

# Renewable Investment

**Cabinet**

**Date: 7<sup>th</sup> December 2016**

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Author:	Leader of the Council Corporate Director, Economy, Regeneration and Skills
Wards:	All
Locality Affected:	All
Parishes Affected:	All

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## **1. Purpose and Reasons**

- 1.1 This report sets out the plans to develop the ex-landfill site at Barnfield, Swindon, into a solar farm, which directly supplies energy to Public Power Solutions Ltd.
- 1.2 With the launch of the Vision for Swindon, the Council has committed to “improve infrastructure and housing to support a growing, low carbon economy”. This report builds on the work for Pledge 2 of Swindon Borough Council’s Vision which outlines that by 2020, the Council will “construct solar arrays on Council-owned land at Common Farm, Chapel Farm and a solar noise barrier along roads including the M4 at Wichelstowe”.

## **2. Recommendations**

Cabinet is recommended to:

- 2.1 Authorise the Interim Corporate Director, Resources, in consultation with the Cabinet Member for Finance and Corporate Services, to invest up to £3.2m in the Barnfield solar scheme, subject to all required due diligence around the financial and operating models being completed, and the project demonstrating sufficient risk/reward by the date of investment.

## **3. Detail**

- 3.1 In the report to Cabinet on 23<sup>rd</sup> April 2014 (Cabinet Minute 114 (1), 2013/14 refers), a number of Council owned assets were identified as having solar development potential towards achieving Pledge 2. Subsequently these sites received planning permission via the Council’s Local Development Order (LDO) initiative. The LDO also granted planning permission for solar development on a number of other council assets and subsequent feasibility work has revealed further development potential for solar at Barnfield, Mannington and on a number of car parks currently owned by Swindon Borough Council.

Part 1 - Barnfield Landfill

- 3.2 Public Power Solutions is now progressing a 2.5MW ground mounted solar park on Council-owned land at the former Barnfield Landfill site, which will be physically connected to the Waterside Depot by means of a private wire

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connection. Public consultation was rerun in August and no adverse comments were received back.

- 3.3 Engineering and construction contractors have been appointed through PPS' Dynamic Purchasing System. Subject to Cabinet approval and agreement of contracts, works should begin on site in December, completing in order to generate by 31<sup>st</sup> March 2017.

## Financial Viability

- 3.4 PPS has produced a number of financial models for a range of operational scenarios. These have been reviewed and scrutinised to ensure that the proposal provides a sound financial investment to the Council, and that risks are fully understood. An internal rate of return of 8.1% has been modelled for this scheme.
- 3.5 There is ongoing work to identify the best form of vehicle for the proposal, either through a Council-owned Special Purpose Vehicle similar to Common Farm and Chapel Farm, or directly through the Council. There will be financial and legal implications of either route that need to be understood fully.
- 3.6 SBC and PPS officers will continue to work through these issues as part of the due diligence process and further detail will be provided to Members when a definitive position is reached, and a further report to Cabinet if required. Due diligence on the technical, financial and operating models will be undertaken by officers in consultation with PPS to ensure the project delivers the predicted financial benefits and demonstrates an acceptable level of risk and reward
- 3.7 The proposal requires the Council to invest up to £3.2m, funded through borrowing, to be repaid over a 25 year period. The project will generate an annual income through Renewable Obligation Certificates ("ROCs"), and through selling energy to the PPS plant. In addition to operating costs such as maintenance, insurance, equipment replacement, there are returns to the Council in the form of business rates and rent for the site.
- 3.8 The model assumes that a grid connection is possible from 2018 and any excess energy that cannot be used by PPS would be sold for a further revenue stream.
- 3.9 Selling energy to PPS whilst generating an income stream for the Solar Farm, also generates a saving in electricity costs to PPS as it will be at a lower cost than currently paid, but at a higher price than is obtainable from selling directly to the grid.
- 3.10 The financial model shows a projected Internal Rate of Return of 8.1% and therefore comfortably exceeds the Council's cost of borrowing. However, a number of the assumptions underpinning the model are highly variable, such as

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energy inflation, and therefore the financial performance will need to be monitored closely.

- 3.11 There is inherently some risk in the operating model as it relies on an income stream from the sales of energy to the PPS plant, and energy inflation is difficult to predict over the long term.

## Part 2 – Renewables Investment Fund

- 3.12 In October 2016, having consulted with the Leader and Cabinet colleagues, the Cabinet Member for Sustainability, Highways, and Transport requested that officers pursue the principle of the creation of a renewables investment fund which would be managed by SBC/PPS
- 3.13 The fund would be used to invest in renewable schemes across the country and would aim to generate return in excess of the Councils cost of borrowing, as set periodically by the Council's Section 151 Officer. This could be used to support the funding of other Council services, or to re-invest in other similar opportunities.
- 3.14 Officers are in discussion with PPS to understand what potential opportunities may exist, how they are identified on an on-going basis, as well as the Governance and criteria around any decision for the Council to invest.
- 3.15 Should opportunities be identified, these would need to be progressed through the proposed Commercial Investment Strategy Board which is subject to a separate Cabinet paper.

## **4. Alternative Options**

- 4.1 PPS could continue to develop the Barnfield scheme and sell to a private sector bidder; the Council would incur no expenditure or risk but equally would not achieve any benefits from generated revenue.

## **5. Implications, Diversity Impact Assessment and Risk Management**

### Financial and Procurement Implications

- 5.1 These are detailed in the body of the report. The funding of the solar scheme would be from the commercial investment fund assuming this is approved by Cabinet. Alternatively, it would be funded from borrowing.
- 5.2 Approval of the scheme would be subject to the Gateway process outlined in the proposed Commercial Investment Strategy as referred to in paragraph 3.15 above.

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## Legal and Human Rights Implications

- 5.3 Legal and Human rights considerations have been taken fully into account in compiling this report. It is considered that the proposals within this report are compatible with convention rights.

## All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.4 Sustainability is key to this report and such implications are set out in the body of the report and in its recommendations. No other specific implications have been identified at this time.

## Diversity Impact Assessment

- 5.5 This share offer will not be issued as in the case of Common Farm and Chapel Farm and is a straight commercial transaction between SBC, the contractors and PPS. Therefore there is no direct impact upon community groups and therefore no requirement for a Diversity Impact Assessment

## Risk Management

- 5.6 Construction – risk of scheme failure due to construction related issues.

### Mitigation

- 5.6.1 An experienced engineering, procurement and construction (EPC) partner has been appointed with a track record of delivering similar schemes
- 5.6.2 Extensive due diligence has been undertaken by both funding and construction partners.
- 5.6.3 A client-side project manager will be employed to monitor the build and related health and safety issues, reporting back to PPS and SBC on a regular basis.
- 5.6.4 A set of measures involving funding agreement and conditions, contingency and close financial management is being developed.
- 5.7 Financial – risk that the scheme does not generate the operational surpluses that are expected.

### Mitigation

- 5.8 The scheme has been fully modelled by experts in the field, with lessons from the first two schemes being incorporated.

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**6. Consultees**

- 6.1 The Interim Corporate Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

**7. Background Papers**

- 7.1 None.

**8. Appendices**

- 8.1 None.

**9. Key Decision/Decision in Cabinet Work Programme and Forward Plan**

- 9.1 This is a Key Decision and is included in the Cabinet Work Programme and Forward Plan for October 2016.