

MOBILISING LOCAL ENERGY INVESTMENT (MLEI)

To: **Cabinet**

Date: **28th January 2014**

From: **Executive Director: Economy, Transport and Environment**

Electoral division(s): **All**

Forward Plan ref: **2014/015**

Key decision: **Yes**

Purpose: **To identify the preferred procurement option and contract size for Energy Performance Contracting for schools and public buildings and to identify the strategy and next steps for an investment fund.**

Recommendation: **Cabinet is asked to agree:**

- a) To proceed with the procurement of an energy performance contracting supplier for schools and public buildings, using the Greater London Authority's REFIT 2 Framework**
- b) To offer schools and the County Council's buildings estate the opportunity to participate in an energy performance contracting service and to provide access to finance via the investment fund (on a first come first served basis)**
- c) The set up of an internal local authority investment fund, decisions on projects to be funded to be made by Cabinet or the relevant Committee to take forward an Investment Programme of energy projects**
- d) To support further development work on the investment fund.**

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1. BACKGROUND

1.1 The Mobilising Local Energy Investment (MLEI) Project is contracted to:

- By February 2014 set up a financial mechanism for private and public sector investment in low carbon energy infrastructure;
- By August 2014 set up delivery mechanism(s) which may include an energy services company;
- Procure energy infrastructure projects to the value of at least £15 million by August 2015 testing the finance and delivery mechanisms established above

1.2 On 29th October 2013, Cabinet agreed to:

- Support the development of an outline business case for energy performance contracting (EnPC) for the schools portfolio and for the development of solar farms;
- The principle of borrowing up to £15m as an investment in MLEI projects provided the investment demonstrates a reasonable return for the Council. Final decisions on investment into projects will be taken when the full business cases are available and acceptable rates of return to the Council can be demonstrated; and
- Support the development of the Low Carbon Investment Fund and Development Unit model.

2. MAIN ISSUES

Investment case for Energy Performance Contracting (EnPC)

2.1 An assessment of the Cambridgeshire schools portfolio and a select number of other buildings has been undertaken during November/December 2013 to identify the potential investment size and scale for energy performance contracting. A number of different uptake scenarios have been modelled, recognising the engagement and sign up of schools could be challenging. It is proposed the starting point for an Energy Performance Contract project is for a £3 million investment and that the contract is sufficiently flexible such that schools and buildings can be signed up to the project over time.

2.2 Procuring an Energy Performance Contracting supplier is the next step. The benefit of bringing a supplier on board early is that they can provide additional capacity to work with schools and provide the technical and financial information required for schools to make business decisions. The supplier undertakes this work at their own risk, until the supplier and school agree the development of an Investment Grade Proposal (IGP). Investment Grade Proposals require significant work and so should a school choose not to proceed to implementation, the school will be charged for the IGP. If on the other hand the investment proposal is implemented this preparation cost is absorbed by the supplier.

2.3 An options appraisal has been undertaken to determine the most appropriate procurement route for the Energy Performance Contractor. This assessed:

- I. Development of a tender specification and Official Journal European Union (OJEU) process to procure a supplier;

- II. Assessment of existing County Council procured vehicles to deliver the EnPC service e.g. the Local Education Partnership procured under Building Schools for the Future;
- III. Identification of other public sector OJEU procured framework agreements already in place

2.4 As a result of the assessment:

- Option I was ruled out due to the MLEI Project timescales and the expense of a lengthy and involved procurement process
- Option II was discounted due to lack of flexibility and appropriate structures in place
- Option III has been identified as the best procurement option for the Council with the Greater London Authority's, REFIT 2 Framework offering a tried and tested model. REFIT 2 is currently processing a pipeline of around 600 buildings through the framework and it provides a shortened process to get a supplier on board.

Investment Fund – set up and governance

- 2.5 The rationale for setting up a fund, as opposed to investing in projects on a piecemeal basis, is that a fund provides a mechanism to (i) leverage European investment and structural funds (ii) attract public and private co-financing for a project pipeline and (iii) channel new forms of finance such as Allowable Solutions linked to new homes, into Cambridgeshire. In addition, a fund can provide a transparent and clear investment strategy for the County and its partners, reduce transaction costs and spread investment risk. Most importantly it can generate revenue which can be reinvested into growing the fund, support further project development and/or pass back revenues to the authority and its partners.
- 2.6 Delivering an Investment Fund is seen as a three step process. Step 1 is to start with an in-house local authority based fund which in the short term will invest primarily into an Investment Programme made up of the County Council's projects including energy projects for schools, public and community buildings and Solar Photovoltaics (Solar PVs). This initial step provides the opportunity to demonstrate project contract models e.g. Energy Performance Contracting and begins to generate energy savings and revenue from renewable energy projects.
- 2.7 The proposal is to start with setting up a Local Authority fund as a ring fenced line in the County Council's budget with County Council's Cabinet making the investment decisions. The MLEI Project will co-ordinate and support projects to bring forward positive business cases for investment decision by Cabinet. After May 2014, this process will need to be updated to reflect the new committee system.
- 2.8 Looking 6-12 months ahead, the fund will need to develop and evolve its structure, to attract further investment into a wider set of public, commercial and community projects during 2014/15. In anticipation of this step, a project proposal has been submitted to the Greater Cambridge and Greater Peterborough Local Enterprise Partnership (GCGP LEP) for a £6.4 million project (50% funded) for European Regional Development Funds (ERDF) as part of the LEP Growth Deal and EU Investment strategy. Match funding options will need to be scoped and assessed, including whether the £15

