Agenda Item No: 7

REVIEW OF INVESTMENT PRINCIPLES FOR ENERGY PROJECTS

To:	**General Purposes Committee**
Meeting Date:	**19th May 2015**
From:	**Graham Hughes, Executive Director, Economy, Transport and Environment**
Electoral division(s):	**All**
Forward Plan ref:	**2015/049** *Key decision:* **Yes**
Purpose:	**To review the set of investment principles and level of investment agreed at General Purposes Committee (GPC) on 9th September 2014 for the Local Authority Fund investments into energy projects.**
Recommendation:	**General Purposes Committee is asked to agree:**

(a) that the existing delegated authority to provide loan funding for individual projects at schools and County Council sites be extended from £5m to £10m;

(b) that charges made by the County Council to academy schools can be greater than those to maintained schools in order to reflect the different contractual structure now proposed for academies and its slightly greater risk to the County Council;

(c) that investments into energy projects can be used to match fund European Regional Development Fund grant if the Council's bid succeeds.

	Officer contact:
Name:	Sheryl French
Post:	Project Director
Email:	Sheryl.french@cambridgeshire.gov.uk
Tel:	01223 728552

1. BACKGROUND

1.1 GPC Committee agreed on 9th September 2014 a set of principles for the Local Authority Fund investments into Energy Performance Contracting (EnPC). Energy Performance Contracting is the funding of energy upgrades from cost reductions on energy bills. The stream of income from the cost savings and the renewable energy produced repays the costs of the project, including the costs of the investment. The principles agreed included:

- investing £5m funded by borrowing into EnPC in schools, County Council buildings and sites and to review and increase this investment should project investments prove successful;
- delegation of the investment decisions for individual projects to the Chief Finance Officer and Head of Strategic Assets in consultation with the Chairmen of General Purposes and Economy and Environment Committees and Executive Directors: Children, Families and Adults and Economy, Transport and the Environment;
- a set of principles for managing and delivering investment into EnPC for schools and County Council sites. One of these principles was that charges for providing finance to projects should be the same for both maintained schools and academies;
- a proportion of any investment profits are re-invested into the Local Authority Fund for (i) further investment into energy efficiency and renewable energy projects and (ii) to match fund and draw down further capital and revenue that can grow the investments and project pipeline, generating larger returns over time.

1.2 In August 2014 the County Council appointed Bouygues Energies & Services under the Greater London Authority's REFIT 2 Framework. This contract allows for individual energy projects to be developed by a supplier using an agreed set of terms and conditions. Since their appointment Bouygues have made considerable progress developing EnPC proposals for 44 schools and Cambridgeshire County Council (CCC) buildings totalling over £7.5 million and two stand alone renewable energy projects (including the Soham Solar Park) of approximately £12.5million. On the basis of the Energy Performance Contract and Solar Park proposal, the Mobilising Local Energy Investment (MLEI) contract with the EU should be delivered provided investments are finalised by 19th August 2015.

1.3 On 10th March and 21st April 2015, Economy and Environment Committee agreed a forward strategy for investment into energy projects beyond August 2015 and to use some of the ongoing returns from the investments into Energy Performance Contracting to fund the development of further energy projects, growing the scale and ambition of the energy work. This included scoping of a Cambridgeshire Energy Company for potential inclusion in a bid proposal for European Regional Development Funds.

2. MAIN ISSUES

Forecast Investments into Energy Performance Contracting

2.1 To date over forty schools have been assessed for Energy Performance Contracting investment and more schools are interested in the opportunity. In addition, 11 CCC buildings have been assessed, with potential investment totalling £1.1 million. It is likely therefore that there will be the potential to contract work during 2015/16 that will exceed the £5m investment limit previously agreed by GPC. Therefore, if the full potential of EnPC for schools and County Council buildings is to be realised, it would be helpful to raise the limit.

2.2 To grow the ambition and scale of energy investments into projects, an in principle increase in the investment limit for Energy Performance Contracting from £5million to £10million will be required, on the following basis:

- All of the individual EnPC projects are designed to deliver savings and income during the term of the contract (which will be a maximum of 15 years) and no project would be approved by the existing delegated arrangements unless this were the case;
- Bouygues provide a guarantee during the contract term that actual energy savings and energy generation will be at least as great as those shown in the financial model;
- Most of the equipment installed under a contract will have an expected life well beyond 15 years. This means that significant further savings would be expected after the end of the contract, even though these would no longer be guaranteed by Bouygues;
- Where appropriate and possible, investment is match funded with European Regional Development Fund (ERDF) grant (see sections 2.7 and 2.8)

2.3 Although investment of up to £5m has already been agreed in principle, the current Business Plan 2015/16 did not include the borrowing, income or savings associated with the Energy Performance Contracting project as there was uncertainty over the expected value of EnPC contracts. The costs, income and savings are now being clarified and as each individual project is agreed through the existing delegated approval process, the intention is for these costs, income and savings to be added into the Business Plan as part of the monthly Integrated Resources and Performance Report (IRPR) when they are made. These additions will have no negative impact on the revenue budget. The intention would be to deal with any increase in the available level of funding in the same way.

Charges to schools for providing funding for EnPC projects

2.4 GPC agreed in September 2014 that charges for providing loan finance would be the same to both academy and maintained schools. The contractual structure for academies is different to maintained schools as academies have borrowing restrictions. This means that to offer the opportunity of Energy Performance Contracting to academies, the County Council will contract with Bouygues and then contract separately with the academies in a managed service agreement (MSA) for energy performance services mirroring the Bouygues contract.

