



To: Executive Councillor for Planning and Sustainable Transport
Report by: Head of Planning Services
Relevant scrutiny committee: Development Plan Scrutiny Sub Committee 17/04/2012
Wards affected: All Wards

THE DEVELOPMENT OF A COMMUNITY ENERGY FUND FOR CAMBRIDGESHIRE – OUTCOME OF THE SECOND STAGE FEASIBILITY INVESTIGATION WORK

Non Key Decision

1. Executive summary

1.1 In February 2010, Cambridgeshire Horizons commissioned consultants to scope the potential for the development of a Cambridgeshire Community Energy Fund, linked to national zero carbon homes policy. This work was commissioned alongside work to establish the Cambridgeshire Renewables Infrastructure Framework (CRIF), developed to assist the county's transition to a low carbon future. The establishment of a Community Energy Fund could help to deliver some of the renewable and low carbon energy projects identified as part of the CRIF. The development of such a fund would also assist developers in meeting their carbon emissions obligations by offsetting residual emissions associated with development through payment into a fund at a set price per tonne of carbon. The fund would then channel this investment into local energy efficiency of energy generation projects to help deliver emissions savings. This initial piece of work, which was presented to Councillors from across the county in July 2010 raised a number of key issues that required further investigation, notably:

- How to ensure accountability and governance of the fund(s)
- The need for a better understanding of the appropriate scale of the fund – local and/or County
- The need to identify links between a range of initiatives under various legislative areas such as: allowable solutions (which falls under Building Regulations), Section 106 of the Town and Country Planning Act 1990, the Community Infrastructure Levy Regulations

2011 and the Carbon Reduction Commitment which is linked to the Climate Change Act 2008.

- 1.2 In response to these issues, consultants were commissioned to carry out further work, which considered these issues in detail. The study can be found at Appendix A. This report concludes that a county-wide fund would be the most sensible approach to adopt and provides a basis to continue work on developing a Community Energy Fund across the districts and in consultation with central Government.

2. Recommendations

- 2.1 This report is being submitted to the Development Plan Scrutiny Sub-Committee for prior consideration and comment before decision by the Executive Councillor for Planning and Sustainable Transport.
- 2.2 The Executive Councillor is recommended:
 - To note the findings of the Stage 2 report (Element Energy 2012) and to support officer engagement in the next stages of developing a county-wide fund.

3. Background

3.1 Policy context for Community Energy Funds

- 3.1.1 The government is committed to challenging and legally binding targets for the reduction of greenhouse gas emissions by 2020 and 2050. The achievement of these targets will require action across all sectors of energy use, and, as a key part of these efforts, the need to limit additional CO₂ emissions from new development has been recognised through the development of zero carbon policy for new homes and non-domestic buildings. By 2016 all new homes should be 'zero carbon'¹, with all new public buildings being zero carbon by 2018 and all other new non-residential buildings reaching zero carbon by 2019². It should be noted that zero carbon policy for homes is far more developed than that for new non residential buildings.
- 3.1.2 What defines a 'zero carbon' building has been the subject of significant debate in recent years, with the definition having undergone several revisions, the most recent revision having been announced as part of the 2011 Budget. Under this new definition, developers will only be held accountable for the regulated emissions of new homes (i.e. emissions associated with space heating, hot water and lighting), and will follow a hierarchical approach to reducing these emissions.

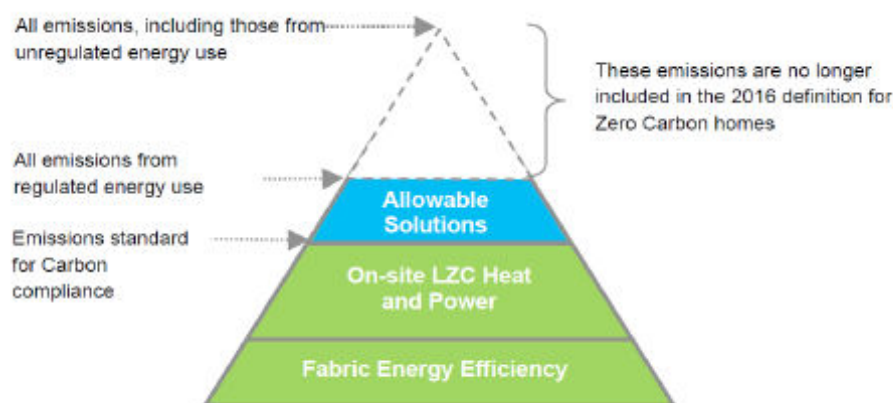
¹ [Building a Greener Future: Policy Statement](#) (2007)