million currently committed to the Fund by County Council could be used as match funding and whether there is opportunity for attracting Green investment Bank and private sector investment. The idea of the project proposal is to secure a second tranche of capital funding to ensure that projects can continue to be financed, generate revenues and the pipeline continues to grow. It is anticipated bidding for European Regional Development Funds (ERDF) will come forward towards the end of 2014 and in anticipation of this, the MLEI Project is looking to start now scoping and preparing a detailed proposal.

- 2.9 The final step for the fund will be to secure private finance and to commercialise and externalise the fund. The County Council at this point, will have the opportunity to consider how it would like to participate in the fund as it moves forward or to withdraw its stake.

3. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING

3.1 Developing the local economy for the benefit of all

The following bullet points set out details of implications identified by officers:

- To keep Cambridgeshire at the forefront of the global economy, and to support the vision for a low carbon economy, significant investment is required into Cambridgeshire's energy infrastructure. Without demonstrable commitment and leadership by the County Council to bring forward investment into public sector and other energy projects, attracting private and other investment will not take place at the scale and pace to keep Cambridgeshire competitive.
- The Investment Fund is a strategic intervention to help attract further inward investment into Cambridgeshire's energy infrastructure. This will provide greater energy security and resilience in the medium to long term for Cambridgeshire residents and businesses. The fund will develop and grow, help communities and businesses (new and existing) bring forward energy projects, secure finance at a much better price by aggregating smaller projects together to achieve the scale that attracts investment. Not supporting communities to bring forward local energy projects will mean that communities don't achieve the financial and social benefits they may need in the future.

3.2 Helping people live healthy and independent lives

There are no significant implications.

3.3 Supporting and protecting vulnerable people

Since 2004, households and businesses have experienced a 40% increase in energy costs. Supporting businesses and communities to reduce energy consumption and generate energy locally will help manage anticipated price spikes especially vulnerable households.

3.4 Ways of working

There is a cultural and perception gap between what the public sector wish to achieve in terms of low carbon growth for their communities quality of life and

business growth and what private sector is currently willing to invest in. The Investment Fund is looking to bridge that gap by investing in public sector projects to demonstrate what can be achieved and build confidence for others to invest in local energy projects.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource and Performance Implications

The following bullet points set out details of significant implications identified by officers:

- Procuring a supplier for energy performance contracting will require officer inputs from across the Council including procurement, legal, property, facilities management, energy management and schools. Not all of these costs can be picked up by the technical assistance grant provided by the MLEI Project.
- The administrative costs for setting up and managing a fund need to be identified and recovered via the loans made for projects to ensure no impact on revenues for other Council services.

4.2 Statutory, Risk and Legal Implications

There are a number of risks to be managed with the procurement of an energy performance contractor including:

- Low sign up and commitment from schools and public buildings to participate in the contract
- Schools refuse to pick up the costs for investment grade proposals not implemented
- Legal costs for contracts with schools and public buildings to participate in the EnPC exceed the amount allocated in the MLEI Project budget

All these risks will be mitigated through strong planning and project management.

For the Investment Fund, the risks include:

- Projects default on loans for the capital cost of energy measures
- Changes to incentives for renewable energy investment such as Feed In Tariffs
- Projects do not deliver to the levels identified in their business plans
- Poor quality and insufficient projects coming forward for investment

All these risks will be managed and mitigated through the project management and planning processes in place for the project.

4.3 Equality and Diversity Implications

No significant impacts.

4.4 Engagement and Consultation Implications

A public meeting was held on 21st November 2013 at the Hauser Forum, Cambridge, to share the MLEI Project investment fund model and the plans for energy performance contracting for schools and public buildings. Small and Medium Sized Enterprises (SMEs) identified their challenge of co-ordinating small businesses under an umbrella group, which can work together and compete for energy performance contracts.

4.5 Public Health Implications

There are no significant impacts.

Source Documents	Location
<ul style="list-style-type: none">• Cambridgeshire Community Energy Fund (2012)• MLEI Grant Agreement• CCC Cabinet Report MLEI Project, 29/10/13• Notes from 21st November 2013 community consultation event on the finance and delivery framework.• MLEI Cambridgeshire low carbon investment fund and delivery model, Verco, October 2013• Cambridgeshire Energy Performance Contracting Portfolio Analysis, v2, Verco, 12/12/13• The Business case for a Cambridgeshire Low Carbon Investment Fund and Development Unit (Final Draft), Verco December 2013• REFIT 2 Framework, GLA	<p>http://www.crif.citizenscape.net/core/</p> <p>http://www.cambridgeshire.gov.uk/business/economicandcommunitydev/energy-security/local-energy-investment.htm</p> <p>As above</p> <p>Please contact Sheryl French</p> <p>Please contact Sheryl French</p> <p>http://www.refit.org.uk/</p>