

To: Cabinet – 10 November 2021
Council – 29 November 2021

Report of: Head of Financial Services

Title of Report: Loan to Low Carbon Hub

Summary and recommendations	
Purpose of report:	To seek a Cabinet recommendation to full Council for the approval of the loan to Low Carbon Hub to support investment in the Ray Valley Solar Project.
Key decision:	Yes
Cabinet Member with responsibility:	Councillor Ed Turner, Deputy Leader (Statutory), and Cabinet Member for Finance and Asset Management
Corporate Priority:	Zero Carbon Oxford
Policy Framework:	Council Strategy 2020-24
Recommendation: That Cabinet resolves to:	
<ol style="list-style-type: none"> 1. Recommend to Council the approval of a loan facility agreement with Low Carbon Hub of £2,000,000 together with the associated capital budget for a loan in respect of the Ray Valley Solar (RVS) local renewable energy project, whilst noting the reduction in the separate and already approved Salix grant-backed loan awarded under the Public Sector Decarbonisation Scheme. The investment will be funded from Council capital resources; 2. Delegate authority to the Head of Financial Services/Section 151 Officer in consultation with the Head of Law & Governance and the Cabinet Member for Finance and Asset Management to enter into a loan agreement with Low Carbon Hub to undertake the necessary due diligence and approve the terms of the loan facility agreement and, thereafter, enter into any associated legal agreements that are necessary to give effect to the recommendations within this report; and 3. Delegate authority to the Head of Financial Services/Section 151 Officer in consultation with the Head of Law & Governance and the Cabinet Member for Finance and Asset Management, to manage the loan facility. The authority under this recommendation shall include the power to negotiate and agree subsequent variations to the terms of the loan facility. 	

Appendices	
Appendix 1	Risk Register

Introduction and background

1. Oxford City Council declared a climate emergency in January 2019. Following Oxford's Citizens' Assembly on Climate Change, the Council set out its commitment to become net zero while developing detailed plans "for further projects to accelerate the reduction in the Council's underlying emissions to achieve a Zero Carbon Council by 2030 or sooner".
2. A report went to Cabinet on 16th June 2021 whereby a loan of up to £3,385,200 to Low Carbon Hub to support the Ray Valley Solar Project was approved subject to satisfactory terms being agreed.
3. 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. Extensions to this facility were approved following this. All loans to the Low Carbon Hub under these facilities have been repaid apart from a £100k loan in respect of the Sandford Hydro Fish Pass which is not yet due for repayment.
4. A further short term loan facility of £2.3m was agreed at the 22nd July Council meeting. This loan was advanced to the Low Carbon Hub in August 2021 as an interim measure pending agreement of the Salix funded loan.

Low Carbon Hub

5. Low Carbon Hub is a social enterprise originally set up by Oxford City Council in 2011 to develop community-owned renewable energy installations across Oxfordshire that produce clean energy and accelerate the transition to a zero carbon county. Unlike other local authorities, Oxford City Council has sought to move community energy forward rather than develop a publicly-owned energy services company to transform the local energy system.
6. The Low Carbon Hub IPS has now reached a position of long-term stability and sustainability. In its latest filed accounts for 2019/20, the Hub held £7 million fixed assets with net assets of £4.8 million and achieved a net revenue surplus prior to depreciation charges. The Hub has an established income stream that is generated by its current projects. Many of the assets currently held by the Hub have been financed by drawdowns accessed through the loan facility provided by the Council.
7. The Low Carbon Hub now has 44 solar PV array installations and a hydro installation at Sandford with a combined capacity of 3.8 megawatts with an annual predicted generation of 4.8 Gigawatt hours. During 2019/20, the Low Carbon Hub delivered a range of environmental social benefits including:
 - Generating 3,799,558 kWh – enough electricity to meet the typical electricity needs of 1,231 households
 - Saving 1,054 tonnes of CO₂ (based on a carbon intensity of 0.2773 kg CO₂e per kWh)
 - Saving host organisations £67k on their electricity bills through the supply of discounted green electricity

Ray Valley Solar

8. Ray Valley Solar (RVS) is a project being led and delivered by the Low Carbon Hub, and is a key renewable energy development for Project LEO (with which the City

Council is a partner organisation). RVS is a 19 MW ground mounted solar farm with an anticipated operational life of 40 years near the village of Arncott with potential for battery storage to be installed in the future. The site itself neighbours a Ministry of Defence logistics site, HMP Bullington, and two existing solar parks, and is expected to comprise around 45,000 solar panels across an 80 acre site.

9. The Cabinet Report of 16th June 2021 anticipated a loan of £3,385,200. This was based on an overall grant from Salix which incorporates funds for various green energy and energy efficiency installations. The original proposed solar farm investment in the bid for all 6 sites was for £3,385,200 equivalent to 4,444,112kWh offset via the solar farm (around £0.7617269 per kWh). Updates to the costs of various works identified that the overall scheme had to reduce in scope in order to keep the costs within the overall grant funding envelope. The change in scope included removing schemes relating to the Oxford Ice Rink and Rosehill Community Centre. The loan for Ray Valley Solar was directly linked to the carbon reductions and so therefore the reduced scope has led to a reduced loan being available for the Solar Farm from the Salix funding. Reduced carbon emission savings of 2,697,361kWh offset results in the loan availability from the Salix funding **reducing** from **£3,385,200** to **£2,054,652**. The interest rate on this loan is to be 1.45% and the loan is to be repaid over 22.5 years on an annuity basis. Discussions are currently being undertaken with Low Carbon Hub to finalise the terms of the loan, pay monies over and secure the grant funding from Salix in a back to back transaction.

