Merston Solar Farm

Business Case

Version 0.12

BUSINESS CASE: KEY DETAILS PAGE
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BUSINESS CASE: TABLE OF CONTENTS

PART A: EXECUTIVE SUMMARY

INITIATIVE NAME	Merston Solar Farm	
REFERENCE TO RELEVANT BUSINESS PLAN AND/OR COUNTY STRATEGY	N	
PART OF EXISTING CAPITAL PROGRAMME?	DIRECTORATE	DEPARTMENT
N	Residents Services	Your Energy Sussex

1.0 EXECUTIVE SUMMARY

1.1 Executive Summary

This business case is an opportunity for West Sussex County Council (WSCC) to invest into a community –owned solar PV scheme. Investing into the project would align with the three Future West Sussex core priorities along with the agreed objectives of the Your Energy Sussex (YES) partnership; by benefitting West Sussex residents, addressing fuel poverty, developing the low carbon economy and reducing CO_2 emissions.

The scheme itself is a 5 MW solar farm which will be owned and operated by a community benefit society, Meadow Blue Community Energy (MBCE). This business case is seeking to gain approval for WSCC to invest £2m into the scheme in order to maximise long-term economic and community benefits for the scheme and provide a reasonable return to the Council.

Based on the financial model proposed, over the lifetime of the project (25 years) it is estimated that the project will demonstrate three substantial economic benefits:

- A Community Benefit Fund will be created as part of the project. The PV system is forecast to generate £4.5m of surplus cash after interest and debt charges which will be ring-fenced for supporting future energy reduction and fuel poverty projects in the county. As a substantial investor into the scheme, WSCC would have a place on the Board of Directors which would have direct oversight over how all funds are accrued and distributed as part of the fund. As a result of the substantial investment coming from within the county, as a minimum, 80% of the fund has been confirmed as being ring-fenced for projects located within West Sussex.

- The project will contribute significantly toward supporting the local economy. The system yield is predicted to be upwards of £2.4m for redistribution as interest payments to all shareholders into the scheme. Approximately half of this would be reinvested into the local West Sussex community through the 184 investors. The average investment into the scheme is £7K, and 50% of these investors are West Sussex residents living within 35 miles of the project.

- The use of a local labour force for the project will also be significant, with local contractor Arun Construction providing all of the civil works for the project and the solar installer, Solar Century sourcing all Operation and Maintenance work from the Sussex area.

The proposal included in the financial model is for WSCC to take an equity stake in the Community Benefit Society that would own the solar farm. The proposal is therefore that the society would be funded in the following manner:

- Debt provided by Close Brothers £3,008,916
- Share Capital (WSCC) £2,000,000
- Share Capital (Community) £1,247,547

The business model developed for the community benefit society assumes that over time the share capital would be redeemed from the initial members. The proposal is that the society will issue 2 different kinds of share. The 'ordinary shares' that would be available to the Community would need all Members agreement in order for a shareholder to redeem or transfer the share capital. The WSCC share however will stipulate that the share is fully redeemable over the first 16 years of the project, subject to sufficient funds being available within the society. This would not require any agreement from any other shareholders.

It is therefore anticipated that as well as interest of £1.2m (£101,000 in year 1) WSCC would recover its capital over 16 years. This would amount to a net income for WSCC of £283k over the course of the project. The table in 3.1 shows the cash-flow for the project.

The investment is included within the 15/16 capital programme, within the 'income generating initiatives' section that will require additional borrowing over and above the main capital programme.

1.2 Recommendation

It is recommended that WSCC provide the funding for the capital investment of £2m and this will be financed from WSCC borrowing which will generate an interest of 5.05% over 16 years.

PART B: DETAILED CASE

2.0 STRATEGIC CASE

2.1 Organisational overview

Your Energy Sussex was given Cabinet approval in 2012 giving the go-ahead to procure a delivery partner on an ambitious 10 year programme. Since 1st April 2014 the team have been working with Carillion on developing a significant pipeline of energy related projects including the development of Tangmere Solar farm, which is now nearly complete.

The YES programme has two Boards;

1) Programme Liaison Group which manages the day to day running of the programme and

2) Strategic Partnership Board which helps guide the longer term direction of the programme and which involves local authorities from across Sussex. This Board is chaired by the Leader of WSCC.

