

Title of meeting: Climate Change and the Environment
Full Council

Date of meeting: 18th July 2022
19th July 2022

Subject: Low Carbon Projects Fund

Report by: James Hill - Director for Housing, Neighbourhood and Building Services

Report Author: Andrew Waggott, Head of Energy Services
Wayne Layton, Finance Manager

Wards affected: All

Key decision: Yes

Full Council decision: Yes

1. Purpose of report

- 1.1 To seek approval to borrow for projects that will reduce carbon emissions by financing renewable energy and energy efficiency projects. The projects funded will have a financial return on investment within Prudential borrowing rules.
- 1.2 To provide a narrative statement regarding the nature of the projects that will be in scope of this borrowing facility and providing a selection of known examples of the more advanced projects.
- 1.3 To show the quantum of carbon reductions possible within the scope of known investable renewable and energy efficiency projects; and how these projects align with the Council's Net Zero Carbon ambitions and strategy.

2. Recommendations

It is recommended that the Portfolio Holder notes and approves the following recommendations for onward approval at Full Council:

- 2.1 Approves the aims of this borrowing facility in the context of the climate emergency and the Council's net zero carbon ambition.

- 2.2 That subject to a satisfactory financial appraisal that delegated authority is given to the Director of Housing Neighbourhoods and Building Services and the Section 151 Officer, in consultation with the City Solicitor and Portfolio holder for Climate Change and Environment to use Unsupported borrowing to:
- Approve the financing of projects associated with renewable energy
 - Approve the financing of projects associated with energy efficiency
 - Approve the financing of projects associated with other climate change mitigation where there is a clear financial rationale for their implementation
- 2.3 Approves a borrowing facility of up to £30 million to be invested in such projects, subject to financial feasibility and the Council's limit of indebtedness.
- 2.4 Notes that these energy and climate projects may be implemented upon the Council's portfolio of buildings and land; or may be implemented upon the buildings and assets of other organisations in the city.
- 2.5 Notes the Energy Services team will continue to identify and seek external funding opportunities to contribute to these initiatives to reduce the reliance on unsupported borrowing.

3. Background

- 3.1 Portsmouth City Council declared a 'climate emergency' in March 2019 which stated an ambition for all Scope 1, 2 & 3 carbon emissions to be reduced to net zero carbon across Portsmouth by 2030.
- 3.2 A key area of focus should be the energy consumption of buildings in the city, particularly those on the Council's corporate energy contracts, which account for 13,845 tonnes of carbon emissions each year (tCO₂e/a).
- 3.3 Energy costs are an increasingly large proportion of the Council's operational spend. Spikes in energy prices, broadly termed the 'energy crisis' have been seen since September 2021. This has been further compounded by the ongoing war in Ukraine.
- 3.4 The energy market is determined at global, as well as national scale. Market price fluctuations are largely outside of the control of the Council. The best way to ensure that energy expenditure can be kept low, is to reduce energy demand, or generate the power needed from embedded renewable generation.
- 3.5 The Council is just one organisation within the city among many, a lot of whom have significant building portfolios, energy expenditure and resulting emissions. Although many organisations are big energy users, they often focus on their core sector, and

as a result do not have capital budgets to invest into energy efficiency or renewable generation.

- 3.6 The Council has significant experience of having made energy investments in the past. It has operated a PV Investment Fund for solar investments since 2014. As a result, the Council has the largest rooftop investment of any local authority in the UK.
- 3.7 The Council has also used this fund to invest in renewable generation on the roofs of other organisations; academy groups, leisure operators, other local authorities and community centres have all had solar PV systems installed under power purchase agreements (PPAs). PPAs repay the investment to the funder, whilst the client site receives lower-cost, renewable electricity and reduces its carbon emissions accordingly.

4. Reasons for recommendations

- 4.1 The Council wishes to extend its investments in solar and other energy technologies across its own portfolio of buildings, and those of others, subject to a financial business case being evidenced.
- 4.2 The investments made by this borrowing facility will have the potential to create a long-term income and/or savings. Where these investments are made across the Council's own portfolio, savings and/or income will be seen. Where the investments are to third party client sites, the Council will generate income, often over a 25-year term.
- 4.3 As well as the carbon and energy savings within the Council's own portfolio; third party clients have the ability to reduce their carbon emissions and energy expenditure. This has the effect of reducing energy overheads and, dependent upon the technology in focus, may also help to mitigate air quality issues in the city.
- 4.4 This borrowing facility will give officers the confidence to be able to identify opportunities for investment and quickly realise them, subject to the financial appraisal, delegations and consultation with the cabinet member; whether on the Council's building assets or those of their third party clients.
- 4.5 A pipeline of deliverable investments made by access to the borrowing facility will be developed over time, however a number of investable schemes are already developed. The examples below are non-exhaustive, but are designed to show the three major scenarios in which an investment may be made:
- a) the Council's own, operated building
 - b) a Council-owned building, with a third-party operator, or
 - c) a third-party owned and operated building



Opportunity	Estimated Value	Carbon Reduction
<u>Lakeside Northharbour - 4.5MWp solar PV and 2MW battery storage:</u> Large Council-owned business park; solar car park canopies, roof-top solar, battery storage system, tenants' savings. Planning approval granted, grid approval granted, works can commence before the end of 2022.	£11 million	865 tCO ₂ e/a
School/Academy A - Proposed 160kWp roof-mounted solar PV.	£160,000	32 tCO ₂ e/a
Industrial Site A - Proposed 400kWp roof-mounted solar PV.	£400,000	83 tCO ₂ e/a

- 4.6 The borrowing facility should be established to allow for up to £30 million of investments to be made.
- 4.7 The Council is at different stages of discussion and readiness with the various live projects currently in the pipeline. There has also been significant demand and interest received from third party clients, so there is a reasonable expectation that, if some projects were to stall, then other opportunities could be brought forwards.

