

Cabinet



Forest Heath
District Council

Title of Report:	West Suffolk Community Energy Plan - Update	
Report No:	CAB/FH/16/014	
Report to and date:	Cabinet	5 April 2016
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Purpose of report:	<p>To provide an update on progress towards delivering the opportunities set out in the West Suffolk Community Energy Plan approved by Forest Heath District Council, in partnership with St Edmundsbury Borough Council, in December 2014.</p> <p>This report summarises the progress made since the Plan's adoption and also makes recommendations for taking forward the previously approved investment programme.</p>	
Recommendation:	It is <u>RECOMMENDED</u> that the capital allocation approved for the development of a rent-a-roof solar scheme for business as agreed by the Council (Report No CAB/FH/14/010 dated 9 December 2014) be extended to support such investment schemes as set out in Section 1.3 of the report based on renewable power, heat and energy efficiency financing.	
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input checked="" type="checkbox"/></p> <p>No, it is not a Key Decision - <input type="checkbox"/></p> <p>(a) <i>A key decision means an executive decision which, pending any further guidance from the Secretary of State, is likely to:</i></p> <p>(i) <i>be significant in terms of its effects on</i></p>	

	<p><i>communities living or working in an area in the Borough/District; or</i></p> <p>(ii) <i>result in any new expenditure, income or savings of more than £50,000 in relation to the Council's revenue budget or capital programme;</i></p>		
<p><i>The decisions made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is included on the Decisions Plan.</i></p>			
Consultation:	See paragraphs 3.1-3.4 of the supporting reports		
Alternative option(s):	See section 3		
Implications:			
Are there any financial implications? <i>If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> • The recommendations propose a re-alignment of already approved capital provision		
Are there any staffing implications? <i>If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Are there any ICT implications? <i>If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Are there any legal and/or policy implications? <i>If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Are there any equality implications? <i>If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
Financial - The projects do not achieve the predicted financial returns	High	Conservative assumptions made. Industry advice has been sought in developing the financial models. Project investment will be tightly controlled to achieve highest support Tariffs, or cease project investment should Government cut the tariffs to make the financial model unsustainable	Medium
Legal - Unable to gain permissions and licences to operate	High	Seek legal advice before progressing options	Medium
Economic - lack of market demand	Medium	Carry out soft market testing. Refine the offer and go to test market again before launching	Low

Technological – Complexity of the technologies	Medium	Initial focus is on a mature, low technological risk.	Low
Community – Public concern. Lack of effective engagement and communication to explain and win support	High	Develop an engagement and communications plan	Medium
Ward(s) affected:	All Wards		
Background papers: <i>(all background papers are to be published on the website and a link included)</i>	Cabinet – 9 December 2014 Report No CAB/FH/14/010		
Documents attached:	None		

1. Key issues and reasons for recommendation(s)

1.1 Background

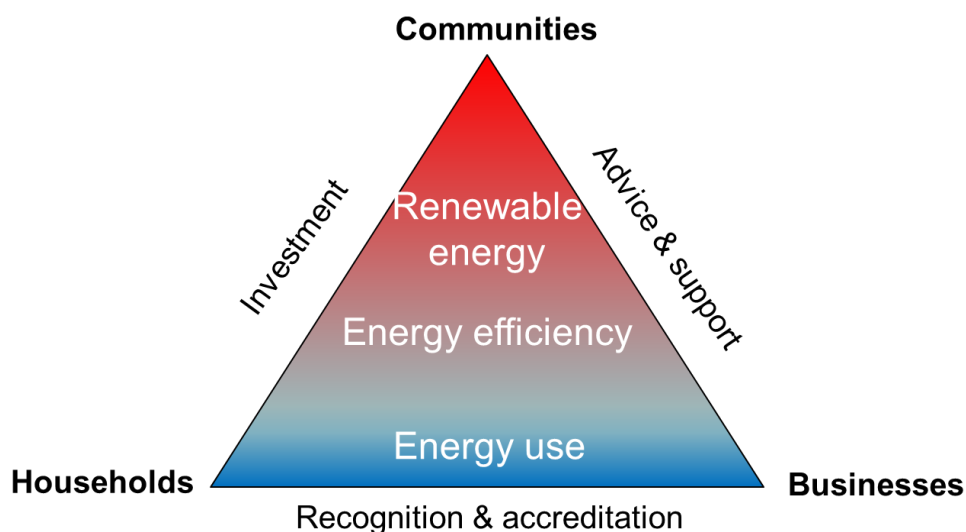
1.1.1 In December 2014, the Councils of Forest Heath District Council and St Edmundsbury Borough Council approved the implementation of the West Suffolk Community Energy Plan. Improvements in energy efficiency deliver immediate savings generally with short financial paybacks. In addition, achieving certain levels of building energy efficiency is a requirement for the highest renewable energy tariffs.

