



To: The Leader and Executive Councillor for Strategy and Climate Change: Councillor Sian Reid

Report by: Andrew Limb

Relevant scrutiny committee: Strategy & Resources 10/10/2011
Scrutiny Committee

Wards affected: All Wards

EU MOBILISING LOCAL ENERGY INVESTMENT PROJECT Not a Key Decision

1. Executive summary

1.1 A Cambridgeshire and Peterborough partnership supported by officers based at Cambridgeshire Horizons and the County Council has been invited to conclude negotiations for up to £1m EU funding to provide technical assistance to support the roll out of community infrastructure for renewable energy and energy efficiency.

1.2 This report considers the opportunities and risks associated with this project for Cambridge City Council, in order for the Executive Councillor to decide whether to provide the “political sign off” for the work programme that is being sought as part of the negotiations with the EU.

2. Recommendations

The Executive Councillor is recommended:

- To support, in principle, Cambridge City Council’s involvement in the district heating scheme element of the EU work programme, subject to certain conditions (para 3.17.3)

3. Background

3.1 Officers from Cambridgeshire Horizons pulled together an initial bid for this funding in the Spring of this year, following an unsuccessful University-supported LEP bid to the Regional Growth Fund for funding for a Low Carbon Hub.

3.2 Officers from Cambridge City Council put forward three work packages for the initial bid – the district heating scheme (a scheme to generate low cost and low carbon energy for a number of institutions in the city from a shared plant, potentially to be sited at Parkside) and two solid-wall insulation retrofit schemes (Ditton Fields and Kingsway, Hannover and Princess Court flats).

3.3 The key aim of the EU project is to deliver the investment programme and achieve energy generation and CO₂ reduction. The technical assistance is intended to provide the skills and knowledge to attract the finance and set up the delivery mechanisms to deliver the projects.

3.4 The investment programme comprises 10 projects split between energy efficiency of public sector buildings and council homes, and low carbon energy generation. The Partnership includes:

- Cambridgeshire County Council;
- Peterborough City Council;
- Cambridge City Council;
- South Cambridgeshire District Council; and
- Huntingdonshire District Council.

3.5 The University of Cambridge is engaged and committed to the EU project as a sub-contractor and also through its leadership in the set up of the Low Carbon Hub. The Low Carbon Hub will look to guide transformational change for CO₂ emissions reductions and stimulate growth of the local low carbon economy.

3.6 The Hub clearly shares some of the aspirations of the Local Enterprise Partnership, but is not formally connected to it. The Hub is currently a loose grouping of officers from the authorities mentioned above and the University, although governance arrangements will need to be developed.

3.7 The University of Cambridge will play a key role in the EU project and will be sub-contracted to develop the financial model for delivering the Investment Programme and attracting the institutional or private investors. This work is seen as central to the EU bid and the platform from which we can achieve project delivery.

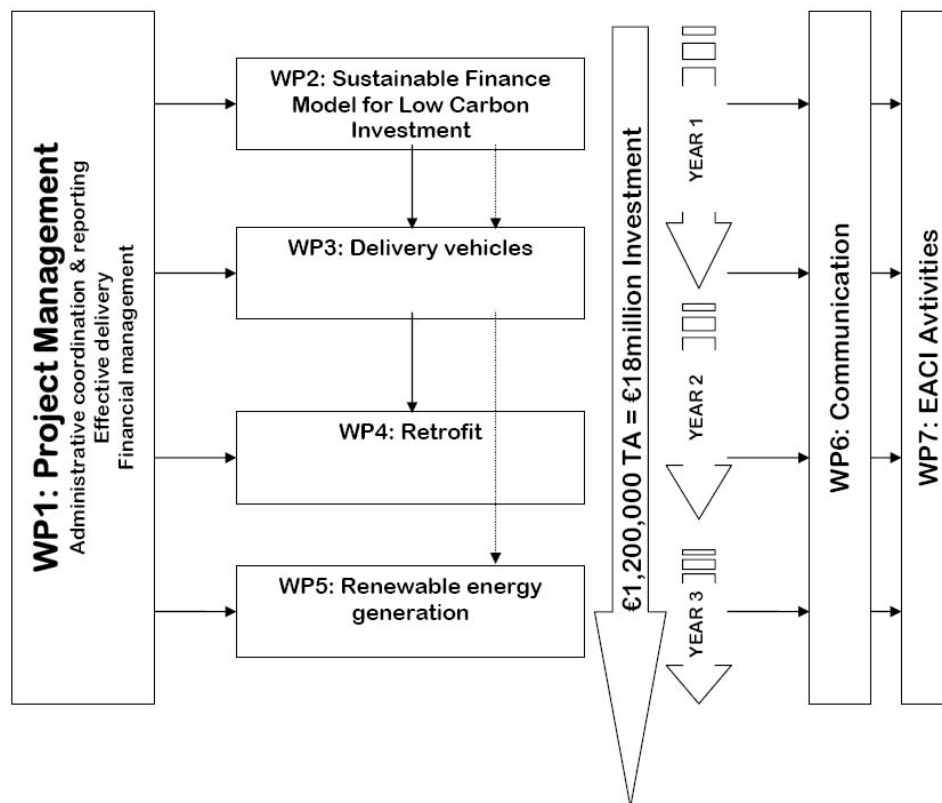
3.8 A further sub-contractor may be the Low Carbon Development Initiative (LCDI) who we are currently working with the City Council on the District Heating Project. Their role could be supporting the Local Authorities to develop the business cases for the energy generating projects in Cambridge and St. Neots.

3.9 The partnership has proposed a three-year programme worth of up to €1.2million (£1 million) to create the financial model and delivery vehicles required for an investment programme of approx. €23million (£20.3 million) in renewable energy infrastructure.

3.10 The project will prepare, mobilise finance and launch investments to deliver:

- A finance model which aligns private and public sector investment to support low carbon infrastructure investment
- A Community Energy Fund (CEF) to collect developer contributions from the delivery of new housing (we would need to be confident that this was consistent with our policies and processes on the collection and use of developer contributions).
- An Energy Services Company (ESCO) (or appropriate mechanism) to deliver investments and infrastructure
- A mechanism to deliver retrofit schemes for housing
- Delivery of an Investment Programme comprising ten local projects

3.11 The diagram below illustrates the seven work packages in the programme – the City Council’s primary delivery focus would be projects four and five. Year 1 is 2012.



3.12 Benefits of engaging in the project

- Access to funding to pay for a portion of the costs of the skills, knowledge and capacity to help deliver low carbon infrastructure projects at the community scale – this seems to be the principal benefit to me, i.e. gaining access to EU funding to pay for continued expert work on the district heating project which the LCDI has been doing to date with ERDF funding (which runs out in March 2012).
 - The City Council would only get a maximum of 75% of the cost, i.e. around £97,000 on the current budget in the bid, (being revisited over the next few weeks). Obviously the more the City

Council draws down, the more it is liable for if it does not get to the tender stage (see risks below), assuming we can negotiate a consortium agreement that limits our liability.

- Establishing a pot of money to invest in public sector low carbon infrastructure projects (Community Energy Fund).
- Building links with the investment community to share understanding of the key risk to delivering retrofit and energy generating projects.
- Opportunity to work with Government and business to feed into the Green Deal (which similarly aims to stimulate the widescale take up of low carbon technologies) on the risk of delivering retrofit at scale and on hard to treat properties to help the investing community to understand investment payback and internal rate of return (IRR).
- Reducing carbon emissions locally and (in the case of retrofit) potentially contributing to tackling fuel poverty
- Delivering energy generating projects as a means to support energy security locally
- Understanding the skills and knowledge required to support the growth of the low carbon economy
- Stimulating the supply chain
- Demonstrating leadership of the low carbon agenda

3.13 Project Risks

- Cambridge City Council currently has a budget allocation in the programme of approximately €130,000 over three years as identified in the Bid document. This is derived from an estimate of the number of hours required to work on the project by people in various paybands.
 - The Council would be allowed to claim up to 75% of these staff costs (but would need to fund the remaining 25% itself), assuming it could prove that work of that duration / value had been carried out on these projects.
 - Notionally these would be costs associated with council staff working on these projects, but it appears possible that the Council could claim for costs of sub-contractors (such as the LCDI), if this were negotiated at the set-up phase.
- Should the Council be unable to deliver the projects in the Investment Programme (i.e. if it did not go out to tender for work worth 15 times the EU funding within three years of the project starting), it would either have to prove it had delivered other projects of similar value and delivering similar carbon savings, or pay the EU money back. One can view this as the partners having to bear all the risk of bringing a viable investment project to the market.

- Depending on how the consortium agreement between the partners is written, partners including the City Council may share the liability for delivery (or clawback) of the whole £1million, or may seek to limit their liability to their own projects (that is still subject to negotiation).
- Delivery of the Investment Programme is defined as ‘contracts out to tender to the value of the Investment Programme’ – it does not mean that the projects are built and completed. If we got to the tender stage on the district heating scheme it would easily meet the 15 times multiplier.
- The Project must be delivered (i.e. out to tender) by December 2014. This is a three year project so the timescales will be challenging all the way through. This is particularly true for a small authority like Cambridge City Council going through the scale of change and financial challenges we are facing in this period.
- Delivering the Investment Programme is challenging on a number of fronts including:
 - Establishing feasibility and business case for projects (*after we have committed to the programme!*)
 - Attracting the private sector finance or loans to invest in the delivery of the project
 - Timescales of the EU project
 - officer capacity to contribute to / project manage the development and delivery of these schemes
- Potentially complex and lengthy procurement issues, particularly to comply with EU rules and guidance.
- The management of the risks is central to the EU project management. It will be important to establish the feasibility of the projects early. If projects are not viable alternative options found and negotiated with the EU or agreement to reduce the Technical Assistance.
- We will need to keep an eye on the delivery proposals of the individual projects to ensure that implementation plans meet other environmental criteria (e.g. air quality, particularly with regard to the district heating plant).
- We would still need to resource the delivery and management of these projects, once we had awarded the tender. Again, there may be capacity issues.
- There may be implications for HRA self-financing – there could be a potential impact (from the retrofit project) on the size / terms of loan available to us.

- The simple number and complexity of issues to be resolved presents a risk, along with the volume and value of officer time to resolve them. There are known unknowns (e.g. who we might end up borrowing the capital from to deliver the projects, on what terms) and unknown unknowns.

3.14 Project Budget

- The Technical Assistance is for €1.2million. Of this 25% is matched by the Partnership through staff time. This equates to €300,000 in total for all the partners.
- Each partner is allocated a different technical assistance budget according to the tasks and investment programme commitments. So each partner has a different match fund commitment.
- There is a favourable overhead of 60% on staff time allocated by partners into the project. The project partnership will need to agree how to manage this overhead as there will be options of how to best use this for the project.
- The technical assistance must demonstrate 15 times leverage. This means that at least €18million worth of contracts will need to be tendered by the end of the Project, across all the schemes being delivered by all the partners.

3.15 Next steps

The City Council and other local authority partners are being asked by the Horizons team to provide “political sign off” as part of their negotiation with the EU.

3.16 Consideration

3.16.1 Participation in this project would potentially plug us into the development of financial models and delivery vehicles that could deliver these (and future) large scale low energy projects; and provide funding for the expertise to work up the feasibility of the projects – particularly the District Heating project – further. The outcomes and benefits this project is intended to deliver are in line with the Council’s vision of Cambridge as a city at the forefront of low carbon living.

3.16.2 The district heating scheme is a project we would like to take forward, subject to its viability and payback to the Council. This will become clearer with receipt of a technical report from consultants commissioned by the LCDI which is due before the end of October.

3.16.3 The retrofit projects were submitted at the initial bid stage as the Council was mindful of their potential contribution to carbon reduction, energy efficiency and fuel poverty ambitions in the residential sector. However, they are not currently part of the Council's formal forward work programme, and not having had the capacity to investigate feasibility or funding further at this stage the Council may not feel able to make a firm commitment to delivering those schemes in the timescale required. It would be useful to learn the lessons around financing and delivering this scale of retrofit from the other schemes being taken forward by partners as part of this project, as the Council may wish to pursue its own retrofit schemes at a later date.

3.16.4 There still seems to be a number of crucial aspects to negotiate, particularly around the consortium agreement (e.g. whether partners share each others' risks, and if not whether individual partners can reasonably expect access to the benefits of the generic activity such as the University's work on financial models) and governance.

3.16.5 There would need to be negotiations around governance of this EU programme, the Low Carbon Hub itself (which is similar but different, e.g. the University is not formally a partner in the EU programme, but is a leading light in the Low Carbon Hub), any ESCO that was set up to deliver projects and any separate governance arrangements that we might want to have in place e.g. for the District Heating Project.

3.16.6 As with any partnership activity, there are benefits ("bundling" with other partners' projects to spread the risk and create a scale of programme that attracts workers, investors etc.) and downsides (presumably we would be sharing decision-making, and potentially benefits, with our partners, for instance).

3.16.7 There are also the strictures of European Funding, i.e. we have to deliver whatever goes in the final agreement in terms of projects, and have to work within the constraints of what are allowable costs, and how those are managed and attributed within the partnership.

3.16.8 If we decide not to sign up to the project now, we would carry on as we are with these schemes, without access to the technical expertise that the EU funding might buy. Without this EU funding, a budget bid may be necessary to provide the capacity to progress projects such as the district heating scheme. We may also suffer adverse reputational impact among partners (and our withdrawal *could* potentially impact on the viability or attractiveness of the programme as a whole to the EU).

3.17 Summary

3.17.1 On balance, the officer view is that this project could be useful to our aspirations to develop the district heating scheme, subject to its feasibility. The retrofit schemes were offered up initially without a full

understanding of the implications of this EU funding programme, and officers are concerned about capacity to deliver the schemes.

3.17.2 However, taking into account the risks and uncertainties, it might be prudent to give support in principle to the City Council's participation in the district heating scheme work package (and other work packages that do not incur a financial liability), subject to a number of conditions.

3.17.3 Conditions should include the following:

- The City Council's financial liability being limited to the cash it has received from the EU
- The partnership governance arrangements and consortium agreement being negotiated to the City Council's satisfaction
- The ability to sub-contract to the Low Carbon Development Initiative or similar.
- A favourable report on the viability of the district heating scheme (report due by end October 2011).

4. Implications

(a) Financial Implications

Participation in this project could gain access to EU funding worth around £100,000, subject to various constraints and the delivery of match funding (in the form of staff time) to the value of 25%.

The aims of the project are to establish financial models and access to markets and investors that could potentially provide financing for major schemes potentially to the value of £4 million for the district heating scheme.

If we do not progress the projects in the work programme to tender stage within three years we would be liable to pay back the EU funding we had received (and potentially a share of the total partnership funding, depending on how the consortium agreement is negotiated).

(b) Staffing Implications (if not covered in Consultations Section)

Staff time would be required to negotiate the detail of the work programme and the consortium agreement, to manage delivery of the work packages, and to take part in partnership governance and management arrangements. Staff time to a value of 25% of the EU funding would be required to match the EU contribution.

(c) Equal Opportunities Implications

A light touch equal opportunities impact assessment leads officers to believe there would be no adverse impacts on any particular sector of the community if the recommendation is adopted.

Not pursuing the retrofit schemes means we would not realise the benefits for fuel poor tenants, but since we do not have the funding in place nor potentially the capacity to pursue this scheme, officers believe the potential costs, risks and challenges outweigh this potential benefit.

(d) Environmental Implications

This project, if successfully delivered, would have a high positive climate change impact by delivering a low carbon energy supply for the City Council and other partners in the district heating scheme.

(e) Consultation

No formal consultation has taken place on these proposals. If the district heating scheme goes forward, consultation with partners and other stakeholders would continue.

(f) Community Safety

There are no discernable community safety impacts of this proposal

5. Background papers

These background papers were used in the preparation of this report: Documents provided by Cambridgeshire Horizons including EU bid and work programme.

6. Appendices

7. Inspection of papers

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

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