Business Case for the creation of a Green Energy Loan Fund

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Reasons for a Green Energy Loan Scheme:

The Local Government Finance Bill provides for the retention of business rates income from new renewable energy projects in the district. Renewable energy receipts for South Cambridgeshire District Council, held in the Council's Renewables Reserve, are forecast to stand at £1,565,000 following the transfer of 2017-18 retained business rates to the reserve at the end of the financial year (this forecast is accurate at time of publication but may be subject to changes through the remainder of the year). Under current government legislation, this is set to continue to grow on a yearly basis.

In addition to the use of the Renewables Reserve to invest in renewables for income generation purposes (a separate report has been submitted to Cabinet on this subject), members have also expressed a wish that some of these funds are used to encourage green energy investment within the district, returning the benefits from large scale renewables sites to South Cambridgeshire's communities.

This business case focusses on the use of £200,000 from the Renewables Reserve for the creation and running of a Green Energy Loan scheme for the next four years, to promote energy efficiency and low carbon energy generation investment throughout the district. The business case follows approval in principle for a loan scheme from EMT (27th September 2017) and Cabinet (16th November 2017). Through this scheme, it is proposed that SCDC would provide interest-free loans to individual householders and community groups, and low cost loans to Small and Medium-sized Enterprises (SMEs) to support energy projects within the district (further details are provided in the 'Proposed Details of the Scheme' section below).

This loan fund would act alongside the Community Energy Grant scheme in distributing benefits from retained renewable energy receipts to South Cambridgeshire communities. The grant scheme was approved at November's Cabinet meeting and is scheduled to launch on 1st March 2018, offering an annual pot of £55,000 for a period of 4 years for Community Groups to apply to for grants of up to £3,000 for projects primarily aimed at improving the energy performance of South Cambridgeshire community buildings.

In contrast to Community Energy Grants, which are restricted to community and voluntary groups, Energy Loans would also be open to South Cambridgeshire householders and Small and Medium-sized Enterprises (SMEs). It would offer awards of between £1,000 and £10,000, and receipt of loan awards would not impact on eligibility for Feed-in Tariffs (FIT) or Renewable Heat Incentive (RHI) income (as opposed to publicly funded grant schemes). The Green Energy Loan Fund would therefore allow SCDC to support an extended range of projects from a broad spectrum of South Cambridgeshire's residents, businesses and communities seeking to move toward a more sustainable, self-sufficient and secure energy future. It is proposed that the scheme would run for an initial period of four years, with an annual review of demand and benefits.

The creation of a loan scheme offers SCDC further opportunity to demonstrate leadership of place by empowering the district's residents, businesses and communities to deliver the environmental, social and economic benefits associated with reduced energy consumption. By doing so through the award of loans that are paid back over a three year period, SCDC would ensure the sustainability of this fund and maximise the number of people, businesses and communities that benefit from it, with the potential for a single loan to be recycled and reinvested more than once, and returned to the Renewables Reserve if after the proposed four year period it is not decided to extend the scheme.

In addition to the loan fund, SCDC may also consider investments in excess of £10,000 as part of a profit share approach. This would be considered on a case by case basis.

Proposed Details of the Scheme:

Energy Loan Fund – a four year scheme, providing loans to fund or part-fund energy projects brought forward by South Cambridgeshire householders, SME businesses and community organisations.

Although the scheme has initially been designed as a four year scheme, an annual review will take place and will be submitted to EMT and Cabinet to ensure that adequate demand has been demonstrated and benefits distributed to the intended range of recipients to warrant the continuation of the loan fund.

Fund Aspect	Proposal	Rationale/Notes
Funding available	Loans available for between £1,000 and £10,000 per applicant, per year.	Allowing a range of measures to be considered. Whilst the majority of loans would not be for the full amount, this allows flexibility to award smaller or larger loans as applications arise.
	Payback over 3 years	Allowing the spread of project costs across 3 years. This relatively short pay back period is to maximise the number of projects funded.
	Capped at 24 loan awards per year	Restricting administrative costs to £18,000 per year, based on indicative costing and the adoption of a price per loan model (see 'Costs and Timescales' section for details).
	Total funding pot of £200,000	Identified in consultation with Alex Colyer and Cllr Edwards, taking into account availability of funds from the Renewables Reserve and the extent to which other projects may draw on this.
	0% interest rates for Community Groups and Householders 6% APR charged for Small and Medium-sized Enterprises.	0% interest is proposed following consultation with Cllr Edwards. The primary purpose of the scheme is to encourage energy investment using a mechanism that allows funds to be recovered and recycled. The absence of charges would not impact significantly on the sustainability of the scheme, with low interest rates on the wider market restricting the amount of income it would be possible to generate (see appendices A and B and 'Investment Appraisal' section for details). 0% interest would prove an effective promotional mechanism. This may also be reviewed following year 1 of the scheme, once a reliable indicator of