² Zero Carbon Non Domestic Buildings announced as part of the 2008 Budget
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- 3.1.3 In line with the hierarchy shown in Figure 1, zero carbon homes are achieved by:
1. Ensuring an energy efficient approach to building design and fabric performance;
 2. Reducing CO₂ emissions through low and zero carbon technologies; and
 3. Mitigating the remaining level of carbon emissions through a range of solutions referred to as 'Allowable Solutions'

The first two steps are together referred to as 'Carbon Compliance' and need to be achieved on-site. The level of carbon compliance that needs to be achieved on site varies according to dwelling type; for a detached house the level of carbon compliance is 60% (when compared to a 2006 baseline), while for a low rise apartment block the level of carbon compliance is 44%.

Figure 1: The Zero Carbon Policy Hierarchy



3.1.4 It is the third element of the hierarchy, the 'Allowable Solutions' element, that gives rise to the potential for local planning authorities to develop Community Energy Funds. The ideal solution would be for developers to offset all of their regulated emissions on-site, but this is unlikely to be feasible on many small and medium scales sites. As such, the concept of allowable solutions has been developed, with the Zero Carbon Hub publishing its recommendations to central Government in July 2011. This 'Allowable Solutions Framework' sets out how developer payments into carbon reduction projects might be managed. These proposals include the concept of community energy funds, although this is focussed on a national fund as opposed to the development of local funds. This Framework is still open to further discussions and consultation, but provides a useful initial indication of how Allowable Solutions may work and potential role for local planning authorities and the development of local planning policy.

3.2 Stages in the investigation of a Cambridgeshire Community Energy Fund

Stage 1 – Initial Feasibility Study

3.2.1 Cambridgeshire Horizons, working in partnership with the district authorities and county council, had, prior to their disbandment in 2011, been actively investigating the potential of establishing a county-wide community energy fund for a number of years. The recently published Stage 2 Community Energy Fund report, produced by Element Energy and contained within Appendix A of this committee report, builds upon an initial feasibility study commissioned by Horizons in 2010. This feasibility study, an executive summary of which can be found at Appendix B, included an in depth analysis of the planning policy required to impose collection of developer payments into a fund and considered the options for how a local authority led fund might be constituted.

3.2.2 This report was presented to Councillors at a briefing in July 2010, Members identified several key issues for further development including:

- Ensuring accountability and governance of the fund(s)
- Understanding the appropriate scale of the fund – local and/or County
- Identifying links between allowable solutions, Section 106, the Community Infrastructure Levy and Carbon Reduction Commitment

It was therefore decided to commission a Stage 2 report to provide a more in depth analysis of these issues. This Stage 2 report was considered particularly important in light of the changes to zero carbon policy that have been announced since the Stage 1 report was completed. In particular, the removal of unregulated emissions from the definition of zero carbon, which has a significant impact on the potential size of a local community energy fund, with a reduction from a total cumulative investment potential of £114 million to £55 million.

Stage 2 Community Energy Fund Report

3.2.3 The purpose of the Stage 2 report was to consider in greater detail how a Cambridgeshire community energy fund might be structured and operated to deliver carbon reduction projects using income from developers' Allowable Solutions contributions. Development of the Stage 2 report was overseen by a Project Steering Group made up of officers from Cambridgeshire Horizons, Cambridgeshire County Council and the district authorities.

