

MOBILISING LOCAL ENERGY INVESTMENTS IN CAMBRIDGESHIRE AND PETERBOROUGH

To: **Cabinet**

Date: **17th January 2012**

From: **Executive Director: Environment Services**

Electoral division(s): **All**

Forward Plan ref: **N/a** *Key decision:* **No**

Purpose: **Cabinet is asked to approve Cambridgeshire County Council's role as project co-ordinator in a three-year grant funding agreement with the European Commission's Executive Agency for Competitiveness and Innovation.**

This funding agreement will draw down up to 75% match funding for a project of maximum value €1.2 million that will mobilise local energy investments in Cambridgeshire and Peterborough.

The County Council will lead a consortium comprising Cambridgeshire County Council, Peterborough City Council, Cambridge City Council, South Cambridgeshire District Council and Huntingdonshire District Council. The University of Cambridge is also engaged in the project and it is awaiting confirmation of full partner status by the funding agency. If approved, it will become part of the project consortium.

Recommendations: **Cabinet is asked to:**

- a) Welcome this significant European grant, worth about £800,000 over three years to project partners in Cambridgeshire and Peterborough.**
- b) Agree that Cambridgeshire County Council will work in partnership to develop capacity with the consortium members and mobilise local energy investments. Together, the project partners will create the mechanisms to deliver an investment programme worth more than £18 million in public sector projects that will include energy generating schemes and home improvement schemes for energy efficiency in council housing and public buildings, including schools.**
- c) Authorise the Executive Director: Environment Services to complete:**
 - i. the consortium agreement with partners in**

Cambridgeshire and Peterborough, based on a heads of terms document which sets out partnership, project governance and co-operation principles

- ii. the grant funding agreement with the European Commission's Executive Agency for Competitiveness and Innovation.

d) Note that a Member Advisory Board will be established to provide overview and scrutiny to the project. This group will consist of elected representatives with appropriate portfolio responsibilities from the partner local authorities: Cambridgeshire County Council, Peterborough City Council, Cambridge City Council, South Cambridgeshire District Council, and Huntingdonshire District Council.

e) Agree to nominate the Cabinet Member for Community Infrastructure to this Project Advisory Board.

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1. BACKGROUND

- 1.1 A successful application has been made to the European Commission's Executive Agency for Competitiveness and Innovation (EACI) for financial assistance to support the mobilisation of local energy investments in Greater Cambridge and Greater Peterborough.
- 1.2 The 2007-2013 Intelligent Energy – Europe (IEE) programme, worth €730 million, forms part of the EU's Competitiveness and Innovation framework Programme (CIP). Funding may cover up to 75% of the eligible costs of successful project applications. IEE's aim is to accelerate uptake of sustainable energy technologies, through increasing the level of investment in them and the demand for sustainable energy. One of the biggest challenges especially for small and medium-sized local authorities is to prepare sustainable energy projects which are big enough to be considered 'bankable' by financing institutions and/or suitable for grant funding by EU financing facilities.
- 1.3 The Mobilising Local Energy Investments in Greater Cambridge and Greater Peterborough project responds to the challenge by bundling local initiatives together to reduce their risk and increase their attractiveness. The Partnership has proposed a project worth €1.2million (approx. £1 million) to facilitate the delivery of an investment programme of €23million (approx. £20.3 million). The investment programme comprises approximately ten projects split between energy efficiency of public sector buildings and council homes and low carbon energy generation.
- 1.4 The Partnership includes Cambridgeshire County Council, Peterborough City Council, Cambridge City Council, South Cambridgeshire District Council and Huntingdonshire District Council. The University of Cambridge is also engaged in the project, through its leadership of a Low Carbon Hub which is harnessing local assets to bring about transformational CO₂ emissions reductions and stimulate the local low carbon economy.

2. MAIN ISSUES

2.1 The existing position and progress already made

- 2.1.1 Security of energy supply and a reduction in the risk of exposure to cost hikes in fossil fuel energy are desirable objectives for Cambridgeshire. The Cambridgeshire Renewables Infrastructure Framework (CRIF) has identified that delivery of 18% renewable electricity and 35% renewable heat for Cambridgeshire will realise investment of between £4-6billion into local energy generation. Cambridgeshire has sufficient renewable energy capacity to deliver this challenge but needs to work out how to attract the investment to make it happen and then to ensure that significant financial and economic benefits are retained locally.
- 2.1.2 Delivery of the current growth agenda in Cambridgeshire up to 2026 (from 2011) could provide a pot of funding of up to £60million for a Community Energy Fund. The Community Energy Fund would be administered by the local authorities and used to invest in local energy schemes.

2.2 The reasons for pursuing this grant funding application

2.2.1 The EU-funded project *Mobilising Local Energy Investments in Greater Cambridge and Greater Peterborough* will set up delivery vehicles to manage the scale of infrastructure delivery above, including an energy services company that can commission, design, build and manage new energy generating schemes (community scale and larger), and a special purpose vehicle to support delivery of large scale retrofit in public assets which will reduce their costs of operation. In addition, it will set up the Community Energy Fund as a mechanism for developers to meet their zero carbon obligations from 2016 in a more cost effective and efficient way and one which will bring benefits to existing communities as well as new developments.

