked After Children (LAC) budgets within the Children and Families Business Unit. The service has received significant investment as part of the 2011-12 budget setting process but the early indications are that some of the on-going pressures present in 2010-11 remain or have increased further.

12.5 Analysis of the Children's Services budget identifies an overall gross pressure of some £2.5m in safeguarding. The Directorate has taken management action to reduce the net outturn position for Children's Services to a projected £1.6m but there remain significant risks within the key budget areas that indicate a worsening position is also possible. For this reason, therefore, it is deemed prudent to alert Members that the budget pressure in Children's Services could rise, over the course of the year, to a net figure closer to £2.5m if, for example, further additional costs associated with Looked After Children are experienced.

12.6 In the light of this position the Director has, in consultation with the Chief Executive, re-introduced for the Children's Service both a recruitment control mechanism and a spending embargo on non staff related spending that was in place during part of 2010-11 across the Council. The Chief Executive is now leading a short term piece of work to ensure that there is a robust recovery plan in place.

12.7 The Directorate is looking at all opportunities to further mitigate this overspend and these will be reported to Cabinet in due course.

12.8 The number of Looked After Children (LAC) at 603 is some 43 above the number assumed in setting the 2011-12 budget (560). This also represents an increase of 6 over the number in the previous month. A particular issue this month has been specific police action targeted at trafficked children which resulted in 7 additional children being taken into care simultaneously.

12.9 Salary pressures are also apparent in all of the key teams dealing with children's safeguarding services. The main cause of this is the cost of employing agency staff at rates above those assumed in setting the budget. Across the three main areas (First Response, Safeguarding and Support and C-i-C, Leaving Care and Asylum) an overspend of £743,000, which is incorporated within the gross position, is anticipated which represents 0.08% of the overall salaries budget across these areas.

12.10 There is an increasing financial cost of maintaining existing services in Early Years services following the savings programme decision to implement significant reductions to that budget. Following the recent call-in of the decision, alternative plans and proposals are currently being developed in conjunction with the Haringey Children's Centre Alliance (HCCA). The estimated cost of the delay associated with the Children's Centre element of the savings programme is now approaching £0.7m (previously estimated at £0.6m), although this can currently be off-set by the corporate risk provision approved as part of the Medium Term Financial Plan 2011-2014.

Place and Sustainability

12.11 There are pressures within the Place and Sustainability Budget mainly relating to shortfalls in Commercial Rent projections within Property Services. However, the service is seeking ways to mitigate these pressures and thus is not projecting an overspend at this point. Major restructures to deliver significant levels of budget savings are ongoing in both Front Line Services and Planning Regeneration and Economy and timely completion will help ensure a balanced budget.

Corporate Resources

12.12 At period 2 the Corporate Resources Directorate has identified three key pressures. At this stage it is assumed that action can be taken to address these and the year end forecast is to break even.

12.13 The first pressure is in relation to Revenues, Benefits and Customer Services which continue to experience high demand with benefits caseloads 7% higher than last May. This is likely to lead to increased printing and postage costs and the service has yet to finalise the full service integration which increases budgetary risk in this area.

12.14 The second relates to continuing high levels of demand for legal services, which is projected to be in excess of available resources by an estimated £1m. All directors are aware of this issue and legal services are currently meeting with them and their management teams to work to reduce demand down and mitigate the position; the objective being to achieve a balanced legal services budget by the year end.

12.15 There are additionally pressures within the staffing budgets within Corporate Resources which are being managed.

Chief Executive's Services

12.16 The Chief Executive's services have highlighted a small number of budget pressures largely within the Communications team. The main issue relates to the print and design teams who have income targets to achieve. Due to strict expenditure controls last financial year, there was a shortfall in income and the service is prudently assuming similar pressures this year. The head of service is looking for compensating savings to minimise this risk and currently the directorate as a whole is forecast to balance at year end.

Public Health

12.17 At Period 2 the Public Health directorate has no revenue issues to report and is forecasting to break even at year end.

Non Service Revenue

12.18 Non-service revenue, which largely consists of budgets for capital financing costs, levies and contingencies, has a projected underspend of £0.7m which is the risk provision being used to off-set the Children's Centres slippage highlighted earlier in this report. The Council's £2 million approved contingency is also held within this budget, which is available to support unplanned pressures that may arise across the Council.

13 Savings 2011/12

13.1 The total agreed reductions within the Council's savings programme for 2011/12, in order to achieve a balanced budget, were £41m. Overall a projected variance of £2 million against these proposals is being reported, however these shortfalls are being met from either elsewhere within the relevant services' budgets or from the risk provision.

14 Treasury Management

14.1 During the first two months of 2011/12 the Council's cash balances have increased in line with the cashflow forecast. There has been no need, therefore, to borrow and the total of the borrowing portfolio remains at £630.8m. The average cash balance in the period was £53.3m and the average interest rate earned was 0.67%. The Council's investments are in UK bank call accounts and money market funds. These funds are invested on an instant access basis but pay interest rates in line with 2-3 month fixed term deposits. The instant access enables the Council to call back investments quickly, which is a beneficial position to be in at present in the light of market uncertainty relating to events in Europe.

15 Capital

15.1 The overall capital programme for the Council in 2011/12 is £39.7 million, across all of the services. As at period 2 there are no projected variations projected on capital schemes.

15.2 The target level of in-year receipts from asset disposals in 2011/12, as agreed as part of the Council's capital strategy, is £9.3m. In the first two months of the financial year no receipts have yet been realised. A review of the disposal projections has been carried out and has resulted in a revised forecast of £7m of receipts for 2011/12. This reduction is due to the slippage of the disposal of Hornsey Depot site (see further report on this agenda) of £8m. However this is offset by a number of other sites being identified for sale and projected to realise a capital receipt this financial year. This slippage in receipts does not affect the overall financing of the Council's capital programme for 2011/12.

16 Virements

16.1 Appendix 2 details out the virements requiring approval as at period 2.

Appendix 1

<u>Revenue 2011/12</u> - The aggregate revenue projected position in 2011/12 is shown in the following table.

	Approved Budget	Projected variation
	£m	£m
Adults and Housing	100.9	0.0
Place & Sustainability	53.4	0.0
Public Health	0.9	0.0
Corporate Resources	7.4	0.0
Children and Young People	82.8	
- Children & Families		1.6
- Children's Centres		0.7
Chief Executive	1.6	0.0
Non-service revenue	39.1	(0.7)
Total - General Fund	**286.2**	**1.6**
Children and Young People (DSG) - Non-Schools	0.0	0.0
Children and Young People (DSG) - ISB	0.0	0.0
Total - Dedicated Schools Grant	**0.0**	**0.0**
Total - Housing Revenue Account	**(0.3)**	**0.0**

Proposed virements are set out in the following table.

Revenue Virements						
Period	**Service**	**Key**	**Amount current year (£'000)**	**Full year Amount (£'000)**	**Reason for budget changes**	**Description**
2	AH	Rev	146	146	Corrective Budget Realignment	Realignment of salaries budgets between cost centres within Learning Disabilities Day Opportunities
2	AH	Rev*	4,385	4,385	Corrective Budget Realignment	Realignment of Learning Disabilities budgets to reflect 2011-12 Health (Section 75) funding
2	AH	Rev*	2,419	2,419	Corrective Budget Realignment	Realignment of Supported Housing budgets
2	AH	Rev*	974	974	Corrective Budget Realignment	Realignment of budgets within Mental Health including correction of internal recharge budgets and reflecting reduced Health funding.
2	AH	Rev*	107		Corrective Budget Realignment	Virement to reflect 2011-12 one off Health funding (Mental Health)
2	CR	Rev	(229)	(229)	Corrective Budget Realignment	Changes to the Technopark budget
2	CR	Rev*	(257)	(257)	Corrective Budget Realignment	IT removing Telecoms income budget
2	NSR	Rev	168		Corrective Budget Realignment	One off contribution from NSR with regards to deficit for pensioners sub-fund
2	NSR	Rev*	(446)	(446)	Corrective Budget Realignment	Corporate overheads reduction with regards to H4H, HRA and Pension Income Reduction
2	NSR	Rev*	714	714	Corrective Budget Realignment	Inflation allocation to services with regards to various contracts and domestic rates
2	NSR	Rev*	3,428	3,428	Corrective Budget Realignment	Allocation of earmarked budgets form NSR with regards to Single Status and Concessionary Fares
2	NSR	Rev*	629	629	Corrective Budget Realignment	Realignment of Treasury Management budget
3	AH	Rev*	317		Corrective Budget Realignment	Realign residential homes income budgets and transfer surplus to Mental Health Commissioning.
3	AH	Rev*	265		Corrective Budget Realignment	Realign Older People Day Care budgets including virement of £100k from Residential care
3	AH	Rev*	275		Budget Savings	Early achievement of 2012/13 budget savings from Whitehall Street to be held in Deputy Directors budget
3	AH	Rev*	336	336	Corrective Budget Realignment	Realign budgets within Internal Home Care
3	AH	Rev*	910	859	Corrective Budget Realignment	Realignment of salaries budgets between cost centres within Housing as part of the rethinking merger with Adults.
3	PP	Rev*	577		Grant Allocation 2011-12	Grants allocation for Drug Intervention Programme and Drug and Alcohol Action Team

Capital Virements						
Period	**Service**	**Key**	**Amount current year (£'000)**	**Full year Amount (£'000)**	**Reason for budget changes**	**Description**
3	CR	Cap*	(1,955)		Budget Realignment	Hornsey Town Hall Redevelopment rephasing

1 Financial regulations require proposed budget changes to be approved by Cabinet. These are shown in the above table. These changes fall into one of the following categories:

all changes in gross expenditure and/or income budgets between business units in excess of £100,000; and

all changes in gross expenditure and/or income budgets within business units in excess of £100,000.

any virement that affects achievement of agreed policy or produces a future year's budget impact if above £100,000.

2 Under the Constitution, certain virements are key decisions. Key decisions are:

- for revenue, any virement which results in change in a directorate cash limit of more than £250,000; and
- for capital, any virement which results in the change of a programme area of more than £250,000.

3 Key decisions are highlighted by an asterisk in the table.

4 The above table sets out the proposed changes. There are two figures shown in each line of the table. The first amount column relates to changes in the current year's budgets and the second to changes in future years' budgets (full year).

Agenda Item 8

Haringey Council

CABINET 19th July 2011

Report Title: **Financial Planning 2012-13 to 2014-15**

Report of: **Director of Corporate Resources**

Signed : J. Parker 14/7/11.

Contact Officer: **Kevin Bartle – Lead Finance Officer**

Wards(s) affected: **All**	Report for: **Key**

1. Purpose of the report

1.1. To set out financial planning and strategy issues for the three year planning period to 2014-15 and to propose a process for setting the Council's budget 2012-13 and Medium Term Financial Plan 2012-15.

2. Introduction by Cabinet Member for Finance & Sustainability – Councillor Joe Goldberg

2.1. This time last year I warned the Cabinet that the Borough 'faces the most difficult financial settlement in the history of Haringey'. In February this year I reminded the Cabinet that we stand opposed to the depth and speed of the government's cuts across the public sector.