3.2.4 One of the key decisions made early on in the project was that the Study should focus on the development of a fully local community energy fund, i.e. a funds that holds its own capital, is responsible for committing funds to the projects it supports and that is able to reinvest the proceeds from its investments. This is in direct contrast to the proposals contained within the Zero Carbon Hubs proposals for the Allowable Solutions Framework, which consider the development of a national fund. It was felt that by focussing the Stage 2 report in this direction, the study would provide the Cambridgeshire authorities with a robust evidence base that could be used to lobby Government about the future direction of the allowable solutions framework. This is considered further in paragraph 3.3.8 of this committee report.

3.2.5 The Stage 2 report focuses on four key aspects of the development and operation of a Cambridgeshire Community Energy Fund, namely:

- An analysis of the potential means of collecting payments into a local fund, including the role of S106 payments and the Community Infrastructure Levy;
- An analysis of options for the corporate governance of a community energy fund, its membership, management and operational control;
- An analysis of the potential scale of the fund and an assessment of the kinds of investments it might make; and
- An assessment of the requirements and possible methodologies for measuring and verifying the carbon reduction delivered.

The main conclusions of the Stage 2 report are summarised in Table 1 below.

Table 1: Key findings of the Stage 2 Community Energy Fund Report

COLLECTION MECHANISMS (Section 3 of the Stage 2 report)	
Summary of report findings	Recommendations
The assessment of various options for collecting developer contributions into a Community Energy Fund found that neither of the existing mechanisms (S106 and the Community Infrastructure Levy) offers an ideal solution. S106 agreements could be used up to 2014 if an appropriate local policy was in place requiring zero carbon development to be delivered ahead of the national timetable. However, such an approach would require the current limits on pooling S106 contributions to be relaxed.	The report recommends that the Government should be lobbied to develop a new and simpler purpose designed collection mechanisms to enable developers to make payments directly into a local Community Energy

		Fund.
GOVERNANCE OF A CAMBRIDGESHIRE COMMUNITY ENERGY FUND (Section 4 of the Stage 2 report)		
Summary of report findings	Recommendations	
<p>Following an assessment of a range of possible legal structures for the management of a local Community Energy Fund, the report concludes that a Company Limited by Guarantee (CLG) would be most suitable. Such an approach would limit liability status, would provide flexibility in terms of membership arrangements, would allow for constitutional flexibility, was already familiar to Cambridgeshire authorities and is suitable for the not-for-profit, community investment mandate of an energy fund. It was more difficult at this stage to determine membership of the CLG, although it was clear that this should include all of the districts who would be collecting monies into the fund. Day to day management and operational responsibilities were also difficult to determine, and would require further negotiations between the Cambridgeshire authorities.</p>	<p>Further work will be required to determine the appropriate membership of the CLG, as well as management and operational responsibilities.</p>	
SCALE OF THE FUND AND INVESTMENT OPPORTUNITIES (Section 5 of the Stage 2 Report)		
Summary of report findings	Recommendations	
<p>Based on recent growth plans for Cambridgeshire, a Community Energy Fund has the potential to generate income of around £55 million in the period between 2016 (when zero carbon policy comes into force) and 2026. This assumption is on the basis that all the Cambridgeshire authorities are partners in the fund and that all developments pay into the local fund as opposed to choosing an alternative third party allowable solutions route, which they would be able to do under the Allowable Solutions Framework. The scale of the fund will also be influenced by the carbon price set by Government (£/tonne CO₂) and the extent of growth in the county.</p> <p>The types of projects that could be invested could range from energy efficiency projects through to large scale renewable and low carbon energy projects. The key element in determining appropriate projects will be 'additionality', i.e. projects that would not otherwise be delivered via existing support mechanisms. Example projects could include improvements to existing properties that would be too expensive to be delivered via the Green Deal, for example solid wall insulation, or the investment in energy schemes not currently being delivered by the private sector, such as district heating.</p>	<p>The Study recommends that the Cambridgeshire authorities should pursue a county-wide fund (the benefits of which are explained in more detail in paragraph 3.2.7 – 3.2.9 of this committee report below).</p>	

CARBON ACCOUNTING (Section 6 of the Stage 2 Report)	
Summary of report findings	Recommendations
This section of the report considers how best to undertake the carbon evaluation element of the fund, i.e. ensuring the projects deliver the level of carbon reduction required. The Allowable Solutions Framework introduces the concept of an Allowable Solutions Verification and Certification Scheme. Such a scheme would help to overcome concerns around local authorities not having the necessary skills to implement their own verification schemes, as well as helping to reduce the administrative costs of a county-wide community energy fund.	The Study recommends that the principle of a national Allowable Solutions Verification and Certification Scheme be supported. The Study has scoped the stages that will be required in any carbon accounting process, which will need to be developed further as part of any national certification scheme.

Advantages of a county-wide Community Energy Fund

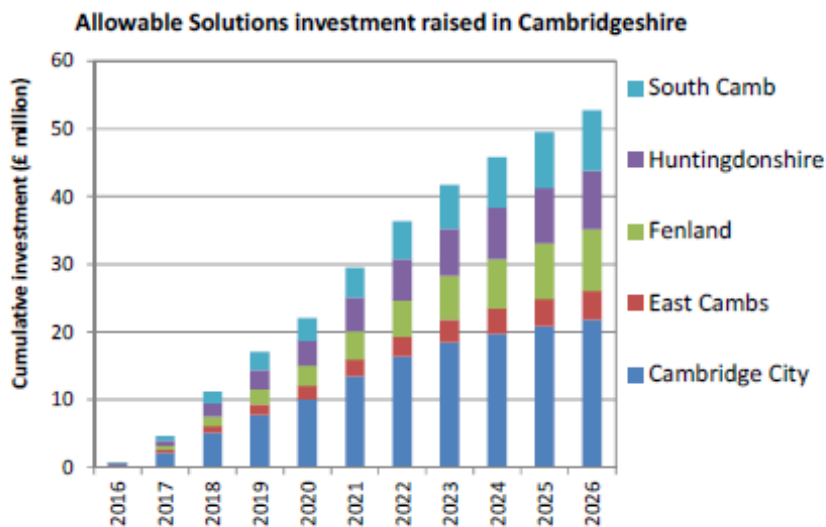
3.2.6 The report also sets out the key advantages of a local fund ‘versus’ a national fund, as well as the benefits of all of the Cambridgeshire authorities pooling their resources into one county-wide fund, as opposed to each district having their own fund.

3.2.7 An important decision will need to be made as work progresses, as to whether Cambridgeshire authorities join a county-wide fund, or develop their own funds at district level. Figure 2 below illustrates the forecast cumulative allowable solutions investment that could be collected across Cambridgeshire between 2016 and 2026, disaggregated by local authority. Of the £55 million that the fund could have collected by 2026, around £23 million would be generated by developments in the city, which is currently experiencing a higher level of growth than surrounding districts. The average amount being invested into the fund each year across the districts would be around £6 million, which is not huge in the context of capital costs of low carbon energy projects (for example, the estimated capital costs of district heating in Cambridge city centre are around £23 million). The relatively limited scale of the fund is considered to be a strong argument in favour of the Cambridgeshire authorities partnering in a joint community energy fund that will invest in the most beneficial projects across the county. A fund at a smaller district level scale would be too limited in terms of the funds available to significantly influence development of large-scale strategic infrastructure projects.

3.2.8 There are a number of other advantages in the development of a county-wide fund, which include:

- A larger-scale fund would be more likely to leverage additional sources of finance, such as bank debt, greatly increasing the overall level of investment in the area;
- Transaction costs will be lower as a percentage of money invested for larger investments;
- Economies of scale will increase efficiency in the fund's management and operational costs; and
- A county-wide fund would have greater scope to develop a pipeline of cost-effective carbon reduction projects.

Figure 2: Scale of potential allowable solutions investment across Cambridgeshire by 2026



3.2.9 Proposals to develop a county-wide fund also need to be set against the current proposals contained within the Allowable Solutions Framework for the development of a national fund. It is felt that a county-wide community energy fund holding its own capital would have significant advantages over a national fund as it would:

- Ensure that locally generated development contributions for carbon reduction are invested locally and for the benefit of the local economy, with links to projects identified as part of the CRIF project;
- Influence the delivery of more ambitious carbon reduction projects that are not being brought forward by the private sector;
- Allow for the investment in projects that deliver wider benefits to the local community and economy (e.g. community driven energy projects and increased local employment in the low carbon energy sector).

