

BRIEFING PAPER

SUBJECT: CLEAN GROWTH FUND – PHASE 1 APPROVAL TO SPEND
DATE: 10 DECEMBER 2020
RECIPIENT: OVERVIEW AND SCRUTINY MANAGEMENT COMMITTEE

THIS IS NOT A DECISION PAPER

SUMMARY:

This report provides information on the proposed Southampton City Council Clean Growth Fund (CGF). A CGF report is being taken to Cabinet on 15 December to seek permission to proceed with the programme and approval to spend a total £1.17 million for the proposed Phase 1 works.

The Southampton City Council (SCC) CGF is a £20 million capital spend to deliver energy efficiency and renewable energy projects in the councils non domestic buildings. The CGF will be matched 50/50 between Southampton City Council and Salix Finance Ltd.

Salix Finance Ltd provides interest-free Government funded loans and grants to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills.

BACKGROUND and BRIEFING DETAILS:

1. In February 2020 the council agreed to fund 50% of the programme delivery over a 5 year period subject to spend approval for each phase, based on a satisfactory business case and Salix compliance criteria being met.
2. The CGF will deliver energy and carbon savings using the Salix recycling fund model, which means at least 75% of the savings will be reinvested in further energy saving measures.
3. This is an important project in support of the Green City Charter and provides a cost effective way to help as a further step in the journey towards the commitment for SCC's commercial buildings and assets to be net zero carbon by 2030.
4. Southampton City Council (SCC) electricity prices have risen by almost 100% in 8 years. Industry forecasts suggest a similar rise in the coming years due to wholesale energy price rises and additional increases to the fixed costs included in the price of energy.
5. Annual spend on electricity and gas in SCC commercial buildings in 2019-20 was £4.2 million (£3.5 million on electricity and £0.7 million on gas).
6. This project is an opportunity for SCC to increase the energy performance of its corporate buildings as well as invest in and improve the value of its stock.

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7. In 2019-20 SCC emitted 9,400 tonnes of CO₂ from its non-domestic buildings' gas and electricity use. The council's Green City Charter, adopted in June 2019, states that SCC non-domestic buildings will be net zero carbon by 2030. The proposed fund will assist the council with minimising its impact on the Climate Emergency, declared by council in September 2019.
8. The council was approached by Salix Finance Ltd to discuss investment opportunities in energy reduction within council buildings and assets. Salix proposed a £20 million fund to help deliver the council's Green City commitments, 50% of which would be matched by Salix Finance Ltd using the recycling fund conditional grant process.
9. The council had agreed to meet the remaining 50% subject to approval to spend for each phase which will be based on a satisfactory business case and Salix compliance criteria being met. The £20 million Clean Growth Fund was included in the capital programme as part of the Medium Term Financial Strategy approved at full council in February 2020.
10. The CGF projects will deliver energy efficiency, onsite renewable energy generation and battery storage to control future energy costs and reduce carbon dioxide (CO₂) emissions for SCC's corporate assets. The corporate assets cover all non-domestic buildings including SCC schools and streetlighting.
11. It will include a management fee per phase to cover revenue costs enabling the project to be resourced effectively and to incorporate energy awareness, training, monitoring and evaluation.
12. The Cabinet report seeks approval for 75% of the annual Salix compliance energy cost savings to be recycled back into the CGF to enable further reinvestment in low carbon technology. This amount meets the Salix compliance criteria.
13. The CGF projects will:
 - Require a 10 year Return on Investment (ROI), the savings are reinvested into the fund based on a 12 year project repayment period, to meet Salix compliance. Projects that do not meet the 10 year ROI can utilise funding directly by SCC either via grant or other funding, if the needs are beneficial. Additional funding opportunities, such as grants, are covered in detail in Section 10 Finance and Funding in the attached Business Case report.
 - Deliver cost avoidance / savings from end of year one post project commissioning.
 - Have a proven and fully auditable financial and technical model which is verified / signed off by the energy team, Salix Finance Ltd internal technical team and their preferred consultants.
14. It is intended that Phase 1 will be delivered using existing SCC framework contracts or compliant external frameworks (particularly for solar photovoltaic and battery works).

