

Report to: **Special Council**
Date: **25 July 2019**
Title: **Commercial Investment Strategy**
Portfolio Area: **Strategic Assets – Cllr J Pearce**
Wards Affected: **All**
Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken:

Immediately following this meeting

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RECOMMENDATION

That the Executive RECOMMENDS to Council to approve the Commercial Investment Strategy in Appendix A.

1. Executive summary

- 1.1. The South Hams Commercial Investment Strategy is currently constrained to investment within the authority's area, as it targets investment and enterprise benefits to the District.
- 1.2. Recently the Authority has prioritised tackling Climate Change declaring a Climate Change Emergency and targeting proactive measures to meet these challenges.
- 1.3. Opportunities exist for South Hams to invest, off market, in shovel ready (a construction ready project with all approvals in place including planning approval) renewable energy generation assets (large-scale solar) which will deliver multiple benefits of:
 - attractive investor return
 - directly linked to tackling climate change targets and the authority's low carbon agenda
 - providing a "hedge" against forward energy price rises
 - the opportunity to generate enhanced financial returns in the future from "bolt on" energy storage

- 1.4. The pursuit of such opportunities will require the Authority to relax its geographical investment restriction in this regard as, firstly, it is highly unlikely suitable investments will be identified within the South Hams District and secondly, locality of generation makes no difference as to how the generation and consumption of power is tracked and reported.
- 1.5. The Commercial Investment Strategy has been amended accordingly and is attached at Appendix A.
- 1.6. A version of this report is also to be considered by the Executive at its meeting on 18 July 2019 and views of this meeting will be outlined in the published minutes arising from that meeting.

2. Background

- 2.1. In September 2018, South Hams District Council adopted a Commercial Investment Strategy. This Strategy has four core aims;
 - 2.1.1. To support regeneration and the economic activity of the District
 - 2.1.2. To enhance economic benefit & business rates growth
 - 2.1.3. To assist with the financial sustainability of the Council as an ancillary benefit
 - 2.1.4. To help the Council continue to deliver and/or improve frontline services in line with the Council's adopted strategy & objectives.
- 2.2. This Strategy is devised and adopted specifically to promote Enterprise in the District, a core theme of the Council. The Strategy presents a significant challenge in terms of acquiring identifying suitable investments of sufficient scale which will yield a sufficient return within South Hams.
- 2.3. In May 2019, the Executive approved a report to tackle Climate Change which included the following specific recommendations:
 - The Council declares a Climate Change Emergency
 - An Action Plan be developed that outlines how the Council will address the Emergency, and meet or exceed the targets set by the Intergovernmental Panel on Climate Change (IPCC), including an assessment of the viability of a 2030 target, to be brought to Council for approval within 6 months
 - Continue to work with partners across the county and region to deliver this goal through all relevant strategies and plans

- Report an Action Plan to Full Council within six months outlining how the Council will address the Emergency, and meet or exceed the targets set by the IPCC
- 2.4. In June 2019 UK Government implemented, by statutory instrument, an amendment to the Climate Change Act 2008 committing to net zero emissions by 2050. This legislative change will bring into effect comprehensive recommendations contained in a report published in May 2019 by the UK Committee on Climate Change, "Net Zero, the UK's Contribution to Stop Global Warming".
 - 2.5. The IPCC and UK Committee on Climate Change reports are clear that the generation of renewable energy will need to play a significant part in reaching that target of net zero by 2050. "Net Zero The UK's Contribution to Stopping Climate Change" sets out that not only will the UK's electricity need to go from 50% low carbon sources, to 100%, but due to electrification in other sectors (such as cars), there will be a doubling in the overall electricity requirement.
 - 2.6. In this context, that means the quadrupling of low carbon energy including (but not limited to) solar power, hydropower and windpower.
 - 2.7. As an organisation we consume energy from the national grid, through a supplier the same way as anyone else. Our current approach to our electricity procurement does not give priority to low carbon sourced power ("Green Electricity"). Furthermore, for us as an organisation to have a meaningful impact on our Scope 2 emissions (indirect emissions from things we can directly control) we need to draw our electricity from entirely new low carbon sources (i.e. "additionality"), rather than simply sharing in existing low carbon energy generation currently available.
 - 2.8. It is feasible for low carbon electricity to be generated outside of area, but be bought and consumed in area, to the direct benefit of our district such that the generation source (units of power generated) is tracked and linked to consumption. This can be done through a sleeving arrangement with an energy supplier who will track and report energy generation and consumption through the Renewable Energy Guarantees of Origin (REGO) scheme administered by Ofgem. Consequently, beyond a perception of local investment being a good thing, it makes no difference whether an investment in a renewable energy generation facility is within the district of South Hams or another part of the UK.
 - 2.9. Beyond the Authority's electricity consumption, there would be an opportunity for us to supply "partner organisations" (such as our Leisure Centres) with green power through a White Label supply arrangement.
 - 2.10. Aligning our Commercial Investment Strategy with our Climate Change declaration would allow us to deliver both an attractive investment return as well as directly linking such an

investment to delivering on climate change targets. To do so, we will need to lift our geographic constraint as to where investment can be made as, firstly sizeable renewable energy investments are extremely unlikely within South Hams District and secondly it makes no difference to the way energy is consumed or reported.

