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NOTTINGHAM CITY COUNCIL
EXECUTIVE BOARD

Date: Tuesday, 20 June 2017

Time: 2.00 pm

Place: Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG

Councillors are requested to attend the above meeting to transact the following business

Corporate Director for Strategy and Resources

Governance Officer: James Welbourn, Constitutional Services
Direct Dial: 0115 8763288

AGENDA		Pages
1	**APOLOGIES FOR ABSENCE**	
2	**DECLARATIONS OF INTERESTS**	
3	**MINUTES** Last meeting held on 1 June 2017 (for confirmation).	3 - 10
4	**TREASURY MANAGEMENT 2016/17 ANNUAL REPORT** Report of Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration	11 - 28
5	**PRE-AUDIT CORPORATE FINANCIAL OUTTURN 2016/17** Report of Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration	29 - 66
6	**ERDF BID – DEEP INNOVATIVE RETROFITS - KEY DECISION** Report of Portfolio Holder for Energy and Sustainability/Portfolio Holder for Planning, Housing and Heritage	67 - 74
7	**EXCLUSION OF THE PUBLIC** To consider excluding the public from the meeting during consideration of the remaining item(s) in accordance with Section 100A(4) of the Local	

Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs in the public interest in disclosing the information

ALL ITEMS LISTED 'UNDER EXCLUSION OF THE PUBLIC' WILL BE HEARD IN PRIVATE FOR THE REASONS LISTED IN THE AGENDA PAPERS. THEY HAVE BEEN INCLUDED ON THE AGENDA AS NO REPRESENTATIONS AGAINST HEARING THE ITEMS IN PRIVATE WERE RECEIVED

IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ON THE AGENDA, PLEASE CONTACT THE GOVERNANCE OFFICER SHOWN ABOVE, IF POSSIBLE BEFORE THE DAY OF THE MEETING

CITIZENS ATTENDING MEETINGS ARE ASKED TO ARRIVE AT LEAST 15 MINUTES BEFORE THE START OF THE MEETING TO BE ISSUED WITH VISITOR BADGES

CITIZENS ARE ADVISED THAT THIS MEETING MAY BE RECORDED BY MEMBERS OF THE PUBLIC. ANY RECORDING OR REPORTING ON THIS MEETING SHOULD TAKE PLACE IN ACCORDANCE WITH THE COUNCIL'S POLICY ON RECORDING AND REPORTING ON PUBLIC MEETINGS, WHICH IS AVAILABLE AT WWW.NOTTINGHAMCITY.GOV.UK. INDIVIDUALS INTENDING TO RECORD THE MEETING ARE ASKED TO NOTIFY THE GOVERNANCE OFFICER SHOWN ABOVE IN ADVANCE.

NOTTINGHAM CITY COUNCIL

EXECUTIVE BOARD

MINUTES of the meeting held at Ground Floor Committee Room - Loxley House, Station Street, Nottingham, NG2 3NG on 1 June 2017 from 1.32 pm - 1.55 pm

Membership

<u>Present</u>
Councillor Jon Collins (Chair)
Councillor Alan Clark
Councillor Jon Collins (Chair)
Councillor Sally Longford
Councillor Nick McDonald
Councillor David Mellen
Councillor Toby Neal
Councillor Jane Urquhart
Councillor Sam Webster

<u>Absent</u>
Councillor Graham Chapman (Vice Chair)
Councillor Dave Trimble

Colleagues, partners and others in attendance:

David Bishop	-	Deputy Chief Executive/Corporate Director for Development and Growth
Candida Brudenell	-	Corporate Director for Resources and Strategy /Assistant Chief Executive
Alison Challenger	-	Director of Public Health
Chris Deas	-	Director of Major Projects
Jason Gooding	-	Parking Manager
Dave Halstead	-	Director of Neighbourhood Services
Fergus Slade	-	Communications and Marketing Manager
Keri Usherwood	-	Marketing and Communications Manager
Geoff Walker	-	Director of Strategic Finance
James Welbourn	-	Governance Officer
Rebecca Wilson	-	Executive officer to the Leader

Call-in
Unless stated otherwise, all decisions are subject to call-in and cannot be implemented until **12 June 2017**.

10 <u>APOLOGIES FOR ABSENCE</u>

Councillor Graham Chapman	-	other Council business
Councillor Dave Trimble	-	annual leave

Alison Michalska

11 DECLARATIONS OF INTERESTS

None.

12 MINUTES

The minutes of the meeting held on 16 May were agreed as a true record and signed by the Chair.

13 BROADMARSH SHOPPING CENTRE AND CAR PARK AND ASSOCIATED MATTERS

The Portfolio Holder for Strategic Infrastructure and Communications introduced the item on the Broadmarsh Shopping Centre and Car Park and associated matters.

The Council is bringing forward significant schemes for the Broadmarsh Car Park, Bus Station, surrounding roadspace, and public realm as part of the comprehensive plan for transformation of the Southern City Centre.

The following points were highlighted; these points were all made subject to the recommendations being approved:

(a) access to the shopping centre will remain, and will be as uninterrupted as possible. There will be a comprehensive communications strategy over the next few weeks, starting with the issuing of publicity materials, leaflets and plans in the surrounding area;

(b) good progress is being made with letting units in the shopping centre;

(c) a refurbished car park would have struggled to match the ambition of the City;

(d) ways of mitigating traffic problems have been looked at; however a project of this size will have some impact on people that drive across the city centre;

(e) once the Broadmarsh car park replacement is built, there will be additional car parking funding which can help finance the project. There will also be grant money from the Local Enterprise Partnership (LEP);

(f) there will be more integration with other forms of transport, without forgetting the car.

RESOLVED to:

(1) note the latest financial analysis for the Broadmarsh Shopping Centre scheme and endorse the continued development of the scheme to full design and tender, incurring the costs identified, all contained in Appendix F of the report, with the expectation of a further comprehensive report prior to full approval later this year;

(2) approve the progression of shopping centre enabling works at risk via intu's contractors, with a Council contribution as shown in Appendix F of the report, and approve the revised agreement for lease and capital contribution for key Tanners Walk units as outlined in Appendix G of the report, subject to the Council making clear to intu that this does not mean that unconditionality has been achieved on the main development agreement (see 2.5 of the report);

(3) note the latest financial projection and scope of the Broadmarsh Car Park replacement scheme (see para 2.10 of the report) as laid out in Appendix H of the report, and to endorse the continued design development of this option to enable receipt of formal tenders for the works, incurring the fees identified. A further comprehensive report will be presented prior to final approval later this year;

(4) endorse the Road Network improvements and Communication measures being taken to mitigate disruption to the travelling public, as laid out in Appendices B and C of the report;

(5) approve the draft Heads of Terms attached as Appendix K of the report and ensuing legal document, for further negotiation with intu, to address additional risks arising from rebuilding rather than refurbishing the Car Park, and delegate authority to the Deputy Chief Executive/Corporate Director of Development and Growth, in consultation with the Leader/Portfolio Holder for Strategic Infrastructure, Director of Major Projects and Director of Legal Services, to finalise these documents;

(6) approve the decant of the existing car park and progression of car park demolition works in accordance with the recommendations contained in Appendix A of the report, subject to satisfactory progress with road network preparation, communication strategy implementation, temporary car parks and bus facilities as laid out in Appendices B and C of the report. Full demolition not to be committed until the Legal Agreement identified in Appendix K of the report is executed;

(7) endorse the temporary car parking and bus stop proposals, together with the arrangements for affected staff car parking as laid out in Appendix B of the report;

(8) endorse the resourcing of the above works in the manner laid out in Appendix J of the report;

(9) approve the use of the consultant team 'described' in Appendix E of the report for these works;

(10) approve the proposals identified in Appendix G of the report.

<u>Reasons for decisions</u>

Shopping Centre enabling works
Full scale approval of the Shopping Centre scheme will not take place until the Council's Executive Board and intu Board give the scheme the final green light, later

this year, when full tendering of the main construction contract and latest letting information is available. At this point the Conditional Development Agreement (CDA) between intu and the Council would go unconditional.

In advance of that however intu are making significant progress with key lettings into the newly transformed Shopping Centre, in particular the main cinema. In order for timetable milestones for the cinema operator to be met by early 2020, enabling works are necessary ahead of unconditionality, to move other occupiers out of the way and allow prompt start on the cinema work later in the year.

Separate tenders have been obtained for these enabling works and intu are seeking agreement to progress with them (Appendix F of the report) with the Council funding one third, as per the development agreement. In turn these works are predicated on a new lease and deal being secured with the present occupiers of the space who need to move now. This has been negotiated, and more details are contained in exempt Appendix G of the report.

Despite the fact that market conditions have become more challenging since 2013 when the CDA was agreed the Council is confident (exempt Appendix F of the report) that the business case for investment in the Shopping Centre will be made and that unconditionality will be achieved and that these proposals should be agreed at risk. Further financial analysis is contained in the Finance Comments, see Appendix J of the report.

For the avoidance of doubt however it is important for the council to make clear that agreement at this stage is not agreement to the full scheme. The Executive will consider the business case for the full scheme on its merits when full scheme preparation is completed later this year, and could choose to not go ahead in certain circumstances.

To progress the full scheme to unconditionality there are also further design and development costs that need to be incurred by intu, and therefore Nottingham City Council (one third contribution), as laid out in exempt Appendix F of the report.

Car Park Demolition and Rebuild

It has always been the aspiration of the Council and intu to transform the Broadmarsh car park to complement the Shopping Centre redevelopment scheme, at the same time, and indeed to do so is a requirement of the CDA.

The physical condition of the car park continues to deteriorate as a result of a combination of physical factors, mostly the result of corrosion of the steel in the reinforced concrete, and this means continuous and ever more expensive repair by the Council to keep it open. In reality the car park needs fundamental attention, regardless of whether or not the Shopping Centre scheme progresses.

The Council has therefore undertaken significant investigation of this situation over time and what the options are based on the realities of cost versus benefit assessment. A report to Executive Board in February 2017 led to the decision to progress towards the demolition and rebuild option, with final decisions later in the year once certain risk mitigation and financial matters were clearer. This report brings forward many of the answers to those questions, and seeks permission to accept tenders and enter into contract to demolish now, and to further progress design, development and tendering of a new build scheme, leading to final decisions on the new car park at the end of the year aligned to final decision making on the shopping centre.

Demolition preparations have been underway since the February report, with service diversions, vacant possession, and alternative bus station and car parking arrangements being planned and set in train. A new car park to dovetail with the transformed shopping centre will need to provide the same number of spaces, the same degree of accessibility and proximity, and should complement the Shopping Centre specification and design style. The design team is working to bring forward proposals accordingly, in careful discussion with Planning. The current cost estimates associated with this are attached as Appendix H of the report.

Despite being more cost effective and viable than the refurbishment option, the new build option is still very expensive. The new build option does however allow much more cost effective design and build (as opposed to retrofitting) and the possibility of additional aspects that not only add to the attractiveness and vibrancy of the finished product, but income too. Solar panels, digital advertising, and complementary retail are all included in the emerging option accordingly. The possibility of new homes on top of the Car Park is also being explored, although the financial viability of this idea is still to be confirmed.

To address the funding challenge that the new car park presents, not only are construction cost reduction and income generation being pursued, but also a great deal of progress has been made with securing grants. The Government through the Local Enterprise Partnership, have agreed to provide a significant proportion of Local Growth Fund, and this adds to earlier monies secured for the Bus Station upgrade. The new Car Park is of course expected to attract many more visitors than presently when the area transformation is complete with more rapid turnover of spaces (retail and leisure, as opposed to commuter), leading to higher car park income than today. The combination of grant, income uplift, and new income, has enabled a realistic financial funding solution for this project to be put forward. (See exempt appendices H and J of the report).

The move away from Car Park Refurbishment to Car Park demolition and New Build is of course a major change bringing with it new risks. Potentially greater loss of income from the Shopping Centre, and Car Park during the rebuild period for example. On the other hand the delivery of a clean new Car Park should be more manageable and less risky than the refurbishment option with all the complexity associated with keeping the existing Car Park open and safe whilst working on it. In February, Executive Board were concerned to ensure that all these new risks were worked through in detail with intu, and agreement reached on their implications. Such an agreement is nearly finalised, and the latest document is contained in Appendix K of the report. It is proposed that works to demolish the Car Park are not committed until this agreement is completed.

Of course the Shopping Centre remains open during the Car Park demolition and rebuild, and the biggest challenge is therefore to ensure the visitors to it are as unaffected as possible – business as usual being our aim. A great deal of work has been undertaken to ensure bus users can still access the shopping centre and city centre from the south, and discussions have taken place with all the main operators. Temporary arrangements are being progressed, and will be further improved ahead of demolition commencement. The same is true for car parking users with temporary nearby sites being secured as appropriate. The proposals will change over time, and key to success will be effective communication of up to date information. Proposals so far planned are described in Appendix B of the report, with the initial communication approved as part of a wider plan outlined in Appendix C of the report.

Demolition of the existing car park clearly also requires the agreement of temporary displacement arrangements with certain facilities and business in the direct vicinity. Work is underway to secure such agreements, and approval is required for the proposal contained in Appendix G of the report accordingly.

Demolition tenders have been secured through the SCAPE framework, and are broadly in line with earlier estimates. Detail is contained in exempt Appendix A of the report, and endorsement is sought to the proposal to commence demolition utilising the contractor identified, once the necessary preparations to manage the impact and risks, as per recommendation 6, have been made.

Roadworks, Communications and Other Matters
The physical extent of the car park demolition site, the access/egress to new temporary car parks, and temporary arrangements for pedestrian routes and accessing new bus stops all mean considerable change to the existing road system and associated public realm. A lot of work has been undertaken, and continues to ensure new arrangements are made that allow facility users and visitors safe and easy access, whilst still enabling the travelling public to go about their business safely and expeditiously. The Canal Street area will be particularly disrupted, and so measures are being taken to encourage and enable traffic to flow easier around the southern side of the railway station during the next three years. These measures are described in more detail in Appendix B of the report, and are already underway.

There is particular focus on two things, enabling shoppers and visitors to still access easily the Shopping Centre and Southern City Centre and at the same time keeping the travelling public moving safely and speedily. To achieve this information and communication will be key, with appropriate well signed advance warnings, timely notification, accurate information, and real time updates crucial. A comprehensive effort to achieve these objectives will be undertaken, and the approach is contained in Appendix C of the report. The demolition works will not be commenced until the roadworks enabling measures are substantially in place, and the public have been made fully aware of what is to be expected.

The work to deliver all the elements of activity described in this report is being delivered by a wide team of internal Council officers, contractors and consultants. Procurement of this team is being carried out in adherence to the Council’s rules and procedures. Approval is sought to confirm the appointment of the Consultants team for the next stages of the project as laid out in Appendix E of the report.

Other options considered

To not progress the Shopping Centre scheme as a result of less positive financials than when the CDA was agreed in 2014, and public sector austerity. Rejected –this would be a mistake given the strategic importance of this project to the city economy and reputation, and an unnecessary step as we are confident the business case for investment will be made.

To not progress enabling works and key occupier leases in the Shopping Centre until the CDA has gone unconditional. Rejected – this would prejudice the key letting to a quality cinema operator, which would in turn undermine the redevelopment offer the developer is set on achieving, to complement their Victoria Centre offer. It would also mean an extended construction period when the Shopping Centre scheme did commence.

To not progress the car park demolition and rebuild option, but to revert to a boiled down scheme based upon refurbishment. Rejected – A basic scheme would undermine the ambitious transformation the City is seeking to achieve through complementary projects in this part of the City. It is extremely doubtful that any comprehensive refurbishment scheme could ever be delivered cost effectively, as all contractor assessments have highlighted the complexity of the work, safety ramifications, and the need for ongoing repairs over the years as highlighted in the previous report.

To not progress the car park demolition until the Shopping Centre project has been fully committed. Rejected – such an approach would mean the new car park would not be available until well after the Shopping Centre scheme was complete, which would lead to the Council incurring compensation liabilities. It would also mean further wasted cost on temporary repairs.

To close Canal Street completely west bound whilst the Car Park demolition and rebuild are underway. This option might be appropriate for phases of the work further down the line, but in the short term this seems counterproductive, as it would interfere with the bus and taxi services, and take out more car capacity than necessary early on.

14 EXCLUSION OF THE PUBLIC

RESOLVED to exclude the public from the meeting during consideration of the remaining item(s) in accordance with Section 100A(4) of the Local Government Act 1972 on the basis that, having regard to all the circumstances, the public interest in maintaining the exemption outweighs in the public interest in disclosing the information.