		demand is available. To ensure that we do not breach state aid rules, businesses would be charged a small amount of interest. 6% APR would match the interest charged for business start-up loans offered by government (see appendix B and 'Investment Appraisal' section below for further details).
Who can apply?	South Cambridgeshire householders, community and voluntary organisations, and Small and Medium-sized Enterprises (SMEs) (250 or fewer employees). Applicants will be required to pass a credit check. Community/Voluntary Groups must: - Have a written constitution or mission statement. - Have an elected committee or representative steering group. - Provide an up to date copy of their accounts and any relevant protection policies.	To ensure the distribution of funds is maximised throughout the district. Restricted to SME businesses on the basis that these organisations are less likely to have the available funds to invest in energy measures and to help ensure that the fund benefits local businesses. SCDC would employ an intermediary organisation to undertake credit checks to minimise the risk of non-repayment (see below section on risks). Eligibility requirements for Community / Voluntary groups are in line with those of the Community Chest and Community Energy Grant Fund. These ensure that awards are made to organisations with proper and effective governance structures. If organisations do not have a written constitution, mission statement or relevant protection policies, they can be signposted to Cambridge Council for Voluntary Service for advice, as is currently the case with the Community Chest Fund.
Eligible measures	Energy saving and efficiency measures (e.g. LED lighting, lighting sensors, secondary glazing, new boiler/radiators, insulation, heating controls, draught proofing, thermal doors etc.) Low carbon energy generation measures (e.g. Solar PVs, Air Source Heat Pumps, Ground Source Heat Pumps, Biomass etc.) Other low carbon measures (e.g. the installation of Electric Vehicle charge	It is widely acknowledged that as part of the energy hierarchy, energy efficiency should be a precursor for investment in renewable and low carbon energy generation measures. Many of the most accessible and least expensive energy performance options are energy efficiency measures. Receipt of loan awards will not impact upon the eligibility of recipients to claim Feed-in Tariff (FIT) or Renewable Heat Incentive (RHI) income for renewable installations that attract these, as opposed to publicly funded grant schemes, such as the Community Energy Grant Fund. This catch-all heading is included for the avoidance of doubt that projects that may not fall squarely under the above headings can still be

	points, or battery storage to maximise the benefits of renewable generation measures). Please note that the purchase of low emissions vehicles (including electric) is not an eligible measure due to the potential for largescale growth in this area, which may otherwise result in a high volume of applications for this purpose.	considered. The examples of Electric Vehicle charging stations and battery storage have been given, but the heading provides the option to consider any measure that can be seen as contributing to a reduction in carbon emissions. **Whilst eligibility criteria are deliberately unrestrictive to encourage a wide range of applications, it should be noted that eligibility would not guarantee funding, as set out within 'Fund restrictions' below.**
Other require-ments	Funding would need to be used within 12 months of the award (unless agreed in writing). A quote for the work in question will be required upon application. Recipients would be required to complete a feedback form within 3 months of project completion.	To ensure the fund is used promptly to bring forward benefits at the earliest possible opportunity. To allow SCDC to ensure that the quote that has been obtained is not unreasonable. To enable SCDC to monitor the success of the scheme and to build a portfolio of case studies for promotional purposes.
Fund restric-tions	Eligibility would not guarantee funding. The Council would reserve the right to prioritise based on funding availability, suitability of the measure and site, number and type of applications received, priorities for the financial year, value for money, funds previously received by applicants, or within the locality. Applications may be viewed less favourably if they are for a small percentage of total project costs, or if they are part of a larger project that would likely proceed without funding.	Providing decision makers with the discretion to make awards based on a number of criteria, whilst ensuring a certain amount of flexibility is retained within the decision making process. The spirit of the scheme is to encourage the development of new projects that may not have occurred without the availability of loan funding.

	Loans would not be awarded for the following: - Applicants that have previously received £10,000 of Community Energy Loan funding in the same financial year. - On-going revenue costs or overheads (e.g. staffing costs).	

Outline Process:

Organisations offering loans must be authorised by the Financial Conduct Authority (FCA). As such, SCDC would be required to employ an intermediary company with this authorisation to administer the loan.