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15. The estimated Phase 1 timeline is shown below:

No	Key milestones – Phase 1	
1	Project Approval	15 December 2020
2	Procurement Completion	March 2021
3	Salix formal commitment	March 2021
4	Place Order	March 2021
5	Project on site	May 2021
6	Project Completion	September 2021

Alternative Options Considered and Rejected

16. The option to deliver the Clean Growth Fund (CGF) without involving Salix Finance Ltd was considered. The Council could fund these measures through capital borrowing without contributions from Salix. Under this option the net saving generated is higher in the early years of the project as the financial arrangement benefits from not having to repay the initial capital outlay into the CGF.
17. This option has been rejected because in the long-term it will be more beneficial to the council to recycle the savings generated into future projects, these can then be funded without the need for additional financing. This option also increases the overall borrowing liability for the authority.
18. The proposed option, where the CGF will be matched 50/50 between Southampton City Council and Salix Finance Ltd, ensures that the match funding provided by Salix is interest free which reduces annual financing costs. This has a positive benefit once the repayments to the fund have been made, i.e. over the return on investment period. The repayments can then be used to fund additional energy and carbon saving projects generating further financial and carbon savings. It is estimated under the CGF model that the net saving to the general fund is higher from year 8 onwards.
19. Further detail on the recommended 100% borrowing option against the Salix Financed model can be found in Section 10 Finance and Funding, Option 1 appraisal in the attached Business Case report.
20. Carbon offsetting to reduce the council's impact on the climate emergency. The council could pay other organisations or develop projects that would offset the council's carbon emissions generated from its own building's gas and electricity usage. However, the council believes that first it should reduce carbon emissions from its own buildings and streetlighting, then only use cost effective proven carbon offsetting as a last resort to offset those emissions it's unable to mitigate with onsite energy reduction or renewable generation.
21. Do nothing. The Climate Emergency, declared by council in September 2019, clearly states that the council must act now to reduce its impact on the ongoing climate emergency. In addition, energy costs continue to rise and by reducing annual grid based energy consumption the impact of future price rises can be mitigated.

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RESOURCE/POLICY/FINANCIAL/LEGAL IMPLICATIONS:

22. Capital and revenue implications are covered in Section 10 Finance and Funding in the appended Business Case report. A summary of the business case information is shown below.
23. The £20 million CGF was included in the capital programme as part of the Medium Term Financial Strategy approved in February 2020. At that time approval to spend was not provided and therefore each phase is required to obtain approval to spend based on a satisfactory business case and Salix compliance criteria being met. Approval to spend for the first £1.17M is being sought as part of the report based on the accompanying business case.
24. Under the Salix Finance Ltd recycling funding arrangement, the financial savings generated must be repaid into the CGF until the original capital outlay has been reimbursed. The repayments into the fund are based on the Salix project criteria and can be paid at a rate of 75% of the saving generated until the original outlay is covered. Therefore, 25% of the saving is recognised in the revenue budget from the start of the project less any financing and maintenance costs. The full revenue impact over financial years is presented in the accompanying business case.
25. Total pre-tender estimates are provided in table 1 below. These figures include contingency and the management fee for resource, training and reporting requirements.

26.

Description	Estimated Gross Saving £000	Estimated Project Cost £000	Payback (Years)	Tonnes CO ₂ Savings
Total Technology	115	1,020	10	200.5
Management fee		153		
Total Project Cost	115	1,173	10	200.5

Table 1 – CGF summary business and environmental case

PROPERTY / OTHER

27. Property implications are covered in detail within Section 4 Proposed Solution in the attached Business Case report. The following is a summary of the business case information.
28. SCC commissioned Npower to undertake energy audits for the buildings chosen for phase 1 of the programme. Energy audits have been completed on One Guildhall Square (OGS), City Depot and Marlands multi storey car park (MSCP).
29. The three buildings within the initial audit were chosen as they comprise some of the largest energy consumers under council management that can be easily monitored and evaluated before, during and after works have been completed. It also provides a sound basis to develop the CGF methodology to enable significant scaling up within further phases.

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30. Phase 1 proposes a range of energy and carbon saving measures for City Depot, Marlands multi storey car park and One Guildhall Square. Additional information on the benefits and detail can be found in Appendix 1, Business Case – Salix Clean Growth Fund
31. Maintenance implications are dealt with within the appended business case document.
32. The implementation and oversight of the CGF will be overseen by the Head of Service for Property, who will report to Executive Director of Place and Cabinet Member for Green City and Place. Reporting and governance will be undertaken via the Green City Programme Board
33. **Legal**
S1. Localism Act 2011 permits the Council to enter into the arrangements set out in the report, subject to complying with all relevant financial procedure rules.
34. **Risk Management**
The key project risks have been identified as part of developing the phase 1 business case. A full assessment along with mitigating actions can be found in Annex 1.
35. **Policy**
The CGF is an invest to save recycling fund that will support and deliver council outcomes in the following policies:
- Southampton City Strategy 2015- 2025: delivering whole place thinking and innovation
 - Corporate plan 2020 -2025: Green City and Wellbeing (improving the energy efficiency of school buildings)
 - Green City Plan 2030 - to ensure the council corporate assets and streetlighting become zero carbon by 2030. The corporate assets cover all non-domestic buildings including SCC schools and streetlighting.
 - Clean Air Strategy 2019 – 2025: promoting sustainability
36. **Appendices/Supporting Information**
Annex 1 – Business Case

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