2.2. Nevertheless we responded responsibly to these immense challenges and we identified savings totalling £62m of which £41m related to 2011-12, enabling the Council to agree a balanced budget for 2011-12.

2.3. This was a superb start to re-aligning our finances to mitigate the worst impacts of the government's plans. However, we have more to do. We need to ensure we identify robust and sustainable proposals to bridge the remaining gap for 2012-14 whilst maintaining the integrity of our local priorities as far as possible.

2.4. We continue to work in an environment of huge economic and political uncertainty and risk. We have learnt from the experiences of last year and we intend to identify proposals for the Cabinet's consideration in October. That will allow time for the implementation of changes to ensure they are delivered in the relevant financial year and thus minimise the negative impacts on the citizens of this borough.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. The Council's financial strategy and Medium Term Financial Plan provide the financial resources necessary to deliver the Council's statutory duties and local priorities defined by and set out in the Community Strategy and Council Plan.

4. Recommendations

4.1. Cabinet is recommended:

a) to note the latest revenue financial forecasts for 2012-15 as set out in paragraphs 9.29 and 10, and Appendix 1;

b) to request Directors to identify draft proposals to deliver a balanced and sustainable MTFP 2012-15 for the Cabinet's consideration at its meeting in October 2011;

c) to endorse the draft process set out in this report and the timescales indicated at paragraph 11.

5. Background

5.1. The government took office in May 2010 and has set out its agenda and plans for significant reform across a wide range of areas including the NHS, regeneration, housing and the welfare system. The government's Spending Review, published in October 2010, set out plans to reduce local government funding by approximately 28% over the four years 2011-15.

5.2. The Local Government Finance Settlement 2011-13, covering the first two years of the Spending Review period, set out reductions in funding that 'front-loaded' the 28% to those years.

5.3. For Haringey, the Spending Review and the Finance Settlement implied the Council needed to identify and implement reductions in planned spending of £84m during the period 2011-14 as a consequence of government grant reductions and the demographic and other budget pressures the council is facing.

5.4. The implications of those funding changes were recognised in Haringey and across local government as being fundamental and would change the landscape of the public sector. Developing a coherent strategic response was essential to ensure that local services and priority outcomes for Haringey citizens were protected as far as possible.

5.5. The Council is addressing the challenge of significant budget reductions whilst also seeking to ensure the council's priorities are delivered and the aspirations and ambitions of residents are fulfilled as far as possible.

5.6. 'Re-thinking Haringey' sets out the current challenges facing the council and plans for transforming its approach to delivering services. It describes the vision for the kind of borough the council is striving for and outcomes to achieve that vision for 2011 onwards:

One Borough One Future – Reduce inequalities – working for a better society

- **Thriving** – regenerating the borough; creating opportunities for employment and educational attainment; tackling low income and poverty; providing a balance of different types of homes which office quality; affordability and sustainability
- **Healthier** – tackling health inequalities amongst children and adults; promoting healthier lifestyles and independence
- **Safer** – reducing the incidents and fear of crime and anti-social behaviour; safeguarding children and adults
- **Sustainable** – tackling climate change and managing our environmental resources more effectively; ensuring an attractive, clean, sustainable environment
- **Empowered** – promoting opportunities for community involvement and volunteering; enabling self-reliant communities.

5.7. In this context, the Council developed the Haringey Efficiency and Savings programme [HESP], through which it will deliver budget changes to meet the budget gaps in 2011-14.

5.8. There are three key strands of the programme:

- **the support functions review**, through which 'back office' efficiencies are being delivered;
- **'strategic service reviews'** – are identifying those services that will be reduced or dis-continued, ensuring resources are prioritised to the most vulnerable in the Borough through changes such as re-configuration, shared services and social enterprises;
- Developing a **'strategic commissioning'** function, to focus our resources on our desired outcomes.

5.9. These approaches enabled the Council to set its Medium Term Financial Plan (MTFP) 2011-14 in February 2011. The approved MTFP highlighted the significant financial challenge the Council faces and set out a package of revenue saving proposals that totalled £62m [£41m in 2011-12]. This left a further £21m to find of the £84m total budget gap to 2014.

5.10. The Council agreed a council tax freeze for 2011-12 and the budget was agreed in the context of a level of financial reserves that was considered to be adequate. However, as noted at the time, the Council would be facing an incredibly challenging budget savings programme which was to be achieved within a 12 month period.

5.11. The government's spending plans to 2015 will continue to put strains on the Council's available funding and the demand for the Council's services, particularly from the most vulnerable in our society, will continue to increase.

5.12. The current MTFP 2011-14 reflected those risks that could be realistically assessed in February 2011. It was recognised that the Council will need to review the robustness of its key planning assumptions on at least a quarterly basis and be prepared to adjust the MTFP accordingly.

5.13. This report sets out firstly the outcomes of the latest such review of risks and assumptions, together with the latest position on the implementation of the current year's revenue budget plans.

5.14. The Council also approved its Capital Programme in February 2011. There are a number of funding constraints and risks facing the Council, in the context of significant reductions in government funding – for example reductions in Decent Homes funding and in a range of capital grants.

5.15. It is vital therefore that a review of the Council's capital spending plans is also undertaken in the coming months.

5.16. Secondly, in order to maintain the momentum already achieved in developing our revenue medium term financial plans it is important to bridge the budget gaps for the final two years of the current MTFP [2012-13 and 2013-14] as early as possible, and to start to consider the third year of the new MTFP; 2014-15. Cabinet will recall the Spending Review set out further reductions to government funding that will need to be planned and managed by the Council.

5.17. The Cabinet intends to consider the next stage of the budget process for 2012-13 at its meeting on 4th October 2011. This will assist the process overall by ensuring more of the preparation work is undertaken earlier in the annual budget cycle.

5.18. At this stage it will be helpful to summarise the national and local contexts in which the Council will develop its MTFP 2012-15.

6. National context

6.1. The Cabinet is aware of the government's legislative programme, which will have significant impacts on local government. A comprehensive summary was set out in the Financial Planning report to Cabinet in July 2010. An update on some key issues is provided below.

6.2. The government has legislated to expand the Academy school programme, to enable more schools to obtain Academy status. All Local Authorities with education responsibilities have had resources removed in both 2011-12 and 2012-13 from their Formula Grant allocations although this is currently the subject of a legal challenge. In addition, Local Authorities in which schools convert to Academies have a reduction made to their Dedicated Schools Grant (DSG) covering both the individual resources associated with pupils funded through the Council's formula for financing schools, and certain resources held centrally in support of pupils generally. The loss of DSG for centrally retained resources equates to around £8.50 per pupil.

6.3. Nationally there are 801 Academies now open and more than a fifth of all secondary schools are now academies (July 2011) the government has also recently announced that the 200 'weakest' primary schools will become Academies in 2012-13. 1,353 schools have applied to become an Academy since June 2010 with110 applying in the last month.

6.4. In Haringey a small number of schools are in the early stages of considering a change to Academy status with one secondary school (Alexandra Park) well advanced in the process and having received agreement from the Secretary of

State to convert.

6.5. Clearly, the more schools that convert, the greater the overall reduction in the Authority's centrally retained DSG, resulting in greater pressure on the Local Authority's fixed costs and the loss of economies of scale.

6.6. The government's Localism Bill is designed to shift power away from central government to local government. A key strand of this policy is to increase local control of public finance through the Housing Revenue Account [HRA] self-financing reform.

6.7. This is intended to give local authorities the ability to take a long term approach to investment in housing stock, rather than planning on a year by year basis. This will be achieved by a one off adjustment to councils' housing debt, and allowing councils to retain all of the rental income they collect. This change will come into effect from April 2012.

6.8. Haringey is undertaking a strategic review of options for delivering the future housing needs of the borough, based on the nature and investment needs of the council's housing stock. A 30 year financial plan will be developed which will inform medium term investments and priorities.

6.9. Funding social care demand and cost pressures remains a major challenge for local authorities. The approved budget 2011-12 and MTFP 2011-14 included growth pressures of some £7m from 2011-12 relating to increased numbers of children in care and those with no recourse to public funds. In adult social care, there are pressures of over £4m from 2011-12 from a higher demand for services including learning disabilities and children transitioning into adult social care, together with a significant reduction in anticipated NHS joint funding.

6.10. The Commission on Funding of Care and Support, chaired by Andrew Dilnot, set out its recommendations on 4 July 2011 on how long term social care should be paid for. These included a cap on individual contributions, a national set of eligibility criteria, with portability so that if people move they take their needs assessment with them, and a re-branding of attendance allowances. The government will be setting out its response to these recommendations and has indicated it wants to take this opportunity to create a system that provides high quality, personalised care and gives people more choice and control over their own care.

7. Local context

7.1. Recommendations on bridging the budget gap over the planning period will be driven not only by the national context set out above but also local priorities and specific opportunities and initiatives. Two examples are highlighted at this stage, below.

Sustainable Investment Fund (SIF)

7.2. The sustainable investment fund (SIF) supports invest-to-save projects designed to reduce the Council's CO2 emissions and reduce energy costs. As at the 31st March 2011 the fund stood at £850k.

Alexandra Park and Palace (AP&P)

7.3. The Council currently subsidises the Alexandra Park and Palace Charitable Trust by £2.1m (2011-12 budget). As part of the Council's overall budget strategy the Trust has been asked to identify options to achieve a significant reduction (£0.5m) in this level of support in order to reduce their reliance on the Council. Additionally the Trust is currently embarking on a regeneration project that is examining the options for the Trust to bring in partners in order to move the Trust to a more sustainable position.

7.4. In the current financial climate it is hard to justify maintaining this level of subsidy given the choices the council is making regarding its budget proposals, with the focus being on front line services. The long term aim must be that the Trust and this community asset is self financing.

8. Current year 2011-12

8.1. The Budget Management Performance report elsewhere on the agenda shows a projected net overspend at the year-end due to pressure within the Children's Service. This pressure, and any others that may emerge later in the year, will require careful managing to ensure the Council achieves a balanced position at the year end which is vital if we are not to carry forward any residual pressures that impact on the Council's efforts to balance the budget in 2012-13 and beyond.

8.2. In addition an overall adverse variation of £2m on the Council's savings programme is reported, however the shortfalls are being met either elsewhere within the service budgets or from the risk provision.

8.3. The impacts of potential overspending in the current year will, as stated, be closely monitored and taken into account in the development of draft proposals for the Cabinet's consideration of the MTFP in October 2011.

9. Review of assumptions, risks and opportunities 2012-13 and 2013-14

9.1. Best practice risk management demands we review the key assumptions, risks and opportunities identified in the 2011-14 MTFP, given the financial environment is not completely stable, further information comes to light over time, and there will always be factors outside of the council's direct control which will vary our original assumptions.

9.2. There are also a number of significant risks that could affect either the level of service and service delivery costs and / or funding sources. These include the impact of general economic factors such as interest rates and the level of inflation.

9.3. Conversely, there are opportunities either to reduce costs or increase income which may not yet have been fully exploited.

