Agenda Item No: 6

MOBILISING LOCAL ENERGY INVESTMENT - DEVELOPMENT OF A TRANSFORMATION BID

To:	**Commercial and Investment Committee**
Meeting Date:	**26 April 2019**
From:	**Graham Hughes, Executive Director, Place and Economy**
Electoral division(s):	**Not applicable**
Forward Plan ref:	**N/a** *Key decision:* **No**
Purpose:	**To consider a Transformation Fund bid for supporting work of the Energy Investment Unit until March 2022**
Recommendation:	**Members are asked to:**

a) support the Transformation Bid proposal of £989,000 for financing the Energy Investment Unit up to March 2022

b) support the submission of a Transformation Bid proposal to General Purposes Committee for decision; and

c) comment on suggested funding arrangements proposed in paragraph 4.8 for the Energy Investment Unit post-March 2022

	Officer contact:		***Member contacts:***
Name:	Sheryl French	Names:	Councillors Schumann and Hay
Post:	Project Director, Energy Investment Unit	Post:	Chair/Vice-Chair
Email:	Sheryl.French@cambridgeshire.gov.uk	Email:	joshua.schumann@cambridgeshire.gov.uk anne.hay@cambridgeshire.gov.uk
Tel:	01223 728552	Tel:	01223 706398

1 BACKGROUND

1.1 The County Council commenced joint working with local authority partners in 2008 on the challenges of energy security, affordable energy and reducing energy consumption. This led to a successful bid in 2012 for European funding to cover the cost over 3 years of the Mobilising Local Energy Investment (MLEI) project.

1.2 The MLEI project aimed to develop mechanisms to prove the potential for investment in low carbon energy measures. The project started by delivering energy efficiency and renewable generation measures in schools and developing the contracting mechanisms for the Soham solar farm. By the end of the period of European funding, the MLEI project had successfully met its targets by commissioning roughly £3.5m of energy measures in schools & Council offices and a £10m solar farm at Soham.

1.3 General Purposes Committee (GPC) agreed principles for funding projects in schools at their meeting of 9 September 2014. While it was accepted that the major benefits from those schemes should go to schools, it was agreed that the Council would charge a margin on the cost of loans. This margin would be used to repay costs incurred by the Council in developing the initial procurement and contracting methodology for energy projects.

1.4 The EU funding finished in August 2015 and both Economy & Environment Committee (21/04/15) and GPC (19/05/15) agreed that work done under the MLEI project on the schools and corporate buildings would continue as part of the Energy Investment Unit (EIU) but in addition to focus on developing larger projects that would generate revenues for the Council. Calculations for those reports showed that the full costs of the EIU delivering the schools programme and initial scoping for larger projects could be recovered over time from the margin on loan costs paid by schools. The EIU received no development funding or share in the income generated by the solar farm.

2 DEVELOPMENT OF THE ENERGY INVESTMENT UNIT

2.1 Since 2015 the EIU has significantly expanded its scope of work reflecting the ambitions of the Council. It has:

- grown the schools programme from 10 schools in 2015 to over 50 schools in 2019 totalling more than £8.7million investment;
- taken on responsibility for the procurement and management of utilities for the Council's buildings, schools and services to help manage our costs;
- taken on responsibility for legislative compliance for the Council's energy standards for its buildings;
- managed an investment fund of £1million into energy reduction projects across its corporate buildings which is delivering annual revenue savings;
- scoped a pipeline of major investment projects on Council land that are currently under development to generate revenues for the Council in the medium term and support the Council's budget;
- responded to Cambridgeshire communities to co-develop energy projects that benefit local people such as Swaffham Prior;
- developed the Council's Energy Strategy and Action Plan and collaborating with Peterborough City Council;

- influenced the government energy policy agenda and strategies; and
- enhanced the energy infrastructure locally to support growth, working in partnership with local stakeholders.

2.2 To manage the above, it has been necessary to increase staffing levels and other costs to secure delivery of projects ahead of future income generation.

3 PRESENT FINANCIAL POSITION OF ENERGY INVESTMENT UNIT

3.1 When the EIU took its current form after the completion of the MLEI project, it was set up to act as a trading unit, i.e. any surpluses or deficits associated with its activity would be carried forward and operate on a full cost recovery basis. Full cost recovery in this case includes not just the salary and social costs but also a £19,500 overhead payment per full time member of staff to cover costs such as IT, bills, management overhead and accommodation. To give context, for 2019/20 the overhead cost for the Unit alone is approximately £100,000.

3.2 A five year business plan was originally approved by Economy and Environment Committee on the basis that the EIU breaks even by 2020/21 through contributions from the schools contracts. The EIU has contracted with fifty one schools to deliver total income of just over £1.7million for the Council which provides an average annual income of £155,000 for the EIU over the next 10-15 years to support ongoing work with schools. At the same time the investment is delivering income/savings for the schools of over £700,000 per annum. This provides a benefit to the value of greater than £10,500,000 for the schools over the next 10-15 years and can be viewed as a success for the schools and transformative in the way we collaborate and deliver change.

3.3 However, the costs of the EIU have risen, mainly in response to the need to develop larger income generating projects for the Council. To date, the additional costs have been offset in 2 ways:

- from 2017 the energy team joined the EIU. A corporate contribution is provided that reflects the work done by this team on legislative compliance and the procurement and management of the Council's energy and water bills; and
- the staffing costs associated with larger projects are now being covered by development cost budgets agreed by Commercial and Investment Committee as part of the authorisation of each individual project.

3.4 However, the above does not cover the EIU's activities in relation to community energy projects, collaborations with Peterborough and strategic influence of energy policy and its impact on growth.

3.5 The initial EIU budget was scheduled to break even in 2020/21. This was agreed on the basis that building a business requires the upfront development and construction of projects ahead of financial returns. The total EIU deficit at the end of 2017/18 was £233,000 and the projected deficit at the end of 2018/19 is £374,000. In addition to the increase in its responsibilities outlined above, there are two specific timing issues which have resulted in the significant expected increase in the deficit this year:

- costs incurred on the St Ives project – if ERDF funding is eventually agreed for this, these costs will be recovered in 2019/20; and
- delays in the final completion of projects at several academy schools. Unlike maintained schools, repayments by academies only start when all project works are completed. This does not affect the total repayments expected over time from each school, but has meant a slippage in income compared to original budget projections.

4 PROPOSED USE OF TRANSFORMATION FUND

4.1 There are three strategic transformations that the EIU is looking to deliver over time. These include:

- £100 million net income for the Council by 2040 through income generation from the current large energy projects approved with development budgets. This is a scale factor of ten greater than the schools benefit described in paragraph 3.2 above;
- Shifting rural communities from fossil fuel heating onto low carbon alternatives. This will benefit our communities financially over the lifetime of a heating system saving households and communities money that can be spent locally in our economy; and
- Tripling the local electricity network to unlock growth and shape a smart energy system. This will contribute towards the doubling of gross value added (GVA) by 2040 as identified in the Devolution Deal for Cambridgeshire and Peterborough, whilst supporting businesses and our communities.

4.2 The EIU's projected break even for March 2020/21 was based on delivering the schools programme. Scaling up to deliver the £100million income and build the strategic transformations described in paragraph 3.1 above is not deliverable on the original five year business case, supplemented with project specific resources to cover staff costs. There are a number of problems associated with the current funding methodology. In particular:

- development cost budgets are tied to individual projects. This makes it harder for the EIU to react and reprioritise if it is necessary to delay a project – as happened with the proposed scheme at Trumpington Park & Ride which became subject to a public consultation;
- developing the future project pipeline beyond 2021 is interlinked with creating a new smart energy system for Cambridgeshire and identifying and shaping the market opportunities, this business development and support for the growth agenda is very important but piecemeal depending on when time permits; and
- all significant capital projects carry risks, e.g. in relation to planning permission, ground conditions, state aid etc. That means there is a possibility that projects may have to be aborted for reasons that are beyond the control of the County Council. The Council recognises this may happen, but balances those risks by undertaking a programme of projects – allowing possible losses from an aborted project to be set against the potential future gains from the programme as a whole. As the EIU does not share in future gains though, it currently has no means to recover any losses within its budget.