The role of the YES Strategic Partnership Board is also to help prioritise suitable projects which will make a return on investment, although it has no decision making capability in its own right. Each project within the programme will have an outline business case which is submitted to the Asset Hub and Strategic Capital Investment Board (SCIB) for scrutiny. If approval is given to progress then a full business case is produced which will go back to the Asset Hub and then onto SCIB, where formal approval to the scheme will be given

The County Council approved the amended 2015/16 and proposed 2016/17 capital programme on 30 October 2015 as well as the indicative programme from 2017/18 to 2020/21. The proposed investment within the YES programme is included as an income generating project that will require the Council to enter into additional borrowing over and above the core borrowing and additional £75m approved for the main capital programme.

The Strategic Partnership Board has always considered two questions when looking at the cashflow and returns of schemes:

1. Does the scheme generate sufficient revenue to cover the annual expenditure over the period of the contractual arrangement?
2. Does the scheme generate a surplus? A proportion of this income will be used to meet the annual costs of the WSCC project delivery team which is £130k per annum. Any residual income will be used in accordance with the decisions taken by the Partnership Board. If these questions can be answered positively then we then look at what the 'commercial' deal would look like and what return the scheme could generate. The 'payback' in terms of years to repay the capital involved has been used as an indicator of the VFM for doing a particular schemes rather than an absolute factor. The reason for looking at cashflow rather than payback was to address concerns about timing differences between cost and revenue needed to ensure the Council was in at least a no worse revenue position by delivering the scheme, not just in the short term but on a for the period of the contract.

A paper was taken to the Partnership Board, and it was agreed that as a starting point schemes should deliver an IRR of at least 6%. This was based on a prudent approach to interest rates of 4% giving, on a crude basis, a 2% 'profit' that could be applied to Partnership objectives. This investment is being considered as the 5.05% on offer from Meadow Blue is consistent with the ambition to make at least a 2% net return to WSCC. The current 18 year PWLB rate, with certainty discount, which is consistent with the rate being used by our Treasury Management team is 2.84%.

There is a potential further benefit from this investment, as any "return" above the cost of capital and staffing costs stated in paragraph 1.1, which are currently funded through one off funding granted to the project under the 'Kick Start Programme', will help WSCC to support YES Partnership on a sustainable basis, Returns will be held and managed by WSCC on behalf of the partnership. The returns will be used to support the cost of officer time to keep the partnership going. In the longer term returns may be invested into other initiatives that support the objectives of the YES partnership such as support for fuel poverty schemes. All recommendations for investment will be made by the Strategic Partnership Board and will be signed off in accordance with WSCC governance.

2.2 Business strategies

The Your Energy Sussex (YES) Programme has been formed in the context of a number of national and local challenges around environmental, economic and social impact. Various targets and regulatory drivers have been created at a national and international level to incentivise action to avoid the impacts of increasing exposure to energy prices.

Key national policies include the Climate Change Act (2008) which sets a legally binding target to reduce UK CO_2 emissions by at least 26% on 1990 levels by 2020 and at least 80% by 2050, and the UK Renewable Energy Strategy (2009) which commits the UK to generating 15% of its energy from renewable sources by 2020.

West Sussex County Council's Sustainability Strategy sets tackling climate change as a priority for the county, and the multi-stakeholder Environment and Climate Change Board (ECCB) has committed to a 50% reduction in CO_2 emissions by 2025, against a 2005 baseline.

Investing in this solar scheme will make a lasting contribution toward targets centred on reducing CO_2 emissions.

The project also contributes to the emerging West Sussex 'Energy Strategy', which will be available later on in 2016.

2.3 Other organisational strategies

n/a

2.4 Investment objectives

The project proposes that WSCC purchases shares up to the value of £2 million which would serve to reduce the value of the project needed to be raised through a community share offer and the amount borrowed through the Close Brothers Ltd to finance the project.

MBCE have agreed terms with Close Brothers investment bank for project finance of £3'008'916, at 5.27% to sit alongside the equity being raised for the solar farm. The £2 million from WSCC/ YES would therefore become an additional investment into the scheme. Community-owned shares will then make-up the residual £1'247'547 for the project. The total project cost is £6.26 million.

WSCC would sign a share agreement with Meadow Blue Community Energy, a copy of the proposed terms of the share are shown at Appendix 2, this would provide for a potential interest payment of 5.05%

On the basis of a £2m investment therefore the first year interest receivable would be £101,000.

Given the redeemable nature of the share we would expect MBCE to have fully redeemed the share over 16 years in line with the profile set out in the cash flow model.