The Stage 2 report recommends that the Cambridgeshire authorities should use the forthcoming consultation on the Allowable Solutions Framework to make the case for local funds holding their own capital.

3.3 Next steps in developing a Community Energy Fund and relationship with the review of the Local Plan

3.3.1 The Stage 2 report provides the basis to inform the next steps of developing a county-wide Community Energy Fund. It is clear that there is still work required to establish the most appropriate governance and operational arrangements for the fund and that agreement across all the Cambridgeshire authorities will be required if the development of the fund is to be progressed. Officers from the planning policy team will continue to work with colleagues from the other district authorities and county council to progress this work.

3.3.2 A key issue in the development of a fund is the need for a local plan policy to be established to enable a community energy fund to collect developer payments and an agreed list of projects (or infrastructure plan) in which the fund would invest. The Decarbonising Cambridge Study and the Cambridgeshire Renewables Energy Framework (CRIF) project provide some of the content for the infrastructure plan. Appendix 3 of the Stage 2 report provides an example of a possible Local Plan policy. The option of developing such a policy will be included within the Local Plan Issues and Options paper, which the planning policy team are currently developing prior to consultation between June and July of this year.

3.3.3 Work on the development of a Cambridgeshire Community Energy Fund has also been shared with the Department of Communities and Local Government (DCLG). It is the DCLG who have responsibility for developing the national Allowable Solutions Framework for zero carbon policy. Initial discussions have been held to investigate the potential of using the Cambridgeshire fund as a pilot project for allowable solutions, working in partnership with the DCLG and the Zero Carbon Hub. It will be important that the work carried out to date on the county-wide energy fund is used to shape the Allowable Solutions Framework to ensure that such funds can operate on a level playing field with third party allowable solutions providers.

4. Implications

Financial Implications

4.1 There are no direct financial implications arising from this report. Policy recommendations will be considered as part of the review of the

Local Plan, which has already been included within existing budget plans. The governance arrangements for any future Community Energy Fund would need to take into account the need for public money to be managed by an accountable body.

Staffing Implications

4.2 The review of the Local Plan has already been included in existing work plans. As well as staff from within the planning policy team, it is likely that there will be a need for some input from legal and finance officers as work to develop a fund progresses.

Equal Opportunities Implications

4.3 The development of a county-wide community energy fund, which could be used to help deliver energy efficiency and the provision of decentralised renewable and low carbon energy for the benefit of new and existing communities, has the potential to help alleviate fuel poverty amongst residents of Cambridge.

Environmental Implications

4.4 The environmental implications of this report include the reduction of carbon emissions associated with meeting the carbon reduction requirements of new developments. This will help the City in meeting its carbon reduction targets as set out in the Climate Change Strategy and Action Plan. The development of a county-wide community energy fund should, therefore, have a high positive climate change impact.

Consultation

4.5 The Stage 2 Community Energy Fund Report is a technical study and has not been subject to direct public consultation. However, the development of any future planning policies related to a county-wide Community Energy Fund will be subject to public consultation as part of the review of the Local Plan.

Community Safety

4.6 There are no direct community safety implications arising from this report.

5. Background papers

5.1 These background papers were used in the preparation of this report:

- Zero Carbon Hub (July 2011). [Allowable Solutions for Tomorrow's New Homes: Towards a workable framework.](#)

6. Appendices

- Appendix A: Cambridgeshire Community Energy Fund Stage 2 Final Report. Element Energy (January 2012).
- Appendix B: Scoping Report: Feasibility of a Carbon Offset Mechanism for Cambridgeshire – Executive Summary. Element Energy (Sept 2010)

Please note that a printed copy of the executive summary of Appendix A will be made available while the full Appendix A report can be downloaded from the Council's website.

7. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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