

CABINET

16 January 2008

TACKLING CLIMATE CHANGE: SALIX FUNDING

REPORT OF CORPORATE DIRECTOR (POLICY)

Contact Officer: Bob Merrett Tel No: 01962 848165 bmerrett@winchester.gov.uk

RECENT REFERENCES:

CAB1560 – Live for the Future: Tackling Climate Change – December 2007

EXECUTIVE SUMMARY:

Following consideration of the Council's Climate Change Plan at the December 2007 Cabinet, the matter of funding capital infrastructure projects through the Salix fund was deferred for further clarification.

A meeting has been held with the Chief Executive of Salix Finance where a number of matters that were not entirely clear were explored. Helpfully the Salix response suggests that although the funding arrangements require the creation of a physically separate fund the Council's matched funding can be provided when needed and so a capital budget growth bid is not required.

Similarly although technically a loan, Salix regard the funding to be a 'conditional grant' and allows the Council to keep a capital fund for the foreseeable future as long as a rolling programme of eligible works is maintained. Thus the fund would allow the Council to benefit from an interest free loan to help create a self financing pot of funding. Half the funding of such projects would come from Salix, and future energy savings would be recycled to fund future projects. In addition the Council could withdraw up to 25% of the annual savings for use for other purposes.

This report sets out the requirements and conditions of applying for Salix funding.

RECOMMENDATIONS:

- 1 That Cabinet agrees in principle to make application to Salix Finance for funding of future infrastructure projects in the Council's estate, up to a maximum interest free loan from Salix of £150,000.
- 2 That the Leader in consultation with the Portfolio Holders for Finance & Resources and Environment, Health and Safety, be granted authority under the portfolio holder decision-making scheme to:
 - (a) finalise the funding submission;
 - (b) agree the initial programme of compliant capital projects for inclusion in the capital programme;
 - (c) agree a rolling programme of further compliant capital projects from the Capital Programme, within the scope of any approval granted by Salix Finance.

CABINET

16 January 2008

TACKLING CLIMATE CHANGE: SALIX FUNDING

REPORT OF CORPORATE DIRECTOR (POLICY)

DETAIL:

1 Introduction

- 1.1 The Council's Climate Change Plan, 'Live for the Future: Tackling Climate Change' sets out the steps the Council and the wider community will adopt to tackle the issues associated with climate change in the years ahead.
- 1.2 One aspect is to consider the physical infrastructure works needed to the Council's operational buildings and by getting our own house in order, we would be both helping to reduce the impact of climate change and preparing for the effects of change. Some of the required work was set out in CAB1559 and having an effective asset management programme will be an important feature in the years ahead.
- 1.3 Consideration of one of the mechanisms for funding such infrastructure work, Salix Finance, was deferred at the last meeting as further clarification was need before Cabinet could properly consider the implications. This report provides more detail following a meeting with the Salix Finance Chief Executive which helped clarify the terms and conditions attached to the Salix route to funding projects.

2 Salix Finance

- 2.1 Salix Finance is an independent not-for-profit company set up by the Carbon Trust in 2004. Its remit is to provide finance to public bodies for invest-to-save projects to accelerate the reduction of carbon emissions through new capital infrastructure projects. Projects must deliver CO₂ and revenue benefits as well as offer long-term CO₂ savings and the finance must be for projects where alternative sources of funding for the full project cost are not available.
- 2.2 Although Salix offers loans to finance the projects, the mechanism of the fund makes this loan effectively a 'conditional grant' as the money would not be repaid as long as it continued to fund carbon saving capital projects. This interest free advance would allow qualifying projects in the Capital Programme to be delivered where there is currently no funding identified and the on-going revenue savings ploughed back into the fund to be used on the series of projects being identified through the asset management plan together with any new projects that may emerge in the future. Once the project has repaid its costs the on-going savings remain with the Council and can be used for any Council activity. Some of the projects listed on the capital growth list (CAB1556, 14 November 2007) are the sort of projects which could be part funded through the Salix fund if the Council were minded to adopt this approach.
- 2.3 The types of infrastructure projects Salix funds are shown in the Appendix 1. They vary in size and complexity and cover a number of the type of capital projects the Council will need to invest in, in the future, as well as any new build or major refurbishment projects that come forward. There is no minimum size for a project but anything larger than £50,000 would need prior approval from Salix. In addition to maintenance, improvement and new build projects, proposals for Combined Heat & Power (CHP) and renewable energy projects can also be

considered although they would need to be supported with feasibility studies. The fund would be managed by the Council and its size would depend largely on the number and type of projects the Council plans to carry out.