9.4. The main risks and opportunities are summarised below:-

Risks

- Reduction in service standards / performance
- Increased service demand
- Impact of Housing Benefit and other welfare changes
- Delay or non-delivery of savings proposals

- Inflation
- Shortfall in revenue due to the economic climate
- Outstanding and pending legal claims
- Further reductions in joint NHS funding
- Increase in bad debts

Opportunities

- New freedoms and flexibilities
- New income streams as a result of legislative changes
- Potential additional savings from Alexandra Park and Palace Trust

9.5. It must be stressed that some of the assumptions underpinning the MTFP will inevitably change again before the 2012-13 budget is set in February 2012. The government will make announcements, estimated funding allocations will be finalised, new matters will come to the fore and budget projections will change. These will all need to be taken on board as the year progresses.

9.6. An initial review of key assumptions, risks and opportunities has been undertaken as set out below and these will be further updated and reported to the Cabinet in October.

Service Demand and cost pressures

Demographic growth

9.7. The approved MTFP includes planned increases for demographic growth including the cost of transition of children to adult services. However, the current plan assumes no further demographic growth will be provided, the assumption being that services will need to make efficiencies elsewhere to fund any pressure. These assumptions will be rigorously reviewed in the light of ongoing experience in the current year and revised assumptions will be put forward for the MTFP 2012-15 if necessary.

Other growth

9.8. The current assumption is that any new initiatives are funded from within existing approved budgets. This assumption will be reviewed and the merits of alternative approaches considered and recommendations brought forward in October.

Achieving currently approved savings

9.9. The risks associated with delivering the unprecedented sum of £41m of savings in 2011-12 were recognised in setting the budget and MTFP. Some of the proposal detailed in future years were cross cutting and required detailed plans. It would be prudent at this stage to remove these items and replace then in due course with specific savings plans. By doing this the risks of not achieving the savings are much reduced. These items total £3.6m and relate to customer contact (£1m), spans of control and delayering (£2.1m) and cross council subjective expenditure reviews (£0.5m).

9.10. Terms and Conditions

9.11. The MTFP assumes a saving of £2.5m from 2012-13 as a result of a review of Terms and Conditions, which is currently underway.

Inflation

9.12. Inflation is currently relatively high. Depending on the trend, pace and scale of inflationary pressure, this may represent a risk to the achievement of our current financial plans.

Government Funding

9.13. Following the government's Spending Review in the autumn of 2010, the Local Government Finance Settlement reduced the overall level of funding and consolidated many specific grants into Formula Grant.

9.14. A detailed summary of the distribution methodology of government funding of local authorities was set out in the report to the Cabinet in February 2011. The government made some significant changes for 2011-12 and beyond, including the defining of 'estimated revenue spending power' as a council's combined income from government grants and council tax, and as a baseline against which funding reductions would be compared.

9.15. The grant 'floors' mechanism also changed – councils were grouped into four bands with different floors.

9.16. The number of separate specific grants was reduced from over 90 to 10 new 'core grants'.

9.17. At this stage we have made no assumptions on any further changes going forward, although some change is likely following the government's 'Local Government Resource review' currently underway.

9.18. Although the Spending Review covered the period 2011-15, the Local Government Finance Settlement only addressed 2011-12 and 2012-13, in part due to the Resource Review the government announced which will consider, amongst other matters, the localisation of business rates. Depending on the outcomes of that review – further consultation is expected to be announced shortly – a review of Formula Grant distribution methodology may be required for grant allocations for 2013-14 and 2014-15.

9.19. As the government has currently provided no figures for Formula Grant for those years it is necessary to make some initial assessments based on our best understanding. No changes to our previous assumptions for 2012-13 or 2013-14 have been made at this stage. [The government announced a provisional figure for 2012-13 in the Local Government Finance Settlement 2011-13 in January 2011].

9.20. The government provided local authorities with a grant equivalent to a 2.5% increase in Council Tax if they agreed to freeze Council Tax at 2010-11 levels for one year. It is assumed that the government will continue to provide the grant up to and including 2014-15, offsetting the Council Tax income foregone in 2011-12, thus protecting authorities from a 'cliff-edge' effect until 2015-16.

9.21. The majority of specific grants that remain are now 'un-ring fenced'.

9.22. The Spending Review reduced overall funding for local authorities by an average level of 7.25% each year in real terms, over the four years 2011-15, excluding schools, fire and rescue and the police. These reductions were front-loaded into the first two years.

9.23. The assumptions regarding council tax in the MTFP are unchanged.

<u>NHS Funding</u>

9.24. Allocations from the Department of Health were not factored into the MTFP for 2012-13 as the allocation was still provisional and there had been no announcement for future years. However, funding has now been confirmed for 2011-12 and provisionally approved for 2012-13. So it is reasonable to include £2.8m for 2012-13. As there is far less certainty for 2013-14, the suggested approach is to assume half of the estimated allocation in that year [£1.4m]. This would contribute £1.4m to the budget gap. If the 2013-14 allocation was not received £1.4m would need to be covered in another way.

<u>Core Grant</u>

9.25. A review of previous assumptions has identified a favourable funding adjustment of £0.5m relating to the former Area Based Grant.

Other Changes and Variations

9.26. The MTFP 2011-14 as agreed by the Council in February resulted in 'Budget gaps' of £6.8m and £14.5m in 2012-13 and 2013-14 respectively.

9.27. A number of assumptions were agreed in February 2011 regarding general cost pressures the Council will face over the planning period. These 'Changes and Variations' are included in Appendix 1 and are set out in more detail at Appendix 2. A change to the assumptions is now proposed for 2012-13 and 2013-14, as set out below.

<u>Inflation and pay provisions</u>

9.28. The government's projections for the Consumer Price Index [CPI] of inflation set out in the Spending Review were 2.4% in 2011, 1.9% in 2012 and 2.0% in 2013 and 2014. Currently CPI is 4.5%. Provisions of £7m and £7.5m were established for 2012-13 and 2013-14 respectively. It is possible to reduce the general inflation amounts each year as a contribution to bridging the budget gap. As inflation is relatively high compared to government assumptions in the Spending Review, it is proposed that general inflation is not provided to Council supplies and services budgets in the remaining two years of the current MTFP. This would contribute £2m in each year – a total of £4m towards the overall budget gap. If approved this would mean inflation on supplies and services budgets will have been cash limited for three years.

9.29. The impact of these revised assumptions on the current MTFP budget gap is summarised below.

Table 1		2011/12 £m	2012/13 £m	2013/14 £m	Total £m
1	Savings requirement in approved MTFP	-41.1	-22.9	-19.7	-83.7
2	Approved savings proposals	-41.1	-16.1	-5.2	-62.4
3	Budget gap as at February 2011	0	-6.8	-14.5	-21.3
4	Re-programming of savings		-2.3	-1.3	-3.6
5	Revisions to assumptions		5.3	0.6	5.9
6	LATEST BUDGET GAP	0	-3.8	-15.2	-19

10. Consideration of Financial Year 2014-15 for the MTFP

Financing – government funding

10.1. The government is planning to reduce funding for local authorities by an average of 29% over the four years up to and including 2014-15. Given the lack of definitive information and the uncertainties yet to be resolved by government it is difficult to make realistic estimates of the impact of this. The position will be kept under review as further details become available from the government, for example the outcome of the Local Government Resource Review and the provisional Government Finance Settlement expected in late November this year.

10.2. The impacts on 2014-15 are:

- Core and specific grants could change over the period
- NHS funding could change, and have an impact on our social care finances
- New census data possibly being used in the 2013/14 settlement
- Local Government Resource Review – the government is planning to localise business rates. It will be important for the council to lobby to ensure that the agreed model is beneficial for Haringey.
- The Formula Grant distribution may be reviewed and it will be important for the council to lobby for a better settlement.
- New homes bonus and other funding incentives provided by the government – the council will need act over the short to medium term to exploit these opportunities
- Inflation and interest rates will change

Redundancies

10.3. On setting the MTFP for 2011-14 in February 2011 an estimated cost of redundancies, as a result of the transition programme the Council is going through, was estimated to be £25m, mainly to be funded from reserves. A capitalisation bid has been made to the government for 2011-12 and the results are expected later in the year. It is likely that the further savings required to balance the MTFP 2012-15 will require staff reductions, requiring additional provision to be made for the redundancy costs, this will need to be identified during the budget setting process.

11. Budget Timetable 2012-13

11.1. An outline business planning and budget timetable for 2012-13 is set out below. Officers are developing a more detailed implementation plan to ensure these deadlines are achieved.

Table 2

Activity	Date
Cabinet considers draft proposals and MTFP 2012-15	4th October 2011
Budget consultation process including Overview and Scrutiny Committee	October/November 2011
Government announces provisional LG Finance settlement	December 2011
Government announces other grants	early 2012
Cabinet approves budget package	February 2012
Council approves budget package and council tax	February 2012

12. Other options considered

12.1. This report proposes that the Cabinet should consider draft proposals to deliver a balanced and sustainable MTFP at its meeting on 4th October 2011. This date is significantly in advance of the corresponding dates in previous years.

12.2. This is considered to be a prudent approach in the light of the experience of last year's process, together with the unprecedented scale of savings required as a consequence of the government's current public sector expenditure plans and the continuing increases in demand for the Council's services.

12.3. The Cabinet could adopt a less demanding pace and determine its strategy at a later stage. Such an approach would have the advantage of more certainty on government funding – but would conversely give less time for robust consideration of options and implementation.

13. Summary

13.1. The report summarises the progress the Council has made since the approval of its Budget 2011-12 and MTFP 2011-14 in February 2011. Progress on delivering the current year's budget is reported elsewhere on the agenda. The conclusions of an initial review of key assumptions on revenue spending and funding for 2012-14 are reported. The budget gaps for 2012-13 and 2013-14 have been revised.

13.2. It is intended to bring forward further proposals to bridge these gaps to the Cabinet in October. A similar review of assumptions and challenges on capital will also be undertaken. This timescale will ensure the Cabinet is well placed to consider its formal budget proposals to the Council in February 2012 following extensive consultation with Overview & Scrutiny Committee and other key stakeholders during the autumn.

13.3. An outline timetable and process is set out in the report through which the Council will formally agree its Budget 2012-13 and MTFP 2012-15 in February 2012.

14. Chief Financial Officer Comments

14.1. This report is presented by the Chief Financial Officer.

15. Head of Legal Services Comments

15.1. The budget and policy framework procedure rules are set out in Part Four Section E of the Constitution and reflect both the statutory requirements on Local Authorities in relation to budgets and this Council's approach to setting budgets. It is for the Cabinet to approve the proposals and then submit to Full Council who set the budget.

15.2. Where relevant the Cabinet will need to ensure any necessary consultation is carried out and equality impact assessments completed and taken into account when making final decisions. The Council will also need to ensure that any proposals, if approved, do not result in a situation where the Council is unable to perform its statutory obligations.

16. Equalities & Community Cohesion Comments

16.1. The Council must pay due regard to its public sector equality duties with regard to race, gender and disability and should also take into account the provisions of its equality scheme with regard to age, religion or belief and sexual orientation.

16.2. Prior to making any final decisions on any proposals that may be brought forward in the medium term financial planning process the Council will assess the impacts of those by conducting Equality Impact Assessments [EqIAs], starting with an initial screening which considers whether there is a need for a full assessment.

