COMMERCIAL AND INVESTMENT COMMITTEE: MINUTES

Date: 18 December 2020

Time: 10:00am – 12.25pm

Venue: Virtual Meeting

Present: Councillors M Goldsack (Chairman), C Boden (Vice-Chairman), J Gowing, D Jenkins, L Jones, T Rogers, M Shellens (substituting for Cllr McDonald), M Smith (substituting for Cllr Bates) and T Wotherspoon

385. APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies were presented on behalf of Councillor McDonald (Councillor Shellens substituting) and Councillor Bates (Councillor Smith substituting).

The Chairman, Councillor Goldsack, declared an interest in item 388, as he had a business relationship with one of the owners of nearby businesses who may be a potential customer of the scheme. He advised that he would not be voting on this item.

386. MINUTES OF THE MEETING HELD ON 16 OCTOBER 2020 AND ACTION LOG

The minutes of the meeting held on 16 October 2020 were agreed as a correct record.

The Action Log was noted.

387. PETITIONS AND PUBLIC QUESTIONS

There were no petitions or public questions.

388. DEVELOPMENT BUDGET FOR FORDHAM RENEWABLE ENERGY NETWORK DEMONSTRATOR PROJECT

The Committee considered a report regarding a proposed solar farm project. Officers explained how the land had been identified from the County Council's Rural Estates portfolio. The site was near to several large businesses, so there was scope to sell electricity to those businesses through Power Purchase Agreements (PPA) which were more profitable than selling to the Grid, although the current business case is based on a significant amount of energy generated needing to be sold to the Grid. Due to the location of the site, there was very limited visual impact. Additionally, the site was very flat which was positive for construction, and also because water did not pool on the site, limiting risk from flooding.

The report sought approval for £635K to support the project, which was mainly for consultancy fees, but also covered staff costs.

The three major areas of risk were:
(1) Power Purchase agreements (PPAs) – how electricity would be sold and the appetite of customers to purchase green electricity locally;
(2) matters around planning including visual impact, as the site was near to an existing solar farm, which would be taken into consideration by planners, i.e. the cumulative visual and ecological impact of the combined number of solar farms in the area, including Sunnica; and
(3) the need to apply to UK Power Networks (UKPN) for a Grid connection. In terms of Grid connection, there were some constraints in the area, so to mitigate that impact, battery storage capacity was also proposed.

Arising from the report:

- A Member queried the quality of the agricultural of the land, which was likely to be Grade 2 or 3, and whether the analysis would be done in time. Officers confirmed that there were not the timescale risks compared to some other projects, which involved time limited grants or initiatives. The soil analysis had not been commissioned, because all of the work done prior to this Committee meeting was done at risk. The Member queried how the Committee could support the total budget for the different phases of the project when matters such as the soil analysis or flood issues remained unresolved. It was confirmed that the final decision could come back to full Committee, if required, and this could be incorporated in to recommendation (d);

- A Member asked about the issue of battery storage, and if there was any advantage in delaying commitment, to wait to establish take up through PPAs? Officers explained that the business case was based on generation being segregated to each potential customer, and this had been done without the benefit of speaking to those potential customers as it would have been premature, so potentially there were some inaccuracies in the figures provided. The exact level of interest and demand would be gauged through discussions and negotiations;

- A Member queried the cost of the third party review. It was noted that for the previous Refit Framework, an independent body called Local Partnerships were used, who co-owned the Framework. Under this new procurement, the cost for the third party review had been factored in, because despite the experience of the in-house team, using a third party reviewer was useful for benchmarking and brought in valuable experience from other projects and partnerships;

- A Member queried the costs for internal staff, legal and financial services, which seemed high. Officers advised that these costs covered all phases, over 24 months, and were based on the expenditure for similar projects e.g. Babraham;

- A Member praised the report, and commented that energy project reports coming forward displayed increasing maturity, and demonstrated how the team was improving in its development and management of these projects. He also supported the Member comments made on agricultural land values and flooding risks. He suggested that it may be appropriate to include these risks in the Risk Register, and queried whether it would be appropriate to include this in the IGP process.

Local Member Councillor Schumann spoke on the report. He commented that community engagement could often go wrong on these types of project, but he praised Jack Kennedy and Hugo Mallaby in Rural Estates, and Cherie Gregoire, for identifying this piece of land, which was very well placed, being so well screened, but near large businesses. The nearby Sunnica development had been a huge concern for some people locally because of its sheer scale, but he felt the Fordham site was an appropriately scaled development. Whilst acknowledging the comments raised about the quality of the land, he commented that he did not anticipate this being an issue. With regard to the points raised about bringing the project back to Committee, he would support this but on the basis it did not cause any unnecessary delay to the project going forward, e.g. in relation to connection issues.

