

Annex B
Agenda Item No: 4

Cambridgeshire Community Energy Fund(s)

To: CRIF/CEF Steering Group
Date: 27th January 2012
From: Sheryl French

Purpose:

- Background to Zero Carbon Policy for New Homes and the draft Allowable Solutions Framework
- Summary of the four key conclusions in the second Community Energy Fund report
- Key benefits of a local Community Energy Fund

Recommendation:

- Sign off the Second Community Energy Fund Report

Contact: Name: Sheryl French
Job Title: Delivery Manager
E-mail address: Sheryl.French@cambridgeshirehorizons.co.uk
Telephone No: 01223 728552

This project is being developed as part of the Climate Change Skills Fund. The fund is managed by Sustainability East on behalf of Improvement East.

SUSTAINABILITY  EAST
incorporating Climate East


Improvement
East
Partnership
for Improvement
and Efficiency

1.0 Purpose

- Background to Zero Carbon Policy for New homes and the draft Allowable Solutions Framework
- Summary of the four key conclusions in the second Community Energy Fund report
- Key benefits of a local Community Energy Fund

2.0 Background

- 2.1 The Community Energy Fund (CEF) is a mechanism to support developers to achieve their zero carbon obligations. Zero Carbon Policy identifies that new homes must be zero carbon by 2016 on all regulated emissions.
- 2.2 For some developments either due to their size or their location delivering zero carbon on site is technically difficult and/or too costly. The Community Energy Fund is a mechanism to help developers, especially small and medium sized developments to deliver their obligations.
- 2.3 Developers can offset the balance of their emissions by contributing into a Fund. A Community Energy Fund then invests this money in low carbon infrastructure projects to deliver the carbon emissions savings. Developer contributions would be made to the CEF with the level of payment determined on the basis of the amount of CO₂ to be offset and a set price for carbon reduction (£/tonne CO₂).
- 2.4 A Community Energy Fund is not the only option for Developers to deliver their carbon compliance. Under the Government's current Allowable Solutions framework proposals, developers will be able to (a) choose to deliver their own allowable solutions projects, (b) make contributions to a local CEF or (c) offset via private third-party allowable solution providers.
- 2.5 Allowable Solutions is the term used to describe the range of carbon reduction initiatives that developers might invest in to meet their remaining carbon reduction obligation under zero carbon policy once the target for on-site CO₂ reduction (known as the Carbon Compliance level) has been met. These Allowable Solutions could include further measures taken on-site, near to the site or off-site (i.e. further removed from the development).
- 2.6 The key features of the proposed framework that have implications for the development of a CEF in Cambridgeshire (and elsewhere) are summarised below:
- Local authorities have the opportunity to develop Allowable Solutions policies in their Local Plan. The existence of such policies will ensure that Allowable Solutions investment is directed to projects identified in the Local Plan.
 - Developers have the opportunity to seek out the best value Allowable Solutions, via the Community Energy Fund or third-party private Allowable Solutions providers. If the local authority has appropriate policy in place, Allowable Solutions projects will have to be selected from the Local Plan, even if delivered by a third-party provider.
 - If a local authority does not develop Allowable Solutions policies, it is envisaged that there will be a market of private energy funds vying for the contracts to provide Allowable Solutions to developers. The private energy fund will not be restricted to developing projects in the local area and it is likely that investment will flow outward to projects identified in the national list.

3.0 Second Report: Cambridgeshire Community Energy Fund - Summary

Element Energy were commissioned in February 2011 to consider in more detail four key aspects of the development and operation of a community energy fund identified by Councillors in a Member briefing in July 2012. This is summarised below.

3.1 Collection Mechanisms - analysis of potential for collecting developer payments into a local Community Energy Fund.

The assessment of various options for collecting developer contributions payments for Allowable Solutions found that neither of the existing mechanisms (Section 106 Planning Agreements and the Community Infrastructure Levy (CIL)) offers an ideal solution when the Zero Carbon Policy and the new Part L of the Building Regulations come into force in 2016.

The report recommends that government should be urged to adopt a new and simpler, purpose designed, collection mechanism to enable developers to make payments for Allowable Solutions directly into a local Community Energy Fund.

3.2 Structure and governance – analysis of options for the corporate governance of a community energy fund, its membership, management and operational control.

The first stage scoping report for a Cambridgeshire CEF considered the options for the structure of a locally controlled fund-holding body in some depth and concluded that the preferable structure was the creation of a special purpose vehicle (SPV) and a company limited by guarantee (CLG) was likely to be most suitable. This has been tested through consultation with the local authority legal officers and this remains the preferred option for the following reasons:

- limited liability status and requirement of only a nominal guarantee;
- flexibility of membership arrangements;
- constitutional flexibility;
- familiarity to local authorities in Cambridgeshire; and
- suitability for a not-for-profit, community investment mandate.

The governance details are more difficult to define at this stage. There is clearly a case that each 'collecting' local authority should be a member of the CLG, as those local authorities will, through the collection mechanisms, be collecting money from developers and paying it into the CLG as the fund holding body for investment in community energy schemes. Management and operational control of the CLG would be carried out by its directors. Appointing directors to the Board of the CLG is one of the key rights a member will acquire. It is important to note here that no decision has been taken yet by the Local Authorities to enter into a CEF.

3.3 Scale of fund and investments – forecasts of the size of the fund and assessment of the kinds of investments it might make and ability to deliver carbon reduction through those investments

Based on recent growth plans for Cambridgeshire local authorities and an Allowable Solutions price of £46/tCO₂ (the value used in recent government policy analysis), the cumulative Allowable Solutions income generated in Cambridgeshire over the period to 2026 is estimated at £55 million. The proposed Allowable Solutions framework will look to create a competitive market and this means that the CEF may be in competition for funds with third-party providers but the details of how this works is still being worked through.

A key decision for Cambridgeshire's local authorities is whether to join a county-wide fund, or to develop funds based on local planning authorities. There are significant advantages to be gained by the local authorities working together in a county-wide scheme. These advantages include:

- The county-wide fund will be able to make larger investments and therefore influence the delivery of larger, strategic projects.
- The larger-scale fund will be more likely to leverage additional sources of finance, such as bank debt, greatly increasing the overall level of investment in the area.
- Transaction costs will be lower as a percentage of money invested for larger investments.
- Economies of scale will increase efficiency in the fund's management and operational costs.
- The county-wide fund will have greater scope to develop a pipeline of cost-effective carbon reduction projects.

3.4 Carbon accounting – assessment of the requirements and possible methodologies for measuring and verifying the carbon reduction delivered

The draft Allowable Solutions framework proposes that a national Allowable Solutions Verification and Certification Scheme is established – the principle of a national Allowable Solutions Verification and Certification scheme is helpful and not inconsistent with the needs of a local fund. Local authorities would benefit from having nationally agreed and implemented verification /certification procedures.

4.0 The Benefits of a Community Energy Fund(s)

The opportunity to establish a public sector led CEF to manage developer payments is highly attractive to local authorities and other local public sector stakeholders. The CEF provides the opportunity to:

- Ensure that development contributions for carbon reduction are invested locally and for the benefit of the local economy.
- Influence the delivery of more ambitious carbon reduction projects that are not being brought forward by the private sector
- Invest in projects that deliver wider benefits to the local community and economy, such as generating employment in the low carbon energy sector.
- Leverage additional private sector investment into delivery of carbon reduction projects in the area.

5.0 Recommendations

To sign off the second technical report on a Cambridgeshire Community Energy Fund(s)