4.3 To illustrate the challenge of funding being tied to specific projects, the EIU is projecting a total recovery of £340,000 from the scheme at St Ives Park & Ride. It is expected that costs incurred on the scheme since November 2016 will be recoverable from the ERDF grant being negotiated with the Ministry of Housing, Communities and Local Government (MHCLG). However, while the future of the scheme now looks optimistic, discussions with MHCLG over state aid delayed it by over a year and a half.

4.4 It is proposed that for the period 2019/20 to 2021/22 the EIU seeks funding from the Transformation Fund set out in table 1 below. The funding being sought for the EIU team budget is the same value as that currently provided by the staff costs approved with individual development project budgets but the linkages would not exist. This allows the funding to support other aspects of the EIU work, such as community projects and influencing the strategic direction of energy policy, should projects be delayed or changed.

Table 1: Funding for the Energy Investment Unit up to March 2022

Item	**Funding Required**
EIU mobilisation for school schemes, energy projects and investment deficit	£374,000
Large Energy investment projects deficit to date	£40,000
Future anticipated revenue costs of project development to March 2022	£300,000
Contingency for aborted capital schemes	£200,000
Developing a programme of community energy projects	£50,000
Shaping the strategic energy agenda for sustainable growth	£25,000
Total funding required	**£989,000**

4.5 If the use of the Transformation Fund is approved, the parts of the existing development cost budgets relating to EIU funding would be cancelled as this would no longer be needed. The financial projections show that the net effect of providing the Transformation funding and cancelling the existing development cost budgets would be to bring the EIU into financial equilibrium in 2021/22, i.e. having repaid the existing deficit.

4.6 As projects proceed towards construction, the internal costs that have been incurred to develop the asset will be capitalised, which means the costs will be transferred out of the EIU's budget.

4.7 Whether funding is provided through individual development cost budgets or through an overall allocation from the Transformation Fund makes no difference to the overall County Council finances. The difference is in the operational flexibility of the EIU to deliver.

4.8 Looking beyond March 2022, the aim is to shift the EIU's finance to a methodology where the EIU shares in the gains from successful projects. For example, the project pipeline will start to be scoped during the next 18 months and brought to Committee for development approvals. As part of a project business case, it will include how a portion of the income from the project can contribute to the EIU and the growth of the energy work alongside the Council directing the majority of the income to support the challenging budget position.

4.9 It is important to note that the transition of the UK's energy infrastructure to low carbon energy brings volatility to projects being developed and the Council's energy projects are working within this challenging environment. The energy market is subject to many influences such as regulatory change, testing of new business models, new technologies and projects scaling in size to deliver subsidy free. The monitoring and reporting of market changes will be presented to Committee through the EIU's quarterly monitoring report.

5 ALIGNMENT WITH CORPORATE PRIORITIES

5.1 A good quality of life for everyone

There are no direct significant implications for this priority, although the successful operation of the EIU should help improve the price and availability of future energy for Cambridgeshire residents.

5.2 Thriving places for people to live

There are no significant implications for this priority.

5.3 The best start for Cambridgeshire's children

There are no significant implications for this priority.

6 SIGNIFICANT IMPLICATIONS

6.1 Resource Implications

There are no significant resource implications for the County Council as a whole. The report sets out that there would be a transfer of costs from development cost budgets (funded by borrowing) to the Transformation Fund.

6.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications.

6.3 Statutory, Legal and Risk Implications

There are no significant implications.

6.4 Equality and Diversity Implications

There are no significant implications.

6.5 Engagement and Communications Implications

There are no significant implications.

6.6 Localism and Local Member Involvement

There are no significant implications.

6.7 Public Health Implications

There are no significant implications.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Tom Kelly
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	Yes Name of Officer: Paul White
Has the impact on statutory, legal and risk implications been cleared by LGSS Law?	Yes Name of Legal Officer: Amy Brown
Have the equality and diversity implications been cleared by your Service Contact?	Yes Name of Officer: Elsa Evans
Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Jo Shilton
Have any localism and Local Member involvement issues been cleared by your Service Contact?	Yes Name of Officer: Emma Fitch
Have any Public Health implications been cleared by Public Health	Yes Name of Officer: Stuart Keeble

Source Documents	Location
1. Budget Build 19_20_ Energy Investment Unit	Internal EIU folders
2. Salary Spreadsheets 19_20	As above
3. Cashflow projections schools programme	As above