5. Integrated impact assessment

- 5.1 See Appendix A of this report.

6. Legal implications

- 6.1 The Council has the power under s1 of the Local Government Act 2003 to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. The total amount that the Council may borrow is governed by the requirements of the Prudential Code published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 6.2 From a functions perspective and in relation to activity on its own buildings/land, the incidental powers in s111 of the Local Government Act 1972 enables the Council to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or right) which is calculated to



facilitate or is conducive or incidental to any of their functions. In this proposal the Council would be utilising its existing assets to reduce the burden of costs on the council (i.e. through its electricity charges).

- 6.3 In relation to the services to third parties the Council proposes, it is understood that the proposal would see the Council place energy generating equipment (PV etc) on third party property, the agreement of which would need to be secured through a lease agreed between the Council and the property owner. Separately, the Council would enter into a power purchase agreement (a contract) through which the Council would recover from the third party, the Council's investment and borrowing costs in the energy generating equipment.
- 6.4 The Council has broad powers under s 11 of the Local Government (Miscellaneous Provisions) Act 1976 to produce electricity, establish and operate generating stations for that purpose and use, sell or otherwise dispose of electricity produced (although sale is limited to electricity generated by heat). It is understood that the Council is not proposing to directly sell electricity itself.
- 6.5 The Council has broad powers to charge (i.e. impose a charge for the provision of a service on a cost recovery basis) and trade (i.e. do for a commercial purpose anything which the Council is authorised to do for the purpose of carrying on its ordinary functions) under s93 & 95 of the Local Government Act 2003. Where the Council proposes to undertake an activity "for a commercial purpose", then that activity must be done through a company. The proposal here however appears to be based primarily on policy considerations (i.e. addressing the declared climate change emergency) rather than to make for a purely commercial purposes (with any potential profit being incidental to the primary activity), and so would not require a company to be established. The Council should however ensure that this is carefully monitored to ensure compliance with the statutory powers.
- 6.6 The Council will also need to ensure that the activity is structured such that it is not a subsidy and therefore falls foul of the subsidy control rules. It is likely that it would not be considered a subsidy were the 'economic advantage' provided on market terms.

7. Director of Finance's comments

- 7.1 The recommendations within this report are asking for the Portfolio Holder to recommend for onward approval at full Council to grant delegated authority to amend the capital programme to invest in energy efficiency initiatives on City Council owned and other land and buildings not owned by the Council within the Portsmouth region.
- 7.2 Where the Council wishes to invest in energy saving projects on its own land and buildings, and subject to a satisfactory financial appraisal, the Council can invest in projects that support the wider environmental policy of reducing its carbon footprint, funded by Public Works Loans Board (PWLB) Unsupported borrowing.
- 7.3 Recent changes to the PWLB conditions prevent the Council from borrowing for yield. The guidance from the PWLB does however allow the Council to borrow to

invest in energy savings projects where there is a clear policy purpose for the local authority, advancing its environment and climate change commitments, and is not primarily for generating an income. This would apply where the Council is looking to invest in energy projects on land and buildings that it does not own. Income from these types of projects will need to be invested to cross subsidise purchase of land and other environmental projects that the Council wishes to pursue to meet this policy objective, and this will need to be clearly set out in the business case before PWLB borrowing can be accessed.

- 7.4 The report asks for a change to the City Council's capital programme that allows the Council to invest in energy saving schemes, the like of which are described in this report. The change to the capital programme will be to include a line that is for £30m of unsupported borrowing. The Energy Services team will look to ensure that it seeks out other funding other than borrowing and there may be a requirement to amend the capital programme as and when these other sources of funding emerge.
- 7.5 Any project that requires the use of borrowing will be appraised to ensure that it is in line with both the prudential code and in line with recent changes to PWLB guidance, this will be subject to approval of a financial appraisal and business case by the Section 151 officer.

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Signed by: James Hill - Director of Housing, Neighbourhood and Building Services

Appendices:

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Response to Climate Emergency Strategy	Response to Climate Emergency Strategy appendix A.pdf (portsmouth.gov.uk)
Public Sector Decarbonisation Scheme	Public Sector Decarbonisation Scheme.pdf (portsmouth.gov.uk)
Climate Change Strategy and Carbon Budget for Portsmouth	Climate Change Strategy and Carbon Budget for Portsmouth.pdf

The recommendation(s) set out above were approved/ approved as amended/ deferred/
rejected by on

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Signed by: