

A FINANCE FRAMEWORK WITHIN WHICH ENERGY PERFORMANCE CONTRACTING AND RENEWABLE ENERGY PROJECTS FOR SCHOOLS, CAMBRIDGESHIRE COUNTY COUNCIL SITES AND BUILDINGS CAN BE DELIVERED

To: **General Purposes Committee**

Meeting Date: **9th September 2014**

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

Electoral division(s): **All**

Forward Plan ref: **2014/035** *Key decision:* **Yes**

Purpose: **The purpose of this paper is to:**

- **highlight the MLEI Project key contractual deliverables;**
- **propose key principles for financing Energy Performance Contracting and Renewable Energy Projects for schools, Cambridgeshire County Council (CCC) sites and buildings; and**
- **identify the next steps for the Local Authority Fund.**

Recommendation: **General Purposes Committee is asked to agree:**

- (a) The principles for managing and delivering investment into Energy Performance Contracting and Renewable Energy Projects for schools and CCC buildings and sites;**
- (b) The initial target list for CCC buildings and sites and to support further cross departmental collaboration to identify additional buildings and sites;**
- (c) The delegation of individual investment and contract decisions for schools, CCC buildings and sites 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.**
- (d) The principle of evolving and growing the Local Authority Fund to an externalised Fund as set out in sections 1.3, 2.12 - 2.14 of the report.**

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1. BACKGROUND

- 1.1 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) 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.
- 1.2 The project has been running since late 2012. In January 2014, Cabinet agreed to the setup of a Local Authority Fund and to scope how to evolve, grow and externalise the Fund as part of a fund strategy. The rationale for setting up a fund, as opposed to investing in projects on a piecemeal basis, is that a fund provides a mechanism over time 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 (post 2016) linked to the delivery of low carbon new homes, into Cambridgeshire.
- 1.3 Earlier this year, the MLEI Project submitted a proposal to the Greater Cambridge and Greater Peterborough Local Enterprise Partnership (GCGP LEP) for the development of the investment fund as part of its EU Investment Strategy. The aim of this proposal is to scale up delivery of energy projects across Cambridgeshire through providing the technical and financial support packages to deliver projects. The initial proposal to the GCGP LEP identifies £6million capital and £400K revenue to evolve the Local Authority Fund from an internal fund to one that can start attracting other funding for energy infrastructure, scale up delivery, grow the investments and project pipeline and generate larger returns over time. The proposal will effectively pump prime the setup of a 'Cambridgeshire Energy Company' with the remit to develop and deploy funds into energy projects. The proposal will look to secure 50% of the funding from European Regional Development Funds (ERDF) and could be partly match funded through re-investing a proportion of any energy investment profits into the Fund for further investment into energy efficiency and renewable energy projects.
- 1.4 In October 2013, two initial investment projects were agreed by Cabinet and these continue to be supported by Economy and Environment Committee (8th July 2014). The projects are Energy Performance Contracting for schools and council buildings and sites and the delivery of a 10MW Solar Park.
- 1.5 This report focuses on the investment processes and principles for Energy Performance Contracting and Renewable Energy projects as part of the MLEI project as well as highlighting the need for further discussion on the ambition of the investment fund strategy and the creation of a Cambridgeshire Energy Company.

2. KEY ISSUES

Energy Performance Contracting (EnPC) and Renewable Energy generation

- 2.1 Energy Performance Contracting (EnPC) is a form of 'creative financing' for capital improvements, which allows funding of energy upgrades from cost reductions. Under an EnPC arrangement an external organisation (e.g. An Energy Services Company) implements a project to deliver energy efficiency and renewable energy. 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 ESCO does not receive its payment unless the project delivers energy savings as expected.
- 2.2 As a result of a mini-competition held during June and July 2014, Bouygues E&S FM UK LTD, have been appointed as a partner on the 1st August 2014 to work with Cambridgeshire County Council and other public organisations across Cambridgeshire including schools to deliver energy performance contracting and renewable energy projects. A first tranche of ten buildings has been assessed in August for outline business cases and a further 50 buildings are being programmed. The first tranche of buildings comprises five secondary schools, four primary schools and the Shire Hall site. Based on the outline business case, schools and the County Council will need to decide whether to enter into a Phase 1 Call off Contract with the Supplier. This commits the building owner or manager to the development of an Investment Grade Proposal (IGP) and identifies the supplier guarantee for energy consumption reduction. On acceptance of the IGP, this forms the basis for the Energy Performance Contract and a Phase 2 Call off Contract is entered into with the supplier.
- 2.3 Entering into a Phase 1 Contract commits the school or the Authority to pay the costs for the IGP should the school or relevant Authority decide not to proceed into an Energy Performance Contract (or phase 2 contract). The charges for IGPs will be approximately £1-3K for primary schools, £4-7K for secondary schools and a maximum of £8.6K for the largest office buildings such as the Shire Hall site. The IGP will identify the cost for the energy measures, the procedure and timescale for their installation and arrangements for operational management. It will also provide potential energy savings and state how long the payback period on the original investment would be. Most importantly, the supplier provides a guarantee that the measures installed will provide a minimum percentage energy consumption reduction. If this is not reached, the supplier pays the difference.
- 2.4 An upfront capital investment is required and currently there are a number of finance opportunities that can be blended together to identify the most advantageous finance package for the schools and the Authority. These opportunities include a loan from the Local Authority Fund, a loan from Government called Salix Finance, which can be applied for from the Department of Education (DfE) and is at 0% interest (but the pot is limited and competitive), finance via County Council's Energy Management Unit, grants or an organisation's own money. The reality is that the finance packages may be a blend of the different finance options as asset owners will want to seek the most economically advantageous option.