The Chairman thanked officers for their excellent report, and commented that whilst he was aware of the potential impact on timescales, Members should request that the project be brought back to Committee for consideration at later stages if they felt this was appropriate, especially in relation to the battery requirement question that had been raised. In discussion, other Members agreed that this would be extremely helpful.

It was resolved unanimously to:

a) To approve the high level assessment for a 21.3MWp (DC) solar farm to be sited at Glebe Farm, part of the Rural Estate, adjacent to Landwade Road in Fordham;

b) Approve entering into a call off contract with Bouygues to commence on the development of an Investment Grade Proposal (IGP);

c) provide support for a total budget of £635,000 as set out in in Table 3 to fund the development costs for an IGP, with inclusion of £550,000 capital budget into the Council's 2021-22 Business Plan to be agreed by Council in February 2021;

d) agree the project will progress through the development phases as described in Diagram 1, with stage gate reviews as described in paragraph 2.24-2.29 in consultation with the Energy Investment Programme Member Working Group and the Commercial and Investment Committee;

e) agree that at the conclusion of the IGP development, should the business case remain feasible, to seeking an investment decision from Commercial and Investment Committee seeking approval for an investment decision.

389. NORTH ANGLE SOLAR FARM INVESTMENT DECISION

Members considered a report which sought approval to move into the construction phase of the North Angle Solar Farm project.

Since the last update to Committee earlier in the year, Peterborough City Environment Trust had delivered community engagement support for the project. Their original plans to hold consultation events had changed due to the global pandemic, but they had done a great job in delivering digital messages and engaging with stakeholders. A full planning application for the scheme was submitted in July and had subsequently received approval.

The project was not without risk, with the greatest risk being the price of wholesale electricity in future. Officers highlighted the project timeframes, with the build currently scheduled between June and October, avoiding the challenges and additional cost of a winter build, although it was acknowledged that the timescale was relatively tight. The figures presented were considered to be an accurate estimate.

A Member commented that he supported alternative sources of energy as long as they were cost effective. Initially, he had had some concerns on this project, which was why he had requested a more detailed sensitivity analysis on this project. Consequently, Members attended an Officer-led session focussed on the detail of the financial modelling used in the business case (prior to the Committee meeting), which had helped clarify some of the issues. Counterintuitively, the project as a whole was not sensitive to assumptions on future inflation. Whilst understanding why the price of wholesale energy was seen as the greatest risk, he felt the Committee needed to be wary of the cumulative risk of the cost of wholesale electricity changing when it considered individual projects. He expressed concerns regarding the assumed cost of capital of the project of 1.25%, and sought reassurance on this matter, especially in terms of potential rate changes from the Public Works Loan Board (PWLB), and accordingly proposed an amendment to recommendation (a) that "…subject to Section 151 Officer agreement that it was appropriate to use an interest rate on the loan of 1.25%;"

Officers commented that there was a high risk of changes in prices, but the PWLB had recently introduced restrictions on how loans could be applied, rather than disincentivising authorities by increasing interest rates. For these reasons, officers felt the risk regarding PWLB rates was very low. The Section 151 Officer supported those comments and the proposed amendment.

Other points raised during the discussion of the report included:

- A Member commented that the recommendations appeared somewhat loose, and suggested that the recommendation should be more explicit in how the final decision would be made, and to confirm that either the Chairman or Committee would ultimately make a judgement on what was "significantly" different or not;

- A Member commented that it was important to look at fundamental profitability of these projects, and consider them on the same basis e.g. this project had been reviewed on a quasi geared cashflow basis. Fundamentally he felt that this was a good project, but he was keen to pin down exactly what was meant by "significantly" different. He also suggested that there may be scope to review at the Energy Working Group in future how economics might be presented in these project evaluations;