The main reasons for considering an investment as opposed to a loan have been to improve cash flow to the Community Benefit Society and to retain maximum benefit to the local community. By investing into the scheme this has enabled the project to take on less debt finance and only repay the WSCC investment once the scheme has accrued sufficient funds. Following initial conversations with MBCE this initial period where the WSCC investment is not repaid was set at 5 years. Initial modelling suggests that if WSCC invested in a similar fashion to Close Brothers (a loan of circa 5.27%) the community benefit fund would also reduce by approximately £1M.

Meadow Blue also considered that WSCC providing a loan would potentially give rise to State Aid.

The proposal is for Close Brothers to receive a marginally more beneficial interest rate than WSCC. WSCC is content to receive a lower rate due to the significant benefits for the Community, whilst at 5.05% we also ensure we have a contribution to our overheads.

Close Brothers loan to the community benefit society is secured against the Community Interest Company that has been set-up specifically to operate the Solar Farm. In contrast, WSCC would not be in line to guarantee any part of the loan. In the event of failure of the system, and there being no realisable assets, the sole risk to WSCC would be its initial investment.

A detailed breakdown of the financial model is shown in section 3.4.

2.5 Existing arrangements

There are no existing arrangements.

2.6 Business needs

The project fits within the strategic objectives of the YES programme in terms of increasing the renewable energy generating capacity of the County. The YES strategic objectives are to:

- Create warmer, healthier homes and reduce carbon emissions
- Improve energy efficiency and increase the renewable energy generating capacity of the County
- Boost the local economy by creating work for local businesses (there is a requirement on Carillion to sub-contract work to local Sussex based business);
- Create opportunities for the local workforce, including work placements, apprenticeships and skills development; and
- Help vulnerable residents and those at risk of failing to pay their fuel bills
- Create a sustainable energy supply for Sussex

2.7 Scope and key service requirements

This proposal is for an investment into a project and will therefore not be led by a core YES/ WSCC delivery team. It will as a result place little pressure on key service requirements.

2.8 Main benefits

There are a number of financial benefits arising from the scheme:

A) The Community Benefit Fund:

The provision of community benefits is central to MBCE's vision as part of the project. It is projected that over the course of the project £4.5M will be paid from surpluses generated into an independent community fund.

The MBCE Board of Directors will be responsible for managing and administering the Community Benefit Fund. It is proposed that WSCC occupies two seats on this Board. This will provide WSCC with seats on the board that are proportionate to the level of investment into the scheme, and will mean it has direct oversight of how the money is accrued and distributed as part of the community fund. It has also been confirmed by MBCE that all Directors will have indemnity insurance to fully protect the fund. Appendix 4 references this Meadow Blue Community Energy commitment to West Sussex residents

All funds raised for the community fund will be held by the Merston Community Interest Company, which will in turn be owned and managed by MBCE. This fund will initially amount to £15k per annum initially; equating to an expected £3,000 MWp installed. In latter years once capital is repaid the numbers are expected to rise to a projected £380,000/MWp installed.

	Total allocated fund	Average allocated to fund per annum	£ per MWp Installed	Percentage of surplus allocated to the community fund
Years 1-5	£73,700	£15,000	£3,000	1.78%
Years 6-10	£89,483	£18,000	£3,600	2.10%
Years 11-15	£128,115	£25,000	£5,000	3.10%
Years 16-20	£1,927,589	£385,000	£77,000	46.70%
Years 21-25	£1,907,991	£1,907,991	£76,000	46.20%

The final detail outlining the governance arrangements for and distribution of the fund will be decided at the Merston Community Interest Company AGM in July 2016. It is at this meeting that Terms of Reference will be approved, along with the funds final eligibility criteria.

It has been confirmed that at least 80% of the fund will be ring-fenced for West Sussex projects given the majority of investment arise from within the County. Please see Appendix 4 for an additional note from MBCE outlining the plans for the fund and the specific role of WSCC. Examples of the types of projects that will be funded are listed below. We will also ensure they directly contribute to the delivery of the Future West Sussex Plan (in particular championing the local economy and Independence in later life) by:

- helping vulnerable and elderly residents to reduce their fuel bills and ensure they have warm and healthy homes
- supporting the roll out of projects tackling fuel poverty such as the Chichester and Arun Home Energy Advisors scheme. Fuel poverty in West Sussex is well known to affect young families as well as the elderly and has been recognised as significant contributor toward ill health.
- encouraging the uptake of small scale renewable energy schemes in schools, care homes and community/ parish buildings thus reducing energy bills and running costs
- developing projects in rural off-gas grid areas to provide alternative heating sources. This will ensure communities are more resilient to price hikes in oil and gas

- using the community fund as match funding for YES projects such as working with housing providers like Crawley Homes to improve housing standards and energy efficiency ratings in line with Government policy

B) Supporting the local economy:

- The project will help stimulate demand in the local supply chain and help maintain jobs in the energy industry. Local installers and other ancillary workers such as surveyors will be employed on the Merston scheme but also on projects coming from the community fund. Local contractor, Arun Construction who employs over 30 Sussex-based engineers will be completing the civil works for the Merston solar farm. The solar PV installer has also confirmed it will be sourcing all operation and maintenance contracts for this work from West Sussex.