Once applications are complete (including receipt of all required documentation and a completed application form) the intermediary company would undertake credit checks on applicants.

Applications will be reviewed alongside supporting information (e.g. credit check outcomes) and considered at periodic (normally monthly) Finance and Staffing Portfolio Holder meetings (alongside Community Chest and Community Energy Grant Fund applications).

SCDC could either communicate the outcome of Portfolio Holder decisions directly to applicants, or request the intermediary company to do so if there was any staff resource saving to be made.

The intermediary company would set up repayment of loans by monthly direct debit.

Policy for the recovery of loans in the case of non-payment would be set with guidance from the chosen intermediary company. Typically though, default letters would initially be sent, followed by solicitor's letters, whilst beyond this debt collectors could be employed if suitable.

An annual review will take place at the end of each year to ensure that adequate demand has been demonstrated and benefits distributed to the intended range of recipients to warrant the continuation of the loan fund.

Following the completion of the initial 4 year period, the scheme will be reviewed and a decision sought as to whether to continue with the scheme or to close the scheme and return the fund balance to the Renewables Reserve.

Reasons for recommendation:

Leadership of place

The provision of a Green Energy Loan scheme offers SCDC the opportunity to demonstrate leadership of place, by supporting projects that deliver benefits to South Cambridgeshire residents, businesses and communities through increased energy efficiency and localised energy generation. By doing so through a loan scheme, SCDC would maximise the reach of this fund, with the potential for a single loan to be recycled and reinvested more than once, and returned to the Renewables Reserve upon completion of the scheme.

Loans of between £1,000 and £10,000 will allow recipients to undertake a wide range of energy measures and may allow funding to be attracted from other sources, enabling large scale energy projects to be considered.

As part of this leadership of place role, SCDC could invite applications for projects focusing on areas of particular benefit, or those that allow access to additional funding. Examples could be the installation of Electric Vehicle charge points to promote more sustainable travel within the district and access funding available through the Office for Low Emission Vehicles; or battery storage, to maximise the benefits obtained from existing renewable energy generation units throughout the district.

Indications of demand

A similar scheme is running in Suffolk as the '*Suffolk Carbon Reduction Loan Scheme*'. The fund of £50,000 offers loans of up to £5,000 at 0% APR and accepts applications from householders, businesses and community groups. Although minimal advertising has taken place, the scheme is always fully subscribed. The majority of recipients of loans from this scheme have been householders; however 10 loans have also been awarded to Suffolk-based SMEs.

Demand has also been demonstrated through public engagement with energy and sustainability related projects, such as those organised by the Sustainable Parish Energy Partnership (SPEP) (a network of parish councils, groups and individuals running community projects to encourage greener living). These have included thermal imaging camera loans, village energy days and other events to promote energy saving and renewable energy.

Demand for assistance with the implementation of green energy measures has also been demonstrated by local community and voluntary groups, as covered in greater detail within the previous business case for the Community Energy Grant Fund. Whilst a certain amount of this demand is likely to be met through the Community Energy grants, this may overflow into the Energy Loan fund due to maximum grant awards of £3,000 and legislation that prevents projects receiving publicly funded grants from claiming Feed-in-Tariff and Renewable Heat Incentive income.

Studies carried out by the Energy Saving Trust (*UK:Pulse 2016 Connecting with homeowners:making energy efficiency relevant*) indicate that nearly 90 per cent of homeowners who have completed a home improvement of some kind in the last three years have also made energy efficiency upgrades. It also outlines that homeowners who have moved within the last 12 months are most likely to start planning for large or general improvements.

South Cambridgeshire District Council is also one of the 11 Vanguard Authorities piloting the Government’s Right to Build agenda, as laid out initially in the Self-build and Custom Housebuilding Act 2015. This may provide opportunity for successful promotion of Energy Loans to those on the self and custom build register, providing support for prospective house builders for energy efficiency and saving plans.

Complementary schemes that demonstrate commitment to investment in sustainable energy schemes for our communities

The Energy Loan Scheme would complement Community Energy Grants by making funding available to a wider range of organisations and individuals and for a broader range of projects. It would do so in such a way that ensures that maximum value is gained from the funding available for renewables receipts. However, beyond this and in addition to projects that will seek to invest in green energy for income generation purposes, the Energy Loan and Community Energy Grant schemes will form a package of measures that will clearly demonstrate SCDC's commitment to investment in sustainable energy for the benefit of South Cambridgeshire and its communities.