- A Member asked whether the government was likely to abolish the Green Tariff for Electricity, and transfer this to Gas, how this might impact on the price of electricity, and whether this was likely to be beneficial or detrimental to the Council's energy projects? Officers confirmed that Green Tariffs were currently added to electricity prices, and these would remain. The current low price of Gas and Oil was creating problems in terms of the perceived cost effectiveness of Renewable projects. The government may use a number of means to incentivise the change to low carbon, including levies and tariffs. However, in most situations, Green Tariffs did not impact on project returns, as the key issue was the price before tariffs were added. There could be some impact on the wider market, but this was likely to be fairly limited. To reach the 2050 targets, there needed to be higher usage of decarbonised electricity for domestic and commercial heating, with Gas reserved for industrial processes. The electrification of heat would come forward, and the demand and supply of clean electricity would need to match that change. Another Member supported these comments, and said that whilst current low prices of Gas and Oil may be a distraction, the focus should be on the medium and long term energy prices, which would be sustained by global demand. It was also noted that the government's current focus on Renewables was on generation by offshore wind farms, and there may be issues if that became the dominant source of supply, as the rate for offshore wind was already below the long term price for the North Angle Solar Farm project;

- A Member expressed strong support for the project, and commented that it was necessary for the Council to take a degree of risk with regard to its own renewables projects;

- A Member asked whether possible tariff changes to solar panels imported from China was a potential risk. Officers advised that solar panel prices had increased significantly since the Business Case for this project had first been put forward, and that updated panel prices would be available in the new year. The Member suggested that the ideal situation would be for panels to be produced locally to reduce the carbon footprint of the scheme.

The following amendments to recommendations were agreed:

Add to Recommendation (a): "…subject to Section 151 Officer agreement that it was appropriate to use an interest rate of 1.25%;"

Add to Recommendation (b): "and it is proposed the decision to sign a contract with Bouygues is delegated to the Chief Finance Officer, in consultation with the Chair of Commercial and Investment Committee and the Executive Director Place and Economy;"

It was resolved unanimously to:

a) approve the investment case for the North Angle Solar Farm project as set out in section 2 of the report, subject to Section 151 Officer agreement that it was appropriate to use an interest rate of 1.25%;

b) approve the proposed delegation arrangements set out in section 6 of the report, to enter into a construction contract with Bouygues E&S Solutions on agreement of the final price; and it is proposed the decision to sign a contract with Bouygues is delegated to the Chief Finance Officer, in consultation with the Chair of Commercial and Investment Committee and the Executive Director: Place and Economy;

c) scope options for private wire connections to the North Angle Solar Farm Project and in particular the detailed proposal for Swaffham Prior Community Heat Project.

390. PROCUREMENT OF TECHNICAL CONSULTANCY TO SUPPORT REVENUE OPTIMISATION

The Committee considered a proposal to improve income from selling electricity and battery storage services from the Council's investments into clean energy projects.

Whilst the Council had the experience in finance, legal and project management of energy projects, it lacked the skills in the evolving energy market, and the resource and technology to develop the most lucrative route to market. Examples of how a technical consultancy could be used to the benefit of the Council were noted, especially in terms of battery storage projects, and the scope of services that were intended to be procured. A "do nothing" approach would result in potential losses of income, as the Council would be unable to benefit from market opportunities.

A Member asked about costs, and sought reassurance that the costs of acquiring this expertise would be outweighed by the benefits. Officers advised that until tenders were received, it was not possible to say how much the contract would cost. It was noted that aggregators usually took a proportion of the profit, i.e. both the Council and the aggregator should benefit, so it would depend on the amount of throughput of electricity sales, as the greater the throughput, the lower the cost. The Council would benefit from obtaining a better return over medium to long term.

The low-cost and low-risk way to sell electricity would be to agree on a rate for a period e.g. five years, but that would not be the best price. When selling became more complex e.g. selling on a day to day basis, a better rate could be obtained, but this requires expertise and resources, as–it is associated with higher volumes of sales. An aggregator could perform this function, and the arrangement could workfor both parties. The cost would ultimately be paid out of projects so needed to be factored into the future iterations of business cases. At this stage, it is not possible to predict what cost per kWh an aggregator may attain in terms of sales., because of the nature of service being procured, in that there were many market options available at any point in time. Another Member commented that he had similar concerns, but given the sheer complexity and technicality of the specification, and the scale of the project being undertaken, there was scope for additional revenue to be obtained if pricing mechanisms were handled properly. For that reason he was reluctantly in favour of this proposal, the key issue being the management of risk, but he cautioned that the Committee needed to be vigilant and monitor the arrangement to ensure that the Council was getting value for money.