- The system financial yield is also predicted to be upwards of £2.4m for redistribution as interest payments to all shareholders into the scheme. Approximately half of this would be reinvested into the local West Sussex community through the 184 investors into the scheme. The average investment into the scheme has been £7K, and 50% of these investors are West Sussex residents living within 35 miles of the scheme.

C) Other benefits:

- MBCE have also confirmed that they would be willing to consider 'sleeving' all of the energy produced at Merston into the WSCC corporate energy supply. Sleeving matches the energy usage of a defined user group with the output of a specific generation source. This pricing mechanism provides us with a direct relationship with the source of some of our energy at a reduced rate. It is estimated that by energy from Merston into the corporate energy supply we will save £75k per annum on our energy bills and help West Sussex reduce CO2 emissions. This would also provide the community benefit society with an additional income which would add to the Community benefit Fund noted above.

- There are also reputational benefits by supporting the growth of community-led energy schemes that have struggled to obtain short term finance. This has been shown by the successful schemes delivered

2.9 Main risks

Technical:

a) The PV system does not complete by June 2016

If the system fails to complete by June 2016 it would not qualify for the FITs and financially the project would not stack-up. This would most likely be due to funds not being secured for the scheme. However, MBCE have secured debt financing for the scheme, and have launched a share offer with a view to the shares being purchased by January 2016. MBCE also have a signed Heads of Terms agreement with Solar Century for delivery of the scheme. Included within this agreement with Solar Century is the proposal cost which will be fixed until after June 2016.

b) Systemic failure of the PV system

Mitigation: the panels will be fully installed by Meadow Blue Community Energy (MBCE). In the event of loss of power generation the risk would be that the panels would cease to be operational. The panels will be fully insured and would therefore be replaced as soon as is

possible. Any loss of time that the panels are generating electricity would result in a reduced cashflow to the society and therefore potentially to an increase in time to which the WSCC/ YES would make its return on its money invested. This would however be minimal owing to the multiple interests in having the panels remaining in optimum condition.

c) The panels do not perform as well as projected.

Mitigation: The full project design will have project scrutiny from Close Brothers Ltd who is providing project finance for the wider scheme. This project itself will be installed by Solar Century who is known to be an extremely reputable installer who will be installing tier 1 standard PV modules and inverters. The modules themselves will include product warranties of not less than 10 years and performance warranties of not less than 25 years. The mounting-systems themselves will also be warrantied for 25 years. Please see Appendix 5 for further detail on the technical warranties provided for the PV system.

Financial:

d) The residual amount of share capital to be raised for the project is not raised

Mitigation: If for any reason the share offer not reach target there will be a wider bond offer to raise any outstanding amount required. This mitigation will however be dependent at some level by having time to undertake such an activity and obtaining sign-off from WSCC. If the share capital is not raised the project will not commence and will therefore not place any risk at this stage on WSCC.

In addition to the risks identified above our return on the investment is subject to the performance of the solar farm. In that respect we are still subject to the same risks that the financial modelling assumptions are too optimistic around yield and RPI and so not yield the planned returns. Given the structure of the society and how the cash is earmarked we are to some extent shielded from these risks. The first loss risk is likely to be carried by the 'community fund', so if the society yields less then there will less available for the community fund after paying debt, interests and redeeming shares.

System Yield

This is the amount of energy that the system will produce. The figure used to assess the performance of each individual system is calculated using nationally accredited methodology.

Indexation

Whilst the initial rate of the FIT subsidies are fixed for 20 years they are increased annually by agreed indices (currently RPI) There is therefore a risk that over the term of the project the indexed uplift is not as great as expected and therefore the actual income received will be reduced.

2.10 Constraints

Main project constraints have been identified above in 2.9 (the risks section). The major constraint is getting approval to proceed with the investment within a very tight timescale.

2.11 Dependencies

Investment dependency: whether we get approval to proceed or not

Commercial dependency: the entire project depends upon obtaining investment from the wider community into the scheme. With appropriate time to launch the share offer this calendar year there is significant confidence that this will be achieved.