Benefits:

Benefit	**Corporate Plan Link**	**Objectives required for Benefit delivery**	**Key measurable**
South Cambs householders, SMEs and community groups are empowered to reduce environmental impact and make financial savings	Living Well	Loan awards are made for a range of projects spread across each of the eligible groups.	- Number of loans awarded to recipients from each of the three eligible groups. - Reporting of case studies with details of potential savings
Positive reputational impact for SCDC	An Innovative and Dynamic Organisation	Support a wide range of projects and organisations. Generate positive news items.	- Number of loans awarded. - Financial value of loans awarded - Number of positive Energy Loan news items.

Risks:

Risk description Risk event, *leading to consequence,* resulting in possible outcome	**Control Measures**	**Risk Score**	
Lack of internal resource for the effective administration of the scheme, *leading to a backlog of loan applications*, resulting in reduced benefits (outlined in the Benefits section above) available through the loan scheme and possible negative publicity.	See 'Internal Resource Requirements' heading under 'Cost and Timescale' section below for details of the possible arrangements for the resourcing of the scheme.	Impact Likelihood Total	2 3 6

Loan recipients do not keep to repayment schedules, *leading to delayed availability of funds for future loan awards and potential for negative publicity*, resulting in reduced benefits (outlined in the Benefits section above) available through the loan scheme.	The intermediary company chosen to administer the scheme would undertake credit checks upon which awards would be dependent, ensure monthly direct debits are set up for the recovery of loan instalments, and chase any outstanding repayments in accordance with a non-payment policy, which would be set with guidance from the chosen intermediary company prior to scheme launch. Included within administrative costs. The Suffolk Carbon Reduction Loan scheme has had no defaults since set up in 2010.	Impact Likelihood Total	2 3 6
Lack of awareness, interest or energy expertise, *leading to a poor uptake in the scheme and the failure to allocate the loan fund pot,* resulting in reduced benefits (outlined in the Benefits section above) and possible negative publicity.	Existing and proven communications channels would be used to promote the scheme in accordance with a communications plan, to be developed in consultation with the Communications Team. Annual review of demand and benefits to take place to ensure this warrants continuation. Links would be provided on our website to reputable organisations providing advice on energy saving and generation measures, whilst the chosen intermediary organisation will provide advice and support on the application process. Following consultation with Cllr Edwards, administrative costs would be based on a 'price per loan' payment model. This would ensure we would only be charged for the number of loans awarded, as opposed to an annual management fee, which would be based on an anticipated number of annual loan awards. To ensure administration costs do not exceed our expectations, we would cap the number of loans per year.	Impact Likelihood Total	2 2 4
Strong uptake from a particular sector or area (e.g. a high proportion of applications from homeowners), *leading to the distribution of loan funds for a narrow range of project types and recipients,* resulting in	Whilst the eligibility criteria for the loan application has been set to encourage a wide range of applicants we will also adapt communications and promotions to attempt to reach all of our target audience groups. Annual review of demand and benefits to take place to ensure this warrants continuation.	Impact Likelihood Total	2 2 4

reduced benefits across the district (outlined in the Benefits section above) and possible negative publicity.	It is proposed that businesses would be charged 6% APR as opposed to householders and community groups who would receive interest-free loans. To ensure that this does not become an overriding factor in the decision making process, it is suggested that loans to businesses should not be allowed to exceed one third of the total number of loans awarded in any given year.		
Poor level of service offered by the chosen intermediary company, *leading to customer dissatisfaction with the scheme,* resulting in reduced benefits across the district (outlined in the Benefits section above) and possible negative publicity.	Advice would be taken from SCDC's procurement officer on how best to set out and manage the contract to ensure that service standards are at the levels that we would expect, and to identify how this should be monitored and addressed in the event of customer dissatisfaction.	Impact Likelihood Total	2 2 4

Cost and Timescale:

Cost:

As previously outlined, the total funding pot for this scheme would be £200,000. To run a loan scheme, SCDC would be required to appoint an FCA accredited organisation to administer and manage the loan. The cost of this would be taken from within the total £200,000 funding pot.

The below hypothetical costings have been provided by an intermediary organisation on the understanding that should this business case gain approval the usual procurement procedures will be undertaken. Following consultation with Cllr Edwards, it is proposed that a price per loan cost model is adopted to ensure that costs would be based only on the number of loans awarded, as opposed to an annual management fee. To ensure administration costs do not exceed our expectations, we would cap the number of loans per year to 24, limiting costs at £18,000 p.a.

