Agenda Item No: 4

MOBILISING LOCAL ENERGY INVESTMENT (MLEI) – FORWARD STRATEGY

To: **Economy and Environment Committee**

Meeting Date: **10th March 2015**

From: **Graham Hughes, Executive Director, Economy Transport and Environment.**

Electoral division(s): ***All***

Forward Plan ref: **2015/023** ***Key decision:*** **Yes**

Purpose: **To agree a forward strategy for investment into energy projects beyond the end of the MLEI grant and agree MLEI finance arrangements for academy schools.**

Recommendation: **Committee are asked to :**

a) To note the successful outcome for the County Council's Solar Park project in the Government's Contracts for Difference Auction process.

b) Agree to accept higher risks for Managed Service Arrangements for Academy Schools and to introduce a differential in the charges for Academy Schools to reflect this;

c) Agree to use the ongoing returns from the investments as part of the MLEI Energy Performance Contracting to fund the development of further energy projects - Option 2 in Section 3 of the report

d) Support the further development of the scale and ambition of the energy work as set out in the report.

	Officer contact:		***Member contact:***
Name:	Sheryl French	Name:	Ian Bates
Post:	Project Director	Chairman:	Economy and Environment Committee
Email:	Sheryl.french@cambridgeshire.gov.uk	Email:	Ian.bates@cambridgeshire.gov.uk
Tel:	01223 728552	Tel:	01223 699173

1 BACKGROUND

1.1 Cambridgeshire County Council and its partners Cambridge City Council, South Cambridgeshire District Council and Huntingdonshire District Council signed a contract with the European Commission's Executive Agency for Small and Medium Enterprise in August 2012, securing a £700,000 grant (75% of the total budget) over three years for financial assistance from the Intelligent Energy Europe (IEE) programme. The aim of the grant is to build capacity and skills (technical, financial and legal) in the local authorities to bring forward investment into energy efficiency and renewable energy generation projects.

1.2 The MLEI Project is contracted to:

- Set up a financial mechanism or fund that allows the alignment of private and public sector investment into low carbon energy infrastructure.
- Set up appropriate delivery mechanism(s), e.g. an Energy Services Company to deliver low carbon infrastructure projects
- Test the concept of the Fund and Delivery Mechanisms by bringing forward energy infrastructure projects on public sector assets to the value of at least £15 million by August 2015;

1.3 A report to Economy and Environment Committee 8th July 2014 highlighted the risks to contract delivery if we did not secure the Solar Park investment (approximately £10million) alongside the Energy Performance Contracting Project investments of £5million. When this issue was originally considered by Committee it was agreed that a paper should be brought back around December 2014, when the outcome of the Contracts for Difference auction was anticipated, to evaluate risk so a decision could be made whether to continue with the overall MLEI programme or not. With the auction delays, this has not been possible.

2. Project Progress

Solar Park

2.1 The 12megawatt (MW) Solar Park project was accepted in October 2014 to participate in the first auction for government finance incentives under a new scheme called Contracts for Difference (CfD). The outcome of the Contracts for Difference auction was published on 26th February 2015 and the County Council's Solar Park has been successful securing finance incentive. The procurement strategy for delivery of the Solar Park is now being finalised. This means the MLEI Project investment target should now be delivered providing contracts for the delivery of the Solar Park and the Energy Performance Contracting projects are signed before the end of the MLEI contract in August 2015.

Energy Performance Contracting for schools and public buildings

2.2 Since the appointment of Bouygues Energies and Services Ltd in August 2014, sixty four site assessments have taken place, primarily on maintained

and academy schools, but also on County Council buildings and four Fenland leisure centres. The outline business cases have been issued for twenty seven sites. Nine schools to date have contracted for investment grade proposals with a capital value of £1.8million. An investment grade proposal is currently underway for photovoltaics (PV) on six County Council buildings with a capital value of £230,000 and the value of the four leisure centres is £895,000. The total pipeline assessed to date is over £6 million of investment potential and the pace for moving forward into contracts is dictated by presentations to school Governing Bodies, Local Authority property meetings and the development of the Managed Service Arrangement for academy schools.