Stakeholders: All parties are very supportive of the scheme. Several meetings have been held between the parties and there is a good working relationship between the YES team and the future owners of the scheme.

3.0 ECONOMIC CASE

3.1 Critical success factors

Financial: if the investment is approved it will contribute to the overall cost of the YES programme and bring in a net income to WSCC of £283k. Any residual income will be used in accordance with the decisions taken by the Partnership Board.

Resources: the panels need to be obtained and the contractor contracts finalised in a timely manner to ensure the install is delivered before the FIT rate drops. This will ensure the installation is a success.

3.2 Long-listed options

a) **WSCC finance the scheme**: to maximise our investment and secure the benefits outlined for the community above. The investment provides a rate of return of 5.05% to the YES programme.

b) **Mongoose Energy finances the project:** in this scenario a significant degree of extra finance would need to be secured and raised through a community share- offer. If the funding that is being sort from WSCC had to be financed through an increased community share offer the 'community fund' generated by the scheme would fall from £4.5m to £3.5m due to the higher level of return that these investors would require.

3.3 Short-listed options

a) WSCC finance the scheme as proposed and claim the associated financial benefits

3.4 Economic appraisals

a) WSCC Finance provided:

In discussions with Mongoose Energy a 16 year investment from WSCC into the programme has been modelled. This would result in a gross income of over £1 million and a net gain, after interest on capital financing costs, of £283k.

	Interest	Principal	Total		Interest Received	Accrued Capital Repayment	'Income' to Revenue Account	Net Annual Position	Cumulative Position
Year 1	-56,800		-56,800		101,000		101,000	44,200	44,200
Year 2	-56,800		-56,800		101,000		101,000	44,200	88,400
Year 3	-56,800		-56,800		101,000		101,000	44,200	132,600
Year 4	-56,800		-56,800		101,000		101,000	44,200	176,800
Year 5	-56,800	-80,000	-136,800		101,000	80,000	181,000	44,200	221,000
Year 6	-56,800	-80,000	-136,800		97,000	80,000	177,000	40,200	261,200
Year 7	-56,800	-80,000	-136,800		93,000	80,000	173,000	36,200	297,400
Year 8	-56,800	-160,000	-216,800		89,000	160,000	249,000	32,200	329,600
Year 9	-56,800	-160,000	-216,800		81,000	160,000	241,000	24,200	353,800
Year 10	-56,800	-160,000	-216,800		73,000	160,000	233,000	16,200	370,000
Year 11	-56,800	-160,000	-216,800		65,000	160,000	225,000	8,200	378,200
Year 12	-56,800	-160,000	-216,800		57,000	160,000	217,000	200	378,400
Year 13	-56,800	-160,000	-216,800		48,000	160,000	208,000	-8,800	369,600
Year 14	-56,800	-240,000	-296,800		40,000	240,000	280,000	-16,800	352,800
Year 15	-56,800	-240,000	-296,800		28,000	240,000	268,000	-28,800	324,000
Year 16	-56,800	-320,000	-376,800		16,000	320,000	336,000	-40,800	283,200
	-908,800	-2,000,000	-2,908,800		1,192,000	2,000,000	3,192,000	283,200	

The cash flows in 3.4 demonstrate that the Minimum Revenue Provision (MRP) charge and the repayment of capital would be matched off. There are 2 ways this could be done and would be explored if the project is approved. WSCC could 'accrue' for the capital repayments that are technically owed to it from year 1; even though there is no expectation that they would be payable in terms of cash flow in the share agreement. The alternative would be for WSCC's MRP provision to be equal to the profile of expected repayments, in a similar fashion to the policy we have already adopted around PFI's with other existing contracts.

In either case the impact on the Authority's revenue account of the principal repayments would be neutral with the net benefit arising from the interest repayments.

As the timetable for the redemption by the society of the WSCC share is set out in the financial model the figures in the table above shows the MRP chargeable to the revenue account on the assumption that it is treated in a similar fashion to the PFI contracts. The net annual position therefore reflects the known timing differences between the interest chargeable and receivable. This means that towards the end of the investment period there is insufficient annual revenue to the project to meet the annual costs and this would need to be found from accumulated surpluses in earlier years.

b) Do nothing: no cost and no financial benefit

3.4.1 Sensitivity analysis

As mentioned above the installation is a 'market standard PV installation' with fixed costs and a fixed rate of return from FITs. In terms of a sensitivity analysis the two main variables are yield of the panels and RPI. It is assumed within the model that all energy is exported to the national grid and there is therefore no risk around usage.

Movements in the factors will impact on 3 key areas for the partnership:

- The overall viability of the project (project IRR)
- The return on the shareholders capital
- The amount available for the community fund

A 10% decrease in the yield of the system would drop the overall IRR of the project from 7.7% to 6.2%, the shareholders return from 10.2% to 7.4% and the amount available for the community fund from £4.5m to £2.6m.

A decrease in the rate of RPI from 2.5% to 1% would drop the overall IRR of the project from 7.7% to 6.3%, the shareholders return from 10.2% to 7.6% and the amount available for the community fund from £4.5m to £2.6m.

A decrease in both the yield and the rate of indexation outlined above would drop the overall IRR of the project from 7.7% to 4.8%, the shareholders return from 10.2% to 4.7% and the amount available for the community fund from £4.5m to £0.5m.

In all the scenarios outlined above the net cash position of the society before distribution of Members payments (but after debt repayments to Close Bros Ltd) remains positive suggesting that the project remains viable under the 3 scenarios.

The full financial and technical model has also been reviewed to the extent that it is understood that the system would need to experience a 35% reduction in its output for it to struggle to repay the loan to the bank. This is a highly unlikely scenario, given the warranties and operation and maintenance requirements outlined in 2.9.

3.4.2 Commentary of results

For option A, the project consists of what is known as a 'market standard PV installation' meaning this is a straightforward and simple installation which is an industry standard. The YES team and the contractors have significant experience in delivering projects of this nature and reviewed its detail thoroughly.

3.5 Non-cash releasing benefits appraisal

The non-cash benefits of the scheme are as follows:

- There are significant PR and reputational benefits to gain from the project by supporting the expansion of community-owned renewable energy projects
- The programme will help stimulate demand in the local supply chain and help maintain jobs in the solar PV industry locally. Local jobs will also be sustained through work financed by the Community Benefit Fund.
- It will help West Sussex reduce its CO_2 emissions and contribute to the County's reduction targets as contained in the sustainability strategy
- WSCC will be seen as a leader in this field by investing in one of the UK's only solar farms to have been built following the governments 'shared-ownership' framework
- The community fund will be put into a dedicated charity set-up to be spent on projects under criteria set by the MBCE board and approved by members. Assuming an investment of £2 million from Your Energy Sussex, the total community fund to be available as a result of the investment would amount to £4.48m

3.5.1 Commentary of results

3.6 Non-financial risk appraisal

If the project fails to deliver on time or if there is a systematic failure of the system there may be reputational risks to be managed both for the YES programme and for the owner of the system. We will manage this by building on the good relationship we have with installation owner and working together in an open and transparent way.

3.6.1 Commentary of results

3.7 The preferred option

Option A: WSCC finance is provided for the scheme

3.8 Supplier appraisals

n/a

3.9 The procurement process

There will be no procurement process involved as this will not be a WSCC owned installation.

3.10 FBC - Economic appraisals

n/a

3.11 Commentary of results

n/a

3.12 Non-cash releasing benefits appraisal

The non-cash benefits of the scheme are as follows:

- There are significant PR and reputational benefits to gain from the project through supporting the growth of community-owned energy projects.
- The programme will help stimulate demand in the local supply chain and help maintain jobs in the solar PV industry locally
- It will help West Sussex reduce its CO_2 emissions and contribute to the County's reduction targets as contained in the sustainability strategy

3.13 Commentary of results

n/a

3.14 Non-financial risk appraisal

If the project fails to deliver on time or there is a systematic failure of the system there may be reputational risks to be managed both for the YES programme and for MBCE. We will manage this by building on the good relationship we have with the MBCE and working together in an open and transparent way.

3.15 The preferred supplier

The contractor will be Solar Century as mentioned above, with Arun construction.

3.16 Preferred supplier

n/a

4.0 COMMERCIAL CASE

4.1 Required services

- The required services are to approve an investment of £2m into an existing solar farm which will be a community-owned installation with WSCC remaining shareholders.

4.2 Potential/Agreed risk transfer

- The proposal is for WSCC to purchase shares in the overall system which will be built and owned by a third party. In purchasing the shares in the project WSCC will be issued with share bonds giving entitlement to one voting right on the board.