2.5 Advice from KPMG on the accounting implications of the proposed MSAs includes:

- The MSAs are feasible, but the energy assets provided to the academies have to be treated for accounting purposes as being leased;
- There are two types of leases – finance and operating. Finance leases are prohibited for academies so for the MSA to be treated as an operating lease, County Council must retain part of the risk associated with the asset;
- The best way to manage risk is for the County Council to take residual risk, i.e. the risk associated with the residual value of the asset at the end of the EnPC contract term is around 10% of the total capital cost of the energy measures. This means academy schools have a choice on whether they buy the assets and pay the final 10% of the cost or not. If yes, the assets transfer to the academy if no, County removes the assets and deploys the measures elsewhere.

2.6 To balance risks with rewards it is proposed to no longer follow the principle previously agreed by GPC that charges to academies be the same as those for maintained schools. Instead, we should charge an increased rate to academies to reflect the increased residual risk taken by the County Council.

European Regional Development Fund proposal

2.7 The first call for European Regional Development Fund (ERDF) bids was launched on the 20th March 2015. The deadline for outline applications is 20th May 2015.

2.8 Economy and Environment Committee agreed on 21st April 2015 to submit an ERDF bid proposal to the Department for Communities and Local Government for a total project size of £6.4 million, requesting £3.2 million of ERDF grant. The project will build on the current energy project pipeline with schools and public buildings and develop larger scale projects such as additional solar parks and waste to energy schemes on public sector assets.

2.9 The proposal will include the scoping and potential set up of a Cambridgeshire Energy Company to bring broader freedoms and flexibilities to operate commercially (including making a profit), coordinate investments into energy projects, provide greater clarity and centralisation of risk and importantly provide a clear audit and track record around investments. The decision to set up a company would, of course, be for Members.

3. ALIGNMENT WITH CORPORATE PRIORITIES

3.1 **Developing the local economy for the benefit of all**

A precondition for a thriving local economy is secure and affordable energy supplies. A Cambridgeshire Energy Company can seek to attract ‘Allowable Solutions’ (a finance contribution to offset carbon obligations for new homes and buildings) from housing developers, to invest in local energy projects to reduce carbon emissions. This can support businesses and our communities to become more energy efficient and self-sufficient via EnPC or other measures and provide greater resilience to future price volatility.

The MLEI Project has started building the organisational framework to facilitate greater local security of supply through the Local Authority Fund investments. Additional funding and ERDF funding will continue to build on this legacy and help businesses and communities help themselves. If the investments and potentially a Cambridgeshire energy company grow well, they should generate income for the County Council and potentially a range of opportunities for local businesses.

3.2 Helping people live healthy and independent lives

Fuel poverty is a significant issue, despite recent falls in energy prices. Evidence suggests that cold homes will bring greater health risks impacting negatively on health budgets and services. A Cambridgeshire Energy Company can undertake collective purchasing and selling of energy to help save vulnerable residents money on their energy bills.

3.3 Supporting and protecting vulnerable people

See above for the issue of fuel poverty and the relationship between cold homes, respiratory and cardio- vascular diseases and excess winter deaths. Fuel poverty impacts most on the vulnerable in our society.

4. SIGNIFICANT IMPLICATIONS

4.1 Resource Implications

This report sets out the resource implications in section 2.2 requesting an increased investment from £5million to £10million into energy projects and using some of this investment to access ERDF grant. The key issue is that the ERDF money will help facilitate greater investment and returns than we could without grant and support development of a wider set of energy projects. The aim of the energy investments would be to generate income for the County Council, while reducing the running costs of public buildings and potentially helping communities, businesses etc to reduce their costs.

4.2 Statutory, Risk and Legal Implications

There is a risk that investments or the proposed company make a loss but if investment decisions are made on good business cases and a balanced portfolio of projects is developed, spreading the risk, this can be managed.

If awarded ERDF grant, a contract will be signed with Department for Communities and Local Government (DCLG). This will include delivery targets demonstrating Government's delivery of its operational programme 2014-2020. Some of these targets could be stretching and there is a risk that not all targets will be achievable, with consequent financial risks of needing to repay grant.

4.3 Equality and Diversity Implications

There are no significant implications within this category.

4.4 Engagement and Consultation Implications

There are no significant implications within this category.

4.5 **Localism and Local Member Involvement**

There are no significant implications within this category.

4.6 **Public Health Implications**

See above for the issue of fuel poverty and the relationship between cold homes, respiratory and cardio- vascular diseases and excess winter deaths. Fuel poverty impacts most on the vulnerable in our society.

Source Documents	**Location**
Cabinet Report, Mobilising Local Energy Investment (MLEI), 28th January 2014	MLEI Project Team
General Purposes Committee report, A Finance Framework within which Energy Performance Contracting and Renewable Energy Projects for schools, CCC sites and buildings can be delivered, 9th September 2014	CCC Website
Economy and Environment Committee Report, Forward Strategy, 10th March 2015	CCC Website
Economy and Environment Committee Report, ERDF outline application, 21st April 2015	CCC Website
Greater Cambridge and Greater Peterborough European Structural Investment Funds Strategy	GCGP LEP website
The National ERDF Operational Programme 2014-2020	DCLG website