

To: Cabinet
Council

Date: 29 May 2019 Cabinet
22 July 2019 Council

Report of: Head of Financial Services

Title of Report: Revolving Construction Loan to Low Carbon Hub

Summary and recommendations	
Purpose of report:	To request Cabinet to approve a revolving loan facility to Low Carbon Hub.
Key decision:	Yes
Cabinet Member:	Deputy Leader, Finance and Asset Management
Corporate Priority:	Cleaner, Greener.
Policy Framework:	Council's Corporate plan.
Recommendations: That Cabinet resolves to:	
<ol style="list-style-type: none"> 1. Approve a revolving loan facility to the Low Carbon Hub of £2.3 million at an annual interest rate of 5%, secured on the assets of the Low Carbon Hub whilst noting the success of previous loan facilities; 2. Recommend that full Council agrees to make budget provision of £2.3 million to enable this loan facility to be created; and 3. Instruct the Head of Law and Governance in consultation with the Head of Financial Services to draw up and enter into a new loan agreement with the Low Carbon Hub setting out the terms of the loan. 	

Appendices	
Appendix 1	Risk Register

Introduction and 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 11th 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
 - Annual interest rate of 5%
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.
6. A further loan facility of £1.3m was agreed by CEB on 22nd May 2018 to be repaid by 28th March 2019. Of this, £628,715 was repaid on 21st November 2018 with the remaining balance of £671,285 repayable / repaid as at 28th March 2019. Under the agreement, the Low Carbon Hub was to open a new Share Offer called the Community Energy Fund in the summer of 2018 with a follow-up opening in January 2019. These two offers generate sufficient funds to repay the £1.3m. All interest due on the loan was also repaid.
7. The Council still has one loan of £100,000 outstanding with the Hub for a fish pass at Sandford lock, which was taken out in April 2017 and which is repayable in April 2020 with interest at an annual rate of 1%.

Current Position

8. The Low Carbon Hub IPS has now reached a position of long-term stability and sustainability:
 - Around £6m equity has been raised from 1,000 shareholders
 - £4.2m of solar installations on 42 sites with returns in line with original plans
 - Fixed assets as at 31st March 2018 of £7.2m
 - A £3.9m hydro project at Sandford lock part funded by £2m long term finance from Charity Bank
 - During 2018/19, £1,508,985 was raised over three issues as follows:
 - CEF Issue 1 £658,786
 - CEF Issue 2 £123,549
 - CEF Issue 3 £726,650

9. The Hub has an established income stream that is generated by its current projects. For the financial year of 2017/18, the Hub made a net surplus of £55k before depreciation with capital assets to the value of £7.2m. Many of the assets currently held by the Hub have been financed by drawdowns accessed through the loan facility provided by the Council.
10. The Hub has met its financial obligations under its current agreement with the Council, having repaid all principal due as well as paying all interest charges incurred to date.

Future Projects

11. If the Low Carbon Hub is to continue to invest in green energy schemes, it is crucial that they maintain cashflow. This loan is part of the contribution to the cashflow of the Hub.
12. Starting at 1st April 2019, the Low Carbon Hub began a 3-year project working with 9 other partners including the City Council worth a total of £40m. £13.5m of this £40m is funded through grant from Innovate UK. As part of this project, the Low Carbon Hub will develop around £15m of new projects, including working with the City Council to
 - Fund solar PV on new housing producing electricity that can be sold directly to tenants;
 - Develop a renewable heat and power scheme for Hinksey Pool;
 - Develop one of the park and ride sites into an energy hub.
13. The new loan facility of £2.3m is being requested to operate for a period of 3 years on the terms outlined in the Financial Implications section.

An Ethical Investment

14. 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.
15. The Council’s Treasury Management strategy includes a clear commitment not to knowingly invest directly, amongst other things, in environmentally harmful activities; this investment, whilst not being undertaken as part of treasury management activities, would achieve the opposite and in fact place significant investment in an environmentally positive project.

Contribution to Corporate Priorities

16. By continuing to help secure the Hub’s cashflow, the Council will also ensure the Hub continues its work in support of the Council’s corporate goals:
 - **Vibrant and Sustainable Economy:** as a social enterprise that is innovating new investment and operational models for low carbon, distributed energy projects, the Low Carbon Hub embodies the Council’s vision for a vibrant and sustainable economy.

- **Meeting Housing Needs:** although not directly contributing to the delivery of housing development, amongst the Low Carbon Hub’s business development activities is establishing a local framework for high-quality, project managed domestic retrofitting services – following the model of “Retrofit Works” which already operates in London. The Hub leads a consortium, funded by the European Regional Development Fund and including the Council, that will break down the barriers for “able to pay” households that wish to improve the energy performance (and hence environmental and economic performance) of their home. Such a market offer is critical to Oxford’s ability to ensure all buildings become net zero carbon.
- **Strong Active Communities:** The Hub actively supports community energy projects (i.e. led by communities throughout the city and county) to create their own social enterprises.
- **A clean, green Oxford:** The Hub’s projects to date save 1,561 tonnes of carbon dioxide per annum and generate enough zero carbon electricity to power 1,351 typical homes.

Financial implications

17. The proposed loan facility of £2.3m will be available for a three year period at an interest rate of 5%. Each drawdown from the facility will be made for a period of 364 days and so therefore the terms of the loans are for revenue purposes rather than capital which would be for a year or longer. Loans of this nature, to organisations which are not wholly owned companies of the Council, have to be approved by Cabinet and, due to the size of the loan facility and the potential impact on the Council’s revenue account, by Council.
18. 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% per annum, calculated against the balance of the loan on a daily basis, until the loan is repaid in full.
19. Low Carbon Hub will offer security of the loan against the new installations where these have well understood risk profiles and against existing solar panel site installations and associated revenue streams where the risk profiles are more uncertain. The security used for each drawdown will be determined by the Head of Financial Services in consultation with the Head of Law and Governance.
20. 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 issues

21. 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*”.
22. 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 £2.3m will be secured against the Hub’s existing and new installations.
23. Consideration has been given to the loan arrangements with the Low Carbon Hub to ensure that they do not constitute unlawful State Aid. The market rate of interest

charged, and the loan security required should both ensure compliance with the State Aid rules.

Level of risk

24. The Risk Register is attached at Appendix 1.

Report author	Bill Lewis
Job title	Financial Accounting Manager
Service area or department	Financial Services
Telephone	01865 252607
e-mail	blewis@oxford.gov.uk

Background Papers: None

This page is intentionally left blank