- MBCE will hold an EPC and maintenance contract with Solar Century who will take on all aspects of the build along with the continual monitoring of its performance and reactive maintenance should this be required

- Mongoose Energy, on behalf of MBCE will oversee this contract up until project completion whereby the system will then be handed over to MBCE for the duration. Mongoose holds a Service Agreement with MBCE which is intended for the 25 year term of the project. This contract will ensure that alongside ensuring the performance of the system they will claim the FIT and arrange for all finances of the scheme.

4.3 Proposed / Agreed charging mechanism

WSCC will purchase shares in MBCE who will remain the ultimate owners of the scheme on behalf of the shareholders. A copy of the proposed share agreement is attached at Appendix 2.

The share agreement gives the WSCC investment an interest of 5.05% per annum, subject to the performance of the society generating sufficient surplus cash.

4.4 Proposed / Agreed contract lengths

The share agreement allows for the redemption of the shares and it is expected that by the end of year 16 the society will have raised sufficient capital to have redeemed the share in full.

4.5 Proposed / Agreed key contractual clauses

n/a

4.6 Personnel implications (including TUPE)

n/a

4.7 Procurement strategy and implementation timescales

No procurement route for this investment is needed.

5.0 FINANCIAL CASE

This section outlines the costs and funding arrangements.

5.1 Table of costs and funding arrangements

ITEM	ESTIMATED COST (£)
Material	
Construction	
Project Management (Staff)	
Other (Please Specify)	2,000,000
Total	
FUNDING SOURCES	**AMOUNT (£)**
Government Grant	
Section 106	
Capital Receipt	
Revenue Contribution	
Borrowing	2,000,000
Other (Please Specify)	
Total Funding	2,000,000

5.2 Impact on the organisation's income and expenditure account (revenue account)

Investment into this project will cost WSCC £2,000,000 but will generate an estimated net income of £283k over the 16 year period of investment, after taking into account the cost of borrowing and repayment of capital. Any residual income will be used in accordance with the decisions taken by the Partnership Board.

5.3 Overall affordability & availability of funding

Overall the scheme demonstrates financial viability. The investment is included within the existing allocation of the 2015/16 capital programme approved on 30 October 2015 within the 'income generating initiatives' section that will require additional borrowing over and above the main capital programme.

As the timetable for the redemption by the society of the WSCC share is dependent on organisational performance the figures in the table in paragraph 3.4 show the accrued income that would be attributable to the revenue account on a consistent basis and to match the MRP provision. The net annual position therefore reflects the known timing differences between the interest chargeable and receivable. This means that towards the end of the investment period there is insufficient annual revenue to the project to meet the annual costs and this would need to be found from accumulated surpluses in earlier years.

6.0 MANAGEMENT CASE

6.1 Project management arrangements

Project oversight, contract management and project financing will be provided by Mongoose Energy Ltd.

Mongoose Energy Limited is a company majority owned by community energy societies that works with community groups, commercial developers and investors to identify, develop, build and manage community owned renewable energy projects.

Working with its partner community benefit societies, Mongoose has negotiated debt facilities from banks totalling some £75m, successfully raising over £7m investment into community energy projects over the past year, and is currently managing nearly 6MW of renewable energy projects on behalf of its partners.

Mongoose Energy will therefore act for the Client (MBCE), and not as Site or Project Managers - these functions are undertaken by Solar Century.

This will ensure the following is completed:

- Construction is carried out to the relevant standards set out in the contract
- Technical and planning documentation is completed.
- To ensure close liaison takes place between all contractors to achieve a successful outcome and to ensure the Client is fully briefed on all aspects of their project before, during and after construction.

Overall project oversight will be provided by the following:

- The MBCE Board of Directors will perform this function. A WSCC representative will have the opportunity to be co-opted onto the MBCE Board of Directors. This board will oversee the entire project and any spend and interest payments to investor which will ensure both the project delivery and the community fund will be delivered in line with its commitments.

A more detailed breakdown of the project support services is included in Appendix 4

6.2 Use of consultants

Solar Century will manage the installation and contract with the supply chain. As with Tangmere Solar Farm Solar Century intend to use local contractor Arun for civil and electrical

works and EVIOS Energy Systems GmbH for the mechanical installation. This will be confirmed once we'll sign the EPC contractor and as a follow up of your decision.

6.3 Arrangements for benefits realisation

As a shareholder in the installation, WSCC will be a recipient of the Annual Report which will review the extent to which the solar farm is producing electricity against its forecasts and generating the expected returns for its members.

General members meetings will also be arranged on a more frequent basis depending on the considered need.