2.3 Work has started on the development of a Managed Services Arrangement (MSA) for academy schools. This would be classed as an operating lease rather than academies taking on a loan. This avoids the statement in the Academies Financial Handbook that academies can only borrow with the permission of the Secretary of State and that such permission is unlikely to be given. The challenge with this arrangement is that the County Council will need to take on more risk (in return for more reward) than originally anticipated. Effectively this will mean that an Energy Performance Contract for an academy will be more expensive than for a maintained school. Currently there is agreement in principle from General Purposes Committee that charges for academies and maintained schools are the same. This agreement was made on the understanding that there would not be a significant difference in the risk associated with contracting with academies. In light of the higher risk now expected charges will need to be adjusted to offset the higher risk costs to the Authority.

2.4 The Department for Education (DfE) published a document in early February identifying that Academies can start to take out loans from April 2015 for building works through the Condition Improvement Fund (CIF). Loan finance direct to academies for energy performance contracting, rather than via a Managed Service Arrangement, has always been the preferred goal for this project and we are following up with DfE, to identify if energy performance contracting can be considered for loan finance for academies in addition to the CIF.

3. Forward strategy: A high level business case for an energy investment team supported via the Energy Performance Contracting Project (ENPC)

3.1 The MLEI contract is broadly on track to be delivered by August 2015 subject to the outcomes of the Contract for Difference Auction for the solar park.

3.2 The key successes of the MLEI Project include:

(i) the learning and skills developed within the Authority to develop and deliver energy projects as a result of the grant money
(ii) evidence that the energy project pipeline can be grown and could deliver financial and policy benefits for the Authority

3.3 Going forward, there are two options:

Option 1: Close down the MLEI Project and MLEI Team at the end of August 2015 on completion of the contract with the EU;

Option 2: Use the ongoing returns from the investments as part of the MLEI Energy Performance Contracting to fund the development of further energy projects which will have financial and policy benefits for the Authority and maintain capacity and capability for the future.

3.4 *Option 1*: Close down the MLEI Project (August 2015) and the MLEI team.

The implications of option 1 are that a portion of the revenues generated by the investments into schools and public buildings will need to be earmarked to support the schools and public assets in their energy performance contracts with Bouygues Energies and Services Ltd. In addition, learning from the MLEI Project will be lost plus capability and capacity to work on future project development. However, on the positive side, if the investments stop at £5million on the Energy Performance Contracting project the balance of the return on the investments could be retained by the Council. At present, it is expected to deliver around £60,000 per annum and it is likely that £20,000 of this would be required for the ongoing management of the contracts so the majority would be available to the Council.

3.5 *Option 2*: Use the money earned from the MLEI Project to fund an energy team in order to develop further energy projects which will have financial and policy benefits for the Authority.

3.6 There is still significant potential for scaling up the pipeline of public sector energy projects including engaging with more maintained schools, libraries and other CCC buildings as well as developing further solar PV on Cambridgeshire County Council (CCC) sites and exploring waste to energy generation. There is also the opportunity to facilitate delivery of commercial and larger scale community projects.

3.7 An additional benefit of option 2 is that an energy investment team can:

(i) continue to manage and develop the energy performance contracting project to benefit schools and public buildings
(ii) develop other more profitable and wide ranging energy projects that could generate greater revenues in the future
(iii) develop an ERDF proposal for low cost capital and revenue funding to support broader Cambridgeshire energy projects investments potentially as part of a Cambridgeshire Energy Services Company.

3.8 This option does require the current ENPC projects to grow and deliver sufficient financial return to fund all of the ongoing work. The financial modelling undertaken to date identifies that an energy investment team can be supported by the profits of the investments for the next two years without seeking additional revenue budget (please see Table A below). The model may need updating if for example, a suitable Managed Service Arrangement can not be agreed for academy schools. The proposition would be to continue to develop ENPC type arrangements as these provide stable, albeit relatively low returns, and use this and the existing ENPC returns to develop more innovative projects that will give higher returns, such as solar farms, or provide wider policy benefits.

3.9 If further investments are made by the Authority over time, a team can be supported beyond March 2017. Detailed costings for a team beyond March 2017 have not been provided as the shape of the work and the skills required

may change over time. However, if we continue ENPC investments during 15/16 and 16/17, revenue returns over a 5 year period could amount to over £500,000. The current project pipeline is good and work continues to engage with asset owners to explore project opportunities.