Price per loan model	Annual Management Fee 30 loans per year	Annual Management Fee 20 loans per year
£750 per loan	£20,000 p.a.	£18,000 p.a.

<u>Estimate assumptions and limitations</u>

- £200,000 total fund size.
- Intermediary organisation available to field enquiries relating to the loan fund, to receive applications directly from applicants and communicate outcomes to applicants.
- Includes recovery costs up to judgement stage, plus cost of any external recovery agents.
- Does not include loan marketing, which would be handled by SCDC.

It may be that the above indicative costs would be reduced once procurement procedures have been followed. It is also possible that costs could be minimised further by reducing intermediary involvement to the minimum legal requirement, taking on a greater level of the administrative tasks using internal resource.

Internal Resource Requirements:

The Community Chest fund provides an indication of the level of resourcing that will be required for the administration of the Energy Loan Fund. Currently, approximately two hours per Community Chest application are required from the Sustainable Communities team, split between Project Officer and the Resources Team.

This time includes administration to ensure applications are valid and accompanied by all necessary documentation, preparation of the Portfolio Holder report and communication of results. It also includes management oversight of the scheme, communications with the Portfolio Holder and attendance at Portfolio Holder meetings.

It may be possible for some of these tasks to be undertaken by the intermediary company (such as communication of results and administration to ensure all applications are valid and complete) to reduce the amount of time required from SCDC officers; however this would need to be balanced with the need for SCDC to retain sufficient ownership of the scheme and knowledge of applications.

It is proposed that the management and administration of the Energy Loan fund would sit with the Sustainable Communities team, alongside the Community Chest and Community Energy Grant schemes. At present there is no spare capacity within the Sustainable Communities team and as such a bid for a grade 4 (£23,711 - £27,404) Project Officer post has been submitted. Subject to other priorities (including the administration of the Community Energy Grant Fund), it is anticipated that the set up and administration of the grant fund could be undertaken by one day per week of this post provided it goes ahead. If this is not the case, alternative options for resourcing this work will need to be explored. This could include the use of the Renewables Reserve to fund a post.

Timetable for Community Energy Grant Fund set up:

Task Description	Start Date	End Date
Prepare procurement documents	01/03/18	30/04/18
Issue Invitation to Tender (ITT) and advert	01/05/18	01/05/18
Develop communications plan	01/05/18	31/05/18
Design, create and test application form	01/05/18	09/07/18
Action communications plan	01/06/18	09/07/18
ITT return, evaluation (interviews and references) and award notification	31/05/18	23/06/18
Develop processes required for the administration of the loan fund	01/06/18	01/07/18
Energy Loan Fund launched and open for applications	Mid-July	Mid-July

Investment Appraisal:
It is proposed that the total fund size is set at £200,000 and made available for loans of £1,000 - £10,000, with repayment to take place over a 3 year period. Indicative administrative costs have been set out within the 'Costs and Timescales' section above and would be financed directly from the loan fund. Whilst the benefits of the scheme would be non-financial (as set out within the Benefits section above), the adoption of a loan mechanism for the distribution of funds would allow the delivery of these benefits in a manner that would maximise its sustainability and allow the repayment of the fund balance to the Renewables Reserve at the point of scheme closure. Appendix B provides an estimate of the income and outgoings for the proposed interest-free loan scheme. Alongside Appendix A, which shows the best interest rates for unsecured loans currently on the market, this also provides an exploration of the benefits that could be gained through the application of an interest rate. This finds that based on current market rates, SCDC could at best apply an average APR to householders and community groups of 4-5% (depending on the size of the loan) whilst remaining relatively attractive. Based on the number of loans to be awarded through the lifetime of the scheme (also estimated within Appendix B), this would return approximately £20,000 - £25,000 by the time the final loan has been repaid at the end of the scheme (assuming 100% recovery). This compares with a total estimate administrative cost of £48,000. The absence of charges would therefore not impact significantly on the sustainability of the scheme and it is proposed that 0% interest is applied to loans to householders and community groups in order to maximise the scheme's appeal. The cost of loan administration may be offset slightly by a 6% APR that would be applied to business recipients of Green Energy Loans to ensure that we do not breach state aid rules. This would result in a return from interest of £475.95 per £5,000 loan to businesses. At this stage it is difficult to predict the level of uptake that will come forward specifically from businesses; however if we were to assume that 1 in 8 loan awards were to businesses, based on the model in appendix B this would result in an additional £3807.60 over the course of the scheme.