6.4 Arrangements for risk management

All installation risks will be managed under Solar Century's risk management and health and safety guidance contained in their 'contractor's protocol'

The risk to WSCC in not receiving the returns that were expected are significant, the Operation and Maintenance contract also administered by Solar Century will be crucial in ensuring the system performs as well as predicted.

6.5 Arrangements for post project evaluation

6.6 Gateway review arrangements

The project has most recently been presented for scrutiny at Performance and Finance Select Committee on 25th February. It is now planned for discussion again following the completion of the outstanding due diligence work on the project which is yet to complete.

6.7 Contingency plans

The project is a simple solar PV installation which will either go ahead or not, depending on the investment decision. Risks have been addressed in section 2.9.

7.0 Financial Implications

This is part of the Your Energy Sussex Capital Programme of which £63m has been earmarked for the five years from 2015/16 to 2020/21 and beyond. The YES programme was originally profiled to spend £3.9m in 2015/16 and £8.9 for 2016/17. Previous business cases agreed by SCIB impacted on the expected spend in 2015/16 and £6.5m of expenditure was brought forward from 2016/17. If this business case is approved then, whilst the precise timing of the payment is yet to be agreed, it is likely that there would need to be a further advancing of expenditure.

Members have recently debated the Capital Programme to 2021, which implied borrowing up to £75m, plus additional £96m (Paragraph 43 of County Council Report) for income generating initiatives. This scheme falls in the latter borrowing category and will imply borrowing above the £75m cap until other funding sources for Other Schemes are identified as indicated in the Council resolution. The return of 5.05% is a better return than the PWLB current rate of 2.84% as used by our internal Treasury management.

The Capital Regulations allow the capitalisation of share purchases and as such the investment in this scheme will be included in the capital programme and therefore increase the County Council's Capital Financing Requirement. It is against this indicator that the overall level of County Council borrowing is measured to ensure that we are only borrowing to finance capital expenditure. As such the Council is allowed to undertake borrowing to fund this investment

however it will mean an amendment to the Authority's Treasury Management Strategy. This amendment is currently being drafted by colleagues in Corporate Finance.

The stake that we will be taking within the company is on a one member one vote basis. At the end of the share offer there were a total of 184 members. On that basis it was considered that the Council did not exert any control over the company and therefore there would be no requirement to consolidate the accounts into our own under the Group Accounts regulations contained within the Code of Practice.

Signature: John Edwards, Group Manager, Commercial Finance
Date: 12.1.15

8.0 Legal Implications

Legal Services' have formed the preliminary view that this investment would not constitute State Aid, by applying the "Market Economy Operator Principle", the investment is one that a 'hypothetical private investor' would make; this view is supported by the evidence of significant private investment in this project, which is being made on a proposed rate of return broadly similar to that being considered by the Council.

Following the outcome from SCIB on the 9th December 2015 the YES programme team, along with the Group Manager, Commercial Finance Corporate Finance met with the Principal Solicitor, Commercial (December 23rd 2015) to discuss the legal aspects of the project which were considered in need of further scrutiny. It was agreed that legal support would be sought from Acuity to fully understand WSCC's powers under this investment; to undertake due diligence checks on the owners of the solar farm and to seek confirmation of any state aid limitations. This additional paper will be ready for this meeting.

The business case was presented at Asset hub on January 9th 2016 ahead of being reviewed again on the 19th January SCIB meeting. It was agreed that additional sections were needed to outline the additional due diligence work needed which will form part of a report produced by Acuity Legal. An update on this reports progress will be provided ahead of the formal report by the end of the month.

9.0 Equality Impact Implications

There are no equality impacts

10.0 Health & Safety Implications

Health and safety issues are to be the responsibility of the contractor Solar Century, who have an excellent health and safety record and also have all their procedures and protocols in place.

10.0 Sustainability Implications

The project completely supports the delivery of the WSCC Sustainability Strategy in a number of ways:

- It directly supports the reduction of CO2 in the County and contributes to WSCC's own carbon reduction targets
- We will be using a locally based installation company

PART C: SUPPORTING EVIDENCE

For Completion by: Initiative Manager

In addition to completing/ updating the relevant sections of this business case, please provide the following supporting evidence along with each gateway submission:

GATEWAY	EVIDENCE REQUIRED
G1	Financial Appraisals
G2 to 5	Economic Appraisals
	Financial Appraisals
	Benefits Register
	Risk Register
G5 only	End of Project Report
	Lessons Learned Log

Appendices

Appendix 1: Proposed Terms of the share
Appendix 2: Project Plan
Appendix 3: Project support services
Appendix 4: Side-letter to WSCC