

To: City Executive Board
Date: 8 August 2016
Report of: Chief Executive
Title of Report: Further Loan Facility to Low Carbon Hub IPS

Summary and recommendations	
Purpose of report:	To consider the approval of a loan to the Low Carbon Hub (IPS) to support the construction of the hydroelectric renewable energy scheme at Sandford and to mitigate the clawback risk around the Intelligent Energy Europe grant arrangements.
Key decision:	Yes
Executive Board Member:	Councillor Ed Turner, Finance, Asset Management and Public Health
Corporate Priority:	None.
Policy Framework:	Corporate Plan
Recommendations: That the City Executive Board resolves to:	
<ol style="list-style-type: none"> 1. Agrees a loan to the Low Carbon Hub IPS of up to £100k at an interest rate of 1% for 3 years specifically to support the construction of the hydroelectric scheme at Sandford. 2. Delegate the authority to enter into an appropriate loan agreement with the Low Carbon Hub (IPS) to the Section 151 Officer in consultation with the Monitoring Officer and Chief Executive. 	
Appendices	
Appendix 1	Confidential – A State Aid Compliance

Introduction and background

1. The Low Carbon Hub (Industrial Provident Society) (“ the Hub IPS”), is a not for profit social enterprise that works to lower carbon emissions across Oxfordshire by helping businesses, the public sector and communities to develop renewable energy projects and reduce energy demand. The organisation was set up in December 2011 and is registered with the Financial Services Authority (FSA). The Hub IPS has no staff or costs other than maintenance contracts for each generation installation.

2. The manpower for implementation and management of the Hub IPS business is supplied under contract from the Low Carbon Hub Community Interest Company (“the CIC”). The CIC is a legal entity registered and regulated at companies house, having a status and structure similar to a company but where the organisation wishes to further social objectives and use their profits for the public good but do not require or who are not eligible for charity status.
3. Both the Low Carbon Hub (IPS) and the Low Carbon Hub (CIC) are forms of co-operative and the Councils Executive Director (Community Services) is Oxford City Council’s nominee to the Hub Board.
4. The Hub partners with local business and the public sector to develop manage and finance renewable energy schemes under a ‘Community Benefit Model’. Funding is raised by the Hub and the renewable scheme managed on behalf of a host organisation in return for which the host gets discounted green electricity and CO2 savings.
5. In June 2014 the Council agreed a loan facility of £2.3 million at 5% repayable by June 2017. A subsequent supplementary agreement made in November 2015 in respect of £1,623,210 of loans yet to be drawn down from the original facility extended the repayment period by a further 364 days to June 2018. . So far projects with a generating capacity of 1.6MWh have been successfully delivered. A total of £462k has been drawn down to date from the supplementary agreement leaving around £1,161,210. Still to be drawn down.
6. These projects count towards the Euro 23M of projects that the council along with the County Council in partnership with the Hub have contracted to deliver with the Intelligent Energy Europe Fund by November 2016. We are getting close to this target but without the Sandford hydroelectric scheme we are likely to fall significantly short of the target initiating a potential clawback in grant awarded to support the scheme. The level of clawback for the City Council without the Sandford scheme is estimated to be Euro 227k. around £193,000 currently
7. In addition to the benefits of mitigating the clawback risk of supporting this scheme it should be recognised that a hydroelectric scheme of this scale on a UK river is innovative and its achievement would be a significant step in bringing forward this technology in the UK.

The Project

8. The project is to deliver a 440 kW hydroelectric scheme on the river Thames just south of Oxford at the Sandford weir. All the necessary permissions are in place and this was one of the last projects in the UK to be pre accredited under the former Feed in Tariff rates. To take advantage of that pre accreditation the project must be operational by September 2017.
9. The forecast annual generation of 1.6GWh is based on historical river flow information. In the 13 year period analysed (from 2000 to 2013) the minimum generation would have been 0.8GWh and the maximum 2.5GWh. It is this generating capacity and the associated income including feed in tariff that drive the business case for the project.

10. As the scheme is preaccredited for feed in tariff once the project is operational it has a guaranteed income stream linked to the retail prices index. At that stage it is anticipated that it will be much easier to raise investor share capital for the scheme.