The Councils' decision in 2014 set out the shared aim for all in West Suffolk to be able to make sustainable energy choices, reduce the impact of energy cost volatility and move from fossil fuels. Under the Community Energy Plan, the Councils have been working to combine current energy efficiency work with a renewable energy investment programme to be able to fulfil the following outcomes:

- A long term, sustainable source of revenue for the Councils
- Households, businesses and communities in West Suffolk which are less reliant on fossil-based energy
- Locally-owned renewable energy generation to the benefit of the local taxpayer.

1.1.2 This approach to Community Energy comprises:

- Support to residents to insulate their homes and improve energy efficiency – delivered through our participation and promotion of schemes as they become available
- Support to vulnerable residents during the winter – delivered under the Suffolk Warm Homes Healthy People programme
- Resource efficiency advice and support to businesses and communities
- Capital funding to improve business energy efficiency – using grant aid to unlock other capital within the business or from elsewhere
- Capital financing of renewable energy in the community.



1.2 Progress to date

1.2.1 With regards to local energy generation, a range of opportunities were identified during the development of the Community Energy Plan (Appendix 1

of CAB/FH/14/010 dated 9 December 2014 refer).

A summary of progress made to deliver these opportunities is set out below.

1.2.2 Opportunity 1 - Developing more solar on Council property

Table 1 sets out the opportunities identified in Report CAB/FH/14/010 along with the actual development costs and projected performance following installation.

Site/item	Projected Capital investment	Actual Capital investment	Annual income/Savings for the Council ¹		IRR ² for the Council/payback	
			Year 1 Projected	Year 1 Revised	Projected	Revised
Newmarket Leisure Centre – Solar PV	£122,000	£128,500	£10,500	£13,500 ³	10% 10 years	10.5% 9 years
Brandon Leisure Centre – Solar PV	£121,000	£126,500	£10,500	£13,000 ²	10% 10 years	11.5% 8 years
Guineas Car Park - lighting upgrade	£100,000 (including £75,000 capital funding) ⁴	£43,000 ⁵	£25,000	£11,200	21% 4 years	20% 4 years

Table 1: Schemes delivered in Forest Heath

1.2.3 Opportunity 2 - Developing a “rent-a-roof” solar scheme for homes

This workstream has not been progressed due to changes in the Government’s Feed-in Tariff during Winter 2015 significantly affecting the financial viability. The scheme will be reviewed again during 2016 to see if, with market pricing adjustment, a viable business model exists.

1.2.4 Opportunity 3 - Developing a “rent-a-roof” solar scheme for local business

The West Suffolk Solar for Business service was launched in June 2015. A three year “invest to generate income” programme was approved with a capital provision made by the Council of £540,000 per year.

At the time of reporting for the sites that have been completed energy sales contracts have been signed with the host businesses such that they receive discounted electricity, typically 30% cheaper than existing grid tariffs.

The capital investment to date has been £166,000 which is projected to return an annual income for the Council of £15,500 based on a 9 year average

¹ The Feed-In Tariff is index linked over 20 years

² IRR, or Internal Rate of Return, is an indicator of the net benefits expected from a project over its lifetime, expressed as a percentage comparable to the interest rates.

³ This excludes any financial savings delivered to Abbeycroft Leisure Trust

⁴ £25,000 of S106 obligation earmarked

⁵ The scheme was cheaper than predicted since the technology costs have decreased significantly. S106 obligation was used to fund this project

payback and internal Rate of Return of 10.02%.

Development of this service has been lower than expected because the Government cut the Feed-In Tariff beyond industry expectations in January 2016 following its announcement to review tariffs in August 2015. However, a review of scheme pricing and the remaining potential market has shown that although the potential development of further sites will be significantly curtailed there still exists a niche market which should be able to achieve investment returns between 7-9% after accounting for discounted energy savings for the host companies of around 20-25%.

1.2.5 **Opportunity 4 - Buying an operational solar farm**

This workstream is the subject of separate reporting.

1.2.6 **Opportunity 5 - Building a new solar farm**

This workstream has not been progressed since no suitable sites have been identified.

1.2.7 **Opportunity 6 - Buying electricity from a local solar farm**

This workstream has not been progressed since no suitable sites have been identified.

1.2.8 **Opportunity 7 - Brokering investment in renewable energy on behalf of local communities**

This workstream has not been progressed since no suitable opportunities have been identified.

An alternative proposal was identified whereby a national energy supplier, OVO Energy, would supply discounted domestic electricity tariffs should the council be able to guarantee a minimum 10,000 customers over 5 years. This opportunity is currently being evaluated with our local authority partners in Suffolk.