2.2.2 The EU project provides technical assistance money to develop skills and capacity in the local authorities through piloting public sector projects to deliver energy generating schemes and retrofit projects. The University of Cambridge, with the EU project partners, will work with investors and commercial sector to broker business relationships for delivering Cambridgeshire's potential.

2.2.3 This project will:

- Make best use of market incentives e.g. Renewable Heat Incentive and Feed in Tariff, capturing this value for Cambridgeshire and providing a platform for the cleantech sector to develop and grow
- Help unlock market failure in the potentially huge energy retrofit market where consumers lack information they need to make consumer decisions and trust in a highly fragmented supply side
- Help support the broader development of the cleantech sector in our area, and creation of local jobs as the money leverages a multiplier effect in terms of contracts awarded.

2.2.4 This project will enable us (and a range of partners) to:

- Deliver projects sooner and cheaper than if partners proceeded without EU funding
- Deliver long term energy savings year on year for the wider public estate.

2.2.5 To not proceed with this project will mean:

- Partners in the project lose the benefits of the work undertaken to date
- Partners lose the capacity in Cambridgeshire to make progress and reduce the ability to develop a hugely valuable business opportunity – including the patriation and safeguarding of critical energy supplies for Cambridgeshire.

2.3 Project deliverables

2.3.1 The *Mobilising Local Energy Investments in Greater Cambridge and Greater Peterborough* project will prepare, mobilise financing and launch investments to deliver:

a. A finance model which aligns private and public sector investment to support low carbon infrastructure investment

The project will identify which public sector funding streams can be brought together with private finance to create a fund that can be invested in low carbon infrastructure. For example using Feed in Tariff, Renewable Obligation Certificates, Green Deal, Community Energy Funds, S106, Community Infrastructure Levy and other funding to develop a sustainable financial model for Cambridgeshire investing over the longer term.

b. A Community Energy Fund (CEF) to collect developer contributions from the delivery of new housing

c. An Energy Services Company (ESCO) (or appropriate mechanism) to deliver investments and infrastructure

d. A mechanism to deliver retrofit schemes for housing

With a financial model in place that can invest over the longer term, delivery vehicles are required to manage the finance, build, design and operation of retrofit and energy generating projects. Three possible vehicles are identified above. When the vehicles are set up, these can then be tested by the projects in the investment programme and fine tuned as lessons are learned.

e. Delivery of an investment programme comprising local projects

The local authorities will draw up OJEU contracts to procure the delivery of the projects. Currently, there are two energy generation projects, two retrofit projects and three energy efficiency projects in the investment programme. The project will help to identify (through its financial model, investor networks and delivery vehicles) the funding mix for the projects including if the local authorities want to have long term financial stakes in the projects. The project supports the local authorities with the information to make investment decisions.

3. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING

3.1 Supporting and protecting vulnerable people when they need it most

- Affordable warmth
 - i. The investment programme to be assembled includes a scheme in South Cambridgeshire covering 670 homes off the gas grid currently using oil as primary energy source in 28 different villages. Retrofit to include solid wall insulation and low carbon heating.
 - ii. Retrofit measures for the worst CO₂-performing schools. There are ten secondary schools and five primary schools in the investment programme.

3.2 Helping people live healthy and independent lives in their communities

- Energy security and energy safeguarding through local energy generation will be supported by bringing phase one of each of two projects to OJEU stage during the three-year project:
 - i. The Cambridge City combined heat and power and district heating scheme
 - ii. St Neots combined heat and power and district heating scheme

- The Community Energy Fund and the local Energy Services Company(ies) that will be established will provide greater connectedness between local people, energy generation, energy investment and energy efficiency and a greater level of energy self-sufficiency.

3.3 Developing the local economy for the benefit of all

- The cleantech sector in Cambridgeshire and Peterborough is seen as an area of growth with potential for global export and local wealth creation. To enable the cleantech sector to flourish locally, the public sector needs to help create the context and leadership for inward investment and facilitate low carbon infrastructure including energy schemes and large scale building retrofits. This project will:
 - i. Support the emerging cleantech sector in Cambridgeshire through the identification of sustainable finance models to deliver low carbon infrastructure.
 - ii. Develop the high level financial, legal, technical and project management skills and knowledge to bring forward new low carbon projects. This work complements The Hive and Smartlife Projects which is developing the supply chain for installing and delivery of clean tech products and services.
 - iii. Identify investment opportunities to support Cambridgeshire communities and businesses to bring greater energy self-sufficiency for Cambridgeshire and future-proof businesses and communities from increasing costs of fuel bills.
 - iv. Reduce overheads and costs on public sector assets and helping to generate income from energy generating schemes to support local service delivery.
 - v. The University of Cambridge, with the EU project partners, will work with investors and commercial sector to broker business relationships for delivering Cambridgeshire's potential.