Financing the Project

11. The Sandford Hydro project will reach financial close based on successful conclusion of legal, technical and documentary due diligence on a £2m loan from the Charity Bank, and £1.2m of equity provided. The equity is made up of:
 - £800k equity released by securing 5-year short-term debt funding against existing Low Carbon Hub solar projects. This funding is supplied by the Resonance Community Shares Underwriting Fund and the Finance South East Community Generation Fund
 - £200k equity from the Low Carbon Hub IPS and CIC
 - £200k equity raised from existing shareholders through a private placement in February 2016
12. Further information on the project and financing thereof can be found in the associated Share Offer document
<http://www.lowcarbonhub.org/news/2016/shareoffer2016>.
13. Currently the share offer cannot reach financial close as there is a short fall in funding of around £100k. This can be described as the additional cost of providing a fish pass for the turbine as required by the Environment Agency but not recognised as a cost in the feed in tariff mechanism. The scheme can only currently progress if that funding is found at zero or as near as possible to zero cost to the scheme due to the requirements of the major lenders to the project.
14. Financial close is pressing as contracts have to be let imminently if the project is to proceed with managed risk towards being operational by the feed in tariff cut-off date.
15. Officers have considered a number of options for supporting the Hub in these circumstances. Briefly these and the reasons not to pursue them are:-
 - Grant from the Council - it was felt that it would be difficult to justify a one off grant of this scale for such a project
 - Investment - This was difficult to support since the limited financial security offered by Low Carbon Hub for the placing of the investment would be considered contrary to the Council's Treasury Management Strategy. The Hub are confident of finding alternative funding in the short to medium term either through grant applications which have been made or through share offers. However, that cannot be guaranteed and therefore the Hub have asked that the Council consider a loan to cover that gap.
16. The loan would be repayable by June 2019 with interest at 1%. As with the existing loan agreement the Low Carbon Hub are at liberty to repay any or all of the loan before the due date with accrued interest without penalty. Security for the loan would be as per section 4 (a) of the existing supplementary agreement dated

November 2015 against 'the income stream and physical assets of the Borrower's existing Community Energy Projects'

Financial Implications

17. The Council currently earns an average of 0.70% on its investments. The proposed loan to Low Carbon Hub will have a return of 1%. The Loan is short term repayable from the proceeds of the share offer. In considering the rate to charge the Council has been mindful of the viability of the scheme as balanced against the return it currently receives from its own investments. Additionally the Council has sought to ensure that the loan facility did not constitute unlawful State Aid, which it has concluded to its satisfaction. Details of this are contained within the Confidential Appendix A.
18. 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
19. The Hub is contracted by the City Council and County Council to deliver the Intelligent Energy Europe grant funded OxFutures programme. The value of the contract from the City Council is £600k over three years to November 2016. The Hub also receives additional funding from the County Council for LCO projects and other funding secured from external investors.
20. The IEE grant funded OxFutures programme is required to raise a minimum of c. Euro 23m 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. This project which would be financed through this loan agreement, at a total cost of £3.2m will contribute significantly to meeting that target.

Legal Implications

21. It is proposed this loan would be made by way of an addition to the existing loan agreement. The key provisions of which seek to provide the Council with adequate security to protect its funds. These include a requirement that all loans be repaid immediately funds are received from scheme investors. If the funds received prove to be insufficient and the Hub is unable to fund the repayment, the Council protects its interests in different ways. In summary these are through the Council taking ownership of the relevant scheme equipment (eg the PV solar panels) and/or through obtaining rights to the FIT income generated. Consideration has also been given to the potential failure of the Low Carbon Hub IPS itself at a point when monies are outstanding. These measures will reduce, but cannot entirely eliminate, the risk arising under the loan facility proposal.
22. The proposed project is just outside the City Council boundary at the Sandford weir however should the City Executive Board wish to pursue this matter the general power of competence should enable the Council to provide this loan facility.

Risk Implications

23. The main risk to the granting of the loan would be that the share issue does not secure sufficient investment to repay the Council. Despite an impressive track record of raising finances from this vehicle by the Hub on other projects, past experience is not necessarily an indicator of what will happen in the future. The Council or the Hub has limited control of what will happen. Whilst there are some mechanisms to enable the Council to seek repayment of its loan via other routes, for instance selling the debt, these mechanisms are not straightforward but are reflected in the existing loan agreement. The mitigation is against existing Feed In Tariff income streams of the Hub.
24. The financial case for making the loan is not strong since the return in cash terms is minimal, for the increased risks taken on, the greatest of which is the failure of the share issue to enable the return of the Councils loan in the specified period. However, this should not be seen as an income raising proposition. The primary drivers are to deliver innovative renewable energy projects in and around the city and to mitigate the risk of EU grant clawback.
25. In making a decision Members need to consider the risks against the benefit to the Community of Oxford and Oxfordshire at large in facilitating the renewable energy community projects and the mitigation of the grant clawback risk.

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Background Papers: None

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