15 BROADMARSH SHOPPING CENTRE AND CAR PARK AND ASSOCIATED MATTERS - EXEMPT APPENDICES

The Board considered the exempt appendix to the Portfolio Holder for Strategic Infrastructure and Communications’ report.

RESOLVED to note the information contained within the exempt appendix.

Reasons for decision
As detailed in minute 13.

<u>Other options considered</u>

As detailed in minute 13.

Subject:	**TREASURY MANAGEMENT 2016/17 ANNUAL REPORT**
Corporate Director(s)/Director(s):	Geoff Walker, Director of Strategic Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Theresa Channell, Head of Strategic Finance and Deputy S151 Officer 0115 8764157 theresa.channell@nottinghamcity.gov.uk

Subject to call-in: ☐ Yes ☒ No

Key Decision: ☐ Yes ☒ No

Criteria for Key Decision:

(a) ☐ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City ☐ Yes ☐ No

Type of expenditure: ☐ Revenue ☐ Capital

Total value of the decision: Nil

Wards affected: All

Date of consultation with Portfolio Holder(s): 24 May 2017

Relevant Council Plan Key Theme:

Strategic Regeneration and Development	☒
Schools	☐
Planning and Housing	☒
Community Services	☐
Energy, Sustainability and Customer	☐
Jobs, Growth and Transport	☐
Adults, Health and Community Sector	☐
Children, Early Intervention and Early Years	☐
Leisure and Culture	☐
Resources and Neighbourhood Regeneration	☐

Summary of issues (including benefits to citizens/service users):

This report sets out the 2016/17 performance in respect of the management of the Council's external debt and investments (i.e. treasury management). The key issues are:

- the average rate of interest payable on external debt decreased from 3.791% at 31 March 2016 to 3.270% at 31 March 2017 (see section 4.3);
- the average rate of interest earned on short-term investments in 2016/17 was 0.691%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.20% for the same period (see section 4.4);
- the latest estimate for 2016/17 was £71.588 against an actual General Fund Treasury Management expenditure of £71.158m (see section 5.1).

Exempt information: None

Recommendation(s):

1 To note the performance information in relation to Treasury Management for 2016/17.

1 REASONS FOR RECOMMENDATIONS

1.1 The Council adopted the Chartered Institute of Public Finance and Accountancy (CIPFA)'s revised Code of Practice on Treasury Management in Local Authorities (the Code) on 5 March 2012. Part of the Code requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

1.2 The Council's Treasury Management Strategy for 2016/17 was approved by full Council on 7 March 2016.

1.3 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks. To assist in this process the Council retains external financial advisors

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 Options for management of the Council's debt and investment portfolio are continually reviewed. The overall aim is to minimise the net revenue costs of our debt whilst maintaining an even debt profile in future years, and to maximise investment returns within stated security and liquidity guidelines

4 TREASURY MANAGEMENT ACTIVITY IN 2016/17

4.1 - Growth and Inflation:
The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November.
After a disappointing growth in quarter 1 of +0.2% the economy improved throughout the year despite the referendum shock and finished with quarter 4 figures reported at +0.7% so 1.9% for the year.
Since August inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum. By the end of March 2017, sterling was 17% down against the dollar but had not fallen as far against the euro. In February 2017, the latest Consumer Price Index (CPI) inflation figure had risen to 2.3%, above the Monetary Policy Committee's (MPC) inflation target of 2% with forecasts expecting this to reach nearly 3% during 2017 and 2018. This outlook, however, is dependent on domestically generated inflation, (i.e. wage inflation), continuing to remain subdued despite the fact that unemployment is at historically very low levels and is on a downward trend.

- UK Monetary Policy:

At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks all of which suppressed the money market rates throughout 2016/17.

Appendix 3 shows the money market interest rates and the Public Works Loans Board (PWLB) borrowing rates for 2016/17.

4.2 Local Context

At 31/03/2017 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,280.5m.

At 31/03/2017, the Authority had £1,014.9m of borrowing including £226.0m of Private Finance Initiative (PFI) Debt and £27.0m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to maintaining a liquidity investment balance of around £30m.

The Authority has an increasing CFR over the next 3 years due to the capital programme, investments are expected to remain at around £30m and further new long term borrowing is expected to be required.

4.3 Borrowing

Total outstanding debt in 2016/17 increased by £98.5m to £788.9m as at 31 March 2017. The total long term debt increased by £3.7m while temporary borrowing had increased by £94.8m as at 31 March 2017. The average rate of interest on total debt decreased, from 3.791% at 31 March 2016 to 3.270% at 31 March 2017. Table 2 analyses the debt portfolio:

TABLE 2: DEBT PORTFOLIO				
	1 APR 2016		**31 MAR 2017**	
DEBT	**£m**	**%**	**£m**	**%**
PWLB borrowing	619.9	3.860	623.6	3.729
Market loans	49.0	4.348	49.0	4.348
Local bonds & Stock	0.6	3.001	0.6	3.001
Temporary borrowing	20.9	0.486	115.7	0.338
TOTAL DEBT	**690.4**	**3.791**	**788.9**	**3.270**

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy.

As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use temporary borrowing and internal resources to fund the majority of its capital expenditure in 2016/17.

The Authority funded £121.8m of its capital expenditure from borrowing. In total £20m of new fixed rate loans with an average rate of 2.25% for a period of 20 years were raised which includes the replacement of maturing loans. The PWLB was the Authority's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

Temporary loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. £258.8m of such loans were borrowed at an average rate of 0.32% and an average life of 55 days this total includes the replacement of maturing loans. The Authority's balance of Temporary loans has increased by £94.8m in 2016/17 with the debt portfolio showing £115.7m outstanding as at 31 March 2017.

The initial costs of using internal resources and temporary borrowing to fund capital expenditure are around £0.240m lower per £10m borrowed short term at 0.3% vs 25 year PWLB debt at 2.7% (16/17 average); this balanced against the financial impact of for each 0.25% rise there is an extra £0.025m per annum in interest cost. An interest equalisation reserve has been set up to mitigate the risk of unexpected rises in long term interest rates with c.£12.3m ring-fenced to smooth the impact of increasing the proportion of fixed long term loans.

The benefits of using temporary borrowing and internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to moderately rise. Our Treasury advisors assists the Authority with this 'cost of carry' and breakeven analysis.

- *Lender Option Borrower Option (*LOBOs)

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

In June Barclays Bank informed the Authority of its decision to cancel all the embedded options within standard LOBO loans. This effectively converts £15m of the Authority's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver has been done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.

- Local Government Association Bond Agency

The UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has analysed the potential rewards and risks of borrowing from the MBA although is yet to approve and sign the Municipal Bond Agencies framework agreement which sets out the terms upon which local authorities will borrow, including details of the joint and several guarantee

- Debt Rescheduling:

The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

- Housing Revenue Account (HRA) Borrowing

From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing and not being replaced the HRA accumulates a variable rate internal borrowing position. During 2014/15 the HRA fixed £37.161m of internal borrowing on a maturity loan basis for 30 years with reference to the PWLB interest rate quoted on the day. No further HRA borrowing has taken place in 2016/17.

4.4 Investments

The Council has held significant investment balances over the last few years, representing income received in advance of expenditure plus balances and reserves held. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

In the past 12 months, the Council's investment balance has ranged between £25m and £110m, but investment balances are expected to be maintained at a balance of around £30m in the forthcoming year. The strategy of reducing investment balances towards a liquidity management balance of around £30m has continued throughout 2016/17and has seen the dual benefit of reducing the authority's exposure to bank credit risk and has allowed the budget to benefit from the net borrowing exposure to the lower interest rate environment.

The average sum formally invested during the year was £64.6m, earning total interest of £0.447m at an average rate of 0.691%. After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. The low short-term interest rates (see appendix 3), meant that the average return for 2016/17 was below the original budget estimate of 0.800%, however the amount of investment interest was higher than the original budget of £0.350m due to higher than anticipated cash balances at the beginning of the financial year.

The Council benchmarks its average return against the 7-day London Interbank (LIBID) rate provided by the Bank of England. For 2016/17, the average 7-day LIBID rate was 0.20%.

Table 3 - Movement in Investments	Balance on 31/03/2016 £m	Balance on 31/03/2017 £m
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher - Local Authorities	25.0 10.0	5.0 10.0
Long term Investments - Local Authorities	-	-
Money Market/ Funds	35.4	12.0
Pooled Funds - 'Cash Plus' Funds	10.0	-

TOTAL INVESTMENTS *	80.4	27.0
Increase/ (Decrease) in Investments £m		(53.4)

Note: * excludes remaining balance held in Icelandic ISK Escrow account

Table 3 above shows the movement in investments by type during 2016/17. The council reduced its overall exposure to investment credit risk by reducing the balance of investments held. These internal resources were used for the short term financing of capital expenditure. The council has retained its use of instant access money market funds with the dual benefit of increased diversity and a credit rating of AAAm.

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating was A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

- Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2016	4.26	AA-	3.48	AA
30/06/2016	3.83	AA-	3.52	AA-
30/09/2016	4.05	AA-	3.90	AA-
31/12/2016	4.38	AA-	3.87	AA-
31/03/2017	N/A	N/A	N/A	N/A

<u>Scoring:</u>
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security
Note:- Scores at 31 March 17 not available due to change of Treasury Advisors

Appendix 2 provides details of the Council's external investments at 31 March 2017, analysed between investment type and individual counterparties showing the Fitch long-term credit rating.

- Icelandic Krona (ISK) in Escrow

The administrators for the recovery of Glitnir Bank deposits (£11m) have made repayment to all priority creditors, including the City Council, in full settlement of the accepted claims. However, approximately 21% (£2.3m) of this sum has been paid in ISK and placed in an Escrow account awaiting final resolution of the currency controls.

The Central Bank of Iceland have recently issued a press release stating the currency restrictions in Iceland are to be removed. The Local Government Authority are currently working with the Central Bank to agree a method of repatriation of these funds plus accumulated interest back to the Local Authorities' UK bank accounts.

Accounting regulations require notional accrued interest in respect of the outstanding principal sums to be credited to the revenue account each year, together with any changes in the value due to the ISK exchange rate changes, until the recovery process is complete.

The accrued notional interest and changes in value due to exchange rate movements in respect of the Icelandic recoveries held in ISK escrow account produced a debit to the revenue account of £0.349m in 2016/17 which was neutralised by a transfer from the Treasury Management Reserve.

4.5 Counterparty update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

At the end of November, the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies (Barclays, HSBC, Lloyds/Bank of Scotland, Santander UK, HSBC, RBS/Natwest and Nationwide BS). The 2016 stress tests were more challenging and designed under a new Bank of England framework, which tested the resilience of banks to tail risk events. Royal Bank of Scotland, Barclays and Standard Chartered Bank were found to be the weakest performers.

4.6 External advisors

External treasury management advisors are retained to provide additional input on treasury management matters. The service comprises economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters, as required.

The council has retendered the advisor contract in 2016/17, and has awarded a contract to Capita Asset Services starting from 1st April 2017.

4.7 Compliance with Prudential Indicators

The Council confirms compliance with its Prudential Indicators for 2016/17 set on 7 March 2016 as part of the Council's Treasury Management Strategy Statement.

The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The limits on net fixed and variable rate interest rate exposures are:

	2016/17 £m	2017/18 £m	2018/19 £m
Upper limit on fixed interest rate exposure	800	900	900
Actual	588		
Upper limit on variable interest rate exposure	250	300	300
Actual	171		

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper	Actual
Under 12 months	0%	25%	17%
12 months and within 24 months	0%	25%	4%
24 months and within 5 years	0%	25%	12%
5 years and within 10 years	0%	25%	16%
10 years and within 25 years	0%	50%	24%
25 years and within 40 years	0%	50%	21%
40 years and above	0%	25%	6%

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17 £m	2017/18 £m	2018/19 £m
Limit on principal invested beyond year end	50	50	50
Actual	0		

Operational Boundary and Authorised Limit for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

	2016/17 (max to date £m)
Total Debt including PFI	1,014.9
Operational Boundary	1,041.2
Authorised Limit	1,081.2

Adoption of the CIPFA Treasury Management Code:
The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

In compliance with the requirements of the CIPFA Code of Practice this report provides a summary of the treasury management activity during 2016/17. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Appendix 1 shows the complete list of indicators including actual performance against these indicators for 2016/17 together with comparative figures for 2015/16.

The prudence indicators reflect the management of the capital programme and associated debt, within existing resource limitations. The affordability and treasury management indicators, indicate whether the 2016/17 actual figures were within the set limits.

The 'PFI and leasing debt' figures within the indicators reflect the notional debt element of those schemes financed through PFI funding or finance leases.

The Council also confirms that during 2016/17 it complied with its Treasury Management Policy Statement and Treasury Management Practices.

5.0 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

5.1 General Fund Revenue Implications
Revenue costs associated with borrowing and lending can be volatile, being affected by a number of factors including movements in interest rates, the timing of capital spending, the extent of reserves held and actual cash flows during the year.

The latest budget estimate in 2016/17 for treasury management costs was £71.588m. The total treasury management-related costs in 2016/17, comprising interest charges less receipts, plus provisions for repayment of debt, were £83.509m. Of this PFI related expenditure accounted for £31.326m which includes the NET lines 1 & 2. A proportion of the Council's debt relates to capital expenditure on council housing and £12.351m of these costs was charged to the HRA.
The remaining General Fund costs of £71.158m gave a favourable variance of £0.4m which is included within the treasury management section of the

General Fund corporate budget outturn report on the 20 June 2017 Executive Board agenda.

The prime reason for the favourable variance is delaying of taking new long term debt and some slippage in the capital program which has resulted in a £0.4m saving across interest payable and a reduction in the repayment of debt referred to as minimum revenue provision (MRP). These savings are one-off in nature as the proposed capital program expenditure materialises and the interest payable increases as new long term financing is secured in the coming year.

5.2 Treasury Management Reserve

The Treasury Management Reserve is maintained to smooth the impact of any volatility in treasury management revenue charges in any one year. The balance on the Reserve at 31 March 2017 is £2.955m.

A separate reserve for interest equalisation has been set up with a balance £12.337m specifically to balance the risk of having to secure new long term loans at higher interest rates than anticipated.

5.3 Value for Money

Management of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

5.4 Risk Management

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

The key Strategic Risk relating to treasury management is SR17 ‘Failure to protect the Council’s investments’. The rating for this risk at 31 March 2017 was Likelihood = unlikely, Impact = moderate which represents the same risk assessment as at 1 April 2016.anagement of borrowing and investments is undertaken in conjunction with our appointed advisors, with the aim of minimising net revenue costs, maintaining an even debt maturity profile and ensuring the security and liquidity of investments.

6 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

6.1 None

7 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

7.1 None

8 SOCIAL VALUE CONSIDERATIONS

8.1 None

9 REGARD TO THE NHS CONSTITUTION

9.1 None

10 EQUALITY IMPACT ASSESSMENT (EIA)

10.1 The report has no proposal to change processes or systems therefore no equality impact assessment has been completed.

