

**To:** City Executive Board

**Date:** 20 September 2012

**Report of:** Environmental Development/Environmental Sustainability

**Title of Report:** EU funding bid to support low carbon projects

## **Summary and Recommendations**

**Purpose of report:** This report details negotiations for grant funding from the European Commission via the Intelligent Energy – Europe (IEE) programme and seeks authority to proceed. The aim of the programme is to support European wide targets on achieving clean and secure energy. Oxford City Council is lead authority (working in partnership with Low Carbon Oxford) in a bid with Oxfordshire County Council for revenue funding of £1.3 million. If approved the funding would provide technical expertise to mobilise investment in local energy infrastructure in a project called Oxfordshire Total Refit

**Key Decision: No**

**Executive lead member:** Cllr John Tanner (Cleaner, Greener Oxford)

**Policy Framework:** Cleaner, Greener Oxford

**Recommendation(s): The City Executive Board are asked to:**

- a) Note the progress of the bid to the EU Intelligent Energy Europe (IEE) programme and the associated opportunities and risks;
- b) Authorise officers to complete the negotiations with a view to securing funding as detailed in the report;
- c) In the event that funding is approved by the EU, delegate the Director of Community Services, in consultation with the Monitoring Officer and Section 151 officer, authority to enter into a grant agreement with the European Commission body the European Agency on Competitiveness and Innovation (EACI).

## **Introduction and background**

1. The 2007-2013 Intelligent Energy – Europe (IEE) programme, worth €730 million, forms part of the European Union's (EU) Competitiveness and Innovation framework Programme (CIP). The programme provides funding which covers up to 75% of the eligible costs of successful project applications, the remaining 25% is met from the existing work of the Council's sustainability team, Low Carbon Oxford and Low Carbon Hub.
2. IEE's aim is to accelerate uptake of sustainable energy technologies, through increasing the level of investment in them and the demand for sustainable energy. One of the biggest challenges especially for small and medium-sized local authorities is to prepare sustainable energy projects which are big enough to be considered 'bankable' by financial institutions and/or suitable for grant funding by EU financing facilities. This grant funding is intended to bridge that gap.
3. In May 2011 Oxford City Council submitted a bid for funding under the first call for funding around the theme of 'Mobilising Local Energy Action'. The bid was titled 'Oxfordshire Total Refit' (OTR).
4. In August 2011 the City Council was advised that the bid had received positive evaluation but given budget limits the proposal was placed on a reserve list meaning that if additional funding became available we would be called to negotiate. It was not until the 25 June 2012 the City Council proposal was notified that it was formally being called to negotiate for funding.
5. This round of funding did not allow organisations other than local authorities to respond to the call for funding. Oxford City Council is the lead for the funding bid working with Oxfordshire County Council. However, the bid expressly identifies that the City Council's partner on delivery is the Low Carbon Hub, who will use their experience and expertise gained from their community work in Oxford to deliver work around building community scale investment. For that reason there is no procurement exercise to work with the Low Carbon Hub.
6. This approval by CEB to receive is sought in parallel to final negotiations for funding with the European Commission, therefore absolute and final cost figures are not available. Diagram 1 shows the approximate cost breakdown:

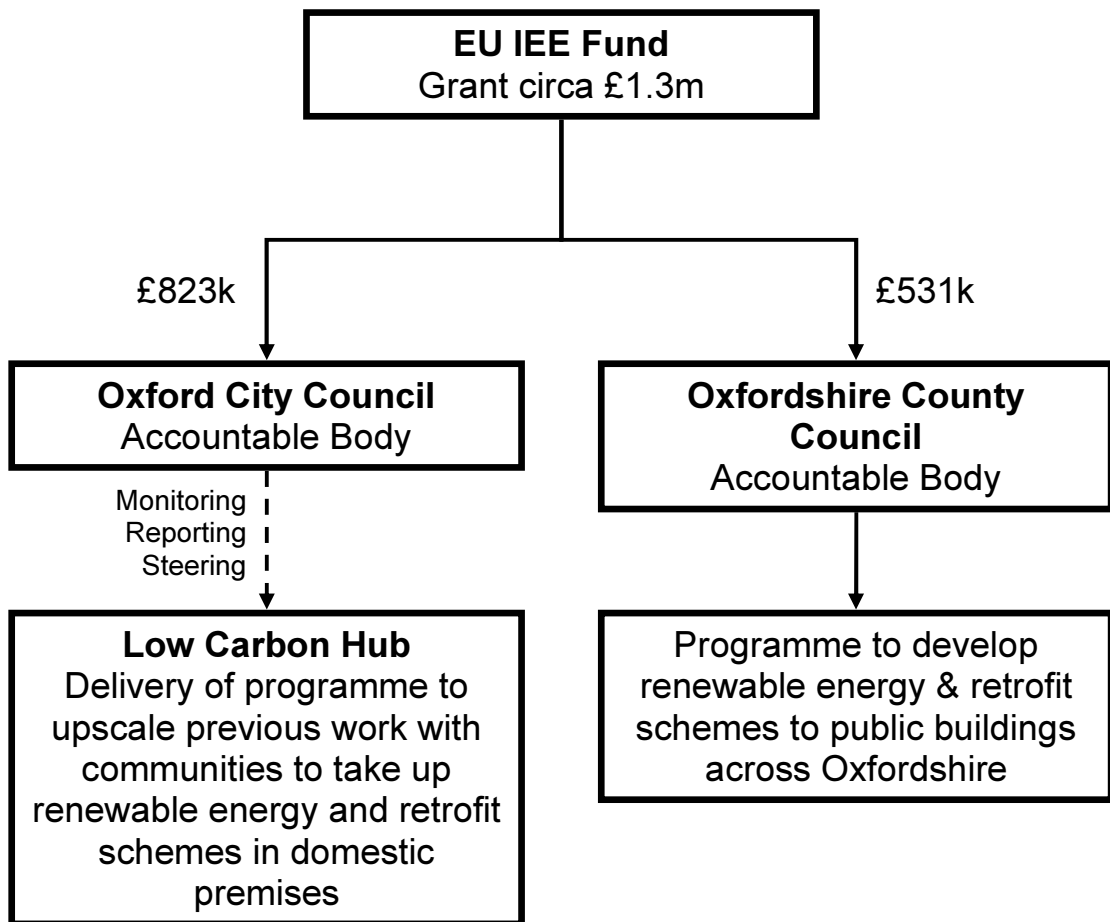


Diagram 1

7. In the UK, the Intelligent Energy – Europe programme has concluded negotiations with Newcastle City Council and Cambridgeshire County Council. Newcastle City Council is funded to develop the ‘Warm Up North’ regional project to improve the energy efficiency of homes in the North East. Cambridgeshire County Council is leading a consortium of District Councils seeking to facilitate an investment programme split between energy efficiency of public sector buildings and council homes and low carbon energy generation. Officers have made contact with these authorities to learn from their experiences.
8. The bid to Intelligent Energy – Europe is to provide Oxford City Council and Oxfordshire County Council with technical assistance to mobilise large scale investment in local energy infrastructure. The bid, as submitted in May 2011, was for £1.35m (€1.54m at May 2011 exchange rates) of revenue funding. This is to support a programme of activity to support community scale investment in renewable energy projects alongside commercial scale investment starting initially with the public estate (City Council, County Council and NHS) but developing into the private sector.
9. Oxford City Council, Oxfordshire County Council and The Low Carbon Hub, with the EU project partners, will work with investors and the commercial sector to broker business relationships and investment to develop Oxfordshire’s potential to deliver renewable energy projects.

10. This funding will be employed to:

- Make best use of market incentives e.g. Renewable Heat Incentive and Feed in Tariff, capturing this value for Oxford and the wider area of Oxfordshire and providing a platform for the sector to further develop and grow;
- Help unlock market inertia in the potentially huge energy retrofit market where consumers lack the information they need to make consumer decisions, help build capacity and trust in a highly fragmented supply side; and
- Help support the broader development of the sector in Oxford, and deliver the creation of local jobs as the money leverages a multiplier effect in terms of contracts awarded.

11. This project will enable Oxford City Council, Oxfordshire County Council and the Low Carbon Hub (and a range of community partners) to:

- Deliver projects sooner and cheaper than if partners proceeded without EU funding; and
- Deliver long term energy savings year on year for the wider public estate. Negotiation with the European Agency on Competitiveness and Innovation (EACI) have confirmed the key deliverables as:
  - a. Developing an OxFutures Fund, a special purpose financial vehicle for major energy and low carbon infrastructure development across the City of Oxford and Oxfordshire;
  - b. Developing The Low Carbon Hub, a social enterprise bringing forward and supporting investment in domestic and community-scale renewable energy projects in the City of Oxford and Oxfordshire;
  - c. Developing investment in community-owned energy projects;
  - d. Enabling investment in whole house domestic retrofits by aligning the Green Deal, Oxford City's Green Deal plus, Feed in Tariff and Renewable Heat Incentive; and
  - e. Supporting the local economy and training through the implementation of renewable energy projects.