3.4 Ways of working

The report above sets out the implications for *Being a genuinely local Council* in paragraphs 2.2.1 and 2.2.3

The report above sets out the implications for *Making sure the right services are provided in the right way* in paragraphs 1.3 and 1.4

The report above sets out the implications for *Investing in prevention* in paragraphs 2.2.1 and 2.2.3

The report above sets out the implications for *Working together* in paragraphs 2.2.2

4. SIGNIFICANT IMPLICATIONS

4.1 Resource and performance implications

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

- The impact of the project in the medium term will be positive. It will develop skills and capacity to bring forward renewable energy projects including waste to energy solutions alongside energy efficiency projects and knowledge of how financial mechanisms and delivery vehicles can deliver new opportunities.
- The County Council is the lead partner for the project and will require input and experience from staff to project manage delivery.
- The investment programme to be delivered includes four County Council projects – staff time will be required in property and procurement and energy management to support the delivery of the investment projects.
- The benefits to delivering these projects will come through a potential reduction in Carbon Reduction Commitment (CRC) payments for schools; reduction in energy bills and income potential through energy generation.
- Additional benefits will come through County Council being part of a financing model for low carbon infrastructure and an Energy Services Company making investments and delivering returns to partners. This in the medium-term will improve the ability of Cambridgeshire County Council to bring forward similar new schemes.

4.2 Statutory, risk and legal implications

4.2.1 Grant conditions

The key objective of the funding programme is to provide assistance for the leverage of local energy investment. The required value of the investment is a minimum of 15 times the value of the total project value, i.e. 15 times €1.2 million is an investment programme of minimum €18 million (approximately £16 million at the exchange rate of 1.13 at the time of application). Failure to deliver the leverage of investment will mean a pro-rata claw-back of the grant provided. For example, if the project collectively delivers only €9 million worth of investment, then half of the grant paid will be clawed back (€0.6 million multiplied by the 75% grant rate, i.e. €0.45million). Claw-back will only happen if the project collectively is unable to deliver €18 million worth.

4.2.2 Budget

Each partner has a budget comprising staff cost, indirect eligible cost (at 60% of staff cost) and travel costs. Lead partner Cambridgeshire County Council also has sub-contracting cost and other costs (e.g. communications) incurred on behalf of all partners. These shared costs are necessary for enabling investments but are not directly linked to individual investment project e.g. development of delivery vehicles and legal advice on procurement models.

4.2.3 Financial liability

Liability for partner's own budget

If a partner is unable to deliver the investment agreed, the grant received will need to be paid back. If some investment is delivered, the claw-back will be pro-rata to the value undelivered. As the budget relates only to staff cost for partners, in practice claw-back will mean staff time invested in the project will not be paid for.

Liability for shared cost

Total shared cost is maximum of €290,772. In the case of a partner failing to deliver any of the investment agreed, the partner will be liable for part of the shared cost, apportioned by percentage of staff cost in total budget, i.e. pro-rata to participation. For Cambridgeshire County Council, this liability is a maximum of approximately £163,000 – if absolutely none of the investment programme is delivered.

RISK	MITIGATION
The Investment Programme does not deliver the leverage required as part of the EU contract	Agree a list of projects that can be brought into the Investment Programme should one project have difficulty
Projects take longer to get to the point of invitations to tender	Ensure early identification of project delay to minimise clawback of grant from EU
Project income will be reduced if the Euro weakens significantly against the £.	Monitor exchange rates and identify where income reductions occur. Plan for a contingency budget

Ongoing dialogue continues with officers in the project partnership to ensure that the project ideas are robust, risks are minimised and the projects will bring the energy benefits sought. In addition, a set of reserve projects is being prepared for consideration as part of, or in place of, any projects.

4.3 Equality and diversity implications

None

4.4 Engagement and consultation

- 4.4.1 The Cambridgeshire Renewables Infrastructure Framework (CRIF) is working with communities to identify a list of community-owned energy projects that communities want to develop and deliver.

Mobilising Local Energy Investments in Greater Cambridge and Greater Peterborough will help identify financial models to support them and look to connect local community projects to potential local investors in new energy schemes. The long-term outcome for the project is that local communities with their parish councils develop local energy schemes that can help reduce energy bills in their communities and greater energy self-sufficiency.

- 4.4.2 Application made jointly with public sector partners:

South Cambridgeshire District Council
Huntingdonshire District Council

Cambridge City Council
Peterborough City Council
Cambridgeshire County Council (Lead Partner)

4.4.3 Other key partners consulted during project development and application:

Other local authorities in Cambridgeshire
University of Cambridge
Low Carbon Development Initiative (LCDI)
Public sector partners and their assets in 'Making Assets Count' including health, police, Environment Agency, etc.
Anglia Ruskin University
Cambridge Cleantech, UKCEED for cleantech businesses
Engineering and low carbon consultancies

4.4.4 Dialogue with County Council staff in Property and Procurement and Energy Management took place to identify which projects may fit with the bid submission.

Source Documents	Location
Application to Intelligent Energy Europe Programme, May 2011 CRIF consultation and findings, December 2011	CC1308, Castle Court, Cambridge