11 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

11.1 None

12 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

12.1 None

INDICATORS	2015/16 Actual	2016/17 Estimate	2016/17 Actual	Within Limits?
1) Prudence indicators				
i) Capital Expenditure				
General Fund	£201.2m	£194.7m	£178.2m	YES
HRA	£51.0m	£74.2m	£56.3m	YES
	£252.2m	**£268.9m**	**£234.5m**	
ii) CFR at 31 March				
General Fund	£678.8m	£810.9m	£774.2m	YES
HRA	£280.8m	£284.2m	£280.3m	YES
PFI notional 'debt'	£236.3m	£226.0m	£226.0m	N/A
	£1,195.9m	**£1,321.1m**	**£1,280.5m**	
iii) External Debt at 31 March				
Borrowing	£690.4m	£755.2m	£788.9m	YES
PFI & leasing notional 'debt'	£236.3m	£226.0m	£226.0m	N/A
Gross debt	**£926.7m**	**£981.2m**	**£1,014.9m**	
Less investments	£(82.7)m	£(50.0)m	£(29.3)m	N/A
Net Debt	**£844.0m**	**£931.2m**	**£985.6m**	
2) Affordability indicators				
i) Financing costs ratio				
General Fund	13.44%	14.61%	12.80%	YES
General Fund (Inc PFI costs)	20.28%		20.28%	YES
HRA	11.33%	12.02%	12.00%	YES
	£s	**£s**	**£s**	
Council Tax Band D (per annum)	1.30	16.38	1.33	YES
HRA rent (per week)	-	0.05	-	YES
	Max in year		**Max in year**	
iii) Authorised limit for external debt	£926.7m	£1081.2m	£1,014.9m	YES
iv) Operational limit for ext. debt	£926.7m	£1041.2m	£1,014.9m	YES
3) Treasury Management indicators	**£m**	**£m**	**£m**	
ii) Limit on variable interest rates	22.0	250.0	171.4	YES
iii) Limit on fixed interest rates	586.6	800.0	588.2	YES
iv) Fixed Debt maturity structure				
- Under 12 months	2.68%	0-25%	16.78%	YES
- 12 months to 2 years	2.25%	0-25%	4.47%	YES
- 2 to 5 years	15.01%	0-25%	12.28%	YES
- 5 to 10 years	17.79%	0-25%	16.38%	YES
- 10 to 25 years	31.84%	0-50%	23.56%	YES
- 25 to 40 years	21.16%	0-50%	20.93%	YES
- 40 years and above	9.27%	0-25%	5.60%	YES
	Max in year		**Max in year**	
v) Max sum invested for >364 days	£0m	£50.0m	£0m	YES

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) **Prudence Indicators**

   i) *'Estimate of total capital expenditure'* – a "reasonable" estimate of total capital expenditure to be incurred, split between the General Fund and the HRA.

      - This estimate takes into account the current approved asset management and capital investment strategies.

   ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required.

      - This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
      - The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.

   iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet.

2) **Affordability Indicators**

   i) '*Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.

      - These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of the extension of the NET capital scheme, funded from specific Government grant and the Workplace Parking Levy income streams.

   ii) *'Incremental impact of capital investment decisions'* – expresses the revenue consequences of future capital spending plans to be met from unsupported borrowing and not financed from existing budget provision, on both the level of council tax and weekly housing rents.

      - This is a key indicator, which provides a direct link between the capital programme and revenue budget and enables the revenue impact of additional unsupported capital investment to be understood.

iii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year.

- This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a ‘worst case’ scenario.

iv) *‘Operating boundary for external debt’* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

v) *‘HRA limit on indebtedness’* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a ‘cap’ on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

3) **Treasury Management Indicators**

i) *‘Upper limit on variable interest rate exposure’ - is set to control the Authority’s exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of net principal borrowed*.

- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

ii) *‘Upper limit on fixed interest rate exposure’ - is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed interest rate exposures, expressed as the amount of net principal borrowed*.

- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates.

iii) *‘Upper and lower limits with respect to the maturity structure of the authority’s borrowing’* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.

- This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.

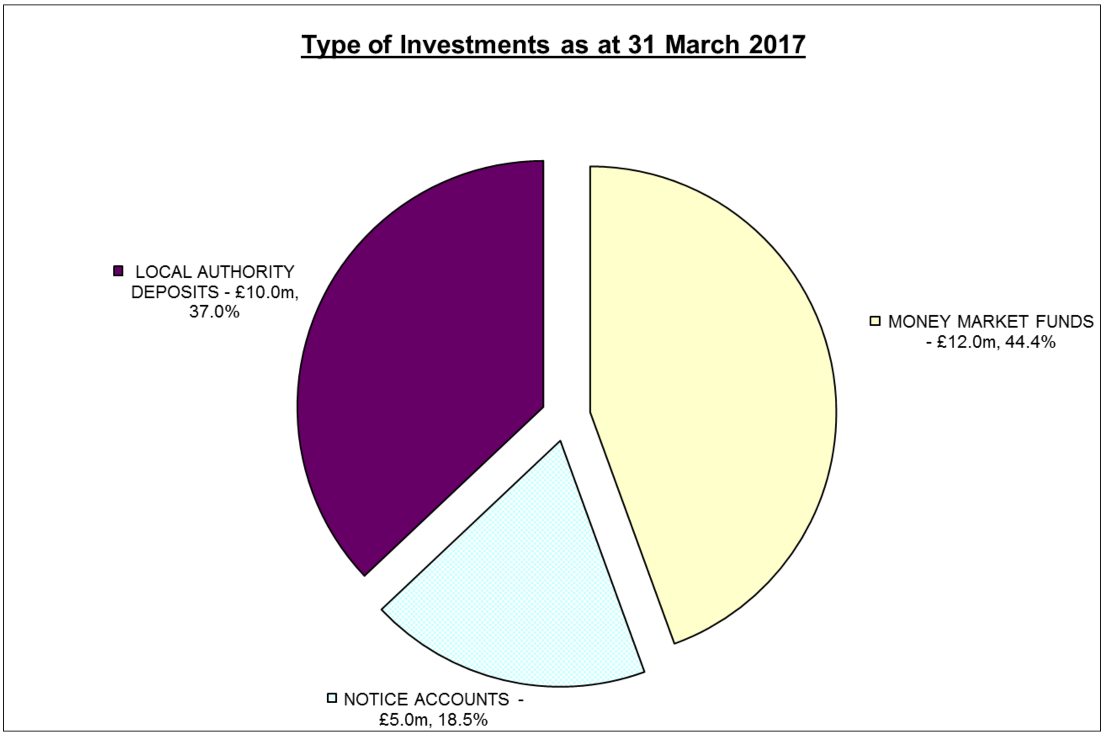
iv) *‘Total sums invested for periods of greater than 364 days* – a limit on investments for periods longer than 1 year.

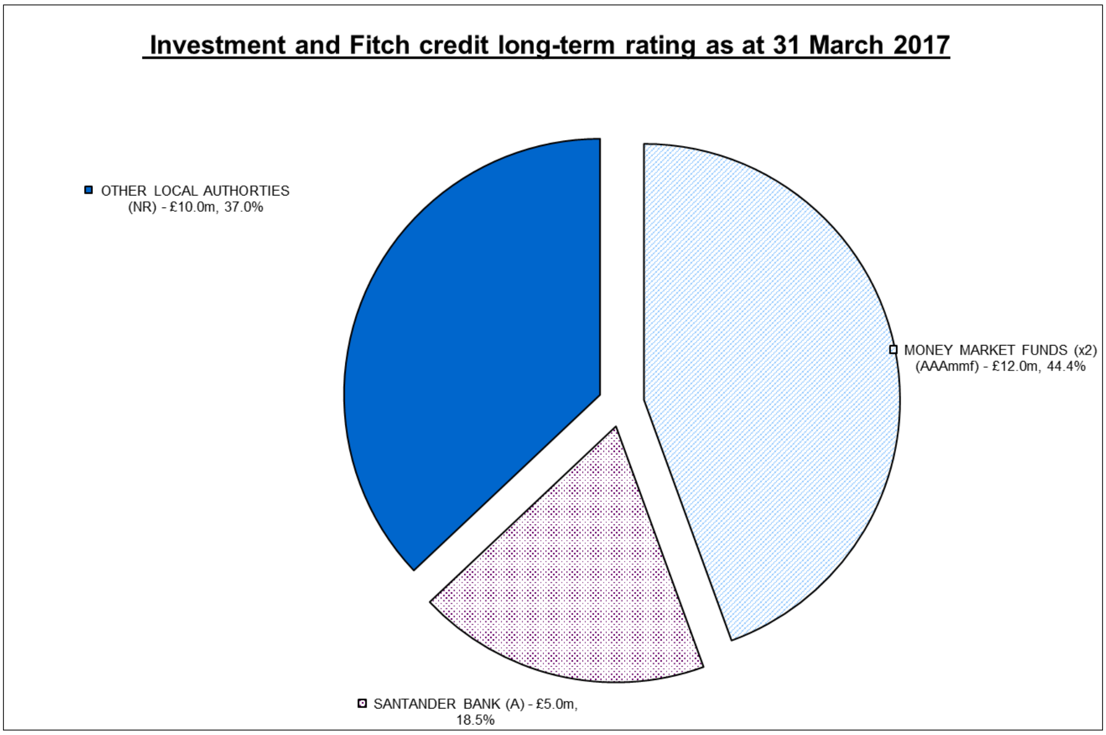
- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

v) *The adoption of the CIPFA Code of Practice for Treasury Management in the Public Services’.* This is not a numerical indicator, but a statement of good practice.

- The Council adopted the Code on 18 February 2002. Revised Codes, issued in 2009 and 2011, have subsequently been incorporated within the Council’s strategy and procedures.

vi) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy (section 7).

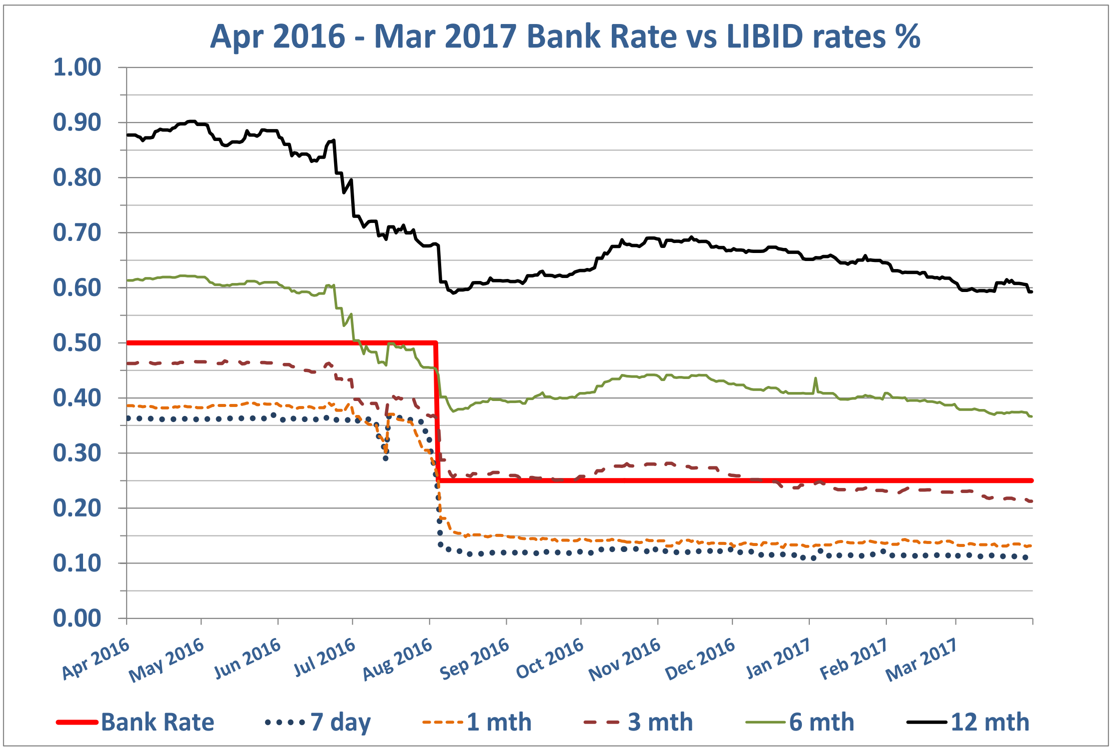

Type of Investments as at 31 March 2017
LOCAL AUTHORITY DEPOSITS - £10.0m, 37.0%
MONEY MARKET FUNDS - £12.0m, 44.4%
NOTICE ACCOUNTS - £5.0m, 18.5%


Investment and Fitch credit long-term rating as at 31 March 2017
OTHER LOCAL AUTHORTIES (NR) - £10.0m, 37.0%
MONEY MARKET FUNDS (x2) (AAAmmf) - £12.0m, 44.4%
SANTANDER BANK (A) - £5.0m, 18.5%

Appendix 3

Investment Rates in 2016/17

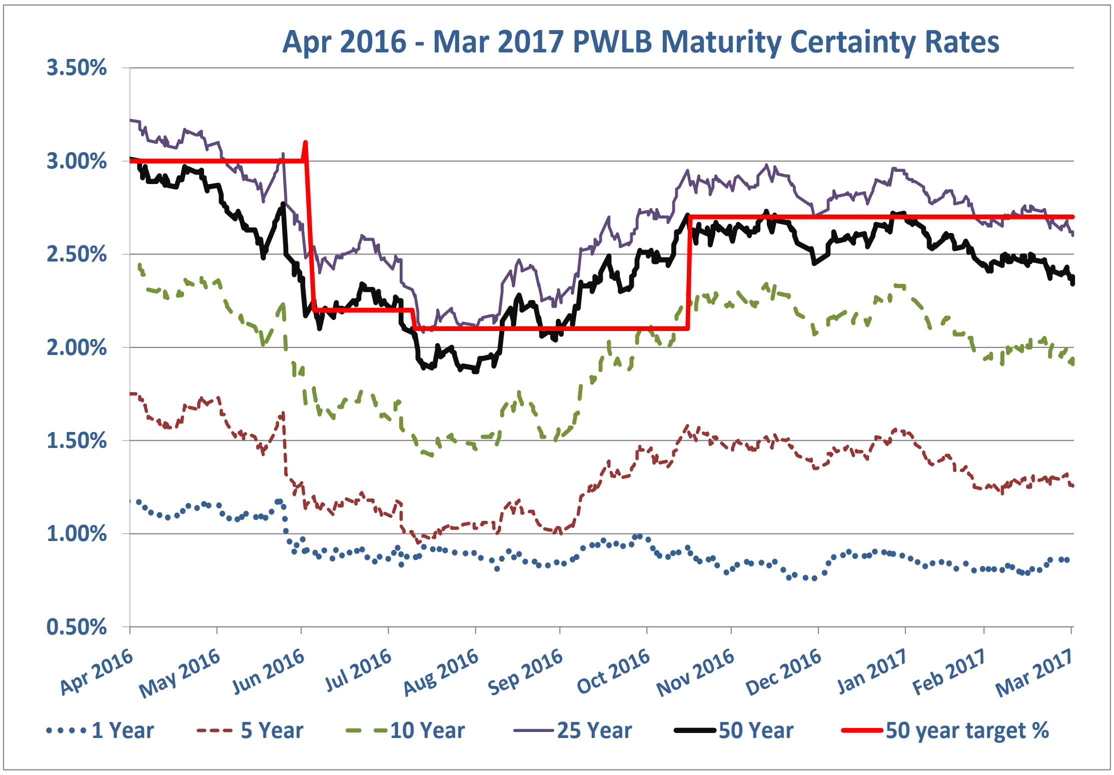
After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates

During 2016-17, PWLB rates fell from April to June and then gaining fresh downward impetus after the referendum and Bank Rate cut, before staging a partial recovery through to December and then falling slightly through to the end of March. The graphs and table for PWLB rates below show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.60%	1.80%	2.07%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%

EXECUTIVE BOARD – 20 JUNE 2017

Subject:	**PRE-AUDIT CORPORATE FINANCIAL OUTTURN 2016/17**
Corporate Director(s)/Director(s):	Geoff Walker, Strategic Director of Finance
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration
Report author and contact details:	Theresa Channell – Head of Strategic Finance 0115 8763649 theresa.channell@nottinghamcity.gov.uk

Subject to call-in: ☒ Yes ☐ No

Key Decision: ☒Yes ☐ No

Criteria for Key Decision:

(a) ☒ Expenditure ☒ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City
☒ Yes ☐ No

Type of expenditure: ☒ Revenue ☒ Capital

Total value of the decision: £31.580m

Wards affected: All

Date of consultation with Portfolio Holder(s): Throughout March-May 2017

Relevant Council Plan Key Theme:

Strategic Regeneration and Development	☒
Schools	☒
Planning and Housing	☒
Community Services	☒
Energy, Sustainability and Customer	☒
Jobs, Growth and Transport	☒
Adults, Health and Community Sector	☒
Children, Early Intervention and Early Years	☒
Leisure and Culture	☒
Resources and Neighbourhood Regeneration	☒

Summary of issues (including benefits to citizens/service users):

This report sets out the City Council's pre-audit General Fund and Housing Revenue Account (HRA) revenue outturn and Capital Programme for 2016/17. It is an important component of the City Council's financial management and governance framework setting out the Council's year-end financial position for 2016/17.

Strong financial planning and management are essential in the Council's work to commission, enable and provide value for money services to citizens to deliver corporate priorities.

The final Statement of Accounts will be considered by the Audit Committee in September 2017 at the conclusion of the external audit.