Additional Loan to Low Carbon Hub

10. The Council is still committed to supporting the Low Carbon Hub as part of the Council's low carbon agenda and therefore it is proposed to make an additional long term loan to the Low Carbon Hub of £2.055 million in respect of Ray Valley Solar. This would directly replace the reduced element of the Salix funded loan and the Low Carbon Hub would repay the £2.3 million short term loan made to them in August 2021. This additional loan would be funded from Council capital resources and would be an annuity loan attracting an interest rate of 2.85% for an anticipated 22.5 years.

Asset and Revenue Stream Cover for the Loan

11. The Low Carbon Hub are in receipt of a loan facility from Triodos Bank UK Limited of £2.4 million, decreasing over the 15-year term of the loan, and an additional £1 million overdraft facility which are both secured on the Ray Valley Solar Farm as a first charge. The value of the Solar Farm construction contract is £8.5 million.
12. There are three potential charges in relation to Ray Valley Solar Farm:
 - Triodos Bank Construction Facility £2.4m
 - Triodos Bank Overdraft Facility £1m
 - Oxford City Council Salix-based loan £2.055m
 - Oxford City Council Supplementary loan £2m
13. There are potential principal charges of £7.4 million assuming that the full £1m overdraft is taken at the start of the period. This against the construction value of £8.5 million. Analysis of the loan principal outstanding over the full 22.5 years of the proposed term of the Oxford City Council loans show that there is capital cover over

the whole period even with the assumption that the capital value depreciates over the term of the loan rather than over the expected 40 year life of the development.

14. The total future net revenue stream of the Solar Farm is estimated at £47.5 million at the start of its operation, reducing to a remaining revenue stream of £23.4 million in the final year of the loan period.
15. The loans from Oxford City Council would be a second charge on the Ray Valley Solar Farm, behind the Triodos Bank charge, and would rely on both the capital value and the revenue stream of the development. After year 15, when the Triodos Bank loan is set to repay in full, the Council would have the first charge.

Financial implications

16. The additional loan to Low Carbon Hub of the Council financed £2 million would require additional capital budget to be approved. This loan would be repaid over 22.5 years on an annuity basis along with interest charged at a rate of 2.85%.
17. The Council would receive an annuity payment over the 22.5 year term of the loan of around £121.6k, which includes the principal and interest paid back to the Council each year by the Low Carbon Hub to honour the loan. This will be paid in a pattern agreed between the Low Carbon Hub and the Head of Financial Services (Section 151 Officer).
18. The interest rate being charged on the additional loan is a commercial interest rate and therefore the loan does not constitute subsidy to the Low Carbon Hub.
19. Other financial implications are covered in the body of the report.

Legal issues

20. A loan agreement will need to be entered into between the Council and Low Carbon Hub, laying out the terms of the loan and the security against which the loan is made. Due diligence checks on Low Carbon Hub and the development will be undertaken such that officers are satisfied before the loan is entered into. Officers will also ensure they are satisfied they have sufficient loan security before entering into the loan agreement. A charge would need to be made in respect of the security and the terms of this will need to be included in the agreement.
21. Financial regulations 18.23 (Loans or Guarantees to external organisations) loans and financial guarantees of over £250,000 to a company which is not wholly owned by the Council or other external organisation must have approval by the Cabinet and Council.
22. Under Section 1 of the Localism Act 2011, the Council has the power to enter into the arrangements set out in this report, which are within the remit and limits of the general power of competence and Sections 2 and 4 of the Localism Act 2011.
23. On 24th December 2020 the UK and EU reached an agreement in principle with the 'UK-EU Trade and Cooperation Agreement' (UK-EU TCA). On 31st December 2020, the UK government published guidance to assist funding bodies in understanding what international subsidy control commitments and related obligations the UK has as of 1st January 2021. All funding bodies must comply with these obligations when awarding subsidies. Funding bodies must undertake their own analysis on a case by case basis to determine whether their proposed measures breach any of the international obligations. The Council has commissioned external legal advisors who are working alongside our in-house legal

service to access the loans to Low Carbon Hub to ensure that they aligns with the subsidy control principles. Provided that it can be shown that there is no subsidy, there should be no legal concerns, but this will be verified as part of the external legal advice.

Equalities Impact

24. The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: ‘Protected characteristics’ are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

25. The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce.

26. This loan facilitates the production of environmentally friendly energy that is of benefit to all of the community and is not specific to any section of society. This proposal therefore has no equalities implications.

Environmental Implications

27. The Council’s additional loan to Low Carbon Hub in respect of RVS – along with the Salix backed loan - will mean the Council will be making the greatest financial contribution to the solar farm installation – over 50% of the principal charges associated with its supply and installation. It will support bringing additional renewable energy capacity to the UK electricity grid beyond that mandated at present and further reduce the requirement for damaging carbon emissions from fossil fuels in the overall national electricity mix.

Level of risk

28. The key risks associated with the RVS investment are set out in the risk register in Appendix 1.

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Background Papers: None

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