Table A: High level business case for an Energy Investment Unit

EnPC Project	**Yr 1 Sept 15 – March 16**	**Yr2 April 16- March 17**	**Yr3 April 17- March 18**	**Yr4 April 18- March 19**	**Yr5 April 19- March 20**
*Net income on £5m invested after loan costs	-£226,633	-£26,840	-£48,677	-£70,515	-£92,352
**Net income on £4m invested after loan costs	0	-£181,307	-£21,472	-£38,942	-£56,412
**Net income on £3.2m invested after loan costs	0	0	-£145,045	-£17,177	-£31,153
Total annual net income after loan costs	**-£226,633**	**-£208,147**	**-£215,194**	**-£126,634**	**-£179,917**
^Annual other costs (staff, legal & consultancy)	£115,227	£172,077	£35,400	£37,269	£38,764
****Annual residual income**	**-£111,406**	**-£36,070**	**-£179,794**	**-£89,365**	**-£141,153**
Cumulative residual income	*-£111,406*	*-£147,476*	*-£327,270*	*-£416,635*	*-£557,788*

*, ** An assumption is that additional CCC investments of £4million (15/16) and £3.2million (16/17) is made into Energy Performance Contracting and thereafter no further investment.
*** If only the £5milion investment is made (line 1) the income over yr1 and yr2 will cover the full costs of an energy investment team until March 2017.
^ From year 3, the skills required to progress this work will need to be reviewed. The current costs from yr 3 are for maintenance of the existing energy contracts only. There is sufficient income overall to bring in further skills in yr 3 to develop more projects.

3.10 There is real potential to grow the ambition and scale of this work through:

(i) scoping further large scale solar and waste to energy projects for the Authority
(ii) progressing the opportunity for a European Regional Development Fund Bid (ERDF) to draw down additional revenue and low cost capital for projects to match CCC investment
(iii) assessing the value of a Cambridgeshire Energy Services Company for the public sector with local stakeholders
(iv) attracting Allowable Solutions investment from housing developers into low carbon energy projects across Cambridgeshire assuming Zero Carbon Homes Policy comes forward in 2016 as expected
(v) scope potential for power purchase agreements for local energy generation with local businesses and consumers

4. ALIGNMENT WITH CORPORATE PRIORITIES

4.1 Developing the local economy for the benefit of all

The transition from a fossil fuel dependent economy to a low carbon economy requires leadership, innovation and demonstrable commitment to change at all levels, even when things are difficult.

A precondition for a thriving local economy is secure energy supplies. Supporting businesses and our communities to become more energy efficient and self sufficient will provide greater economic resilience to future price volatility. The MLEI Project is providing the organisational framework and one or two of the key building blocks for businesses and communities to help themselves.

4.2 Helping people live healthy and independent lives

Fuel poverty is growing as energy prices rise. With the doubling of energy prices predicted in the next 10 years, despite current low oil prices, evidence suggests that cold homes will bring greater health risks impacting negatively on health budgets and services. Finding local mechanisms to improve energy efficiency and generate local energy could reduce the impact of fuel poverty and costs to the NHS.

4.3 Supporting and protecting vulnerable people

See above 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.

5. SIGNIFICANT IMPLICATIONS

5.1 Resource Implications

The report above sets out details of significant implications in section 2 around the Solar Park and section 4 regarding the investments from the Energy performance Contracting Project being used to help grow further revenues for the Authority through brining forward more energy projects.

5.2 Statutory, Risk and Legal Implications

Section 2.6 identifies the compliance of the Managed Service Arrangement for Academies with the Academies Financial Handbook and the need to balance the benefit for schools with the risk of the Authority.

Reputational risk needs to be carefully managed with the EU. As a future source of funding across a wide variety of disciplines it is important that every effort to manage the structural challenges are undertaken to evidence leadership and intent to deliver.

5.3 Equality and Diversity Implications

There are no significant implications.

5.4 Engagement and Consultation Implications

There are no significant implications.

5.5 Public Health Implications

There are public health issues associated with fuel poverty. There is a strong relationship between cold temperatures and cardio-vascular and respiratory diseases. Countries which have more energy efficient housing have lower Excess Winter Deaths (EWDs). There is a relationship between EWDs, low thermal efficiency of housing and low indoor temperature.

Source Documents	**Location**
Terms and conditions on the MLEI Contract with EASME	MLEI Project Team
Cabinet Report, Mobilising Local Energy Investment (MLEI), 29th October 2013	CCC Website
Cabinet Report, Mobilising Local Energy Investment 9MLEI), 28th January 2014	CCC Website
Economy and Environment Committee Report, MLEI Project Risks, 8th July 2014	
General Purposes Committee report: Finance Framework for Investing into Energy Projects	
DECC 2015 CfD Auction Press Notice, Breakdown of Successful Application Information	DECC website