Arising from the report, comments included:

- The Section 151 Officer suggested that an additional recommendation could be added that the delegation be extended so that the Committee could make the final decision. Members agreed that there would be an additional recommendation: "Agree that the Decision to appoint at the end of the process is presented to the Commercial & Investment Committee, in exempt session;"

- A Member commented that the model was quite complex, and that she had initially assumed there would be a retainer and then a share of profits by both parties. In the short term, she felt that there was little choice but to proceed with this technical consultancy, to secure the required expertise, but she felt strongly that it should not be an open-ended arrangement;

- A Member observed that the report only sought approval to go out to tender. He agreed that the final decision to appoint a consultant should come back to Committee and that Members needed a good understanding of the balance of risk and reward offered by the contract;

- A Member queried whether there was the expertise in-house to monitor the contract. Officers confirmed that it was a learning process, and a number of Members expressed their confidence in the team managing those outcomes. It was noted that correctly setting the baseline was critical and that there was considerable in-house experience of these types of arrangements from the contract with Bouyges.

It was resolved unanimously to:

a) approve the initiation of the procurement process for Optimisation/ Aggregator Services for the Energy Investment Programme portfolio;

b) note the timescales of the procurement process; and

c) delegate authority to Executive Director, Place and Economy in consultation with the Chair and Vice-Chair of Commercial & Investment Committee to approve going out to market with an Invitation to Tender for services;

d) agree that the Decision to appoint at the end of the process is presented to the Commercial & Investment Committee, in exempt session.

391. COMMERCIAL AND INVESTMENT COMMITTEE REVIEW OF DRAFT REVENUE AND CAPITAL BUSINESS PLANNING PROPOSALS FOR 2021-2026

The Committee considered a report outlining the current business planning position and estimates for 2021-2026, the impact of COVID-19 on the 2021-22 financial position, and the principal risks, contingencies and implications facing the Committee and the Council's resources.

Members had considered an initial report on the Business Plan at their October meeting. The process was very different this year, in light of the global pandemic, and there were still many uncertainties. Members noted how scenario modelling in previous reports had been built upon, enabling a demand trajectory to be mapped in some areas, to see which scenarios were coming through, enabling a much clearer view of the funding gap and variables. On 17/12/20 government had announced an extension of the furlough scheme to April, and factors such as these were being incorporated into the modelling.

Members noted those areas of particular relevance to the Committee's remit, including some areas which needed to be reversed, some which were temporary and some where there was a permanent impact on commercial income generating abilities. It was noted that there needed to be a continued pipeline of investment opportunities, and continued support to the supply chain, which could be impacted by Covid and/or Brexit, and support the Combined Authority's Economic Recovery Strategy. It was noted that there had been a workshop for Committee Members in November on the refreshed Commercial Strategy, which had been well attended.

The Section 151 Officer had circulated a briefing note on the spending review with the caveat that the detail would be critical. The provisional grant settlement had been announced on 17/12/20, and a statement would be issued to all Members on the impact of the provisional settlement. It was noted that there was a challenge on one of the methodologies in distribution relating to business rates, and there may be more significant variations this year than previous years. The funding that government had made available nationally was better than anticipated, which was very welcome. As a consequence of the additional government funding, especially in relation to the Covid 'tail', the financial position would be significantly mitigated, although it was unclear what the exact position would be.

The Chairman applauded officers for the speed and level of detail that they were supplying to Members in this unprecedented and constantly changing environment.

Arising from the report:

- A Member asked if there was an update on Brunswick House? It was confirmed that the overall expected level of income for 2021/22 had been adjusted, but this was not a material adjustment, and income estimates for 2021/22 were prudent: current tenancy levels were at 78%, and a marketing campaign was planned for the 2021/22 academic year;

- A Member raised a query regarding income for the North Angle Solar Farm project. It was agreed that this would be addressed by email to the Committee. Action required;

- A Member referred to rent deferrals, and asked whether these would be recorded as debtors? Officers advised that there was an ongoing process with farm tenants in terms of managing rent deferrals, and there had been a slight increase in rent deferrals due to the pandemic. There was a similar process in place for commercial tenants, and there was an arrangement in place for one tenant, with a considerable sum due to be received in 2021/22. The Committee was reassured that all rent deferrals were being managed proactively. It was confirmed that they would be recorded openly and appropriately within the Accounts;

- With regard to Commercial Income and Contract Efficiencies, a Member asked whether these efficiencies were only in relation to commercial contracts? Officers confirmed that this was effectively a legacy issue: it was clear that given the level of contract efficiencies across council, there were opportunities to drive down costs e.g. £600K reductions in Highways Contract. The key issue was to ensure benefits were maximised, especially in larger contracts. The Member commented that with some of these large contracts, the companies concerned were "too big to fail", and there were particular issues around the performance of some of the highways contracts. One of the issues around efficient contract management was whether there was a sufficiently large staff to manage expert monitoring and oversight: effective contract management depended on the resources and expertise being available. Councillor Shellens, speaking as Chairman of Audit & Accounts Committee, advised that this was a significant piece of work being reviewed by his Committee at its next meeting. Officers agreed that this was an issue for the whole Council, and that when resources were restricted, contract management tended to be light, but there were various efficiencies that could be achieved.