16.3. A key element of the Council's EqIA process is consultation and engagement with the public, service users, community groups, the voluntary sector and our partners. All final decisions on proposals that require an impact assessment must take into account the outcomes and recommendations of the EqIA.

17.	**Consultation**
17.1.	Public engagement and consultation remains a key central government policy driver and is also a legislative requirement for a wide range of functions; the financial planning process is no exception. Proportionate public engagement and consultation activity on the Council's medium term financial planning and/or budget setting processes will be undertaken in the autumn once proposals to fund the gaps have been identified.
18.	**Use of appendices /Tables and photographs**
18.1.	Appendix 1 – Summary of the MTFP to 2014
18.2.	Appendix 2 – Changes and Variations
19.	**Local Government (Access to Information) Act 1985**
19.1.	Medium Term Financial Planning 2011-12 to 2013-14 – Council 24th February 2011.
19.2.	Medium Term Financial Planning 2011-12 to 2013-14 – Cabinet 8th February 2011.
19.3.	Financial Planning 2011-12 to 2013-14 – Cabinet 13th July 2010

Appendix 1

SUMMARY OF THE MEDIUM TERM PLAN TO MARCH 2014

	2011-12 £m	2012-13 £m	2013-14 £m
Net Service cost	**307.8**	**286.1**	**273.9**
Changes and Variations	23.6	11.2	18.9
Prior year Agreed Growth	-0.6	-0.2	-
Prior year Agreed Savings	-3.6	-0.3	-
Total Funding Requirement before Savings	**327.2**	**296.8**	**292.8**
Core/ Specific Grants	29.2	26.5	26.5
New Homes Bonus	1.2	1.2	1.2
Formula Grant	153.2	141.2	137.8
Council Tax	102.5	105.0	107.6
Total Projected Available Funding	**286.1**	**273.9**	**273.1**
Total Savings Requirement	-41.1	-22.9	-19.7
HESP Savings Proposals	41.1	16.1	5.2
Budget gap to be bridged by savings plans over the period to Council February 2011	-	**-6.8**	**-14.5**
Re-programming of savings	-	-2.3	-1.3
Revisions to assumptions	-	5.3	0.6
Latest Budget Gap	-	**-3.8**	**-15.2**

Changes and Variations

		2011-12 over 2010-11 £'000	2012-13 over 2011-12 £'000	2013-14 over 2012-13 £'000	TOTAL £'000
1	Inflation	5,300	7,000	7,500	**19,800**
2	NLWA - additional cost of new facility			1,900	**1,900**
3	NLWA - Increase in Landfill Tax	500	2,100	400	**3,000**
4	Increase in cost of concessionary fares	2,500	500	500	**3,500**
5	Carbon reduction commitment	500			**500**
6	Council Tax Benefit - subsidy 10% reduction			4,000	**4,000**
7	Risks to future government funding		2,500	2,600	**5,100**
8	Single Status- outstanding settlements	1,000			**1,000**
9	Debt Financing Costs (net)	(356)	(1,763)	219	**(1,900)**
10	Service Growth	14,204	836	1,744	**16,784**
	Changes and Variations Total	**23,648**	**11,173**	**18,863**	**53,684**

Agenda item:

[No.]

CABINET On 19th July 2011

Report Title. CYPS CAPITAL PROGRAMME UPDATE	
Report of **Peter Lewis, Director of Children and Young People's Service** Signed :	
Contact Officer : Maggie Shields, Head of Capital Finance CYPS	
Wards(s) affected: **All**	Report for: **Key Decision**

1. Purpose of the report

1.1. To update Cabinet on the capital programme for Children and Young People's Service and request approval to budget virements within the 2011/12 programme.

2. Introduction by Cabinet Member

2.1. I am very pleased to see the progress made on the BSF programme, this has been a great success story for the borough and brought huge improvements to the learning environment to thousands of our students.

2.2. Like most London boroughs we are facing an increase in pupils seeking primary school places and we will be expanding a number of schools to ensure there are sufficient places for new pupils.

2.3. The advent of Free Schools and Academies makes for a more complex picture. We are having to start work on consultations with parents and schools on expansions but this may turn out to be unnecessary, depending on the outcome of the current round of Free School applications. We won't know the outcome of this until October but consultation needs to start before this.

2.4. In addition, there is a level of uncertainty within the programme arising from changes to Government policy, especially from March 2012 onwards. The future of the PFI scheme is still unclear.

3. Recommendations

3.1. To note progress on BSF projects and the proposed formal closure of the programme in September 2011.

3.2. To note the requirement to provide additional primary school places by September 2013 as set out in the annual Pupil Place Planning Report (also on this Cabinet Agenda)

3.3. To agree that £400,000 of the Pupil Place Planning budget within the current approved 11/12 CYPS capital programme is used to provide for the detailed design of 4 primary school expansion projects in order to provide new pupil places.

3.4. To note that the BSF Board has agreed that the lifecycle works at secondary school sites detailed at Appendix C should be funded from BSF resources already in the programme, and that the balance will be funded within existing approved planned use of the lifecycle fund.

3.5. To approve the capital virements set out in Appendix D which will update the 2011/12 programme and reflect the decisions above, subject to Cabinet approval of capital carry forward requests.

3.6. To note current issues and risks relating to funding of the programme in the future

4. Reason for recommendation(s)

4.1. To ensure that sufficient primary school places are provided in the borough as required from 2011 to 2013.

4.2. To ensure that the approved CYPS capital programme is updated to reflect projected expenditure based on up to date delivery progress against milestones.

4.3. Due to changes government policy there is uncertainty about future funding streams to support capital investment beyond March 2012. Members need to be appraised of the risks and how these are being managed.

5. Summary

5.1. Cabinet approved the 2011/12 CYPS capital programme on 8th February 2011 as part of the consideration of the Council's overall budget package.

5.2. CYPS have undertaken a strategic review of current primary school provision against prospective demand, which concluded in April. A delivery plan for new primary school places has been developed and put forward for recommendation in the latest Pupil Place Planning Report.

5.3. The proposed delivery plan for new primary school places includes the proposed expansion of four primary schools by September 2013. Budgetary provision for the design costs is required in the current year to allow the projects to proceed on timetable for opening in September 2013.

5.4. CYPS have also completed a full condition survey of all local authority primary schools. The outcomes from this survey have informed the prioritisation of necessary condition and modernisation works planned for future years. However further work on all priority condition projects is dependant on future funding announcements from DfE.

5.5. The government is still reviewing its policy in relation to capital investment in schools, which means there is significant uncertainty about funding support for future investment beyond March 2012.

5.6. The report considers the main risks and issues affecting the CYPS future capital programme which will require commitments on all planned projects to be carefully managed to protect the Council's financial position and minimise the risk of abortive design costs.

6. Introduction

6.1. The CYPS Capital Programme was approved by Cabinet on 8th February 2011. The programme comprises the Building Schools for the Future programme which is delivering strategic investment in the secondary school estate, and the Primary and other CYPS capital programme, which covers planned investment in the Council's primary schools and other service assets. A summary of the originally approved programme is shown at Appendix A.

7. Building Schools for the Future

7.1. The programme has been running since 2005, with the majority of construction works being delivered between 2008 and 2011. The programme is now drawing to a close, with 11 of the 12 school projects now completed, and the last remaining project at Woodside High due to finish in October 2011. The construction element of the programme will be formally closed with the completion of this last project.

7.2. The investment totalling £214m has addressed the majority of suitability, sufficiency and condition issues within the secondary estate, and also helps to fund the managed service ICT contract which continues until September 2013. The BSF Board have approved the allocation of remaining contingency funds held within the programme to address additional lifecycle maintenance projects within the secondary school estate. The future lifecycle maintenance of the secondary estate is considered further in section 9 of this report.

7.3. The BSF programme has been successfully managed within budget, and lessons learned from the programme are being effectively transferred into the management of other projects within the CYPS capital programme. The financial close of the BSF programme will conclude with the end of the 1 year defects liability periods for each project, and the final settlement of all outstanding retention and other fee claims. Financial close of the construction programme is therefore scheduled for October 2012.

7.4. The tables at Appendix B and D set out the expected expenditure on the programme in 2011/12, including budgets carried forward from 2010/11 and virements proposed for approval.

8. Primary Capital Programme

8.1. Existing projects in the approved programme which are currently under construction include the integrated Learning Campus at Broadwater Farm, the expansion of Rhodes Avenue Primary (2FE to 3FE), and the replacement of life expired temporary buildings at Mulberry Primary school.

8.2. The main need for new investment in the primary school estate over the next 3 years will be driven by the requirement to ensure sufficient primary school places are provided across the borough to meet demand pressures, and that the existing school estate is maintained in a fit for purpose condition.

Primary School Places

8.3. During 2010/11 CYPS conducted a strategic review of primary place provision to determine a preferred delivery plan for the provision of new places to meet recognised demand pressures. This process is described more fully in the annual Pupil Place Planning report (also on this Cabinet agenda). The review considered options against a range of service criteria, including value for money and affordability.

8.4. The outcome of this process is a recommended delivery programme for the next 3 years, involving provision of temporary "bulge" classes at various schools, and also the permanent physical expansion of 4 existing schools to accommodate an additional form of entry at each. The four schools proposed for expansion are Alexandra Primary, Belmont (Infant and Junior), Lancasterian and Welbourne. The Pupil Place Planning report also requests approval to commence statutory consultation for those projects that require it.

8.5. The approved 2011/12 CYPS capital programme includes a current year budget to cover the cost of proposed "bulge" class projects, and an indicative budget for future years to cover the requirement for permanent expansions. In order to ensure that the permanent school places can be delivered in time for opening in September 2013, it is necessary to commence design work in the current financial year and a virement of £400k between these two elements of the pupil place delivery programme is proposed in order to provide the budget for these works.

8.6. There is an element of risk in relation to abortive design costs if we progress the permanent expansion projects ahead of the conclusion of statutory consultation and greater certainty of future government funding streams. However, the Council has a duty to provide places, and if necessary other elements of the future CYPS programme will need to be curtailed in order to prioritise this work.

Primary school estate – condition works

8.7. During 2010/11 all local authority primary schools were surveyed in relation to condition issues, and the reports have been shared with schools on a web based system so that school governing bodies can take a view on the priorities for their school. The overall results of the surveys show the need for high priority condition works across the estate totalling £70m over the next few years. The detailed reports have been further analysed and subject to a technical review and prioritisation using deprivation factors (% of FSM).

8.8. In addition, where schools are scheduled for expansion as proposed, the highest priority condition works at each site have been planned to be addressed as part of the expansion projects.

8.9. Whilst the current approved CYPS programme includes an allocation of £1m for planned and reactive condition works during the year, the uncertainty over future funding discussed below means that apart from this budget which will be used to cover the most urgent works across the estate, no further condition related projects are likely to be commissioned prior to January 2012.

Future projects and CYPS assets review.

8.10. CYPS is reviewing the current options for the future provision of the Primary PRU service, and whether there are opportunities for an effective co-location of this service with other support services for children being educated outside of mainstream provision or with specific special needs. The options review will conclude by the end of July and may lead to the working up of a new capital investment project. This was signalled in the indicative capital programme for 2012/13 as already approved. Some funding has been set aside as a result of a previous grant award for this area of work. Should CYPS recommend proceeding with a new project, this will be reported through the normal budget management process.

