

To: City Executive Board
Date: 22 May 2018
Report of: Head of Financial Services
Title of Report: Extension of Loan to Low Carbon Hub IPS

Summary and recommendations	
Purpose of report:	To request City Executive Board to approve the extension of a loan facility to Low Carbon Hub
Key decision:	Yes
Executive Board Member:	Councillor Ed Turner, Finance and Corporate Assets
Corporate Priority:	None
Policy Framework:	Council's Corporate plan
Recommendations: That the City Executive Board resolves to:	
<ol style="list-style-type: none"> 1. Approve an extension of the availability period of the Council's current loan agreement with the Low Carbon Hub, so that the remaining £1.3m of outstanding loans are repayable by the Low Carbon Hub by 29 March 2019, on similar terms as those applying to the existing loan facility; and 2. Agree that a supplemental agreement be entered into with the Low Carbon Hub setting out the terms of this loan extension period 	

Appendices	
Appendix 1	Risk Matrix

Background

1. In June 2014, the City Executive Board approved a £2.3m loan facility to the Low Carbon Hub (the Hub) to fund the development stages of renewable energy projects with 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 11 June 2014, the key aspects of which were:
 - A loan facility of £2.3m
 - 36-month availability period
 - Drawdowns secured against solar panel equipment as it is purchased
 - Drawdowns to be repaid within an expected cycle of 6-9 months although the money would be available within the 36 month availability period
4. In October 2015, the Council entered into a supplemental agreement with the Hub in which it was agreed that an additional 364 days may be added to the availability period up to June 2018.
5. The Hub utilised the full facility of £2.3m, receiving funds from the Council across 11 tranches between July 2014 and October 2016. To date, tranches 1-8 have been repaid in full along with all associated interest charges. Partial repayment has also been made for tranches 9-11 along with all interest incurred to date.
6. It was agreed that tranches 9-11, amounting to £1.3m would be repaid on 01 April 2018 and this is the amount for which the Hub has requested an extension to its repayment terms. All interest repayments in respect of these tranches are fully up to date. Interest has been charged at 5% per annum and is repaid on a monthly basis.
7. To date, the Council has received interest from the drawdown inception dates up to and including 31 March 2018 (or earlier in cases where the drawdown has been repaid).
8. The table below summarises all drawdowns and repayments to date:

Tranche	Repayments received to		Amount Outstanding	Interest Rate	Drawdown Date	Expected Repayment		Total Interest Due	Less Interest Rec'd	Interest Payable
	Principal	date				Date	Date			
1	133,667.10	- 133,667.10	-	5%	03-Jul-14	18-Dec-14	3,076.17	-	3,076.17	-
2	62,257.41	- 62,257.41	-	5%	17-Jul-14	18-Dec-14	1,313.38	-	1,313.38	-
3	133,447.55	- 133,447.55	-	5%	21-Jul-14	18-Dec-14	2,742.07	-	2,742.07	-
4	31,598.86	- 31,598.86	-	5%	06-Aug-14	18-Dec-14	580.03	-	580.03	-
5	126,511.44	- 126,511.44	-	5%	28-Aug-14	18-Dec-14	1,941.00	-	1,941.00	-
6	189,307.56	- 189,307.56	-	5%	09-Oct-14	18-Dec-14	1,815.28	-	1,815.28	-
7	138,295.80	- 138,295.80	-	5%	06-Nov-15	31-Jul-17	11,991.95	-	11,991.95	-
8	179,107.59	- 179,107.59	-	5%	10-Feb-16	31-Jul-17	13,175.45	-	13,175.45	-
9	144,948.00	- 644.56	144,303.44	5%	22-Jun-16	01-Apr-18	12,866.62	-	12,866.62	-
10	493,212.00	- 2,193.23	491,018.77	5%	04-Aug-16	01-Apr-18	40,875.79	-	40,875.79	-
11	667,646.69	- 2,968.91	664,677.78	5%	31-Oct-16	01-Apr-18	47,284.02	-	47,284.02	-
	2,300,000.00	- 1,000,000.00	1,300,000.00				137,661.76	-	137,661.76	-

9. The Hub used the drawdown funds for the development of renewable energy projects in Oxford and across Oxfordshire. These projects have achieved their objectives and contributed to the achievement of the investment targets set in the EU funded, Intelligent Energy Europe (IEE) grant programme, OxFutures.
10. Interest on the outstanding balance of £1.3m will continue to be repaid on a monthly basis.

Current Status

11. The Hub has an established income stream that is generated by its current projects.
12. For the financial year of 2017/18 to date, it has a net profit for the year of £165,000 with capital assets to the value of £3.3m. If the Low Carbon Hub is to continue to invest in green energy schemes, it is crucial that they maintain cashflow. This loan is pivotal to the cashflow of the Hub.
13. Many of the assets currently held by the Hub have been financed by drawdowns accessed through the loan facility provided by the Council.
14. The Hub intends to deploy further capital over the course of 2018/19 and 2019/20 to fund its renewable energy projects.
15. The Hub has met its financial obligations under its current agreement with the Council, having repaid £1m of the £2.3m taken out as well as paying all interest charges incurred to date.
16. The Hub will continue to pay interest on a monthly basis at a rate of 5% per annum against the outstanding balance until the loan is repaid in full.

17. The Hub will be issuing a new share offer in May 2018 and intends to use income generated by this to repay a proportion or the full amount of the loan on 28 September with the remainder being repaid in full by 29 March 2019.

An Ethical Investment

18. The Council has had a long-standing commitment towards engendering a “greener” Oxford which is further emphasised by its coordination of the Oxford Strategic Partnership (OSP) and the Low Carbon Oxford network; the Low Carbon Hub is a not-for-profit social enterprise that seeks to scale up community-owned energy projects across Oxfordshire, including the district of Oxford itself and is a fellow member of the Low Carbon Oxford network. Therefore, by agreeing to extend the terms of the loan facility, the Council would be using its resources to support its vision of a “greener” Oxford.
19. Furthermore, the Council’s Treasury Management strategy includes a clear commitment not to invest directly, amongst other things, in environmentally harmful activities; this investment would achieve the opposite and in fact place significant investment in an environmentally positive project.

Financial Implications

20. The loan will be made for a period of 364 days for revenue purposes. The Council’s Constitution requires loans of this nature to organisations which are not wholly owned companies of the Council, to be approved by City Executive Board (para 18.23).
21. The loan will be financed by normal revenue cash balances with interest continuing to be received by the Council on a monthly basis at a rate of 5%pa until the loan is repaid in full.
22. Low Carbon Hub will offer security of the loan against existing solar panel site installations and associated revenue streams. The Council has undertaken due diligence on the financial standing of Low Carbon Hub and can confirm that it has sufficient asset cover in the event of default.

Legal Implications

23. The Localism Act 2011 provided the Council with the authorisation for the loan facility as the Act grants Councils the general power of competence to “*do anything that individuals generally may do*”.

24. The key provisions of the extension to the loan agreement are those which seek to provide the Council with adequate security to protect its funds. The £1.3m will be secured against the Hub's existing photovoltaic (PV) systems.

Risk

25. The risks of agreeing to this loan extension are detailed in Appendix 1

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Background Papers: None

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