

To: City Executive Board
Date: 10 September 2015
Report of: Head of Financial Services
Title of Report: Loan Facility to Low Carbon Hub

Summary and Recommendations

Purpose of report: To report back on the first draw down and repayment of the Council's loan to the Low Carbon Hub agreed by the City Executive Board at its meeting on the 11 June 2014 and recommend subsequent drawdowns.

Key decision Yes

Executive lead member: Councillor Ed Turner, Executive Board Member for Finance, Asset Management and Public Health

Policy Framework: Council's Corporate Plan

Recommendation(s): That the City Executive Board resolves to:

1. Note the success of the first draw down and repayment of the 2014 loan facility, and approves a further draw down from the loan facility as follows:
 - a) 800k secured against solar panel equipment (as in the previous tranche)
 - b) 823k secured against the Hub's income stream from current projects
 - c) that such further draw down be on a 12 month repayment timescale at an interest rate of 5%; and
2. Delegate authority to the Council's Section 151 Officer, in consultation with the Monitoring Officer, to enter into a Supplemental Agreement with the Low Carbon Hub, reflecting the arrangements for the further draw down from the loan facility.

Appendices

- Appendix 1 List of projects facilitated by the first draw down
Appendix 2 List of current projects **(not for publication – commercially sensitive)**
Appendix 3 Pipeline of future projects **(not for publication – commercially sensitive)**

Appendix 4 Risk Register
Background

1. At its meeting on the 11 June 2014 the City Executive Board approved a loan facility for the Low Carbon Hub (the Hub) to fund the development stages of renewable energy projects, repayment being facilitated by the Hub raising equity shares in the project.
2. Authority was delegated to the Council's Section 151 Officer to enter into a loan agreement with the Hub in consultation with the Monitoring Officer and Chief Executive.
3. A loan agreement was subsequently entered into on 20 June 2014, the key aspects of which were:
 - A loan facility of up to £2.3m ;
 - 36 month availability period;
 - drawdown secured against solar panel equipment as it is purchased;
 - drawdowns to be paid back within an expected cycle of 6-9 months;
 - 3 month grace period beyond the initial period, if the amount of equity raised was insufficient to cover the loan.
4. Following execution of the agreement, £676,789.92 was loaned to the Hub between June and December 2014. Of the original £2.3m loan facility, £1,623,210.08 remains.
5. The Hub used the drawn down funds for the development of renewable energy projects in Oxford and across Oxfordshire. These projects contribute to the achievement of the investment targets set in the European Union funded, Intelligent Energy Europe (IEE) grant programme OxFutures. A list of the projects facilitated by the funding is shown in Appendix 1.
6. During the summer of 2014 the Low Carbon Hub IPS, launched a share scheme to raise capital to repay the loan agreement. The share offer was oversubscribed and raised £1.7m.
7. In December 2014 the loan was repaid along with the agreed interest payment of £11,467.93.
8. The loan agreement requires that £500k of benefit is delivered to the City and its residents. This condition was met in the first tranche as follows:
 - £245,610 of investment has been spent on City schools to build 152kw of solar photo voltaic (PV);
 - Hub staff have supported the community groups Oxford North Community Renewables (ONCORE) and West Oxford Community Renewables (WOCORE) to develop solar PV projects on City schools worth £380k;
 - Hub staff are supporting Low Carbon South Oxford and Low Carbon Rosehill & Iffley with schools projects;

- Contributions of time and materials on the Warming Barton external wall insulation project total over £30k;
 - The Hub has contributed staff time to Low Carbon Oxford and the establishment of Good Food Oxford worth £57k.
9. Further benefits to the City would be expected from the second tranche of the loan facility. For example, the Hub is working on projects for biomass heat (the Woodshare project), small heat networks (Hinksey Pool) and grid issues that will be of benefit to the City.

Current status

10. The Hub now has an established income stream that is generated by its current projects, including those facilitated by the first tranche of the loan. This is set out in Appendix 2 (which is not publically available for commercial reasons).
11. A pipeline of new schemes across both the City and County is also in development, as set out in Appendix 3 (which is not publically available for commercial reasons). The majority of the pipeline projects are rooftop solar projects similar to those facilitated by the first drawdown. An exception is the Sandford Hydro project.
12. The Hub has secured £800k of debt finance from Resonance Community Interest Company and Finance South East Ltd to part fund Sandford Hydro. It intends to run another share offer in the Spring of 2016 to raise further capital.
13. In order to fund the rest of the Sandford Hydro project and to facilitate the delivery of the new pipeline of rooftop solar projects the Hub wishes to draw down a second tranche of the loan. It is proposed that the agreement for the second tranche of the loan is as follows:
- £800k to be drawn down in November 2015 and secured against the income stream and asset value of the Hub's current projects;
 - £823,210.08 to be drawn down and secured against solar panel equipment as and when that equipment is purchased (currently £816k is earmarked for specific schemes) as was the case in the first round; and
 - that the repayment period be extended to 364 days at an interest rate of 5% to allow for repayment following a Spring 2016 share offer.