8.11. The work undertaken by CYPS during 10/11 to review the pupil place delivery plan, update the condition analysis of the primary estate and review options for future service provision have flagged up the possible release of surplus assets. These will be formally considered as part of the Council's overall accommodation strategy review and asset rationalisation plan.

8.12. The tables at Appendix B and D set out the expected expenditure on the primary programme in 2011/12, including budgets carried forward from 2010/11 and virements proposed for approval, and new funding.

8.13. New funding in the programme includes both recent funding for specific projects of £258k, plus the residual balances of other grants already received but not previously allocated to specific projects. In addition, to ensure a full picture of forecast capital expenditure, new funding in the programme also includes the current balance of schools devolved capital grant which has not yet been used by schools (£2m). Schools have the freedom to carry forward these balances for up to 3 years.

9. Lifecycle maintenance and future of PFI contract

9.1. Lifecycle works are funded from an earmarked reserve established at the point of suspension of the grouped schools PFI contract. The originally approved CYPS capital budget approved in January 2011 included a total programme for lifecycle works of £200k per annum or £600k over the three year programme, intended to cover only urgent reactive maintenance needs and project management costs.

9.2. As part of the BSF programme, the BSF Board agreed that certain lifecycle works should proceed in order to protect the investment made under the programme, and to be funded from BSF contingency, at a total approved BSF budget contribution of £2.713m. The list of all lifecycle projects currently planned to proceed is set out in Appendix C. The balance of the cost of these projects not being met from within the BSF programme will need to be met from the Lifecycle fund.

9.3. One of the conditions of BSF funding approved by PfS was that the Council should agree proposals about the future maintenance of the Secondary School estate in the light of the currently suspended grouped schools PFI contract. Current government policy in relation to Academy Status of schools also requires specific legal issues to be considered in relation to the contract. Officers are currently reviewing the implications and options for future arrangements. This will be the subject of a separate report prior to firm proposals being agreed with PfS.

10. CYPS programme risks and issues

10.1. The Council's responsibility for managing its school assets and ensuring investment through its Capital programme to provide sufficient, suitable and fit for purpose accommodation in its schools is affected by a number of developing areas of current government policy. A brief summary of the risks and issues is considered in this section.

10.2. The Government's Academies programme is likely to encourage more existing community schools to convert to Academy Status. Academies become their own admission bodies, and also have full responsibility for the operation and on going asset management of all assets transferred to them. The implications for local authority asset planning and capital funding are not yet clear, as the government have yet to announce how they expect the allocation of future funding streams to be managed within local authority or geographic areas.

10.3. Similarly, the government's Free School programme will mean the establishment of new Academy schools. Again, the Free School takes on the responsibility for admissions and asset management. Uncertainty over whether new Free Schools are to be approved mean that the Council is potentially exposed to the risk of abortive development costs for school expansion projects, which may not be required.

10.4. The DfE commissioned Sebastian James to conduct a review of capital funding for schools in July 2010. The review reported in April 2011 and can be found at the following link:

(http://media.education.gov.uk/assets/files/pdf/c/capital%20review.pdf)

10.5. In summary the review looked at the issues arising from previous government sponsored investment programmes including BSF, and set out a number of recommendations for the future including the option of centralised delivery of all school capital investment projects. The formal government response to the review is still awaited, although the DfE recently announced the abolition of Partnerships for Schools, and the transferring of its residual capital funding roles to the new Education Funding Agency. It is not known if the government intends the Local Authority to have a role in agreeing or implementing the allocation of future capital investment for schools (of whatever type) within the borough.

10.6. In previous years, capital allocations for future year's investment have been announced and/or confirmed in December of each year. Since 2003/4 the previous government had moved towards giving 3 year indications of allocations, which greatly assisted the planning of longer term investment works. The current uncertainty, and likely return to annually announced allocations makes forward planning much more difficult, and in the short term s likely to lead to a significant slow down in the commissioning and planning of new projects.

10.7. The government also appears to have made a policy decision to reduce the level of capital funding which is directly devolved to schools. School allocations of devolved capital funds have been reduced overall to about a third of the levels received in 10/11. This means that schools will have a much reduced capacity to manage their own repairs and asset enhancement projects, and will be more dependant on assistance from the Council to deal with urgent needs.

11. Chief Financial Officer Comments

11.1. The report proposes a number of virements within the programme to reflect the proposals in the report. (See Appendix D) Subject to the approval by Cabinet of carry forward budgets from 2010/11 these virements can all be accommodated within the resulting revised programme total for which funding is secure and already approved.

11.2. Attention is drawn to the risks in relation to future years funding and the need to carefully manage commitments on the programme so as to protect the Council's overall financial position and avoid abortive costs in developing projects for which full funding is not secure.

12. Head of Legal Services Comments

12.1. The Head of Legal Services has been consulted on the content of this report and has no specific comment to make concerning the proposals regarding the capital programme, other than to remind the Cabinet of the duty placed on all local authorities with responsibility for education functions under Section 14 of the Education Act 1996 to secure that sufficient schools for providing primary and secondary education are available for their areas.

13. Equalities & Community Cohesion Comments

13.1 Detailed equalities comment will be provided following the completion of the Equalities Impact Assessment screening tool for the Pupil Place Planning report.

14. Use of appendices /Tables and photographs

Appendix A – Original approved CYPS Capital Programme
Appendix B – Proposed Revised CYPS Capital Programme
Appendix C – Lifecycle Programme details
Appendix D – Summary of carry forward budgets and virements for approval

15. Local Government (Access to Information) Act 1985

15.1. Annual Pupil Place Planning Report (Cabinet Report 19th July 2011)
15.2. Cabinet Report 8th Feb 2011 – Financial Planning

Appendix A

Approved Capital Programme 2011/12 to 2013/14

Ref. No.	Name of Capital Scheme	Approved Original Budget £'000	Indicative Original Budget 2012/13 £'000	Indicative Original Budget 2013/14 £'000	Total £'000
1	**BSF Programme**				
2	Alexandra Park	38	0	0	**38**
3	Fortismere/Blanche Neville	33	0	0	**33**
4	Gladesmore	192	0	0	**192**
5	Heartlands High School	1,153	247	0	**1,400**
6	Highgate Wood	0	0	0	**0**
7	Hornsey Girls	49	0	0	**49**
8	John Loughborough	0	0	0	**0**
9	Northumberland Park/Vale	184	0	0	**184**
10	Park View Academy	130	0	0	**130**
11	St Thomas More	75	0	0	**75**
12	Woodside High	5,687	168	0	**5,855**
13	Young Peoples Centre	0	0	0	**0**
14	ICT MSP Contract	1,605	2,969	2,080	**6,654**
15	BSF Other - Total	64	0	0	**64**
16	BSF Programme Contingency	185	25	0	**210**
17	**BSF Total**	9,395	3,409	2,080	**14,884**
18	**Primary and Pre-School Programme**				
19	PCP - Broadwater Farm ILC	6,470	5,437	769	**12,676**
20	Rhodes Avenue Expansion to 3 FE	3,417	2,670	354	**6,441**
21	Coleridge Primary: Expansion	276	0	0	**276**
22	Downhills re-model entrance, reception, kitchen	500	0	0	**500**
23	Mulberry modernisation	1,200	1,400	400	**3,000**
24	Pupil Place expansion fund	1,000	2,000	5,069	**8,069**
25	Alternative provision (Primary)	50	1,150	0	**1,200**
26	PCP Delivery costs	500	600	600	**1,700**
27	PCP Programme Contingency	250	250	1,000	**1,500**
28	**Total Primary and Pre School**	**13,663**	**13,507**	**8,192**	**35,362**
29	**Planned asset improvement**				
30	Planned and reactive condition works	1,000	2,000	2,500	**5,500**
31	Electrical infrastructure upgrades	1,000	500	0	**1,500**
32	PFI Costs - Lifecycle Fund	200	200	200	**600**
33	**Total Planned Asset Enhancement**	**2,200**	**2,700**	**2,700**	**7,600**
34	**Devolved Schools Capital**				
35	Devolved Capital	804	800	800	**2,404**
36	**Total Devolved Schools Capital**	**804**	**800**	**800**	**2,404**
37	**Social care and other**				
38	Carer Home Adaptations	100	100	100	**300**
39	**Total Social Care and other**	**100**	**100**	**100**	**300**
40	**Total**	**26,162**	**20,516**	**13,872**	**60,550**

Appendix B

Proposed Revised Capital Programme 2011/12 to 2013/14

Ref. No.	Name of Capital Scheme	Proposed Budget 2011/12	Indicative Original Budget 2012/13	Indicative Original Budget 2013/14	Total
		£'000	£'000	£'000	£'000
1	**BSF Programme**				
2	Alexandra Park	209	0	0	**209**
3	Fortismere/Blanche Neville	198	0	0	**198**
4	Gladesmore	178	0	0	**178**
5	Heartlands High School	2,764	247	0	**3,011**
6	Highgate Wood	194	0	0	**194**
7	Hornsey Girls	214	0	0	**214**
8	John Loughborough	161	0	0	**161**
9	Northumberland Park/Vale	250	0	0	**250**
10	Park View Academy	272	0	0	**272**
11	St Thomas More	75	0	0	**75**
12	Woodside High	5,927	168	0	**6,095**
13	Young Peoples Centre	93	0	0	**93**
14	ICT MSP Contract	2,563	4,574	2,080	**9,217**
15	BSF Other - Total	1,068	0	0	**1,068**
16	BSF Programme Contingency / Lifecycle Projects	2,225	25	0	**2,250**
17	**BSF Total**	**16,391**	**5,014**	**2,080**	**23,485**
18	**Primary and Pre-School Programme**				
19	Primary ICT Strategy	166	0	0	**166**
20	PCP - Broadwater Farm ILC	6,470	6,362	147	**12,979**
21	Rhodes Avenue Expansion to 3 FE	3,857	2,533	925	**7,314**
22	Coleridge Primary: Expansion	50	17	0	**67**
23	Downhills re-model entrance, reception, kitchen	513	12	0	**525**
24	Mulberry modernisation	1,337	775	116	**2,227**
25	Pupil Place expansion fund	1,000	2,000	5,069	**8,069**
26	Alternative provision (Primary)	80	1,139	0	**1,219**
27	**Total Primary and Pre School**	**13,473**	**12,838**	**6,256**	**32,567**
28	**Early Years, Community & Access**				
29	Extended schools - Playcentre integration	143	0	0	**143**
30	Ferry Lane MUGA	150	0	0	**150**
31	Heartlands/Alexandra Sports Club	284	0	0	**284**
32	Aiming High Shortbreaks	211	0	0	**211**
33	**TOTAL Early Years, Community & Access**	**788**	**0**	**0**	**788**
34	**Planned asset improvement**				
35	Planned and reactive condition works	1,000	1,825	2,500	**5,325**
36	Kitchen Works	175	0	0	**175**
37	Electrical infrastructure upgrades	1,069	431	0	**1,500**
38	PFI Costs - Lifecycle Fund	200	200	200	**600**
39	**Total Planned Asset Enhancement**	**2,444**	**2,456**	**2,700**	**7,600**
40	**Devolved Schools Capital**				
41	Devolved Capital	2,037	800	800	**3,637**
42	**Total Devolved Schools Capital**	**2,037**	**800**	**800**	**3,637**
43	**Social care and other**				
44	Carer Home Adaptations	100	100	100	**300**
45	**Total Social Care and other**	**100**	**100**	**100**	**300**
46	PCP Delivery costs	500	600	600	**1,700**
47	PCP Programme Contingency	0	138	1,336	**1,474**
48	**Total Primary Programme Delivery & Contingency**	**500**	**738**	**1,936**	**3,174**
49	**Total**	**35,733**	**21,946**	**13,872**	**71,551**