A Member praised officers for their clarity and speed of reporting in the current circumstances.

It was resolved unanimously:

a) Note the progress made to date and next steps required to develop the business plan for 2021-2026;

b) Note the impact of COVID-19 on the Council's financial planning;

c) Endorse the budget and savings proposals that are within the remit of the Committee as part of consideration of the Council's overall Business Plan;

d) Endorse the changes to the capital programme that are within the remit of the Committee as part of consideration of the Council's overall Business Plan

392. MILTON ROAD LIBRARY, ASCHAM ROAD, CAMBRIDGE, CB4 2BD – VARIATION TO LEASE

The Committee considered a report that proposed a variation to the current lease for the Milton Road Library premises. This site was redeveloped by This Land and last year granted the Council a 25 year lease last year to operate the library. This lease currently included five-year break clauses. This Land was looking to sell the site as a whole, and therefore maximise the value from a commercial perspective. Negotiations had taken place between This Land and the Council to look at the value attributable to breaks, and a 50/50 split of the capital receipt had been proposed, which would result in a £100K receipt for the Council.

Councillor Scutt was welcomed to the meeting and invited to speak as Local Member. Councillor Scutt stressed that the site provided valuable facilities to the local area, both as a library and community rooms. She emphasised that the library and community facilities also acted as a focus point for the nearby schools. She noted that many of the "corporate priorities" paragraphs in the report stated that there was no impact on quality of life, thriving places to live, best start for Cambridgeshire communities, etc, which she felt was inaccurate, as the library and community facilities were very important for people in this disadvantaged part of Cambridge. She supported the report recommendation, but felt that full Council should receive a full and detailed report about the activities of This Land, the loans that had been granted, etc. This development of this site was originally put forward as an income stream for the Council at the Highways & Community Infrastructure Committee. The flats above the library had remained unoccupied for many months, which represented lost income, had the site been retained by the Council.

Cambridge City Councillor Richard Robertson was invited to speak, as Chairman of Friends of Milton Road Library. He welcomed the extension of the lease, with the break clauses removed. He stressed the importance of the site as both a community facility and a library, and advised that the City Council also had an interest in the building. He commented that whilst some may doubt the importance of libraries in the long term, he was convinced that libraries would be needed, and community facilities would definitely be needed in the long term. Option 3 set out in the report gave the option to extend the lease after 25 years, which he welcomed. Councillor Robertson also expressed concerns about the way in which This Land operated. He pointed out that the building had transferred to This Land over 18 months ago, and the flats had been empty for a long time.

The Chairman thanked Councillors Scutt and Robertson for their comments. He stressed that all libraries across the county also acted as community assets, and this was a very valid point. The adoption of the recommendation would be safeguarding the site for a minimum of 25 years.

Officers confirmed that the freehold for the site had been sold to This Land, which was an independent company, wholly owned by the County Council, with the Committee acting as shareholder, and the County Council represented on the This Land Board by one officer and one Member. Whilst recognising Councillor Robertson's frustrations around the flats not being sold, officers advised that sales of the flats had fallen through, and had then been impacted by the uncertainties around Covid. The 25 year period was a big commitment, which could have been extended, but 25 years was seen as a good balance in terms of security of tenure and long term opportunities.

It was resolved unanimously to:

> Approve the completion of the Deed of Variation based on option 3 (as set out in paragraph 2.3 of the report) with completion of the Deed of Variation being subject to the receipt of the premium payment from the landlord developer.

393. FINANCE AND PERFORMANCE REPORT – OCTOBER 2020

The Committee considered a report on the financial information relating to the areas within the Commercial and Investment Committee's remit, for the period ending 31st October 2020.

Members noted that there was an underachievement of Revenue of £2.4M, which represented a small improvement in the outturn position of £53K, and the reasons for this were detailed. With regard to Capital, there were two significant variations reported, with a net impact of a predicted £5.7M underspend at year end.

It was resolved unanimously to:

> Note the report.

394. COMMITTEE AGENDA PLAN AND APPOINTMENTS TO OUTSIDE BODIES

The Committee considered the Agenda Plan, including changes made since publication.

It was resolved to:

1. review the agenda plan.

Chairman