Financial Issues

14. In terms of cashflow the proposal would involve a draw-down of £800k in November 2015 following approval of this proposal by the City Executive Board.

15. The proposed drawdown of the remainder of the Facility is proposed, as last time, to be in accordance with the contract payments to the supplier for installation of the equipment.
16. The table below shows the projected cashflows including the £800k lump sum draw down and the phased draw down which is anticipated to be £816k of the remaining £823k which is available. The table also show the estimated interest payments and the profile of these.

Estimated cash flows

Estimated cash flows													
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Lump Sum draw down			800										800
Panels			50	75	94	101				30	39		389
Inverters			13	19	24	25				8	8		97
Installation				94		127				38	38		297
Pre-development	7	13	4	6			1	2					33
Total	7	13	867	194	118	253	1	2	0	76	85	0	1616
Loan Repayment												-1616	
Cumulative Total	7	20	887	1081	1199	1452	1453	1455	1455	1531	1616	1616	0
Estimated interest receivable	0	0	4	5	5	6	6	6	6	6	7	7	58

17. The cash flows are estimated and will vary according to the contract payments to the supplier although the whole cycle; assuming that the share issue is successful should be no longer 364 days between the first payment to the Hub and repayment of the principle sum to the Council.

The proposed loan to the Hub will have a return of 5%. The Loan is short term and therefore not classed as capital expenditure and hence does not require a capital budget or capital funding as the loan is simply repaid with the proceeds from the share offer within the year.

18. The total amount of interest accruing to the Council as a result of the transaction will amount to around £58k. Put into context, this £58k interest would contribute to around 5% of the Council's overall investment income target.

19. The Hub is contracted by the City Council and County Council to deliver the IEE grant-funded OxFutures programme. The value of the contract from the City Council is £600k over three years to November 2015. The programme is required to raise a minimum of circa £20m investment in energy projects in Oxfordshire by the end Nov 2016. If the minimum investment target is not met, there is a possibility of claw back of part of the grant by the European Union. The Hub's pipeline of projects, which will be financed through the loan facility, will contribute to meeting that target.

Legal Implications

20. In entering into the proposed loan arrangement, the Council can rely on the general power of competence created by s1 Localism Act 2011. This allows the Council to "*do anything that individuals generally may do*", and thus would provide authorisation for the making of a loan of this nature. In addition, making the loan would help to facilitate the Council's compliance with its IEE OxFutures contractual obligations, in regard to generating the required investment gearing from the IEE grant funds received. Most of the proposed scheme projects are located outside the city boundary, but should the City Executive Board wish to pursue this matter the general power of competence would enable the Council to provide this loan facility particularly in the light of the loan agreement which seeks to demonstrate the benefits of the loan to the city and its residents.

21. The key provisions of the loan agreement are those which seek to provide the Council with adequate security to protect its funds. In the first round the Hub did not have sufficient assets against which to secure the loan and so the loan was secured against equipment as it was bought. In this round it is proposed that in addition to maintaining that arrangement for facilitating rooftop solar projects, part of the loan is secured against the portfolio of current installed schemes which has a capital value in itself but also has a revenue stream that provides a rate of return in the region of 9.15%. See Appendix 2 for a full list of projects. A Supplemental

Agreement with the Low Carbon Hub will be drafted to reflect the arrangements relating to the proposed further draw down.

Environmental Benefit

22. Projects facilitated by the first draw down on the loan facility result in a total 404.75kW installed renewable energy capacity and 158 tCO₂ p.a. avoided.
23. The proposed pipeline for the second tranche of the loan facility will deliver around 2MW and **950** tCO₂ p.a. avoided.
24. In addition the community benefit model for funding and delivering these projects acts as a multiplier for further environmental benefits by providing an income stream for the Hub to support communities to deliver their own projects and to develop innovative business models for Oxfordshire's low carbon economy. Further benefits to the city are therefore expected over the £500k already delivered and described in para8.

Risk

25. Key risks are identified in the risk register which is attached at Appendix 4.

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