### **Carbon Impact**

12. This work to assist the deployment of renewable projects across Oxford and Oxfordshire will have a positive impact on reducing CO<sub>2</sub> emissions. All figures are estimates given that this work is to develop projects but for the City led element of the project with the Low Carbon Hub the projection is that around 16,500 tCO<sub>2</sub> is the reduction per annum from the investments.

## **Resource implications**

13. As an accountable body the City Council will have commitments in terms of monitoring and reporting. These will be funded via the “overhead” element of the grant which will be retained by the City Council.

## **Risk and legal implications**

14. The City and County Councils are both “accountable bodies” for the grant directed through them. This means that the City council’s exposure is limited to circa £825k. The key risk is around non-delivery and the potential claw back of grant funding. This would occur if the parties failed without good reason to deliver the expected 15:1 capital leverage required by the IEE. That is if the grant monies did not lead to an investment in renewable energy and energy efficiency retrofit schemes fifteen times greater than the grant funding.
15. The value of the grant funding flowing to the City Council is likely to be circa £825,000 which would mean that we would need to secure the commitment of £12,345,000 worth of investment via the Low Carbon Hub over the three year programme. The Low Carbon Hub is confident that this is achievable and have in place a pipeline of projects totalling £10,266,000 of micro-hydro and Solar PV projects.
16. Payments from the European Commission are phased over three years on the basis of a 30% payment in Year 1, 30% payment in Year 2 and 40% payment in Year 3. Payment is only drawn down from the Commission if Project Officers in Brussels are satisfied that the overall project is meeting agreed milestones.
17. To mitigate risk the City Council will control the flow of funds to ensure that they are not over extended. It is proposed that grant funding is transferred to the Low Carbon Hub on a quarterly arrears basis. On a quarterly basis the maximum exposure is circa £48,000. This alongside a monthly reporting exercise on milestones will ensure that any non-delivery of milestones is minimised. The European Commission will release funding to the City Council in three phases and grant will only be released if the EU have confidence that delivery is likely. At City Council level it is proposed that Finance receive quarterly reports on progress against targets and the Head of Finance (and Section 151 Officer) will sign off the release of funding to the Low Carbon Hub.
18. The grant payment is negotiated and payment is made in Euros with the exchange rate fixed at the time contracts between Oxford City Council and the European Commission are completed and signed. Therefore in the negotiation phase the City Council is seeking an agreed exchange rate which is high Euros to the pound sterling, to protect the project from any downward movement in value.

19. The value of the County Council grant funding is likely to be £531,000 which means that it would need to secure £7,965,000 worth of investment. The County Council will manage the risk in respect of this.
20. Each partner has a budget comprising staff cost, indirect eligible cost (at 60% of staff cost) and travel costs. Oxford City Council also has sub-contracting cost and other costs (e.g. communications) incurred on behalf of all partners. These shared costs are necessary for enabling investments but are not directly linked to individual investment project e.g. development of delivery vehicles and legal advice on procurement models. The grant available will cover the City Councils costs.
21. If a partner is unable to demonstrate the investment agreed, the grant received may need to be paid back. If some investment is delivered, any claw-back would be pro-rata to the value undelivered. As the budget relates only to staff cost for partners, in practice claw-back will mean staff time invested in the project will not be paid for.
22. Ongoing dialogue continues with officers in the project partnership to ensure that the project ideas are robust, risks are minimised and the projects will bring the energy benefits sought. In addition, a set of reserve projects is being prepared for consideration as part of, or in place of, any projects.

### **Legal issues**

23. The Council is able to enter into such an arrangement under the powers of the "well-being" provisions of s2 Local Government Act 2000.
24. Careful consideration has been given to EU "state aid" and procurement issues due to the pass-ported of grant funding to Low Carbon Hub CIC an independent Community Interest Company without a competitive process.
25. We are satisfied that the risk of challenge is low and the council's position in this respect would be defensible due to:-
  - a. The grant bid is not viable without the co-operation of Low Carbon Hub bringing their experience and expertise to the proposal
  - b. The market for such services is weak and under-developed – the very reason for the EU funding.
  - c. The rate of grant funding to Low Carbon Hub being less than 100% is below the threshold to be considered "state aid" to a market competitor if one existed.

### **Equality and diversity implications**

26. The programmes will be developed to ensure that there is no inherent discrimination and that there are aspects developed to engage low income households where there is over representation of house holds with protected characteristics.

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