- 2.4 Typically funds range between £100,000 and £500,000 matched as required with Council funding but as the size of fund is also dependent on energy savings, Salix have found that other clients have created funds in the range of 5% to 30% of their current energy bill. As it is the energy savings that get repaid into the fund as projects are delivered, then this is a pragmatic yardstick. The current annual energy bill for the main operational estate amounts to around £350k for gas and electricity making a typical fund of between £17,500 and £105,000, but more important to Salix would be the ability of the Council to invest whatever fund was available in compliant projects in the early part of the process. It is unlikely therefore that the Council could expect to be eligible for any more than £150,000 of Salix funding.
- 2.5 As the maintenance and upkeep of the Council's operational estate is a continuous process with replacement and improvement being undertaken on a cyclical basis, then as Salix themselves observe, the use of the fund to undertake the works with savings being ploughed back into the fund becomes an almost endless process. However if the Council ran out of projects the funding would become repayable although the Council would still benefit from the on-going energy savings and CO₂ reductions. To gain most advantage from the funding would require a continuous pipeline of appropriate projects.
- 2.6 The fund has a number of reporting and auditing requirements and a minimum of four projects would need to be identified from the first tranche of funding. The projects have to show a payback depending on the capital cost and the CO₂ saved over the lifetime of the particular piece of infrastructure in question. As different technologies have different levels of effectiveness in delivering CO₂ and revenue savings, Salix has determined what it calls 'persistence factors' to different types of project. These are shown in the Appendix and when multiplied by the annual CO₂ savings derive the lifetime cost of CO₂ saved. It is this figure that determines the payback period.

3 The Ring-Fenced Fund

- 3.1 On the receipt of the funding from Salix a ring fenced fund would be set up. The funding would normally be received in six-monthly instalments over two years depending on the projects being undertaken and at each point would be matched by Council funds.
- 3.2 As the fund was used to deliver projects, the savings that accrued would be paid back into the fund on an annual basis. The payback period depends on the lifetime CO₂ savings as mentioned above and ranges between 5 and 7.5 years.
- 3.3 However, not all the annual saving has to be paid back into the fund. If agreed at the beginning of the project, up to 25% of the saving can be used by the Council for other purposes and a 'management charge' of up to 15% of the project cost for administering the fund can be applied. For a project with a 5 year payback the maximum loan period would be 8 years if 75% of the annual savings were repaid and the management charge applied.
- 3.4 Once a project had been delivered and the fund had been replenished, the Council would continue to benefit from the savings and CO₂ reductions.

4 Conclusions

- 4.1 The Salix Finance programme was set up by the Government backed Carbon Trust to provide capital finance and incentives to public authorities to improve their energy efficiency and provide renewable energy projects within their estate.
- 4.2 The funding is in the form of a loan (although Salix consider this to be a conditional grant in effect as the continued replenishment of the fund from savings, and the fund's continued use on new projects means that for the foreseeable future the fund would be in use and not repayable to Salix). This provides an opportunity therefore to undertake a series of necessary works to the Council's estate to improve energy efficiency with 50% of the initial investment supported by an interest free loan with the future savings being recycled to help finance the asset management programme.
- 4.3 The Council needs to undertake significant infrastructure projects to maintain its asset base as well as reduce its carbon footprint and make revenue savings. It would seem sensible in the context of the Capital Programme, to put together a programme of infrastructure projects to enable a bid for Salix funding to be obtained thus reducing the impact on the Council's finances. The size of the bid would be guided by the norms outlined in paragraph 2 above, but would essentially be dependent on the programme of compliant projects that could be compiled. It is unlikely that the Council could expect to be eligible for a Salix loan of any more than £150,000.

OTHER CONSIDERATIONS:

5 CORPORATE STRATEGY (RELEVANCE TO):

- 5.1 Tackling Climate Change through improving the performance of the Council's buildings means that we will be helping to achieve the ambition that "resources are used efficiently, pollution levels are low and we are responding to the challenges of climate change."

6 RESOURCE IMPLICATIONS:

- 6.1 The majority of the resource implications are shown in the body of the report. In the December Cabinet report it was felt that a budget bid would be needed to set aside a significant sum of money to enable a Salix Finance bid to be made. Following the clarification meeting it is clear that the Council would not need to make such a budget bid and set aside a sum in that way. Salix funding would need to be matched but only when the tranches were received to undertake the identified projects and this could become part of the longer term asset management plan.
- 6.2 In accepting Salix funding the Council would receive an interest-free loan, which would be repayable at an undetermined future date, and would be committing to the use of future revenue savings streams for capital investment in carbon reducing projects, and the associated administrative costs of the fund.

BACKGROUND DOCUMENTS:

Salix Ring Fenced Fund: Fund Manual, October 2007

APPENDICES:

Appendix 1 - Examples of Salix Funded Projects