Exempt information: State 'None' or complete the following

None

Recommendation(s):

1 To note:

a. The pre-audit revenue outturn for 2016/17 including a revenue overspend of £2.522m after taking into account the carry-forwards of £0.964m and 50% Trading Retention of £0.374m, as set out in paragraph 2.2 and Appendix A;
b. The management action undertaken to control the identified cost pressures across services, as set out in Appendix B;
c. The discretionary rate relief granted in 2016/17 detailed in paragraph 2.11;
d. The position regarding cost reductions and pressures for 2016/17 detailed in

	paragraph 2.4; e. The capital outturn as detailed in Appendix F and explanations of variances over £0.100m as detailed in Appendix G; f. The additions to the Capital Programme detailed in Table 10; g. The refreshed Capital Programme, including schemes in development, and the unallocated resources of £3.465m, as set out in paragraph 2.18 (Tables 12 to 14).
2	To approve: a. The movements of resources set out in paragraph 2.5 and Appendix D; b. The net movement to earmarked reserves, as set out in paragraph 2.7 and Appendix E; c. The delegation of authority to approve net General Fund carry forwards of £0.964m as set out in paragraph 2.6 and Appendix A(ii) and 50% Trading Retention of £0.374m by the Deputy Leader; d. The HRA outturn for 2016/17 as set out in paragraph 2.8; e. Write-offs in excess of £10,000, totalling £0.846m where all options for recovery have been exhausted, as set out in paragraph 2.10; f. The extension of the rolling capital scheme as set out in paragraph 2.17 (Table 11)
3	To note and endorse the allocations from the corporate contingency as set out in paragraph 2.3.

1 REASONS FOR RECOMMENDATIONS

1.1 It enables formal monitoring of progress against the 2016/17 budget and the impact of actual and planned management action.

1.2 The approval of virements of budgets is required by corporate financial procedures.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 The 2016/17 revenue budget was approved by City Council in March 2016. Monitoring and forecasting reports have been considered by executive councillors throughout 2016/17. This report summarises the provisional outturn position for the revenue elements of the General Fund and HRA. Some report tables may not sum exactly due to rounding.

2.2 **General Fund Revenue**

The corporate outturn after carry forwards is a net overspend of **£2.522m** and results in a reduction of the general fund balance. This represents a deterioration of **£0.601m** (Table 1) from that reported at quarter 3. The reduction in the Council's overall funding envelope has resulted in budgets becoming increasingly difficult to achieve and this has been the case for 2016/17, the majority of the overspends are within the demand led areas. Management action is in place to review the impact of this overspend on the 2017/18 budget.

Carry forwards of **£0.964m** are included and require approval by the Deputy Leader. Appendix A provides more detail and Appendix B gives information about specific issues within Portfolios.

TABLE 1 : FORECAST OUTTURN REPORTED AT END OF PERIOD				
PORTFOLIO	**Q1 £m**	**Q2 £m**	**Q3 £m**	**Outturn after c/fwd £m**
Adults and Health	0.954	1.215	1.255	1.313
Community Services	(1.326)	(0.699)	(2.432)	(0.427)
Early Intervention and Early Years	1.138	0.960	1.795	2.749
Education, Employment and Skills	2.081	2.081	2.081	1.709
Energy and Sustainability	0.000	0.000	0.063	(0.497)
Business, Growth and Transport	(0.313)	(0.498)	(0.569)	(0.610)
Leisure and Culture	(0.208)	(0.577)	(0.624)	(0.371)
Planning and Housing	0.023	0.117	0.000	0.122
Resources and Neighbourhood Regeneration	0.175	0.134	0.271	(0.117)
Strategic Regeneration	(0.336)	(0.301)	(0.026)	(0.388)
TOTAL PORTFOLIOS	**2.188**	**2.432**	**1.814**	**3.483**
Corporate Budgets	0.082	(0.418)	(0.811)	(1.335)
Sub total	**2.270**	**2.014**	**1.003**	**2.148**
Potential traded surplus retention	1.072	1.038	0.919	0.374
NET COUNCIL POSITION	**3.342**	**3.051**	**1.921**	**2.522**

**traded surpluses form part of carry forwards at outturn*

Forecast and Actual Outturns 2011/12 – 2016/17

The Council provides many sensitive and demand led services and inevitably there will be cost pressures arising during the year. Table 2 shows the historical outturn position from 2011/12 to 2016/17.

TABLE 2: FORECAST AND ACTUAL OUTTURNS*						
Outturn	**2011/12 £m**	**2012/13** £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m*** **	**2016/17 £m**
Actual Outturn	**(0.215)**	**(2.105)**	**(1.175)**	**(1.459)**	**(0.100)**	**2.522**
Q3 forecast	0.067	(2.437)	(1.700)	(1.011)	0.000	**1.921**
Q2 forecast	3.013	(4.202)	(0.133)	0.174	(0.612)	**3.051**
Q1 forecast	6.152	1.374	1.547	0.640	1.650	**3.342**

**after carry-forwards and traded surplus retention*
***after agreed contributions to reserves of £2.250m*
**** Outturn after carry forwards and contribution of £1.000m to support the MTFP 2016/17*

The actual outturn position impacts directly on general reserves; underspends increase reserves and overspends decrease them. This provides a financial safety net to cover above-budget costs throughout the year. The balance on general fund reserves as at 1 April 2016 was **£9.643m** (3.9% of the budget requirement), the **£2.522m** overspend will reduce this balance to **£7.121m** (2.9%). The range required by the Medium Term Financial Strategy (MTFS) is between 2% and 4%. Additional savings will be needed from the 2017/18 budget and/or budget gap for 2018/19 to compensate for this overspend in order to restore the General Fund balance.

2.3 Corporate Contingency

This enables management of the financial impact of issues that were not reflected when the budget was set. It is allocated under the delegated authority of the Chief Finance Officer (CFO) in consultation with the Deputy Leader using designated criteria. Services are required to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets, only seeking allocations where this is proven to be impossible. Contingency was £2.000m in 2016/17. Since the February report, allocations of £0.106m have been approved. These items are shown in Table 3.

TABLE 3 : CONTINGENCY ALLOCATED SINCE FEBRUARY EXECUTIVE BOARD	
Items Allocated	**£m**
Additional food and safety officer within 2017/18	0.045
Director of UNESCO City of Literature	0.030
Budget Consultation, Civic reception for Nottingham Panthers & Nottingham Credit Union	0.018
Nottingham Panthers Homecoming	0.006
Promote Nottingham as Zero Tolerance Zone for FGM	0.003
St George's Day Event	0.004
TOTAL	**0.106**

Details of contingency items to be reserved for use in 2017/18 are shown in Table 4.

TABLE 4: CONTINGENCY TO BE RESERVED FOR USE IN 2017/18	
Item	**Amount £m**
Portfolio Management Office	0.163
Additional Support for the Equality Agenda	0.050
Additional food and safety officer within 2017/18	0.045
Director of UNESCO City of Literature	0.030
Shop Strategy	0.026
Backfill for Policy Officer	0.005
Promote Nottingham as Zero Tolerance Zone for FGM	0.003
TOTAL	**0.321**

The total contingency allocation for 2016/17 was £2.000m. The remaining balance of £0.603m has been used to support the adverse variance at outturn.

2.4 Cost Reductions and pressures

Cost reductions

Progress on cost reductions is reported by exception, the 2016/17 budget contained new cost reductions totalling **£20.826m** of which **£1.962m** (9%) was not achieved at year end. A **£1.692m** cost reduction through managing demand within Adults hasn't been achieved due to the changing demographics and the pressure this places within the service. The remaining **£0.270m** unachieved cost reduction is within Schools Transport, this is due to demographic growth and increased demand for this service.

Pressures

£4.325m of pressures were included within the 2016/17 budget and have been used in year. This includes **£1.531m** Adults demographic and **£1.694m** Children in Care demographic pressures.

2.5 Movement of Resources

Budget transfers between directorates and/or portfolios are reflected within the monitoring figures. These movements of resources now require approval and are detailed in Appendix D.

2.6 Carry Forwards and Traded Surplus Retention

Services have submitted requests for carry forwards. These have been considered using the overall corporate context of the prevailing financial and economic environment.

Carry forwards of **£0.964m** have been submitted and further details are included at Appendix A(ii). Classification of carry forwards is as follows:

- Transformation activity - £0.475m
- Investment in services - £0.382m
- General carry forwards (acceleration/slippage) - £0.108m

Trading services have submitted requests to retain 50% of the 2016/17 surplus against budget. These requests total **£0.374m**, £0.174m for Nottingham Theatre Royal and Concert Hall and £0.200m for other trading services.

Carry forwards and Trading surplus retentions together total **£1.338m**. These are subject to review and approval by the Deputy Leader.

2.7 Movements in Earmarked Reserves

Earmarked reserves are funds set aside for specific purposes (including Schools Statutory Reserves, Insurance, NET Private Finance Initiative (PFI) grant and decisions taken at Outturn 2015/16). During the year there has been a net decrease of **£16.819m** in earmarked reserves; this includes contributions to capital schemes and movements relating to previously approved decisions including Schools Statutory Reserves.

Reserve movements are categorised as:

- **MTFP / Outturn decisions-** these include items which were separately identified within the MTFP 2016/17;
- **Replenishment of existing reserves**- revenue contributions to reserves resulting from slippage/ savings on specific schemes, grants and contributions for specific purposes;
- **Use of specific reserves**- technically the approval of these reserves is implied at their setting up;
- **PFI/Building Schools for the Future (BSF) development costs** - Councils are required to charge to revenue development and set up costs relating to PFI schemes (these were previously budgeted for within the capital programme). The use of earmarked reserves is required to offset these costs;
- **Statutory Schools reserve -** this represents the net movement on ring fenced resources for schools;
- **Reserves to Capital Schemes** - these refer to use of reserves to support capital schemes;

Table 5 summarises the movements in each category of reserves during 2016/17 and identifies those which have previously been approved by Executive Board in

February 2017 and those which now require Executive Board approval as part of the pre–audit outturn. Appendix E provides more details of movement in reserves that require approval.

TABLE 5: NET MOVEMENTS IN RESERVES			
Type of transfer	**Previously approved £m**	**Requiring approval £m**	**Total £m**
Previous MTFP/Outturn decisions	(0.265)	0.000	(0.265)
Replenishment of existing reserve	(35.457)	(18.219)	(53.676)
Use of existing reserves	33.688	19.982	53.670
Statutory Schools reserve	0.000	3.061	3.061
Reserve to Capital	(1.589)	15.940	14.351
Contribution to Capital Schemes	0.000	(0.320)	(0.320)
Total	**(3.623)**	**20.442**	**16.819**

2.8 HRA Budget

The HRA budget was approved by the City Council in March 2016 and budgeted for a working balance of **£4.000m** at 31 March 2017. The working balance provides a contingency for any unexpected cost increases or reductions in income due to unforeseen circumstances. The main current issues are reported below.

The HRA Summary outturn for 2016/17 is shown in Table 6 below. For comparative purposes the movement in the working balance is tracked from the quarter 3 forecast to the pre-audit outturn.

Table 6 HRA – PRE-AUDIT OUTTURN 2016/17				
Description	**Original Budget 2016/17 £m**	**Q3 forecast £m**	**Pre-audit outturn 2016/17 £m**	**Variance against Q3 forecast £m**
Income				
Rent income	(96.939)	(96.939)	(98.148)	(1.209)
Service charges & other income	(8.524)	(8.004)	(7.344)	0.660
Total Income	**(105.463)**	**(104.943)**	**(105.491)**	**(0.548)**
Expenditure				
Repairs	27.260	27.260	27.260	0.000
Management	31.017	32.118	31.847	(0.271)
Capital charges	42.426	39.987	40.105	0.118
Direct Revenue Financing	4.760	5.578	6.280	0.702
Total Expenditure	**105.463**	**104.943**	**105.491**	**0.548**
Deficit / (Surplus)	**0.000**	**0.000**	**0.000**	**(0.000)**
Working balance B/F	(4.000)	(4.000)	(4.000)	
Working Balance C/F	**(4.000)**	**(4.000)**	**(4.000)**	

Working Balance
The working balance has remained at **£4.000m** as per budget and is available to be carried forward into 2017/18.

Income

Rental Income increase of £1.209m
Reduced contribution to the bad debt provision of £0.376m. This is a result of the impact of welfare reform on collection rate being lower than anticipated due to delayed implementation.

Service Charges & other income, decrease of £0.660m
This is made up of a reduced amount of income from solar PV cells, garage rents and rents from the council's emergency hostel.

Expenditure

Management, decrease of £0.289m
Made up of a number of variances including: an overspend of £0.171m on the Responsible Tenant Reward Scheme and vacancies in retained teams totalling £0.125m.

Capital Charges, decrease of £0.118m
Increase in the depreciation charge of £0.298m and decrease in interest charges of £0.181m on borrowing due to reduced interest rates.

Direct Revenue Financing, increase of £0.702m
Increase in Direct Revenue Financing to support financing of the public sector housing capital programme.

2.9 Debtors Monitoring (Appendix C)

Housing Rents
The in-year collection rate at the end of the year was above target and ahead of the position at the end of the last financial year at 100.29%. This is due to payments in advance; therefore more rent is collected than actually charged.

The performance indicator BV66a was slightly behind target at 97.97%. There are several factors affecting this, including the introduction of Universal Credit this year and a significant reduction in the amount of Housing Benefit paid to NCH.

The "Rent First" campaign will continue over the next twelve months to reinforce the message of rent payment to ensure a continued income stream. Our approach continues to be one of support for tenants in difficulty with an emphasis on tenancy sustainment. Evictions are down on last year, 93 carried out in 2016/17 compared to 111 the previous year.

Council Tax
Annual collection rate of 93.32% is 0.82% above the profiled target of 92.50% for 2016/17, and ahead by the same percentage when compared to 2015/16. Collection amounted to £109.8m compared to collection of £103.3m in 2015/16.

National Non- Domestic Rates (NNDR)
The collection rate of 97.4% matched the profiled target for 2016/17. Collection amounted to £130.7m, compared to collection of £126.3m in 2015/16.

Sundry Income
The percentage of debts collected within 90 days in the 12 months to March 2017 was 84.10% which is an improvement from the Q3 figure of 81.70%. The debtor day indicator (which shows how quickly debts are recovered) is currently 41.00 days, behind the target of 32.30 days.

Adults Residential Services
The collection rate for Q4 (96.11%) is 0.21% above the target of 95.90%. This demonstrates a continued recovery effort with timely action and pursuing property and probate cases.

Estates Rents
The collection rate of 95.83% is below the set target of 97.50% but is higher than the rate for Q3 (95.31%) and also Q4 in 2015/16 (95.23%).

2.10 Written Off Debt

The CFO has delegated authority to write off individual debts not exceeding £10,000. Any debts above this are subject to Portfolio or Executive Board decision. The debts included in this report relate to debt raised over the past 5 years and have been pursued as far as is reasonably possible, and/or relate to businesses that have gone into liquidation or individuals that have gone bankrupt. The Council is therefore unable to obtain payment. Once it is clear that no further payments will be received against a debt, it should be written out of the Council's accounts. Adequate bad debt provision to accommodate this level of write off has been built up in the accounts over a number of years and approval is also being sought to write off debts over £10,000 totalling **£0.846m** as summarised in Table 7 below. These figures are subject to the finalisation of the NNDR year end and other statutory returns.

TABLE 7: WRITE OFFS OVER £10k in 2016/17	
Fund	**£m**
Collection Fund	0.780
General Fund	0.066
Total	**0.846**

2.11 New Discretionary Rate Relief Granted in 2016/17

Details of new determinations of eligibility for Discretionary Relief since 1 April 2016 are shown in Table 8, of which the City share is 49%.

TABLE 8: NEW DISCRETIONARY RATE RELIEF GRANTED IN 2016/17	
Type of Relief	**Amount of Relief £m**
Non Profit-Making Bodies which are not Registered Charities	0.014
Registered Charities which are in Receipt of 80% Mandatory Relief	0.002
Community Centres	0.000
Other Businesses	0.013
TOTAL	**0.029**

2.12 **Capital Programme**

The capital programme for 2016/17 was approved by the City Council in March 2017. Quarterly monitoring and forecasting reports have been provided and considered by Executive Councillors throughout 2016/17.

2.13 **Capital Expenditure 2016/17**

The capital expenditure in 2016/17 was **£234.461m**, representing an increase of £0.704m from the Quarter 3 projection. Table 9 shows the position for each portfolio.

TABLE 9: CAPITAL PROGRAMME - OUTTURN 2016/17

Portfolio	Projected Outturn Q3	Pre-audit Outturn	Variance	
	£m	£m	£m	%
Public Sector Housing	57.868	54.218	(3.650)	6.31%
Transport Schemes	20.368	17.629	(2.739)	13.45%
Education / Schools	18.223	15.503	(2.720)	14.93%
Total	**96.459**	**87.350**	**(9.109)**	**9.44%**
Other Services:				
Adults Health and Community Sector	1.791	0.961	(0.830)	46.34%
Early Intervention and Early Years	0.938	0.312	(0.626)	66.74%
Leisure and Culture	5.109	4.110	(0.999)	19.55%
Jobs, Growth and Transport	7.750	4.729	(3.021)	38.98%
Energy & Sustainability	7.195	7.276	0.081	(1.13%)
Planning and Housing	3.093	2.080	(1.013)	32.75%
Strategic Regeneration and Development	29.913	26.994	(2.919)	9.76%
Community Services	4.751	1.947	(2.804)	59.02%
Resources & Neighbourhood Regeneration	76.758	98.702	21.944	(28.59%)
Other Services Total	**137.298**	**147.111**	**9.813**	**(7.15%)**
Total Programme	**233.757**	**234.461**	**0.704**	**(0.30%)**

2.14 **Reasons for variances**

The City Council's capital monitoring analyses variations between:

- Changes in budgeted expenditure, where the expenditure is still required but takes place later than originally intended (slippage) or earlier than originally intended (acceleration). Slippage does not result in resources being released, the resources and planned expenditure will be carried forward into future years;

- Underspends and overspends represent a decrease or an increase in the total capital cost of a project (which could potentially be over a number of years). Underspends would usually result in a saving which can be released to support the capital programme in future years.

- Quarter 3 approvals, within Other Services: Resources & Neighbourhood Regeneration has had a further £33.219m of approvals in the final quarter of 2016.17, which is detailed in table 10.

2.15 **Significant variances**

An overview of schemes showing significant variances is set out below. Further details of variances over £0.100m are contained in Appendix F.

Public Sector Housing – (£3.650m)

A variance of 6.31% on a projection of £57.868m represents both slippage and acceleration on a number of schemes further details of individual projects is detailed in Appendix F.

Local Transport Plan – (£2.739)

A variance of 13.44% on a projection of £20.368m represents both slippage on a number of schemes of and slight acceleration. The revised programme for 2016/17 to 2020/21 is £43.372M.

Education / Schools – (£2.720m)

Education / Schools shows a variance representing 14.93% of a projected programme of £18.223m. This variance is mainly attributable delays in various projects as detailed in Appendix F.

Other Services

Total expenditure in 2016/17 was £147.111m against a projection of £137.298m. The variance represents 7.15% of the programme. This is predominately due to a large amount of property acquisition approvals and associated spend in Quarter 4 (as per table 10 below) offsetting project slippage. The variances are reflected in the revised programme for 2017/18 and explanation of major variances within live 'Other Services' schemes at Quarter 3 are detailed below and in Appendix G.

2.16 **Additions to the Programme**

Additions in Quarter 4 include those schemes that were approved as part of the budget process; other additions to the programme are shown in Table 10 below:

TABLE 10: ADDITIONS at QTR 4				
Scheme	**2016/17 £m**	**2017/18 £m**	**2018/19 – 2021/22 £m**	**TOTAL £m**
Transport Programmes				
Electric Bus Charging Infrastructure	0.279	0.642	0.000	**0.921**
Education / Schools				
Southwold/Stanstead	0.004	0.066	0.000	**0.070**
Glade Hill Expansion	0.000	0.080	0.000	**0.080**
Leisure and Culture				
Wollaton Park Pavillion Café & Play Area	0.000	0.134	0.000	**0.134**
Greens Mill Park	0.000	0.050	0.000	**0.050**
Gregory Boulevard Play Area	0.000	0.062	0.000	**0.062**
The Green Play Area	0.000	0.040	0.000	**0.040**
Wollaton Park Trees	0.000	0.022	0.000	**0.022**
Wollaton Walled Garden	0.000	0.010	0.000	**0.010**
Grove Road Trees	0.013	0.021	0.000	**0.034**
Radio Parks / Parking	0.000	0.020	0.000	**0.020**
Jobs, Growth and Transport				

TABLE 10: ADDITIONS at QTR 4				
Scheme	**2016/17 £m**	**2017/18 £m**	**2018/19 – 2021/22 £m**	**TOTAL £m**
Waterside Spine Road	0.000	1.250	0.000	**1.250**
Strategic Regeneration and Development				
Feasibility Council House / Exchange Buildings	0.000	0.080	0.000	**0.080**
Community Services				
New Garden Facility at the Dales Centre	0.000	0.050	0.000	**0.050**
Flood Alleviation of Citizens Properties	0.000	0.230	0.000	**0.230**
Resources & Neighbourhood Regeneration				
IT - 4500 Series Network Switch Replacement	0.000	0.045	0.000	**0.045**
Property Aq - Project Oasis	2.331	0.000	0.000	**2.331**
Property Aq - Project Abbey	19.006	0.000	0.000	**19.006**
Property Aq - Project Flame	11.882	0.189	0.000	**12.071**
IT - CUBE and SIP Upgrade	0.000	0.040	0.000	**0.040**
IT - Internet Extension & Purchase of Bearer	0.000	0.130	0.000	**0.130**
TOTAL APPROVALS	**33.515**	**3.161**	**0.000**	**36.676**

2.17 **Retrospective approvals required**

Table 11 details capital schemes whereby spend in financial year 2016/17 has meant that the project has spent more than the approved amount. Once this retrospective approval has been granted the schemes will be frozen ensuring that no further expenditure is incurred without obtaining additional approval. Therefore, the following overspends require approval for inclusion in the capital programme:

Table 11: 16/17 Project Overspend					
Project	**Approval £m**	**Spend to 31 March 2016 £m**	**2016/17 Capital Spend £m**	**Project 2016/17 Overspend £m**	**Overspend Funding Source £m**
Demolition of Beechdale Baths	(0.390)	0.000	0.590	0.200	Capital Receipt
Byron House Refurbishment Works	(2.630)	2.560	0.139	0.069	Internal Funds / Reserves
Top Valley Flood Alleviation	(0.100)	0.100	0.054	0.054	Grant
Property Aq - Project Abbey (Abbey Park)	(18.952)	0.000	19.006	0.054	Prudential Borrowing
Other Schemes Overspend under £0.010m	(31.094)	29.043	2.996	0.032	Various

2.18 **Revised Capital Programme - General Fund**

The General Fund Programme has been updated for approvals in quarter 4 and the impact of the final outturn. The resource projections have also been updated, including those sums likely to be generated by capital receipts. The General Fund capital programme is subdivided into two categories as follows:

<u>Approved Capital Programme</u>

Comprising the projects that are progressing either currently or in the near future. These projects have all been approved and the funding has been identified and is in place. The revised approved five year capital programme is £228.613m.

Projects in Development
These projects are currently being developed and are at various stages in their project life cycle. Projects can move up into the approved programme once approval has been granted, this will be subject to a process of business case appraisal that includes both due diligence and the identification of funding. The five year investment strategy (projects in development) is £185.351m.

The capital programme is delivered from a diverse range of funding which includes:

Prudential Borrowing
The key principle for using this is that it must be affordable and is therefore heavily regulated. This type of funding is reserved for schemes that can deliver savings or demonstrate a return on investment at least sufficient to cover the debt repayments of interest and principle.

Grants
External funds provided by the government, which may be ring-fenced or other external sources that are provided to deliver specific projects.

Reserves
Earmarked reserves set aside, through Executive Board approval, for specific capital schemes.

Capital Receipts
Receipts from the sale of surplus assets used as a corporate resource, allowing the Council to fund a range of projects for which there is no external funding, or other non-commercial schemes which will not generate a return sufficient to cover their costs.

Table 12 below gives a breakdown of the five-year capital programme.

TABLE 12: GENERAL FUND CAPITAL PROGRAMME

2016/17 £m	Programme Element	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	TOTAL £m
17.629	Local Transport Plan (LTP)	28.080	9.858	5.434	0.000	0.000	**43.372**
15.503	Education / Schools	8.938	0.000	0.000	0.000	0.000	**8.938**
147.110	Other Services	71.440	38.592	28.358	9.933	10.185	**158.508**
0.000	Projects in Development	84.118	84.842	16.391	0.000	0.000	**185.351**
180.242	**Total Programme**	**192.576**	**133.292**	**50.183**	**9.933**	**10.185**	**396.169**
	Resources Approved						
(121.766)	Prudential Borrowing	(106.077)	(95.857)	(26.539)	(4.032)	(4.896)	**(237.401)**
(36.981)	Grants & Contributions	(67.502)	(27.774)	(18.008)	(2.106)	(2.055)	**(117.445)**
(14.971)	Internal Funds / Revenue	(12.103)	(6.889)	(3.007)	(0.795)	(0.784)	**(23.578)**
(6.882)	Secured Capital Receipts	0.000	0.000	0.000	0.000	0.000	**0.000**
0.000	Unsecured Capital Receipts	(9.652)	(2.700)	(3.500)	(2.500)	(2.500)	**(20.852)**
(180.600)	**Total Resources**	**(195.334)**	**(133.220)**	**(51.054)**	**(9.433)**	**(10.235)**	**(399.276)**
(0.358)	**Cumulative (Surplus)/Shortfall**	**(3.116)**	**(3.044)**	**(3.915)**	**(3.415)**	**(3.465)**	**(3.465)**

The General Fund position above shows a current surplus of £3.465m that represents 0.9% of the total programme and is to be used as a contingency against future pressures. The programme is predicated on a number of projects in development, the cost of these projects are estimated and are subject to change, therefore, the current surplus is liable to change as projects progress and costs become more accurate.

2.19 **Public Sector Housing**

The Public Sector Housing programme has been updated to reflect the £3.650m net slippage between 2016/17 and 2017/18. Table 13 sets out the updated programme and resources.

TABLE 13: PUBLIC SECTOR HOUSING - CAPITAL PROGRAMME & RESOURCES							
2016/17 £m		**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**	**TOTAL £m**
54.218	**Public Sector Housing Programme**	**65.653**	**40.561**	**32.924**	**33.477**	**35.141**	**207.756**
	Resources Available						
(50.110)	Resources b/fwd	(36.489)					
0.000	Prudential Borrowing	0.000	0.000	(8.714)	(5.408)	(7.472)	**(21.594)**
(0.925)	Grants & contributions	(3.272)	(1.047)	(0.301)	0.000	0.000	**(4.620)**
(6.375)	Direct Revenue Financing	(3.717)	(0.877)	0.000	0.000	0.000	**(4.594)**
(27.326)	Major Repairs Reserve	(27.329)	(27.260)	(27.066)	(26.903)	(26.745)	**(135.303)**
(5.971)	Secured Capital Receipts	0.000	0.000	0.000	0.000	0.000	**0.000**
(90.707)	**TOTAL RESOURCES**	**(70.807)**	**(29.184)**	**(36.081)**	**(32.311)**	**(34.217)**	**(202.599)**
0.000	**Capital Receipts Unsecured**	(3.413)	(1.143)	(0.200)	(0.200)	(0.200)	**(5.156)**
(90.707)	**Total Resources**	**(74.220)**	**(30.327)**	**(36.281)**	**(32.511)**	**(34.417)**	**(207.755)**
(36.489)	**(Surplus)/Shortfall**	**(8.567)**	**10.234**	**(3.357)**	**0.966**	**0.724**	**0.000**
(36.489)	**Cumulative (Surplus)/Shortfall**	**(8.567)**	**1.667**	**(1.690)**	**(0.724)**	**0.000**	**0.000**

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 This report details the 2016/17 outturn and how the overspend will be managed. No other options were considered as management action is in place to manage the impact of the overspend.

4 FINANCE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

4.1 Financial implications appear throughout the report.

4.2 The financial plans and budgets support delivery of the Council Plan. Monitoring the financial position in parallel with service plan activity helps to ensure the delivery of corporate priorities. The Council has developed a robust approach to providing value for money and efficiency savings to support the delivery of the Council Plan and the Medium Term Financial Strategy.

Theresa Channell
25/05/17

5 LEGAL AND PROCUREMENT COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND INCLUDING LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

5.1 Continuous review and management of the budget and associated performance issues mitigate the risk of not achieving corporate priorities.

5.2 The five year proposed programme is ambitious and will require the Council to use much of its available resources. Substantial investment of this nature will result in the Council being exposed to additional risks as follows:

- a significant increase in the authority’s borrowing over the next five years;
- exposure to interest rate changes; a 0.5% increase in interest rates will increase the cost of borrowing by c£0.530m per annum;
- major schemes have a long payback period which will require the use of reserves in the early years to fund short term deficits in business plans;
- the cost of feasibility studies are all undertaken at risk;
- schemes may not cover their costs or make the desired return.

5.3 In order to manage these risks the following key principles will be adopted in managing the programme:

- new projects (unable to cover their costs) added to the programme, will result in an existing project being removed or amended;
- all projects must have a robust and viable full business case, which considers and includes whole life costing and revenue implications;
- all schemes will be subject to robust and deliverable business plans and models which demonstrate the necessary return on investment required;
- the decision to progress schemes will be dependent on securing the stated level of external funding or grant as appropriate;
- new projects will be considered where the Council can make a return on investment;
- where new sources of external funding/grants become available, the programme will be revisited;
- all schemes will be subject to an independent internal ‘Gateway review process’

5.4 The City Council recognises the importance of individual and collective accountability and requires managers to formally acknowledge their responsibilities. Financial management is an integral aspect of effective leadership and good management, relevant councillors and managers are required to participate fully in all aspects of capital investment plans.

5.5 Corporate Directors will be accountable for the success and deliverability of all capital projects within their remit; including:

- ownership of business cases and any subsequent changes to them;
- ensuring that capital projects are delivered in line with agreed targets and resources;
- the successful outcome and benefits realisation of capital projects.

Tom Straw
08/06/2017

6 STRATEGIC ASSETS & PROPERTY COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

6.1 None

7 SOCIAL VALUE CONSIDERATIONS

7.1 None

8 REGARD TO THE NHS CONSTITUTION

8.1 None

9 EQUALITY IMPACT ASSESSMENT (EIA)

9.1 Has the equality impact of the proposals in this report been assessed?

No ☒
An EIA is not required because:
The report does not contain proposals for new or changing policies, services or functions

Yes ☐

10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

10.1 None

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

11.1 Medium Term Financial Plan 2017/18 – 2019/20 – Executive Board 21 February 2017

11.2 Report of the Deputy Leader on the Budget 2016/17 – City Council 6 March 2017

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APPENDIX A

Portfolio	Budget £m	Draft Outturn £m	Outturn variance prior to carry forwards £m	Requested carry forward and trading retention £m	Outturn including carry forwards and trading retention £m
PADH - Adults and Health	95.173	96.486	1.313	0.000	1.313
PJGR - Business, Growth & Transport	2.814	2.204	(0.610)	0.000	(0.610)
PCYS - Community Services	26.968	26.288	(0.680)	0.253	(0.427)
PELY - Early Intervention & Early Years	51.657	54.406	2.749	0.000	2.749
PSCH - Education, Employment & Skills	0.971	2.680	1.709	0.000	1.709
PESU - Energy & Sustainability	12.742	11.770	(0.972)	0.475	(0.497)
PLCT - Leisure & Culture	9.372	8.764	(0.608)	0.237	(0.371)
PLNH - Planning & Housing	2.533	2.655	0.122	0.000	0.122
PRNR - Resources & Neighbourhood Regeneration	24.465	24.348	(0.117)	0.000	(0.117)
PSRD - Strategic Regeneration	(6.392)	(6.780)	(0.388)	0.000	(0.388)
Total Portfolios	**220.302**	**222.820**	**2.518**	**0.964**	**3.483**
Corporate Budgets	23.575	22.240	(1.335)	0.000	(1.335)
Total General Fund	**243.878**	**245.060**	**1.183**	**0.964**	**2.148**
Potential 50% Trading Retention				0.374	0.374
Net Council Position post Retention	**243.878**	**245.060**	**1.183**	**1.338**	**2.522**

Carry Forward Requests by Department **Appendix A(ii)**

Service	Portfolio	Value £m	Category	Details
Commercial & Operations				
Royal Centre	Leisure & Culture	0.174	Investment in Service	Previously agreed 50% of budget to pay for the ACE works at the NTRCH commencing Jul 2017.
Energy Projects	Energy & Sustainability	0.475	Transformation	European Development Fund (EDF) for Commercial (photovoltaic) PV Installations (DDM approval 20/9/2016 of £0.750m). Total programme of £1.3m to be completed in 2017/18. 2017/18 EDF funding of £0.658m will also be used for this work stream plus the carry forward as per DDM.
Uniform Services	Community Services	0.138	Investment in Service	Replacement of eight operational vehicles across Community Protection.
Uniform Services	Community Services	0.070	Investment in Service	Car pound relocation costs.
Sport, Community & Leisure Centres	Leisure & Culture	0.063	General	Repair and maintenance costs at various locations.
Environmental Health & Safer Housing	Community Services	0.045	General	Food inspection visits.
Total Commercial & Operations		**0.964**		
Total Carry Forward Requests		**0.964**		

<u>Portfolio Variances +/- £50k including carry forwards (excluding Trading surplus retention)</u>

<u>Adults & Health Portfolio – overall variance £1.313m adverse</u>

Adults £0.667m adverse
The gross overspend of £5.291m is made up of:
- £3.471m of demand changes on care packages and direct payments
- £0.617m unachieved saving
- £0.585m increase in payments to homecare providers to maintain suppliers
- £0.255m reduced income on fairer charging; elements funded from the Care Act
- £0.172m contractual increases for residential care providers in the county. This has been instigated through the increased rates Nottinghamshire County Council agreed to pay the external market.
- £0.108m additional spends on citizens with no recourse to public funds.
- £0.083m debt write offs

An element of this has been mitigated by:
- Planned use of external funding £1.406m
- Maximisation of grants £1.043m
- Other service underspends £1.031m
- Use of corporate contingency £0.585m
- Better Care Fund underspend £0.449m
- Early delivery of MTFP savings of £0.110m

Commissioning & Procurement £0.542m adverse
The adverse variance is due to a budget pressure of £0.266m for the cost of delivering the procurement service plus workforce development income targets of £0.290m

<u>Community Services Portfolio – overall variance £0.427m favourable (after carry forwards of £0.253m)</u>

Community Protection £0.522m favourable
- Uniformed Services -£0.657m favourable
    - Security – Underspends through controlling costs and improving efficiency within the service provision.
    - Unformed Services/Parking Enforcement - Underspend due to vacancies within Community Protection Officers (CPO) as a consequence of employee turnover and a renewed approach to performance management and supportive economic environment.

      Parking Enforcement is traditionally cyclical and effected by external factors such as availability of legitimate parking.

- Licensing, Trading Standards & ASB - £0.112m adverse
  A majority of the variance is due to a reduction in licencing income, from late night levy and specialist establishments

Neighbourhood Operations £0.166m adverse
The adverse variance in salaries is due to additional apprenticeship posts.

Trading Operations £0.431m favourable
The favourable variance is due to positive action on growing sales and controlling costs**.**

Human Resources & Transformation £0.105m favourable
Management of vacancies within the Directorate.

Early Intervention & Early Years Portfolio – overall variance £2.749m adverse

Children's £1.468m adverse
The gross overspend of £4.488m is made up of:

- £2.688m cost of children in care. This increased cost is predominantly due to complexity and not a material increase in numbers and the inclusion of the cost of Unaccompanied Asylum Seekers. This number has increased by 22 from 8 to 34
- £2.038m from the investment profile of the Newly Qualified Social Worker (NQSW) programme and the associated double running costs whilst the NQSW are undertaking their post qualification training

An element of this has been mitigated by:

- Partnership funding of £1.150m
- One off grant maximisation £0.847m
- Underspends in safeguarding £0.659m
- One off use of reserves £0.600m

Directorate £0.849m adverse
An overspend of £1.348m primarily due to an Education Services Grant (ESG) funding gap of £1.179m plus unachieved historical savings of £0.346m. This has been partially mitigated through the use of one off funding of £0.500m

Commissioning & Procurement £0.171m adverse
Adverse variances in income

Education £0.362m adverse
Details relating to this variance are included within the Education, Employment & Skills Portfolio narrative below

Education, Employment & Skills Portfolio – overall variance £1.709m adverse

Education £1.709m adverse
The adverse variance is due to increased demand for Schools Education Transport of £1.383m, and unachieved savings of £0.450m

Energy & Sustainability Portfolio – overall variance £0.497m favourable (after carry forwards of £0.475m)

Energy, Waste & Highways £1.015m favourable
The favourable variance is driven by an underspend in Energy Services – Projects of £0.607m due to slippage in the two year Commercial PV

programme, the total programme is £1.3m. The second significant favourable variance is in Energy Services – Policy of £0.200m, this is due to energy consumption; the achievement in-year to reduce overall energy consumption across the Council and the below forecast energy prices.

Business, Growth & Transport Portfolio – overall variance £0.610m favourable

Parking, Fleet & Transport - £0.222m favourable and Highways & Energy Infrastructure £0.365m favourable
Positive action on growing sales and controlling costs has led to this improving net budget position in these traded areas

Traffic & Safety £0.169m favourable
The favourable variance is due to fewer than expected maintenance/repairs needed on the Bus Lane Enforcement cameras which resulted in a higher than expected income offsetting the cost. One off additional dividend received from Nottingham City Transport (NCT) resulting in £0.100m contribution to the 2016/17 outturn.

Woodfield Industries £0.193m adverse
There has been a delay in the restructure of the service.

Public Transport/Concessionary fares £0.064m favourable
One off favourable variances within the service

Leisure & Culture Portfolio – overall variance £0.371m favourable (after carry forwards of £0.237m)

Cemeteries & Crematoria £0.138m favourable, Museums £0.114m favourable, Sports & Leisure £0.198m favourable and Royal Centre £0.347m favourable
Positive action on growing sales and controlling costs

Markets £0.276m adverse
The adverse variance is due to an agreed service charge plan at Victoria Centre Indoor Market, there is a phased plan over three years to implement the increase to traders

Facilities & Building Services £0.084m favourable
The favourable variances are a combination of in-sourcing, supply chain management and efficiencies/cost reductions.

Planning & Housing Portfolio – overall variance £0.122m adverse

Traffic & Safety £0.084m adverse
Overspend in specialist fees

Resources & Neighbourhood Regeneration Portfolio – overall variance £0.177m favourable

Development & Growth Directorate £0.055m favourable
The favourable variance is due to the management of vacancies and costs.

Works Perks £0.161m adverse
A transformation project has been established to review the processes and procedures within Works Perks to identify efficiencies to ensure future achievement of the budget.

Civic & Coronial Services £0.244m adverse
The adverse variance is due to increased case numbers and legislative changes in the Coroner's service

Legal & Governance £0.116m favourable
There are favourable variances in salaries due to the management of vacancies and robust approach to service charging

Strategic Finance £0.165m favourable
The favourable salary variance is due to vacancy savings

Corporate & Democratic Core £0.254m favourable
Favourable variances in running costs and professional fees

Energy Services £0.209m adverse
Details relating to this variance are included within the Energy and Sustainability Portfolio narrative above

<u>Strategic Regeneration Portfolio – overall variance £0.388m favourable</u>

Property £0.444m adverse
The adverse variance is driven by higher than budgeted interest charges for prudential borrowing.

Facilities & Building Services £0.733m favourable
The favourable variances are a combination of in-sourcing, supply chain management and efficiencies/cost reductions.

Voluntary Sector Sustainability £0.099m favourable
The variance is due to the slippage in works at various Community centres.

<u>Corporate – overall variance £1.335m favourable</u>

Treasury Management £0.429m favourable
Decision to delay the taking of new long term borrowing and so saving in the short term on interest payable and due to capital programme slippage there was an underspend against the budget for debt repayment.

Enviroenergy £0.540m adverse
A shortfall in income driven by extended incinerator shutdown and a mild winter. This has been partially offset by the sale of Levy Exemption Certificate Scheme

Corporate Dividends £0.394m favourable
Additional one off dividends received in 2016/17

Contingency £0.603m favourable
Favourable variance against budget.

DEBTORS MONITORING 2016-17 **APPENDIX C**

Quarterly Performance Review – 2016-17	Q1	Q2	Q3	Q4
BVPI 66a - Housing Rent Collection (%) *(cumulative - current tenants only arrears + debit)*				
Actual	97.41	97.55	98.17	97.97
Target	98.40	98.40	98.40	98.40
Last Year Actual 2015-16	97.17	97.78	98.19	98.11
BVPI 9 - Council Tax Collection (%)				
(in year cumulative) Actual	26.15	50.94	76.93	93.32
Target	25.90	50.80	76.20	92.50
Last Year Actual 2015-16	26.30	51.00	76.60	92.50
BVPI 10 - NNDR Collection (%)				
(in year cumulative) Actual	29.25	55.72	80.39	97.40
Target	29.20	55.50	80.50	97.40
Last Year Actual 2015-16	31.28	55.62	81.16	97.40
Sundry Income Collection (%)				
(12 month rolling average) Actual	82.40	77.30	81.70	84.10
Target	99.00	99.00	99.00	99.00
Last Year Actual 2015-16	79.40	79.70	80.30	82.20
Sundry Income Debtor Days -General				
Actual	30.00	32.00	37.00	41.00
(12 month rolling average) Target	32.30	32.30	32.30	32.30
Last Year Actual 2015-16	31.00	33.00	32.00	32.00
Estates Rents Collection (%)				
Actual	94.19	95.13	95.31	95.83
(12 month rolling average) Target	97.50	97.50	97.50	97.50
Last Year Actual 2015-16	96.80	96.77	95.80	95.23
Adult Residential Services Collection (%)				
Actual	95.55	96.19	95.87	96.11
(12 month rolling average) Target	95.90	95.90	95.90	95.90
Last Year Actual 2015-16	95.42	95.37	95.95	95.77

VIREMENT REQUIRING EXECUTIVE BOARD APPROVAL **APPENDIX D**

Details	Net Amount £m	Department		Portfolio	
		From	To	From	To
Realignment between Fleet & Meals at Home	0.015	within C&O		BGT	CYS
Vehicle maintenance / fuel realignment	0.055	within C&O		CYS	BGT
Utilities budget realignment	0.042	within C&O		ESU	CYS
	0.006				BGT
	0.009				LCT
Static Guarding Services Recharge	0.039	C&O	D&G	CYS	SRN
Security Budget Centralisation - residual adjustment	0.003	C&O	D&G	CYS	SRN
Technical Adjustments (including Prudential Borrowing)	0.206	Corporate Budgets	S&R	RNR	CYS
	0.075		S&R	within RNR	
	0.500		D&G	RNR	BGT
	0.537		D&G	RNR	BGT
	1.300		D&G	within RNR	
	0.990		S&R		
	0.037	D&G	Corporate Budgets	SRN	RNR
	0.682				
Service realignment (Housing Related Support / CDP)	0.628	within S&R		ADH	CYS
Service realignment (Housing Related Support to Community Engagement)	0.041	S&R	C&O	ADH	CYS
Service realignment (Contracts & Procurement to Community Engagement)	0.005	within S&R		ADH	CYS
	0.035	S&R	C&O	SRN	CYS
Energy Services realignment	0.050	within C&O		ESU	RNR
Public Health reinvestment	2.527	within CA		ELY	ADH
Dedicated Schools Grant realignment	0.014	within CA		EES	ELY

Details	Net Amount £m	Department		Portfolio	
		From	To	From	To
Strategic Choice realignment	0.150	within CA		ADH	ELY
	0.017	CX	D&G	within RNR	
	0.029	S&R			
Salary budget transfer (Finance & HR)	0.018	within S&R		RNR	CYS
Salary budget realignment between Information Management & Planning	0.034	within D&G		PLNH	RNR
Realignment (Facilities & Buildings and Trading Operations)	0.002	within C&O		LCT	SRN
Realignment (Facilities & Buildings and Trading Operations)	0.170	within C&O		CYS	SRN
Standby & Sleep-in Holiday Pay 8.3%uplift	0.002	Corporate Items	CA	RNR	ADH
	0.016		CA		ELY
	0.004		C&O		CYS
	0.001		D&G		BGT
	0.004		C&O		BGT
	0.003		C&O		LCT
	0.001		D&G		PLNH
	0.003		S&R	within RNR	
	0.001		CA	RNR	EES
	0.001		CA		SRN
Realignment Information Management; Estates & Asset Management	0.197	within D&G		SRN	RNR
Staff realignment between Access to Services and Facilities & Building Services	0.098	D&G	C&O	RNR	SRN
	8.545				

Key	Department
CA	Children & Adults
C&O	Commercial & Operations
CX	Chief Executive
D&G	Development & Growth
S&R	Strategy & Resources

Key	Portfolio
ADH	Adults and Health
BGT	Business, Growth & Transport
CYS	Community Services
EES	Education, Employment & Skills
ELY	Early Intervention & Early Years
ESU	Energy & Sustainability
LCT	Leisure & Culture
PLNH	Planning & Housing
RNR	Resources & Neighbourhood Regeneration
SRN	Strategic Regeneration

MOVEMENTS IN RESERVES REQUIRING EXECUTIVE BOARD APPROVAL 2016/17 (£m) **APPENDIX E**

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
Adults and Health	Public Health Transition Reserve	2016/17 expenditure		1.127				1.127
	Investment Schemes	Children's ICT		0.616				0.616
Adults and Health Total			**0.000**	**1.743**	**0.000**	**0.000**	**0.000**	**1.743**
Business, Growth & Transport	Clifton Town Centre	Revenue expenditure		0.097				0.097
	Contingency Reserve	Alfreton Road Improvements	(0.038)					(0.038)
	Bulwell Town Centre	Action Plan development		0.009			0.054	0.063
	Investment Strategy	Vacant Shops Grant Scheme Extension and lease costs for Park Row	(0.018)	0.080				0.062
	Maintaining car parks	Maintenance sinking fund	(0.140)					(0.140)
	NET City Reserve Fund	Workplace Parking Levy bal & 2016/17 Bus Service Operator match funding	(0.509)	1.210				0.701
	OLEV Go Ultra Low	Revenue contribution	(1.800)	0.150				(1.650)
	Street Lighting	PFI contract costs		0.020				0.020
	Wireless Concession	2016/17 net expenditure	(0.024)	0.027				0.003
	ERDF Growth Hub	Match funding for the ESIF Growth Hub project	(0.385)					(0.385)
Business, Growth & Transport Total			**(2.913)**	**1.595**	**0.000**	**(0.000)**	**0.054**	**(1.264)**

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
Community Services	Direct Revenue Financing	Purchase of vehicles				(0.018)		(0.018)
	Hackney Carriages	3 & 5 year licence fee	(0.309)					(0.309)
	HMO	5 year income cycle - year 4 drawdown		0.115				0.115
	Workforce Issues	Working Well/ Project funding		0.191				0.191
	Public Health Transition Reserve	2016/17 expenditure		0.149				0.149
	Traded Operations Surplus	Prior year contribution	(0.262)				0.220	(0.042)
Community Services Total			**(0.572)**	**0.455**	**0.000**	**(0.018)**	**0.220**	**0.085**
Corporate	Agreed budget carry forward	2016/17 expenditure		0.262				0.262
	Area Capital - LTP	2016/17 expenditure		0.017			0.493	0.510
	Area Capital	Public Realm	(0.060)	0.017				(0.043)
	Contingency Reserve	Neighbourhood Tree Improvement Programme					0.095	0.095
	E-Government/IT Fund	2016/17 project expenditure	(2.290)	0.413			2.298	0.421
	Flexible Fitness	Equipment purchases					0.441	0.441
	Investment Strategy	Building acquisitions					4.728	4.728
	NET City Reserve Fund	Green Bus Fund 3 Accessories					1.822	1.822
	Rev Reserves for Capital	Building acquisitions					1.473	1.473
		2016/17 contribution	(0.413)					(0.413)

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
Corporate	Rev Reserves for Capital	Arboretum Café Development					0.199	0.199
		Area Capital underspend 16/17 - Public Realm					0.060	0.060
		Bio-City					1.508	1.508
		CAP Incinerator 3 Pre-Works					0.024	0.024
		Transfer to Carrington Street Townscape project			0.050			0.050
		Neighbourhood Trees					0.029	0.029
		Nottingham Castle					0.417	0.417
		Transfer to capital					(0.408)	(0.408)
		Reduction of IT Schemes in Capital Programme					2.000	2.000
		Various community Schemes					0.022	0.022
		The Ridge Adventure Playground					0.055	0.055
		Westbury Special School	(0.018)					(0.018)
	Investment Schemes	Children's ICT					0.397	0.397
Corporate Total			**(2.402)**	**0.709**	**0.050**	**0.000**	**15.137**	**13.494**
Early Intervention & Early Years	Direct Revenue Financing	Ridge Adventure Playground contribution				(0.100)		(0.100)
	Contingency Reserve	Daybreak; Xeres; Casey		0.010				0.010
	Public Health Transition	2016/17 replenishment	(1.021)					(1.021)
Early Intervention & Early Years Total			**(1.021)**	**0.010**	**0.000**	**(0.100)**	**0.000**	**(1.111)**

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
Education, Employment & Skills	BSF Bigwood & Oakfield PFI	PFI movements	(0.016)	0.154				0.138
	Direct Revenue Financing	Westbury School				(0.018)		(0.018)
		Various Schemes					0.051	0.051
	Contingency Reserve	Digital Infrastructure	(0.048)					(0.048)
	Nottm Growth Plan 2015-18	Economic Development activities	(0.023)					(0.023)
	Employer Hub Innovation Fund	Employer Hub	(0.002)	0.093				0.091
	Farnborough PFI Project	Contribution to Building Schools for the Future		0.061				0.061
	Growing Places	Support GPF Accountable body	(0.076)	0.082				0.006
	Jobs Fund	2016/17 replenishment	(0.006)					(0.006)
	Nottingham Investment Fund	Foresight Nottingham Fund investment		0.066				0.066
	PFI Life Cycle	Maintenance contribution	(0.033)					(0.033)
		Ellis Guilford BSF Lifecycle	(0.154)					(0.154)
		Rosehill BSF Lifecycle	(0.126)					(0.126)
	Strategic Alliance	EIB Costs 16/17		0.190				0.190

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
	SSR-Other Balances	2016/17 net	(1.507)	4.621				3.114
Education, Employment & Skills	The Midland Engine	LA's & LEP's 2016-17 contributions to support match funding for future years	(0.489)	0.006				(0.483)
		Receipt from the DCLG	(0.750)					(0.750)
	Schools Building Maintenance	Approved expenditure	(0.052)					(0.052)
Education, Employment & Skills Total			**(3.283)**	**5.273**	**0.000**	**(0.018)**	**0.051**	**2.022**
Energy & Sustainability	E-Government/IT Fund	ITEF funding approved for Customer Access		0.507				0.507
	Feasibility Schemes	Eastcroft Development feasibility works		0.318				0.318
	SALIX - Energy Savings Fund	2016/17 expenditure		0.016			0.045	0.061
	Waste Disposal	Extended incinerator shut-down Summer 2016		0.226				0.226
Energy & Sustainability Total			**0.000**	**1.067**	**0.000**	**0.000**	**0.045**	**1.112**
Leisure & Culture	Restrictive Grants Unapplied	Sports and Leisure	(0.081)	0.127				0.046
		Libraries	(0.041)					(0.041)
	Centre Transformation (Invest 2 Save)	NTRCH Endowment Fund					0.119	0.119
	Line of Light	Future maintenance costs	(0.025)					(0.025)
	Newstead Donation Income	"Adopt a Stone" campaign	(0.023)					(0.023)

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
	Rev Reserves for Capital	Leisure equipment	(0.218)					(0.218)
Leisure & Culture Total			**(0.388)**	**0.127**	**0.000**	**0.000**	**0.119**	**(0.142)**
Planning & Housing	Direct Revenue Financing	Neighbourhood Trees contribution				(0.095)		(0.095)
	Carrington Townscape	Transfer from capital			(0.050)			(0.050)
	Investment Strategy	B&B Contingency		0.506				0.506
	Local Plan	2016/17 replenishment	(0.021)					(0.021)
	HAZ Delivery Plan	Heritage England match funding	(0.039)					(0.039)
Planning & Housing Total			**(0.060)**	**0.506**	**(0.050)**	**(0.095)**	**0.000**	**0.301**
Resources & Neighbourhd Regeneration	Area Committees	2016/17 expenditure		0.152				0.152
	Bike Hire Scheme	Bike Scheme Contribution	(0.113)					(0.113)
	Direct Revenue Financing	Capital IT Purchases					(0.290)	(0.290)
		Hoylake Park				(0.030)		(0.030)
		Sutton Passey Play Area				(0.017)		(0.017)
		NET Community Initiatives				(0.007)		(0.007)
		Skills Hub				(0.089)		(0.089)
	Collection Fund Reserve	Business Rates replenishment	(0.172)					(0.172)
		S31 Grant adjustment	(0.543)	0.015				(0.528)
	Contingency Reserve	Food and Safety Officer	(0.045)					(0.045)
		Equality Agenda	(0.050)					(0.050)

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
		Policy Officer	(0.005)					(0.005)
		Information rights performance challenges		0.013				0.012
		Portfolio Management Office	(0.163)					(0.163)
		Promote Nottingham as zero tolerance zone for FGM	(0.003)					(0.003)
		Shop Strategy Slippage	(0.026)					(0.026)
		UNESCO City of Literature	(0.030)					(0.030)
	East Midlands Council	EMC Outturn	(0.010)					(0.010)
	E-Government/IT Fund	Capital IT equipment	(0.246)	0.495				0.250
		Energy Schemes	(0.165)					(0.165)
		Training income	(0.051)					(0.051)
	Good to Great	2016/17 expenditure		2.131				2.131
	Housing Benefits	2014-15 post audit adjustments	(0.399)	1.634				1.235
	I2S Energy Park	2016/17 expenditure		0.009				0.009
	Ice Centre	Sinking Fund	(0.363)	0.237				(0.126)
	Investment Strategy	Urban Programme Balance	(0.419)					(0.419)
Resources & Neighbourhd Regeneration	Workforce Issues	2016/17 net movement		2.165				2.165
	NET City Reserve	2016/17 net movement	(1.666)	1.664				(0.002)
		2015/16 prudential borrowing	(0.262)	0.003				(0.259)
		OLEV Programme 16/17		1.800				1.800

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
	NHS Local Imp Finance (LIFT)	Clifton Cornerstone	(0.502)					(0.502)
		Mary Potter	(0.431)					(0.431)
	Property Maintenance	Salisbury Square Roof					0.038	0.038
		Management System					0.023	0.023
		2017/18 slippage	(0.080)					(0.080)
	Rev Reserves for Capital	Blueprint		1.088				1.088
		Major Programmes Fees		0.096				0.096
	Treasury Management	2016/17 replenishment	(1.881)					(1.881)
	NHB Economic Development	Arkwright & Blackstone Walk					0.014	0.014
		Broadmarsh projects					0.238	0.238
		Byron House Refurb					0.150	0.150
		Transport Programme					0.020	0.020
		Robin Hood Chase					0.190	0.190
	Pension Deficit	2016/17 replenishment	(0.428)					(0.428)
	JSC (Bulwell and St Anns)	2016/17 replenishment	(0.398)					(0.398)
	Capital	Prudential Borrowing	(0.690)	1.126				0.436
Resources & Neighbourhood Regeneration Total			**(9.138)**	**12.628**	**0.000**	**(0.143)**	**0.383**	**3.731**
Strategic Regeneration	Direct Revenue Financing	Capital works				(0.015)		(0.015)
	Feasibility Schemes	Island Site		0.108				0.108
	Rev Reserves for Capital	Guildhall Costs		0.020				0.020

Portfolio	Reserve Name	Description	Replenishment £m	Use of reserves £m	Reserve to Reserve £m	Contribution to Capital Scheme £m	Reserve to Capital £m	Total £m
	Revenue Implications of Capital Schemes	Bio-City		0.361				0.361
Strategic Regeneration Total			**0.000**	**0.488**	**0.000**	**(0.015)**	**0.000**	**0.473**
Total (including Statutory Schools Reserves)			**(19.779)**	**24.603**	**0.000**	**(0.320)**	**15.940**	**20.442**
Total (excluding Statutory Schools Reserves)			**(18.219)**	**19.982**	**0.000**	**(0.320)**	**15.940**	**17.381**

CAPITAL PROGRAMME VARIANCES +/-£0.100m 2016/17 **APPENDIX F**

Scheme	Projection 16/17 £m	Outturn 16/17 £m	Over / (Under) Spend on Projection £m
Public Sector Housing			
Modern Living	0.722	0.303	(0.419)
No Fines/ Solid Wall Insulation Schemes	0.111	0.283	0.172
External Wall Insulation - KEEPMOAT	2.583	1.560	(1.023)
External Wall Insulation	3.235	2.828	(0.407)
BISF Upgrades / External Wall Insulation	1.560	2.742	1.182
Independent living Re-Design	0.900	0.629	(0.271)
Mobile Scooter Stores	0.383	0.283	(0.100)
Refurbishment Of Sheltered Housing Scheme	0.150	0.010	(0.140)
Major Void Works	2.400	2.163	(0.237)
Radford	0.000	0.198	0.198
Lenton New Build - Phase 1 Includes ILS	0.000	(0.984)	(0.984)
Lenton New Build - Phase 2 Includes Flats	1.279	1.084	(0.195)
Lenton New Build - Phase 2 Includes Bungalows	0.063	1.416	1.353
Infrastructure Cost	0.000	0.420	0.420
Church Square Demolition	0.300	0.051	(0.249)
Church Square Transfer of Savoy & Workshops	0.215	0.000	(0.215)
Meadows New Build	2.991	2.746	(0.245)
Aspley JSC / Stepney Court	0.355	0.193	(0.162)
Affordable Homes - Garage Sites	5.224	4.941	(0.283)
New Build Phase 1	0.207	0.000	(0.207)
Morley School - DEMOLITION	0.150	0.000	(0.150)
Morley School	2.426	2.642	0.216
Land Hazel Hill	0.300	0.000	(0.300)
Chalfont Drive	0.324	0.580	0.256
HRA Shop Investment Strategy	0.140	0.000	(0.140)
Empty Homes	0.632	0.000	(0.632)
PV Installation Programme	0.000	(0.563)	(0.563)
Adaptations For Disabled Persons	1.224	0.839	(0.385)
Education / Schools			
Access Improvements - Minor Schemes	0.343	0.084	(0.259)
Heathfield Primary Expansion - Early Works	0.329	0.024	(0.305)
School Kitchen Imps - Phase 2	0.116	0.010	(0.106)
Brocklewood Primary - Kitchen	(0.221)	0.010	0.231
Bluecoat Primary - New School Early Design	4.743	4.171	(0.572)
Berridge Primary - Roof / Chimney Imps	0.215	(0.041)	(0.256)
Fernwood Infants & Juniors - Expansion	1.469	2.316	0.847
Primary Health & Safety	0.839	0.000	(0.839)
Westbury Special School	0.750	0.279	(0.471)
Dovecote Primary Heating - Phase 3	0.165	0.014	(0.151)
Scotholme Primary - Asbestos	0.150	0.004	(0.146)
Contingency Fund - 20316	0.207	0.000	(0.207)
Fernwood Nursery - External Works	0.131	0.000	(0.131)
School Accessibility Programme	0.271	0.000	(0.271)
Fernwood Infant Nursery	0.000	0.133	0.133
Adults Health and Community Sector			
Laura Chambers Lodge Refurbishment	0.200	0.081	(0.119)

Community Services			
Woolsington Close Flood Alleviation	0.195	0.087	(0.108)
Early Intervention and Early Years			
Pathfinder Short Breaks	0.182	0.017	(0.165)
The Ridge Adventure Playground	0.300	0.093	(0.207)
2 Year Old Expansion Programme	0.264	0.107	(0.157)
Jobs, Growth and Transport			
Carrington St Area Townscape Heritage Project	0.104	0.000	(0.104)
Leisure and Culture			
Imps to Community and Cultural Facilities	0.560	0.000	(0.560)
Arboretum Café Development	0.434	0.327	(0.107)
Nottingham Castle Transformation (HLF Scheme)	0.970	0.722	(0.248)
Highfields Park - Refurbishment	0.200	0.010	(0.190)
Portland Leisure Centre - Condition Survey Works	0.104	0.000	(0.104)
Melbourne Park Pavilion Imps	0.140	0.005	(0.135)
New Burial System at Wilford Hill	0.112	0.006	(0.106)
Royal Centre Transformation Project	0.750	0.251	(0.499)
Planning and Housing			
Regional Housing Board - Equity Loan Scheme	0.303	0.200	(0.103)
Disabled Facilities Grants	1.889	1.719	(0.170)
Recycling Repaid Hsg Renewal & Repair Grants	0.300	0.000	(0.300)
Church Square, Lenton - Affordable Housing	0.123	0.000	(0.123)
Resources & Neighbourhood Regeneration			
Growing Places - Loan No.2	6.454	1.961	(4.493)
Acquisition of Blueprint	0.140	0.000	(0.140)
149-169 Lower Parliament St (S215 Notice Works)	0.140	0.008	(0.132)
IT - Storage Area Network (SAN) Refresh Project	0.298	0.167	(0.131)
IT - Childrens and Adults Social Care Project	0.214	0.000	(0.214)
IT - Service Improvement Prog - Citrix	1.904	0.317	(1.587)
IT - Service Improvement Prog - Server 2003	1.252	0.567	(0.685)
IT - Income Management Enterprise Licence	0.270	0.104	(0.166)
IT - Houses of Multiple Occpancy (Civica)	0.152	0.000	(0.152)
IT - Microsoft Licenses - 3yrs (1617, 1718, 1819)	1.000	0.841	(0.159)
Joint Service Centre - Bulwell LIFT	0.100	0.000	(0.100)
Property Aq - Nottingham Investment	3.147	2.906	(0.241)
Property Aq - Investment Acquisition	3.140	2.418	(0.722)
Property Aq - Project Truelove (Crocus Street)	0.835	0.001	(0.834)
Creative Quarter Loan Fund	0.375	0.000	(0.375)
Property Aq - Project Duke (Wellington Road)	14.449	14.327	(0.122)
IT - Additional Microsoft Licences	0.310	0.023	(0.287)
Strategic Regeneration and Development			
Unlocking Loxley House - Phase 2 / 2A	0.506	0.033	(0.473)
Grant to Fire Service - Imps to Gresham Works	0.150	0.000	(0.150)
Exchange Bldgs Refurbishment Design	0.364	0.122	(0.242)
Demolition of Beechdale Baths	0.390	0.590	0.200
Acq of Offices - Castlebridge Road	0.110	0.000	(0.110)
58 Carlton Road & Space 2 Development	0.360	0.168	(0.192)
Broad Marsh - Enabling Works	0.166	0.003	(0.163)
TOTAL	**80.737**	**59.549**	**(21.188)**

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Subject:	European Regional Development Fund (ERDF) bid – deep innovative retrofits
Corporate Director(s)/Director(s):	**Andy Vaughan, Executive Directive for Commercial and Operations** **Gordon Thomson, Director for Energy, Waste and Highways**
Portfolio Holder(s):	Councillor Alan Clark, Portfolio Holder for Energy and Sustainability Councillor Jane Urquhart, Portfolio Holder for Planning, Housing and Heritage
Report author and contact details:	Jane Lumb, Head of Energy and Sustainability Policy, 0115 8764786; jane.lumb@nottinghamcity.gov.uk

Subject to call-in: ☒ Yes ☐ No

Key Decision: ☒Yes ☐ No

Criteria for Key Decision:

(a) ☒ Expenditure ☐ Income ☐ Savings of £1,000,000 or more taking account of the overall impact of the decision

and/or

(b) Significant impact on communities living or working in two or more wards in the City
☐ Yes ☐ No

Type of expenditure: ☒ Revenue ☒ Capital

Total value of the decision: up to £6.022M of EU money

Wards affected: All

Date of consultation with Portfolio Holder(s): 15th May 2017

Relevant Council Plan Key Theme:

Strategic Regeneration and Development	☐
Schools	☐
Planning and Housing	☒
Community Services	☐
Energy, Sustainability and Customer	☒
Jobs, Growth and Transport	☐
Adults, Health and Community Sector	☐
Children, Early Intervention and Early Years	☐
Leisure and Culture	☐
Resources and Neighbourhood Regeneration	☐

Summary of issues (including benefits to citizens/service users):

Nottingham City Council, with Nottingham City Homes (NCH), Nottinghamshire County Council, and Derby Homes, wish to submit an ERDF bid for a project which would deliver a step change in warmer and cheaper-to-run homes and public buildings through innovative retrofits.

The £6.022m of ERDF money would enable retrofitting up to 250 Nottingham City Council homes in Nottingham to achieve “net zero” energy - much greater energy and carbon savings for tenants that could otherwise be achieved, and fit for 2050 standards. It will also enable us to test the model on 1 public building in Nottingham, again achieving a much greater reduction in energy usage than could otherwise be delivered.

We would have to match fund this with £5.4m of Capital Programme currently allocated to be spent on energy projects on council housing over the next 5 years, and £0.3m from the Energy Development Fund and SALIX loans for the public building.

The project is focused on areas and properties which require regeneration. This means we will

enable regeneration, reduction in fuel poverty, and carbon reduction, for the same money that we would have spent to maintain the properties to current standards over a 30 year period. This should prove UK application of the "energiesprong" model, building on the pilot project currently underway on 9 "2050 homes" in Sneinton, as part of the Remourban project. This would enable significant cost reductions for future retrofits in the UK, with many thousands of the same archetype houses present in the East Midlands alone, and potentially also attract offsite manufacturing facilities to the city with associated low carbon jobs. The project is likely to receive national interest, boosting the reputation of Nottingham as an ambitious energy city. The project also supports the Derby-Nottingham Metro Strategy as it includes the retrofitting of some houses owned by Derby Homes. Through collaboration and economies of scale, environmental, economic and social benefits will be brought to both cities. Staff within Economic Policy and Partnerships will work on the Accountable Body function for this project ensuring compliance with ERDF regulations.
Exempt information: State 'None' or complete the following An appendix to the report is exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because it contains information relating to commercially confidential information and, having regard to all the circumstances, the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose this information because it could impact on the procuring of contracts for the works.

Recommendation(s):	
1	Authorise the Director for Energy, Waste and Highways, Gordon Thomson, to submit a bid for £6.022m (£4.975m for Nottingham City Council schemes and £1.047m for other councils/Arm's Length Management Organisations (ALMOS) to the European Development Fund (ERDF).
2	To amend the HRA Capital Programme to reflect the match funding requirements and earmarked £5.286m from the external wall insulation schemes already approved, to this scheme.
3	Note that approximately £310k is earmarked from the Energy Development Fund and SALIX loans to complete this cocktail of funding.
4	If the ERDF bid is successful, to authorise the Director of Energy, Waste and Highways to enter into the necessary contracts as described in this report

1 REASONS FOR RECOMMENDATIONS

1.1 The Executive Board is asked to grant permission to apply to ERDF for funding, take forward this project and take all actions necessary to deliver the project, if successful.

1.2 This project would enable up to 250 homes and 1 public building in the city to be radically improved, bring their net energy consumption down to zero, and significantly improve the look and feel of all the buildings and their areas. The level of ambition for this project could not be achieved without 50% of the cost being covered by grant funding, but it is testing a model which could bring down the cost for future projects, bring many more people in future out of fuel poverty, and create low carbon jobs in the city.

1.3 It is also asked to delegate detailed decision making and the signing of related contracts to the Director for Energy Waste and Highways, Gordon Thomson.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

2.1 D2N2 have made a call in December 2017 for proposals under their ERDF Priority Axis 4 (Low carbon), following an announcement by the Government that they would guarantee EU funding for ERDF projects signed before the UK's departure from the EU, even when these projects continue after we have left the EU.

2.2 Nottingham City Council submitted a bid to the Expression of Interest stage with 4 other partners – Nottingham City Homes, Nottinghamshire County Council, Derbyshire County Council, and Derby Homes. We were notified that we were successful at the expression of interest stage on 25th April, inviting us to submit a full bid by 14th July.

2.3 The bid is to take the "energiesprong" deep retrofitting model being piloted on the gold homes of the Remourban project, (last discussed at Exec Board on 21st February 2017), and roll it out to up to 250 homes in Nottingham, along with a some homes in Derby, and one public building each in Nottingham, Nottinghamshire and Derbyshire. The energiesprong model is explained below.

Deep retrofits

2.4 NCH's Sustainability Strategy identifies that the existing external wall insulation programme will not enable their homes to meet 2050 standards. Instead, whole house solutions will be needed which will transform their energy usage to net-zero. These are known as deep retrofits. However, these are currently very expensive – around £60,000 per home. Innovation is needed to make them affordable, with offsite manufacturing of external cladding one of the key ways to achieve cost reductions. EU funding is enabling this innovation by part funding pilot and demonstration programmes.

2.5 The Remourban project, currently on site in Sneinton, starts this journey by including pilots on 9 "2050 homes". This proposal is to take this to the next stage by using lessons learned from the Remourban project to carry out whole-building transformations on up to 250 existing houses and 3 public buildings (1 in Nottingham, 1 in Nottinghamshire, 1 in Derbyshire).

2.6 The "energiesprong" model would be used, which includes:

- innovative procurement of a whole house retrofit system which achieves a specified performance outcome based on a fixed price
- a focus on reducing whole life cost including maintenance costs and energy costs for tenants
- encouraging off-site manufacture, with the aim of bringing down the costs of these deep retrofits, reducing disruption to home owners, and bringing low carbon jobs to the region
- using an innovative "pay as you save" model which involves the contractors guaranteeing the procured performance for several decades, and the design of an "energy plan" where the resident / building user is charged for their energy plus a fee to contribute towards the works. The total energy plan is

still less than their energy bill before the work but their home/building is more comfortable and better for the environment.

2.7 In practice, this means a successful contractor designing an array of different energy measures which will meet the specified performance outcome, fitting them in a short time window, and guaranteeing they will work for a long period.

2.8 This energiesprong model has already been proven on houses in the Netherlands and we are in regular discussions with a few other local authorities around the UK who are working together to prove it can work in the UK too.

2.9 The use of this model on public buildings is at an earlier stage. It has been piloted on schools in the Netherlands and is currently being tested by Devon County Council on an office in Exeter. The process for selecting the public building will be:

- Developing criteria
- Selecting a shortlist of buildings, working with the building occupants and budget holders. This shortlist will include at least one school.
- Carrying out feasibility study on the buildings to show how each would meet criteria
- Selecting building to proceed on basis of feasibility study

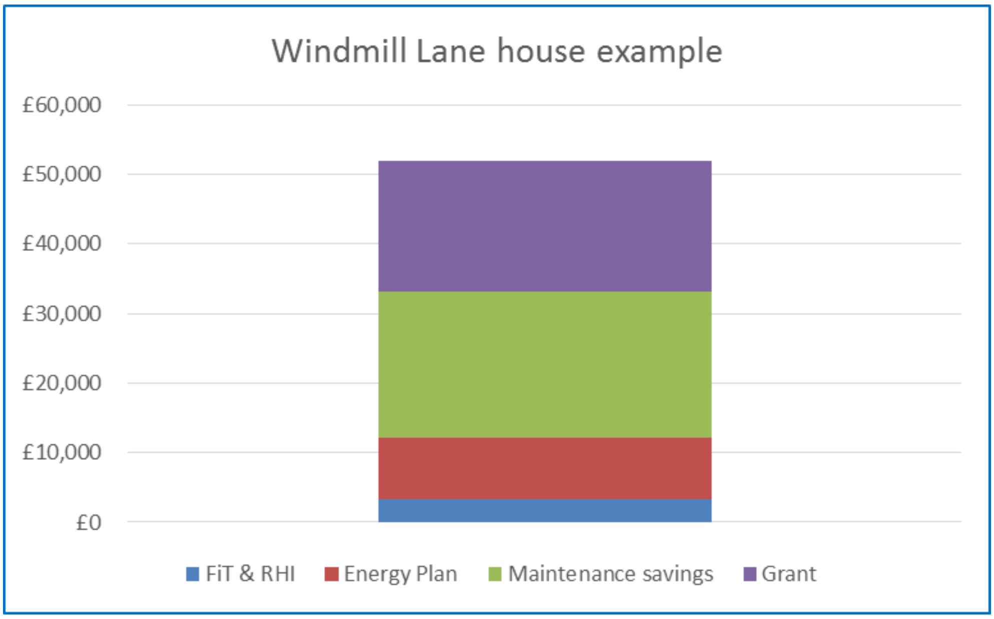
2.10 The bid submission will make clear that the initial stage of implementation will involve a feasibility study and any financial contribution from the LA partners would only be committed once an acceptable rate of return had been identified as part of this process.

2.11 Procurement for works on the houses is underway, as part of the Remourban project "gold standard" homes, with the tender documents explaining that there was the possibility of expanding the programme should the funding become available. For public buildings, a contract will be procured to deliver the retrofits using the same model for procurement as for the houses - an outcome-focused competitive process would be carried out after the feasibility studies have identified which buildings are most suitable. In both cases we will ensure that lessons are learned from the Remourban project before we sign contracts with the contractors for the ERDF funded project.

Match funding

2.12 For the Nottingham City Council houses, the match funding is from the Capital Programme budgets already allocated to work on energy over the next 5 years. The investment made in these properties at this stage will offset money which was planned to be spent in the 30 year programme, but does mean that fewer houses will receive external wall insulation in the next 5 years than originally envisaged. This project is needed to ensure all homes needing external wall insulation can be funded to those higher standards at an affordable level, and the NCH sustainability strategy has shown that this innovation is required if we are to achieve 2050 standards.

2.13 The graph below shows how the Energiesprong funding model works. An investment envelope is calculated using the savings that will be made as a result of the work on maintenance and energy costs, and subsidies received from renewable energy fitted. With scale and a well-developed off site manufacturing industry, the investment envelope would pay for the cost of the work on its own. To get to this point grant funding is required, which is what the ERDF bid covers.



2.14 For the public building, the match funding will come from the Energy Development Fund and SALIX loans, as is typical for all energy projects on Nottingham City Council estate. It will only be invested if it can be shown to achieve at least 5% rate of return, according to the approvals already given for that funding.

2.15 The indicative figures used in the expression of interest were calculated on the basis of using one of the Nottingham schools meeting the common archetype "CLASP" which is common throughout the region. We are keen to use one of these buildings if possible because they are cold and inefficient and have some maintenance issues which this project would also help resolve. Their common nature around the region also provides a rollout potential for the prototypes produced, so encouraging the offsite manufacturing needed to cut the total costs. If a school is used, we would need the school's agreement and a funding and contractual arrangement with the school which is acceptable to both parties, and takes into account future risk of academisation. This would form part of the selection of the public building described above.

2.16 The breakdown of funding across the project is shown below, subject to more detailed work before the 14th July deadline. Match funding for all the public buildings is 50/50, and for all the houses is based on the investment envelope above, for every partner.

Capital Costs	Total Cost £m	Grant Income £m	NCC capital investment £m	Other LA investment £m
Housing (HRA)	9.500	4.214	5.286	
School / Public Building	0.620	0.310	0.310	
Nottingham Total	**10.120**	**4.524**	**5.596**	
Derbyshire Office	0.680	0.340		0.340
Nottinghamshire School	0.620	0.310		0.310
Derby Homes	0.712	0.327		0.385

Project Total	**12.132**	**5.501**	**5.596**	**1.035**

Revenue Costs	Total Cost £m	Grant Income £m
Nottingham City Homes	0.255	0.255
Nottingham City Council	0.196	0.196
Nottingham Total	**0.451**	**0.451**
Derbyshire County Council	0.010	0.010
Nottinghamshire County Council	0.010	0.010
Derby Homes	0.050	0.050
Total Project	**0.521**	**0.521**

Timescales

2.17 For houses, the first homes could be started in late 17/18, following the completion and review of the remourban project to ensure lessons are learned from the pilots. The majority would be homes would be retrofitted in 18/19 and 19/20

2.18 For the public building, the feasibility studies would take place in late 17/18 and early 18/19. Retrofitting the building would then take place in 18/19 and 19/20.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 Not bidding for ERDF funding. This was discounted because the project would bring much greater benefit to NCH tenants in particular than could otherwise be afforded, and have a knock on economic impacts to the region.

3.2 Bidding for less ERDF funding to reduce the match funding commitment. This was discounted because, as a development phase of an innovative approach, several hundred buildings are needed to prove it works, and to reduce the costs per home through economies of scale. We also hope the scale could bring offsite manufacturing to the city.

3.3 Not including a public building. It was felt this was an opportunity to make a bigger energy reduction to a building that could otherwise be afforded, for the same return as under our usual investment rules.

4 FINANCE COLLEAGUE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY/VAT)

4.1 see exempt annex.

5 LEGAL AND PROCUREMENT COLLEAGUE COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

5.1 An Official Journal of the European Union (OJEU)-compliant procurement procedure is already underway to appoint a contractor to deliver the Energiesprong retrofit to the domestic properties in Nottingham. Should any further procurement become necessary in the delivery of this project, the Procurement Team will assist to ensure that any proposals are compliant with Nottingham City's Contract Procedure Rules and the Public Contracts Regulations, and deliver value for money.

Procurement comments provided by Jonathan Whitmarsh, Lead Procurement Officer, Places Category.

5.2 The City Council is currently undertaking a procurement procedure (which includes the right to negotiate) to appoint a contractor to deliver the pilot scheme with an option to extend for the additional 250 homes described in this report. The option will give the City Council the ability to award the works to the chosen contractor if both the pilot and the grant bid are successful. The City Council must ensure it can comply with any terms and conditions in the grant funding agreement (if the bid is successful) which might include restrictions on disposals of capital assets.

5.3 The City Council must ensure it complies with any statutory processes and consultations which are necessary if the City Council wishes to recover the energy fee from its tenants.

5.4 If the public building chosen is a school which subsequently becomes an academy then as the City Council is not able to oblige the academy to continue with the energy fee there is a risk the academy gains the benefit but does not agree to take on liability for the fee. As the accountable body for the grant funds the City Council should enter into appropriate contracts with the other local authorities for the delivery of the works to their public buildings.

Andrew James Team Leader (Contracts and Commercial)

6 STRATEGIC ASSETS & PROPERTY COLLEAGUE COMMENTS (FOR DECISIONS RELATING TO ALL PROPERTY ASSETS AND ASSOCIATED INFRASTRUCTURE)

6.1 The proposed works are designed to improve the energy efficiency of the properties and, in respect of the residential properties, improve the quality of life of the residents. The improvements are unlikely to increase the value of each property by the cost of the works to that property. If any of the homes to which work has been carried out are subsequently sold under the Right to Buy the capital invested in the property will be protected by cost floor provisions which ensure that the property is not sold for less than the amount spent on it in the preceding 10 year period. However if there is a requirement to repay grant funding on sale, although the cost floor protects the capital invested this will not translate in to funds to repay grant funding. In respect of the public building, if the building is subsequently sold or in the case of a school, transferred as an academy, the

investment in the property will potentially be lost and the capital receipt, if any, may not provide sufficient funds to repay grant / loan funding if repayment is required.

These risks require careful consideration and steps taken to mitigate the risks before proceeding.

Comments provided by Rod Martin, Development and Disposals Service Manager, 19th May 2017.

7 SOCIAL VALUE CONSIDERATIONS

7.1 Cold homes are linked to a wide range of health issues, from mental health to asthma and respiratory issues, to trips and falls, some of which are responsible for excess winter deaths and excess winter hospital admissions as stated in the Fuel poverty report commissioned for the Government. The impact of these on the NHS has been estimated at £145m per annum.

7.2 Jobs and training opportunities will be created for Nottingham residents through the delivery of this project. The successful bidders for each project will be required to provide traineeships and local employment opportunities.

8 REGARD TO THE NHS CONSTITUTION

8.1 These works will improve health and wellbeing of residents living in the homes due to reduced fuel poverty and warmer homes.

9 EQUALITY IMPACT ASSESSMENT (EIA)

9.1 Has the equality impact of the proposals in this report been assessed?

No ☒
An EIA is not required because: The only element where one would be necessary is for access to NCH homes. This was already provided for in permissions for the Capital Programme, which is being used in this project.

10 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

10.1 None

11 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

11.1 Medium Term Financial Plan approval includes the funding for the Capital Programme for Nottingham City Council

http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=177&MId=5775&Ver=4

11.2 Delegated Decision 2600 in September 2016 - approves Energy Development Fund and delegates decision making to Wayne Bexton, Head of Energy Projects.

http://committee.nottinghamcity.gov.uk/ieDecisionDetails.aspx?ID=3876

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

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