Benefits and potential returns for Energy Performance Contracting and renewable energy generation

- 2.5 For all buildings and sites, the investments and returns follow three key phases:

Phase 1: Investment & payback

Energy measures are installed, capital and cost of finance repaid through the guaranteed energy efficiency cost savings and income from renewables, over a set period of time.

Phase 2: Guaranteed savings

Energy efficiency measures continue to provide guaranteed energy cost savings for the remainder of the EnPC. Income from finance incentives for renewable energy continues for a further 5-10 years dependent on when contracts are agreed.

Phase 3: Long term savings

Even after the EnPC finishes and the guaranteed savings end, energy efficiency savings will continue to accrue. Energy generation will also continue, but could taper off over time.

- 2.6 Investments are currently planned for CCC buildings, sites and Cambridgeshire schools including Academies, maintained and community schools.
- 2.7 For CCC buildings and sites, the benefits accrue to CCC across phases one to three above. In phase 1, most savings will be used to repay loan finance, although it is likely that there will be some profit element in addition as actual savings are expected to be above the level the contractor guarantees. Savings in phase 2 constitute profit to CCC and in phase 3, continued savings accrue on energy bills as energy costs rise.
- 2.8 For schools, benefits accrue to CCC in phase 1 and to the schools in phase 2 and 3. For schools, this means they can create over the medium to longer term, their own maintenance and replacement budgets for energy or other measures, reducing the need for capital and revenue funding from local or central government.
- 2.9 As the Local Authority Fund invests and generates returns this can then be reinvested into further projects and support the evolution and growth of the Fund as part of a Cambridgeshire Energy Company as proposed for the GCGP LEP proposal. The current MLEI Project is helping to build the capacities and skills internally, effectively acting as a shadow delivery unit/team which can then be evolved in tandem with the Fund development but with its focus on growing the project pipeline, engaging with partner organisations and projects such as Cambridge Retrofit and Action on Energy and more broadly with community and commercial projects.

A finance and decision making framework for EnPC and Renewables for buildings and sites

- 2.10 Currently there are forty six schools that have expressed an interest in Energy Performance Contracting and the MLEI team continue to engage with schools, so this number is likely to rise. An initial list of CCC buildings

including park and ride sites have been identified to investigate EnPCs and renewable energy projects. (See list attached at **Appendix A**)

2.11 All buildings and sites will be assessed by the Supplier and this will take place in tranches with a rolling programme. The aim is to invest £5million by August 2015 in the buildings and sites that provide a positive business case. To facilitate this process and provide the flexibility for blending different finance packages the following principles are being proposed:

- For maintained schools and CCC buildings and sites, finance will be mainly in the form of loans from the Local Authority Fund. Loans will be made at PWLB rates plus a fee structure that ensures that all CCC costs as a minimum are covered including finance, legal, technical and contractual costs.
- For academy schools, a managed service model or a form of public/private partnership would be used. In this case, the Local Authority finance will go to the service provider rather than directly to the school. It is proposed that the fee structure would be the same as for maintained schools. In reality, there may be a slightly higher risk of lending to Academies as they are not within Local Authority control, but this is considered to be small.
- Energy Performance Contracting and renewable energy investments are a medium to long term investment strategy. Paybacks for some measures could be up to 15 years for others as little as 5 years. It is proposed that the Local Authority Fund should have flexibility to support pay backs of up to 15 years provided there is a positive business case to do so, in order to provide maximum retrofit benefit for buildings and sites.
- The Local Authority Fund has an initial investment target of £5m for energy performance contracting with the opportunity to review and increase this should project investments prove successful. In addition, the Local Authority Fund has a target investment of £10million into renewable energy including a Solar Park with the opportunity to review and increase should project investments prove successful.
- 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) match fund to draw down further capital and revenue that can grow the investments and project pipeline, generating larger returns over time.
- Investment and contracting decisions within the agreed investment targets should be delegated in order to streamline decision making. It is proposed that the delegation of individual investment and contract decisions for schools, CCC buildings and sites 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. (**Appendix B** details the decision process).
- There should be biannual monitoring reports to GP committee.

The development of the Local Authority Fund

- 2.12 To deliver the MLEI Project, there is a contractual obligation to evolve the current Local Authority Fund, grow it and attract other sources of finance. Across England, there are a range of different examples of local authorities already doing this. For example Bristol, Peterborough and Birmingham have set up Energy Services Companies as public private ventures; London has set up a Green Fund; Manchester has set up a Low Carbon Hub and Green City Deal and Oxford City Council has set up a Community Rolling Fund to support community energy projects.
- 2.13 The GCGP LEP EU Investment Strategy is due to be signed off by Government at the end of 2014. The current proposal to the GCGP LEP (identified in 1.3 above) will need to be worked up in more detail and submitted for approval for funding by December/January 2015. Work is currently underway establishing the finance model and business case for a 'shadow Cambridgeshire Energy Company' comprising a Fund and delivery unit. Initial work is identifying whether the returns from current projects are sufficient to cover all costs and generate a return that can then be reinvested and grown on a sustainable basis.
- 2.14 If the GCGP LEP proposal is approved, the aim of the project is to build on the MLEI project and set up a Cambridgeshire Energy Company that can attract additional funding and recruit the skills needed to grow investment into a pipeline of public, community and commercial energy projects across Cambridgeshire. This will help build Cambridgeshire's resilience to energy price volatility and support the transition to a low carbon economy.

3 ALIGNMENT WITH CORPORATE PRIORITIES

3.1 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 and supply challenges. The MLEI Project is helping to provide the organisational framework through the development of the Investment Fund and the setup of a Cambridgeshire Energy Company plus and one or two other key building blocks to help businesses and communities to help themselves.

3.2 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, 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.

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.

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

- It is proposed initially to invest up to £5m in EnPC and renewables for buildings and sites and a further £10million into renewable energy for a solar park. The source for this funding would be from the PWLB. The repayment of this would be covered from guaranteed savings and energy generation and therefore the loans would be counted as prudential borrowing.
- The potential for energy savings & generation within CCC and school sites in Cambridgeshire is considerable. If the project proves successful it is therefore likely that we would wish to review the initial £5m investment limit for EnPC schemes.
- It is intended to develop an Investment Fund that can facilitate energy savings in both public and private buildings. This Fund will be developed in conjunction with the GPGC LEP as set out in para 1.3 above.

4.2 Statutory, Risk and Legal Implications

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 deliver the contractual obligations around the Fund can be evidenced especially evidence of leadership and intent to deliver.

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

Please see section 3.2 above

Source Documents	Location
Cabinet Report: Mobilising Local Energy Investment (MLEI), Agenda item 9, 28th January 2014	http://www2.cambridgeshire.gov.uk/CommitteeMinutes/Committees/AgendaItem.aspx?agendaItemID=8925
Cabinet Report: Mobilising Local Energy Investment(MLEI), Agenda item 7, 29th October 2013	http://www2.cambridgeshire.gov.uk/CommitteeMinutes/Committees/AgendaItem.aspx?agendaItemID=7532
Contract with the EU: Set up of a Low Carbon Investment Fund, August 2012	MLEI Team
Mini-competition REFIT, tender submission, Bouygues E&S FM UK LTD, 25th July 2014	MLEI Team

Appendix A: CCC initial list of buildings and sites

Site Use	Site Name	Floor Area (m ²)
Offices	Shire Hall Site (Shire Hall including the Octagon + Registry office)	10,482
Food preparation	Cambridge Catering Centre	781.41
Offices	Roger Ascham Building, owned	
Offices	Scott House	3392
Offices	Speke House	793
Education Centre (some residential accommodation.)	Grafham Water Residential Centre	1980.9
Offices	Amundsen House and Annexe	1,250
Park & Ride Site	Trumpington Park & Ride Building and potential for PV across the P+ R site	
Offices	Sackville House Site (House)	1687.79
Offices	Babbage House	1723.7
Register Office & Offices	Lawrence Court	658.6
Park & Ride Site	Madingley Road Park & Ride Building and Site	
Park & Ride Site	Newmarket Road Park & Ride Building and Site	
Park & Ride Site	Meadow Lane Park and Ride potential for PV across the site	
Training & Conference Centre	Cambridge Professional Development Centre	1589.13
Day Centre	Bargroves Resource Centre	1294.22
Day Centre	Horizon Resource Centre	1,314
Park & Ride Site	Babraham Road Park & Ride Building and potential for PV across site	
Day Centre	Burwell House	913.69
Depot	Melbourn Avenue Highways Depot	
Day Centre	Tennyson Lodge	789.4
Day Centre	Huntingdon Community Centre	1076.15
Day Centre	Larkfields Resource Centre	1420.94
Park & Ride Site	Milton Park & Ride Building and potential for PV across site	
Day Centre	Huntingdon Youth Centre	1016
Day Centre	St Ives Youth Centre	1002.58
Day Centre	Bedford House Day Centre	485.27
Day Centre	Whittlesey Youth Centre	738.94
Day Centre	Shortsands Day Centre	264.36
Offices	Park and Ride Office Christ's Lane	
Park and Ride Site	Longstanton PV potential across site	
Triangle Farm, Soham	Potential Solar park site	50 hectares

DECISION MAKING PROCESS CHART: FOR ALL SITES PROCEEDING WITH ENPC

July 2014