Appendix C

Secondary School Lifecycle Projects included within proposed Capital Programme				
Name of Capital Scheme	Spend in 2010-11	Forecast Spend in 2011-12	Forecast Spend in 2012-13	Total Project Cost
	£000	£000	£000	£000
Alexandra Park School - roof	193	-13		180
Fortismere School - boilers	49	151		200
Gladesmore School - boilers, windows & science block roof	226	769	105	1,100
Highgate Wood School - lifts	28	22		50
Hornsey School - lifts, boilers, fire alarm system	53	411	41	505
John Loughborough School - windows	0	100		100
Northumberland Park School - upgrade heating, gym roof & dining floor	3	651	66	720
Park View Academy - playground	65	15		80
St Thomas More School - Glendale building	0	140		140
Woodside High School - roof & cladding	46	179		225
Total Expenditure	**663**	**2,425**	**212**	**3,300**
BSF	463	2,225	25	2,713
Lifecycle	200	200	187	587
Total Funding	**663**	**2,425**	**212**	**3,300**

Appendix D

Summary of carry forward budgets and virements for approval						
BSF Programme	**Original plan 11/12**	**C/Fwds**	**Transfers to/ from contingency**	**New Funding**	**Revised Plan 11/12**	**Narrative Comment explaining changes**
6th Form Centre	0	11,206			11,206	
Alexandra Park	38,000	171,551			209,551	
All Schools	64,000	-64,000			0	
Fortismere/Blanche Neville	33,000	165,479			198,479	
Gladesmore	192,000	-43,932			148,068	
Gladesmore Sports Hall		29,713			29,713	
Heartlands High School	1,153,000	1,597,892			2,750,892	
HHS contingency project	0	13,000			13,000	Balance required to complete school opening contingency project
Highgate Wood		194,036			194,036	
Hornsey Girls	49,000	165,238			214,238	
John Loughborough	0	160,999			160,999	
Northumberland Park/Vale	184,000	65,834			249,834	
Park View Academy	130,000	141,804			271,804	
St Thomas More	75,000	-734			74,266	
Woodside High	5,687,000	240,238			5,927,238	
Young Peoples Centre		92,798			92,798	
ICT MSP Contract	1,605,000	957,234			2,562,234	
BSF Other - Programme Delivery costs	185,000	872,644			1,057,644	
BSF Contingency / Lifecycle projects	0	2,225,000			2,225,000	Funding for BSF Board approved lifecycle projects
ICT MSP Contract budget to be profiled to 2012-13		1,605,000			0	Reprofile budget into 2012/13 for MSP contract
Total BSF	**9,395,000**	**8,601,000**	**0**	**0**	**16,391,000**	

Appendix D

Primary and other CYPS Programme	Original plan 11/12	C/Fwds	Transfers to/ from PCP contingency	New Funding	Revised Plan 11/12	Narrative Comment explaining changes
Primary ICT Strategy				166,100	166,100	Bfwd balance of unallocated capital grant
Primary Programme - Broadwater Farm ILC	6,470,000		0		6,470,000	
Rhodes Avenue Expansion to 3 FE	3,417,000		440,000		3,857,000	reprofiling between years
Coleridge Primary: Expansion	276,000		-226,000		50,000	budget not required
Downhills re-model entrance, reception, kitchen	500,000		13,000		513,000	reprofiling between years
Mulberry modernisation	1,200,000		136,800		1,336,800	Reflects re-profiling, plus saving over project life of £547K
Pupil Place expansion fund	1,000,000		0		1,000,000	Includes £400k for expansion projects design development
Alternative provision (Primary)	50,000		30,400		80,400	reprofiling between years, future project is subject to option appraisal
Total Primary and Pre School	**12,913,000**	**0**	**394,200**	**166,100**	**13,473,300**	
Extended schools - Playcentre integration			87,100	55,900	143,000	New funding to complete Muswell Hill & Stroud Green Hideaway
Ferry Lane MUGA			0	150,000	150,000	New project
Heartlands/Alexandra Play Club		284,000	0		284,000	Cfwd re project to provide playing fields for Heartlands High
Aiming High Short breaks			40,000	171,000	211,000	New funding for facilities to support SEN short breaks
TOTAL Early Years, Community & Access	**0**	**284,000**	**127,100**	**376,900**	**788,000**	
Planned and reactive condition works	1,000,000		0		1,000,000	
Kitchen works	0			175,000	175,000	Reprofiled budget from 2012/13 (planned and reactive condition works)
Electrical infrastructure upgrades	1,000,000		68,700		1,068,700	reprofiling between years
PFI Costs - Lifecycle Fund	200,000		0		200,000	
Total Planned Asset Enhancement	**2,200,000**	**0**	**68,700**	**175,000**	**2,443,700**	
Devolved Capital	804,000	-804,000	0	2,037,900	2,037,900	Bfwd balances "held" by schools to be fully reflected in SAP
Total Devolved Schools Capital	**804,000**	**-804,000**	**0**	**2,037,900**	**2,037,900**	
Carer Home Adaptations	100,000		0		100,000	
Total Social Care and other	**100,000**	**0**	**0**	**0**	**100,000**	
Primary Programme Delivery costs	500,000		0		500,000	
Primary Programme Programme Contingency	250,000	340,000	-590,000		0	Reflects allocation of contingency sums to support proposed changes
Total Primary Programme Delivery & Contingency	**750,000**	**340,000**	**-590,000**	**0**	**500,000**	
Total Non-BSF	**16,767,000**	**-180,000**	**0**	**2,755,900**	**19,342,900**	
Total Capital Programme	**26,162,000**	**8,421,000**	**0**	**2,755,900**	**35,733,900**	

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Haringey Council

Agenda item:

[No.]

Cabinet	On 19th July 2011

Report Title: **Solar Photovoltaic Programme on Corporate and Social Housing Buildings**

Report of **The Director of Place and Sustainability**

Signed : MARC DORFMAN 13/7/11 for Lyn Garner

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Sustainable Business Manager
Central Procurement Unit

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Wards(s) affected: **All**	Report for: **Key Decision**

1. Purpose of the report (That is, the decision required)

1.1. To request Cabinet approval to the adoption of a solar photovoltaic programme for Council buildings, schools and council-owned residential assets.

2. Introduction by Cabinet Member (if necessary)

2.1. I welcome this report as it enables us to address several different challenges facing the Council at the same time.

2.2. The investment being proposed will help to achieve the Councils 40% CO_2 reduction for 2015 (for Council buildings), will create an income stream that can be used to finance work at a borough wide level to achieve the 40% CO_2 reduction target and also has the potential to address fuel poverty and deliver economic regeneration in the borough.

2.3. In the long term it is likely that the Council will need to install solar panels where

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viable in order to protect itself from rising fuel prices and reduce the amount it is liable to pay under the Government's Carbon Reduction Commitment which is now effectively a plain tax.

2.4. However, if the Council invests now it can benefit from the highest rate of Feed in Tariff available, which is likely to be reduced from March 2012 as a result of the popularity of this scheme. Solar panels represent a low risk, high return on investment option. For this reason numerous profit making companies, housing associations and other local authorities are investing in solar panels.

2.5. The financial modelling has been based on a conservative estimate of fuel price increases over the next 25 years which, in addition to the Feed In Tariff revenue, would create fuel cost savings for the Council, Homes for Haringey residents and Schools of up to £270k per annum. The opportunity to provide apprenticeships for young people as part of this contract procurement will be sought, and overall the programme constitutes up to £16m of investment in the sector which is a significant step in developing the green economy here in Haringey. The Council's programme potentially represents an investment larger than the current total installed capacity across the whole of London.

2.6. I am also happy that we will be setting up a board to review each installation on a case by case basis to ensure we manage any risk. The investment profile has been developed so as not to crowd out by even one penny any of our expenditure in the revenue budget.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. This programme delivers against the 'Environmentally Sustainable Future' objective of the HSP's Sustainable Community Strategy by providing green energy to reduce carbon emissions in the borough.

3.2. This programme delivers against the 'Economic vitality and prosperity shared by all' objective of the HSP's Sustainable Community Strategy by providing opportunities for apprenticeships in the installation and maintenance of the solar panels.

3.3. This programme supports implementation of the two delivery vehicles that sit under the Sustainable Community Strategy – the Council's 40:20 ambition and the Council's Carbon Management Plan – strategies to deliver carbon reduction in the borough as a whole, and within the Council respectively.

4. Recommendations

4.1 For Cabinet to approve the adoption of a Solar PV installation programme, to contribute to the Council's carbon reduction targets and generate revenue to support frontline services. An optimal combination of the contracting and roof rental solutions, both in terms of income and risk, would help the Council to meet

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its political objectives within tight timescales, whilst also ensuring risks were minimised.

4.2 For Cabinet to approve the use of a contracting model for all properties out of which the Council operates, including schools, granting access to a maximum loan of £8,658,000 through prudential borrowing to generate income of up to £162k per annum allocated to the Council's general fund, and cost avoidance of circa £155k per annum in energy and, potentially, CRC budgets, spread across the Council and schools.

4.3 For Cabinet to approve the inclusion of the Solar Photovoltaic Programme in the Council's Capital programme 2011/12 in a sum of up to £8.658m, subject to the Chief Financial Officer's satisfaction on the outcomes of the due diligence process referred to in paragraph 8.11.

4.4 For Cabinet to approve the use of a 'rent-a-roof' model for installations on housing stock, where no capital expenditure will be required, and the installations will result in potential income for the Council of up to £91k per annum allocated with the Council's general fund and avoidance of £115k per annum in energy costs for residents.

4.5 For Cabinet to approve the use of two procurement routes to deliver the contract. This solution will split installation across two existing supply agreement and supply chains – Birmingham City Council for contracting and a request for quotation process for Rent-a-Roof.

4.6 For Cabinet to authorise the creation of an investment board to critically review the financial projects of installations on a case-by-case basis.

4.7 For Cabinet to nominate a Councillor with delegated authority to approve recommendations made by the investment board.

4.8 For Cabinet to note the time criticality of the FiT opportunity in its current form and endorse the immediate commencement of the programme to derive maximum benefit from FiTs.

4.9 For Cabinet to note that a revised programme for outstanding installations may have to be submitted if the full programme is unable to be completed by April 2012, or asset disposals disrupt installation plans. This may mean the full £8,658,000 is not required and revenue generation will reduce in line with the proportion of installations achieved.

5. Reason for recommendation(s)

5.1. In November 2009, at a Full Council meeting, Haringey signed up to the Friends of the Earth "Get Serious About CO2 Campaign", pledging to cut borough wide carbon emissions by 40% by 2020.

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5.2. To ensure the Council demonstrated leadership in cutting carbon emissions, in March 2010 Cabinet agreed a 40% carbon reduction target against 2006/7 levels by 2014/15, and a Carbon Management Plan which outlined delivery options to achieve this target.

5.3. In support of organisations and individuals' desire to reduce carbon emissions whilst improving their financial situation, in April 2010 the government introduced Feed-in-Tariffs (FITs). This scheme provides financial incentives for parties interested in generating their own electricity through microgeneration options such as small scale solar arrays or urban wind turbines.

5.4. Whilst previously the returns on microgeneration were prohibitively small, the feed-in-tariff ensures installations have a return on investment of approximately 12 years (depending on the type of installation). The FiT rate ranges greatly from around 4.7p/kWh to 43.3p/kWh generated and tariff rates are adjusted annually by the percentage increase or decrease in the Retail Price Index over the 12 month period ending on 31 December of the previous year.

5.5. Of the microgenerating technologies covered by FiTs, solar photovoltaic (solar PV) panels offer the best FiT range, with the top rate at 43.3p/kWh. Furthermore, whilst other technologies are guaranteed FiTs over a 20 year life cycle, solar PV is deemed to have a 25 year life, meaning the Council could benefit from FiTs for a further 5 years over other options.

5.6. The Department for Energy and Climate Change is currently undertaking a comprehensive review of the FiT programme, which is expected to be completed by the end of 2011. This is in response to market changes that mean the tariff is no longer representative of the cost of solar panels, which have come down significantly in the last year. Tariff levels and degradation rates, as well as the types of technology are subject to the review. There is a risk in delaying installations beyond April 2012, when the findings of the review will be implemented, as tariffs could be substantially reduced and income generation opportunity lost.

5.7. In order to meet our carbon reduction targets, purchasing and installing Solar Panels on the roofs of our buildings will provide, potentially, a carbon saving of 2,266 tonnes in the borough, of which 861 tonnes would relate to the Council estate (approximately a 2% reduction contribution against the 2006/7 baseline).

5.8. However, the key objective of such a programme is to unlock investment in roof-mounted solar photovoltaic (PV) and generate revenue which could be employed to support action on the 40:20 Commission and/or other frontline services. The financial implications of solar photovoltaic installation are such that the Council could generate annual revenues of £253k which could be employed to support action on the 40:20 Commission and/or other frontline services.

5.9. The benefactors of the solar installations (residents, schools and the Council) could also avoid electricity costs of approximately £270k per annum between

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them. In the case of residents, this would be felt through service charge cost reductions for communal supply, which feeds stairwell and security lighting, lift shafts and door entry systems.

6. Other options considered

6.1 Camco – a leading environmental consultancy – undertook a comprehensive study which provides several options of available delivery models.

6.1.1 **PV for Free.** This solution is supplier led, with the supplier responsible for survey, install and maintenance of all arrays. The supplier retains all FiT revenue. This has been discounted as the Council will only receive free energy and hence no revenue generation.

6.1.2 **Roof Rental.** This solution is also supplier led, but with the supplier providing the Council with a small stipend per annum for the privilege of using Council assets to locate installations. The income is based on the maximum energy generation potential.

6.1.3 **Special Purpose Vehicle (SPV).** This requires the set up or identification of a legal entity separate to the Council to manage the installation and absorb risks on the Council's behalf. Whilst the Council would share in the Feed-in-Tariff benefit, the lead in time to implement this solution would fall outside of the window within which FiT values are guaranteed. As a result this has also been discounted, although could be revisited in the longer term.

6.1.4 **Contracting.** In this instance, the Council would contract with an organisation who would install PV arrays at a fixed cost. Ownership would lie with the Council, meaning maintenance arrangements would need to be considered. However, the Council would receive maximum FiT and free energy, as well as having the option to export all surplus energy to the grid, raising further revenue.

6.1.5 **In House.** This route would require the Council to undertake the install utilising existing internal specialists. Whilst the Council would receive maximum FiT, free energy and the option to export all surplus energy to the grid, the lack of expertise within the Council means that this in not feasible and is hence discounted.

6.2 Due to the issues with the PV for Free, SPV and In House options, the two most viable solutions to the Council are Roof Rental and Contracting. The pros and cons of each model are discussed in Appendix C. Financial implications of these two models can be found in Appendix B.

7. Summary

7.1. In 2012/13 and 2013/14, the Council is required to identify significant revenue budget savings due to the decisions taken as part of the Spending Review 2010

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that resulted in a significant reduction to the Council's grant funding. The Feed-in-Tariff represents a revenue generation stream, which could be allocated to Council initiatives and hence protect front line services, such as the Haringey 40:20 Commission launched in June 2011.

7.2. The Council has undertaken a financial analysis of potential revenue generation from solar PV installations and wishes to fund a solar photovoltaic programme with up to £8,658,000 sourced through prudential borrowing. The financial analysis is provided in Appendix B and supports the recommendations of this report. The analysis has been undertaken within the following parameters:

7.2.1 All identified installations are limited to a maximum of 50kWp in order to maximise overall returns under the FiT, rather than looking to generate the maximum amount of electricity.

7.2.2 Sites included in the analysis have been prioritised based on the largest roof spaces and best orientation, and therefore represent the best economic potential.

7.2.3 The proposed lifecycle of both solutions is 25 years, and both models use a discount rate of 6%, commensurate with the cost of capital for the Public Works Loan Board. The rate of inflation has been set at 2% and the rate of energy inflation, also at a very conservative 2%.

7.2.4 It is expected that the Rent-a-Roof Model will require no capital expenditure.

7.2.5 For the contracting model, capital costs have been assumed to be covered by borrowing and hence factor in an annual annuity which is subtracted from revenue generation potential to provide the actual income the Council could achieve.

7.3. The Council intends to set up a new investment board, comprising officers from Place and Sustainability and Corporate Resources, ensuring installation proposals are reviewed on a site-by-site basis, and more profitable installations prioritised. The assessment will include consideration of financial opportunity as well as estate renewal implications. Recommendations will be provided to a Cabinet Member with delegated authority for approval.

7.4. The roof rental scheme for social housing will be prioritised to coincide with the Decent Homes programme, to ensure that future scaffolding requirements are minimised, creating economies of scale and minimising disruption to residents where possible. Prioritisation will also take into account future roof renewal requirements, and installations on roofs which will require two renewals over the 25 year period will be avoided (the roof renewal scheme costs in one roof renewal over the length of the contract).

7.5. Wherever available, under the roof rental option for social housing, electricity

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generation from solar PV will feed directly into the asset communal supply. This will ensure that the cost avoidance of electricity is delivered through the service charge to residents, thus reaching as many residents as possible, without favouring any. Wherever units are single occupancy, individual tenant agreements will form part of a tripartite agreement, providing electricity directly to the tenants, and roof rental income to the Council.

7.6. Under a roof-rental agreement, the supplier takes on the full liability for the maintenance of the panels and their insurance covers theft and vandalism, as well as professional and public indemnity, ensuring that leaseholders and residents are not recharged for any works that arise from issues with the solar panels, or as a result of them (such as roof damage).

7.7. Under a contracting model, the Council will need to enter into a maintenance agreement for panels over the 25 year period. The indicative costs of maintenance are highlighted in Appendix C and have been factored into the life cycle costing for the contracting proposal. The maintenance of solar panels is not a specialist discipline and can be undertaken by qualified electricians. There is an opportunity here to deliver apprenticeships to residents of the borough who are interested in an electrical engineering vocation. Furthermore, the Birmingham City Council contract has specific provisions for apprenticeships which we are able to explore.

8. Chief Financial Officer Comments

8.1. The capital cost of the contracting option would be a maximum of £8.658m which would need to be funded through Prudential Borrowing. It is likely that the final spend will be a much lower figure as the list of applicable buildings is reviewed against the Accommodation Strategy.

8.2. Savings have been calculated based on borrowing being paid back over a 25 year period based on the current Public Works Loan Board borrowing rate.

8.3. Savings can be achieved in 4 ways:

- Feed-In Tariff payments received once Solar PV is installed under the Contracting option;
- Roof Rental payments received under the Roof Rental model;
- Energy Cost Savings where Solar PV reduces the Councils dependence on the National Grid; and
- Carbon Reduction Commitment savings, although this is not currently agreed with the Department of Energy and Climate Change.

8.4. It is assumed that the level of savings achievable will be as follows:

8.5. Feed-In Tariff income up to a maximum of £162,000 above the cost of borrowing, this is based on a £8.6m capital spend – so the income will reduce if less capital is spent. Schemes would only proceed where the individual building generates an income level that clearly exceeds the cost of borrowing. The sum received would be expected to remain fixed providing installation is complete before April 2012;

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8.5 Roof Rental Payments are expected to generate £91,000 per annum – this sum would be expected to be relatively fixed in amounts;

8.6 Energy Savings are estimated to amount to around £270,000 per annum. Again this figure may reduce if less capital is spent and fewer buildings are fitted with Solar PV. However, with energy prices generally expected to rise over time the energy savings can be expected to increase over time;

8.7 Further savings can be expected to be made related to the Carbon Reduction Commitment Energy Efficiency Scheme where organisations are required to buy allowances from the Government to cover their Carbon Emissions. Reducing Carbon Emissions will reduce the funding required here. Although the saving is relatively small at this stage, it is likely to increase over the 25 year life of the Solar PV.

8.8 Any savings expected to be achieved need to be seen in context of the associated risks of the project, which primarily relate to changes in Government policy, maintenance costs and certainty of Council tenure / ownership. Although Government policy regarding the level of Feed In Tariff payments could change, it is unlikely that this will happen providing installation is completed prior to April 2012.

8.9 The risk around maintenance cost can be mitigated by ensuring that only projects where the expected return significantly exceeds the cost of borrowing are approved. The final risk is around the Council deciding it no longer needs to utilise a building over the course of the 25 year payback period. This risk can be mitigated by both novating the income from FIT's in any sale agreement of existing property assets and by including Property services in any approval process to ensure that Solar PV is not installed on buildings that may be part of Regeneration aspirations and thus could be demolished.

8.10 It is also worth noting that the expected rise in Energy Costs is likely to make the case for Solar PV more compelling in years to come and hence Capital spend may well be incurred even if this project does not proceed.

8.11 The financial analysis necessary for a scheme such as this has been initially undertaken by Corporate Finance staff, at a relatively high level. However, the outcome from the analysis is particularly reliant on the savings projections calculated by Camco (as referred to above). I have taken the decision, therefore, to commission some independent corroboration of the Camco analysis using a consultant on the Council's framework arrangement. This work has been requested to be undertaken quickly and should be available for consideration by the date this report is discussed by the Cabinet.

9 Head of Legal Services Comments

9.1 The Head of Legal Services notes the contents and recommendations of the report

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to Cabinet.

9.2 In terms of the use of the contracting model, in October 2010 Birmingham City Council issued an OJEU Notice for a framework agreement for supply of photovoltaic system components. The framework agreement was advertised so that other contracting authorities including local authorities were able to utilise it. The European Commission and OGC have issued guidance saying that it is sufficient to identify contracting authorities by reference to a specific class in an OJEU procurement. It is not entirely clear to what extent a class needs to be specified as potential users but legal opinion would appear to be of the general view that it is sufficient to refer to local authorities as a class.

9.3 With regard to the roof rental model, the Council will need to ensure that it follows a procurement process which is competitive and compliant with Contract Standing Orders.

9.4 For both contracting models, the Council will need to ensure that its proposals adhere to its Community Strategy.

9.5 The Head of Legal Services should be consulted on this initiative as it progresses.

10 Head of Procurement Comments

10.1 General legal opinion on the EC Procurement Regulations in the context of PV for Free, Roof Rental and SPV opportunities is that they do not apply in their fullest. This is because, as there is no flow of consideration from the contracting authority to the supplier, this does not fall within the parameters that define a necessity to advertise in the OJEU.

10.2 However, as this is a commercial arrangement, there is still a requirement to comply with the general principles of EC Procurement Law. As a result, a competitive, advertised opportunity, evaluated on objective and non-discriminatory criteria is still required. This could take the form of a competitive quotation across three suppliers. This would significantly reduce the timescales required to agree a programme of works.

10.3 With regards to contracting and in house solutions, the purchase and installation represents a supply contract under EC procurement rules. Even if the Council agreed to a solution involving a selection of buildings, it is likely that the cost threshold for OJEU compliance would be exceeded and hence OJEU will apply.

10.4 In order to reduce the timescales for a compliant OJEU process, the Council has identified and acceded to an existing call-off opportunity, run on behalf of all local authorities by Birmingham City Council. Whilst the Council is not obliged to purchase through the framework, the pricing of the solution is substantially below average market rates and represents a favourable option, both in terms of resource and supply costs.

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11 Equalities & Community Cohesion Comments

11.1 The implementation of a solar photovoltaic programme will help the Council to address inequalities in the borough, both in terms of fuel poverty, where council tenants will receive cost reductions to their utilities service charge, and unemployment, where the Council will use the contracts associated with the programme to generate local apprenticeships and employment opportunities.

12 Consultation

12.1 The evaluation of the potential for solar photovoltaics in the borough has been undertaken in conjunction with Camco – a leading environmental consultancy.

12.2 Camco's outputs have been independently assessed by Deloitte – the Council's external auditors – to ensure assumptions concerning market forces and financial data are in line with industry standards.

12.3 Initial discussion has been undertaken with Homes for Haringey (HfH) as there is obviously a significant opportunity with the housing stock. HfH officers support the principals of the proposals, but have some issues that need to be addressed to maximise the benefit of this opportunity and avoid potential pitfalls. These centre around consultation with residents, how residents will benefit from the installations, ongoing maintenance of the equipment and the surfaces they are installed upon (impact on warranties etc), deliverability of the programme and the synchronisation of this work with other HfH programmes.

12.4 This has not yet been considered by the HfH Board and any such proposals would need to be considered by the Board.

13 Use of appendices /Tables and photographs

13.1 Appendix A - Haringey PV potential (broken down by building type).

13.2 Appendix B: Proposed delivery mechanisms for PV and revenue generation calculations.

13.3 Appendix C: Pros and Cons – Contracting and Roof Rental Models

14 Local Government (Access to Information) Act 1985

14.1 Solar Renewable Potential North London Report – Work Stream 1: Opportunity Mapping

14.2 Solar Renewable Potential North London Report – Work Stream 2: Market testing – analysis of finance and delivery options

14.3 Solar Renewable Potential North London Report – Work Stream 3: Evaluation

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Appendix A: Haringey PV potential (broken down by building type)

Table 1: Haringey PV potential

Summary: Haringey				
Building Type	Sum of Indicative CAPEX	IRR	Sum of Total Size (kWp)	Number of projects
Car Park	£ 96,000	9.32%	32	1
Care home/Day centre	£ 288,000	10.49%	96	2
Cemetery	£ 150,000	9.39%	50	1
Community Building	£ 681,000	9.89%	227	6
Depot	£ 150,000	9.91%	50	1
Housing	£ 738,000	10.10%	246	5
Industrial Units	£ 1,779,000	10.01%	593	14
Library	£ 117,000	8.75%	39	1
Office Building	£ 924,000	10.16%	308	8
Schools/Nursery	£ 3,825,000	9.94%	1,275	28
Shops	£ 498,000	10.01%	166	4
Social Housing	£ 7,077,000	9.77%	2,359	60

The cost of each sector shown in the table illustrates the internal rate of return (IRR) expressed as a percentage of capital. The IRR varies by building, but has been grouped into categories and averaged to provide tranches of work with similarities in build type and relationship between occupiers and the Council. For ease, in Appendix B, buildings that are not offices/libraries, social housing or schools have been grouped into a single consolidated tranche.

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Appendix B: Proposed delivery mechanisms for PV and revenue generation calculations.

Table 2: Cashflow analysis for Solar Panels – Rent-a-Roof Model

Building Stock	Individual categories		Cumulative	
	Annual Income	Income over 25 yrs	Annual Income	Income over 25 yrs
Offices & Libraries	£8,675	£216,875	£8,675	£216,875
Social Housing	£91,175	£2,279,375	£99,850	£2,496,250
Schools	£31,875	£796,875	£131,725	£3,293,125
Remainder	£36,500	£912,500	£168,225	£4,205,625

Table 3: Cashflow analysis for Solar Panels – Contracting Model

Building Stock		Individual categories			Cumulative		
	Capital cost	Annuity over 25 yrs	Annual Income	Surplus per annum	Annuity over 25 yrs	Annual Income	Surplus per annum
Offices & Libraries	£1,041,000	£84,240	£104,116	£19,876	£84,240	£104,116	£19,876
Social Housing & Housing	£7,815,000	£632,410	£765,961	£133,551	£716,650	£870,077	£153,427
Schools	£3,975,000	£321,667	£395,115	£73,448	£1,038,317	£1,265,192	£226,875
Remainder	£3,642,000	£294,720	£363,387	£68,667	£1,333,037	£1,628,579	£295,542

Note: If capital expenditure is incurred during 2010/11, an annuity payment will be due every year 2012/13 to 2036/37 inclusive

Table 4: Recommended options – Maximum borrowing requirements and potential financial benefits

Building Stock	Proposed Solution	Maximum Costs/Borrowing	Income p.a.	Rate of Return	Electricity Cost Avoidance p.a.
Offices & Libraries	Contracting	£1,041,000	£19,876	1.9%	£17,000
Social Housing	Rent-a-Roof	£0	£91,175	N/A	£115,000
Schools	Contracting	£3,975,000	£73,448	1.8%	£63,000
Remainder	Contracting	£3,642,000	£68,667	1.9%	£75,000
	Total	£8,658,000	£253,166	£253,166	£270,000

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Appendix C: Pros and Cons – Contracting and Roof Rental Models

	Contracting Model	Roof Rental Model
Procurement Options	Birmingham City Council commissioned Buy for Good to undertake an OJEU compliant tender on behalf of all local authorities. **Pros:** ▸ The contract can fully manage and deliver a fully installed 1.9kW solar PV system at a cost just under £5,100. This is substantially lower than average market rates. ▸ As an existing framework, this model is available for utilisation immediately. **Cons:** ▸ The Council will be required to fund the works, meaning a large initial capital outlay, with recourse to borrowing mechanisms likely.	Energy suppliers such as Eon offer schemes. Legal opinion is that OJEU does not apply, although a tender process would prove prudent to ensure best value. **Pros:** ▸ The Council does not have to consider any capital outlay to fund the installations. **Cons:** ▸ N/A.
Feed in Tariff	**Pros:** ▸ The Council will have access to the full FiT from any installation undertaken under this model. **Cons:** ▸ Revenue generation will be diminished by annuity resultant of any borrowing.	**Pros:** ▸ N/A **Cons:** ▸ The supplier will take all FiT generation to cover the cost of capital investment, significantly reducing the financial benefit to the Council.
Other Revenue Factors	**Pros:** ▸ Council has the opportunity export surplus electricity to the grid at 3p/kWh ▸ Where installations are on properties at which the Council is the occupier, electricity generation will reduce the Council's dependency on the grid, thus reducing costs to the Council by 8p per kWh generated. ▸ Where installations are on operational and commercial properties, generation will offset CRC costs. For every 1,848kWhs generated, the Council will reduce its CRC liability by £14. **Cons:** ▸ Council will have to consider insurance costs of both buildings and PV equipment. ▸ Whilst Solar PV requires minimal maintenance, the Council should budget for an annual clean and assessment of panel condition, as well as replacement of inverters and other electrical components.	**Pros:** ▸ Council will receive a fixed income of circa £25-£35 per annum, per kW capacity. ▸ Where installations are on properties at which the Council is the occupier, electricity generation will reduce the Council's dependency on the grid, thus reducing costs to the Council by 8p per kWh generated. ▸ Where installations are on operational and commercial properties, generation will offset CRC costs. For every 1,848kWhs generated, the Council will reduce its CRC liability by £14. ▸ Costs of insurance for equipment are covered by the supplier and damage to the roof as a result of installation is covered by suppliers' indemnity. ▸ All maintenance will be the responsibility of the supplier. **Cons:** ▸ N/A

Maintenance	**Pros:** ▸ N/A **Cons:** ▸ Council will retain responsibility to undertake routine cleaning and maintenance of panels at the following indicative market rates. <4W: fixed cost of £110 4-10kW:< £24/kWp <10-100kW: £22/kWp 100-5000kW:< £20/kWp	**Pros:** ▸ All maintenance will be the responsibility of the supplier. **Cons:** ▸ N/A
Asset Retention	**Pros:** ▸ In the event of asset disposal, the Council retains ownership of the PV array and has the flexibility to relocate the system to other sites to maintain income generation or novate the ownership to incoming tenants/owners. ▸ As the owners of the arrays, there is an opportunity to recover revenue to limit losses/generate profit should relocation not prove feasible. **Cons:** ▸ The Council will have to consider storage costs and capacity for panels should relocation/resale take time. ▸ Disposal of panels may prove to be required if relocation or resale not prove feasible.	**Pros:** ▸ In the event of asset disposal, the Council will not be subject to storage overheads. **Cons:** ▸ Contract terms with suppliers may financially penalise the Council for breach of contract, which typically lasts 25 years. ▸ Council will have no control over relocation decisions, as energy companies will wish to generate maximum revenue, and hence may remove them from the borough.
Carbon Reduction	**Pros:** ▸ The Council will benefit from any and all carbon reduction associated with the offset of electricity from the grid. **Cons:** ▸ N/A	**Pros:** ▸ The Council will benefit from any and all carbon reduction associated with the offset of electricity from the grid. **Cons:** N/A
Social Benefits	**Pros:** ▸ Revenue generation is maximised and could be used to support further carbon reduction work in the borough. For example, through the 40:20 commission. ▸ Residents in social housing blocks will benefit from reduced service charges for communal lighting. **Cons:** ▸ N/A	**Pros:** ▸ Revenue generation could be used to support further carbon reduction work in the borough. For example, through the 40:20 commission. ▸ Residents in social housing blocks will benefit from reduced service charges for communal lighting. **Cons:** N/A