3. Prospective Investment Opportunities

- 3.1 The large scale solar market was “kick started” in the UK through renewable energy subsidies (Renewable Obligation Certificates). The sector attracted strong pension fund grade investors due to these investments being low risk with predictable income-streams and operational costs.
- 3.2 In April 2016 Government removed subsidies, recognising over-support of the sector. This has led to a significant slow down in solar development activity. Additionally capacity in the grid network is constrained, limiting opportunities to develop new solar facilities where there is an economic grid connection
- 3.3 The cost of solar panels has significantly reduced which, alongside projected energy cost increases, has meant that it is economically attractive to develop unsubsidised large scale solar. An investment case is particularly attractive to Local Authority Investors, who have access to a low cost and long term borrowing facility through the Public Works Loan Board.
- 3.4 The range of benefits that such investments can bring are:
 - a. An attractive base case investment return starting at ~5.5% per annum and rising steadily to over 10% over the life of a project
 - b. An opportunity to procure electricity used by the Authority from the the facility which can provide a “hedge” against forward energy price increases.
 - c. A major contribution towards meeting South Hams’ carbon reduction strategy.
 - d. Innovation in energy storage technology, integrated with smart grid management, providing an opportunity to bolt on battery storage to enhance the base case economic return at a future time.
 - e. Links to South Hams potential rollout of electric vehicle charge points.
 - f. A “liquid” investment asset

4. Specific Options available and consideration of risk

- 4.1 Subject to the revised Strategy in Appendix A, South Hams will be able to take advantage of existing off market opportunities in the sector which do not exist within the District.

- 4.2 For the avoidance of doubt, the change to the strategy to widen the geographic area of investment is ONLY for the purposes of investment in Renewable Energy, no other sectors.
- 4.3 This presents a direct opportunity to realise the benefits set out in Section 3.
- 4.4 The risks associated with investment in Solar PV are well understood as the technology is proven. The panels themselves are warrantied for 30 years (the investment life) to not drop below 80% of their original capacity over that time frame. Evidence from the oldest PV panels shows that further degradation is broadly linear, so the panels do actually continue to have a value after 30 years.
- 4.5 The inverter technology used to scale up the power for transmission into the grid has a shorter life expectancy and as a rough rule of thumb, last half as long as panels. A replacement programme and associated cost is built into any business case to mitigate that risk.
- 4.6 Land management and rent are also agreed by contract at the time of investment so are able to be costed accurately into the business case. The "plant operation" is also outsourced and costed.
- 4.7 The remaining and most significant risk of any shovel ready Photovoltaic (PV) investment is therefore the forward energy price by which the investor realises a return.
- 4.8 Forward energy price modelling exists and would be evaluated as part of any proposed investment. Whilst modelling is never a perfect science, there are overarching global factors that all point towards future price rises such as; demand increase, a move away from "cheap and dirty" sources, instability in oil rich areas of the world, the high cost of nuclear energy in the medium term.
- 4.9 In spite of this, it is imperative that any business case uses a conservative energy unit price as part of the initial assessment, so as not to provide any unrealistic bias or expectation.
- 4.10 Any PV investment would be supported by thorough technical and legal due diligence to appropriately interrogate and quantify the risks as part of the decision making process.
- 4.11 It should be noted that where other types of renewable energy investments come forward, the risks and benefits will be considered on a case by case basis utilising the existing scheme of delegation.

5. Proposed Way Forward

- 5.1 That the Council be recommended to approve the proposed revised Commercial Investment Strategy set out in Appendix A.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		Previous advice on the relevant powers and appropriate vehicles for delivering these proposals has been sought from external specialist advisers and legal counsel. Legal counsel opinion has been obtained which sets out the various powers available to the Council, which supports the Council's investment strategy, including the widening of the geographic area of investment as described in Appendix A.
Financial implications to include reference to value for money		Borrowing decisions will be taken prudently in line with the Council's treasury management strategy and by officers within that function. The Council must confirm that the borrowing required is available and is proportional to the Council's financial situation. The Council has approved a borrowing limit of £60 million for the Commercial Investment Strategy.
Risk		The risks associated with this project are set out in section 4.1 of this report.
Supporting Corporate Strategy		Enterprise & Environment
Comprehensive Impact Assessment Implications		
Equality and Diversity		N/A.
Safeguarding		N/A
Community Safety, Crime and Disorder		N/A
Health, Safety and Wellbeing		N/A
Other implications		Positive alignment with meeting UK renewables targets and biodiversity associated with PV sites.

Supporting Information

Appendices:

Appendix A – Commercial Investment Strategy – Tracked Changes shown

Appendix B – Commercial Investment Strategy (clean version with changes accepted)

Background Papers:

None