1.3 **Other investment opportunities**

1.3.1 Feasibility studies have been undertaken to develop renewable heat opportunities using the Government's Renewable Heat Incentive. The studies have identified the following opportunities:

a) *LED lighting replacement at leisure centres operated by Abbeycroft Leisure Centre* – the opportunity has been identified to replace existing fluorescent lighting with LED technology lighting which will operate at a much low energy consumption, longer life and lower maintenance cost. The initial feasibility study estimates the capital cost at around £140,000 to undertake the replacement as appropriate at the Newmarket and Brandon Leisure Centres. This is predicted to deliver a saving in excess of £27,000 each year giving a payback of around 5 years and Internal Rate of Return of 15% over the 10 year operating life. In-principle agreement has been reached with Abbeycroft Leisure Trust to progress the work with savings taken into account through a reduction the annual management fee.

b) *A renewable heating offer for business* based on the same operating principles to our rent-a-roof scheme, "Solar for Business" – Internal Rate of Returns are predicted to be in the region of 6-15%, with

paybacks of around 5-10 years over a 20 year project life. These returns are generally in line with investment expectations of the Medium Term Financial Strategy.

The offer would be open to all businesses across West Suffolk although to ensure value for money, it would be necessary to apply eligibility criteria. This would include technical criteria relating to the existing heat provision at the host business and criteria regarding the ownership of the building and business heat use.

Market research has shown that there is interest from businesses, although this may be limited by technical aspects, like business energy profile and building characteristics, the appetite of the key decision makers in the business and the level of financial return that could be offered.

- c) *Energy efficiency financing for Business* - Research has been undertaken exploring the financing of energy efficiency improvements in local businesses who lack the available capital. The Councils already promotes advice from the Suffolk Climate Change Partnership to support local businesses identify energy efficiency improvements. We also provide in-house technical expertise to businesses wishing to implement improvements. Where businesses lack the necessary capital, the Councils could provide the necessary finance to businesses based on an agreed interest rate. This would be funded through energy savings. Our research suggests that there is a market for this “*energy performance contract*” or *financing arrangement*.

- 1.3.2 If approved, the investment opportunities set out in paragraph 1.3.1 could be financed by extending the scope of the existing capital provision for the Opportunity 3, Business rent-a-roof scheme, with the objective of generating similar projected returns along with supporting local businesses and cutting carbon emissions (See Recommendation (c) of Report CAB/FH/14/010).

2. Additional supporting information

- 2.1 A separate report will be prepared setting out how we have delivered the householder and business energy efficiency component of the Community Energy Plan.

As stated in the supporting reports, the proposals work towards bringing together economic, social and environmental benefits by:

- Delivering sustainable, long term financial benefit for the Council to achieve its Medium Term Financial Strategy
- Showing community leadership by helping to deliver legally-binding national targets to reduce greenhouse gas emissions and to generate more electricity from renewable energy
- Developing wider economic benefits, for example by using local suppliers during the construction phase, and supporting local businesses taking up energy efficiency and renewable energy
- Helping local communities access low cost energy.

3. Consultation

- 3.1 Although no formal consultation has been undertaken on the options, informal discussions have been held with a range of potential stakeholders to gather information to assess each option and test the market.

- An engagement and communications plan has been put together based on the previously approved investment programme. This will be updated to incorporate the proposed investments should they be approved.
- 3.2

4. Alternative option(s)

4.1 Doing nothing

Lack of investment capital has been cited as a block to taking action to improve energy efficiency and uptake of renewable energy generation. This block would continue to hold back our communities and businesses if the Council chose not to support the opportunities presented in this report.

5. Financial implications

- 5.1 The viable options are predicted to generate stable, long term revenue which would contribute to meeting the Council's Medium Financial Strategy.

- 5.2 In addition, local communities and businesses partnering with the Council would receive discounted power and heat, enhancing the overall value of the projects.

- 5.3 Although energy costs have dropped in the last 12 months, it is difficult to predict long-term trends of energy prices. The demand for energy is probably the single most significant factor affecting price. The ability to hedge against energy price volatility would allow participating businesses and communities the ability to plan their utility budgets with more confidence over the longer term.

- 5.4 The invest-to-generate-income projects are modelled based on the Public Works Loan Board borrowing rate which is currently available at approximately 3.5-4%. These investments have been assessed against the return on capital investment needed to cover borrowing, taking a prudent view on servicing capital debt. However, the Council's Treasury Management activities will determine when the Council will actually need to enter into external borrowing.

6. Staffing implications

- 6.1 Subject to approval, the current project delivery team will take forward any specific proposals that are viable alongside existing provision. This may place additional capacity and technical demands on existing staff. This will be monitored and project value will be assessed to determine whether additional staff provision could be funded by the investment return if greater than predicted.

7. Legal and policy implications

- 7.1 The Council has the power to generate and sell electricity and heat as described in this report by virtue of the Local Government (Miscellaneous

Provisions) Act 1976 (as amended in 2010).

- 7.2 Legal advice has been sought to establish whether any of the options would require a trading company to be established. Furthermore, there may be circumstances where a special purpose vehicle may be required, for example where a joint venture is the best approach to delivering one of the viable options. These issues will be the subject of a separate report.

Advice has already been sought to understand the costs and benefits including procurement, taxation and insurance implications.

- 7.3 The proposals contribute positively to all three of the Council's strategic priorities as outlined in the supporting reports.

8. Equality implications

- 8.1 Please refer to the supporting reports.