

Report to: **Council**
Date: **23 July 2019**
Title: **Commercial Investment Strategy Update**
Portfolio Area: **Enterprise**
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 HUB Committee RECOMMENDS to Council that the Commercial Investment Strategy in Appendix A be approved.

1. Executive summary

- 1.1. Recently the Authority has prioritised tackling Climate Change by moving a motion to declare a Climate Change Emergency and targeting proactive measures to meet these challenges.
- 1.2. Opportunities exist for West Devon Borough Council to invest, off market, in "shovel ready" 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
- 1.3. The pursuit of such opportunities will require the Authority to amend its investment strategy to include the renewable energy sector.
- 1.4. Additionally, following the "Internal Audit Report – Tavistock Hotel Proposal" the strategy in Appendix A has been further amended to take account of the recommendations specific to "in

area developments on Council owned land". Members are referred to the separate report on the Hub Committee agenda called 'Internal Audit Report – Tavistock Hotel Proposal'

- 1.5. The Commercial Investment Strategy in Appendix A updates and replaces the Commercial Property Strategy previously adopted by Council in September 2018.
- 1.6. A version of this report is also to be considered by the Hub Committee at its meeting on 16 July 2019 and the views of the Hub Committee will be outlined in the published minutes arising from that meeting.

2. Background

- 2.1. In September 2018, West Devon Borough Council (the Council) adopted a commercial investment strategy. This strategy has four core aims;
 - 2.1.1. To support regeneration and the economic activity of the Borough, the LEP area and the South West Peninsula (in that priority order)
 - 2.1.2. To enhance economic benefit & create 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 Borough, a core theme of the Council. Much progress has been made delivering against this strategy and this report aims to keep the strategy as relevant and multi-objective as possible, to align it with the Council's Climate Change agenda.
- 2.3. 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".
- 2.4. The Intergovernmental Panel on Climate Change (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.
- 2.5. In this context, that means the quadrupling of low carbon energy including (but not limited to) solar power, hydropower and windpower.

- 2.6. As an organisation the Council 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 emissions¹ (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.
- 2.7. 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 Borough 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 Borough of West Devon or another part of the UK.
- 2.8. 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.
- 2.9. 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. The proposed amendment to the adopted strategy in Appendix A provides for this.
- 2.10. Following the "Internal Audit Report – Tavistock Hotel Proposal" the Commercial Investment Strategy in Appendix A has been further amended to take account of the recommendations to separate out and clarify the governance arrangements for commercial acquisitions and developments on Council owned land. Appendix A is in a "tracked changes" version so that the changes can be viewed and understood, a "clean" version is also available at Appendix B.
- 2.11. There is a separate report on the Hub Committee agenda called 'Internal Audit Report – Tavistock Hotel Proposal' which includes a proposed action plan on the ten recommendations made in the Internal Audit report.

¹ Scope 1 emissions are direct emissions from owned or controlled sources. **Scope 2** emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

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 slowdown 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 facility which can provide a “hedge” against forward energy price increases.
 - c. A major contribution towards meeting West Devon’s 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 West Devon’s 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 Commercial Investment Strategy in Appendix A, West Devon will be able to take advantage of existing off market opportunities in the sector which do not exist within the Borough.
- 4.2 This presents a direct opportunity to realise the benefits set out in Section 3.
- 4.3 The risks associated with investment in Solar PV are well understood as the technology is proven. The panels themselves are warranted 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.

- 4.4 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.
- 4.5 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.
- 4.6 The remaining and most significant risk of any shovel ready² PV investment is therefore the forward energy price by which the investor realises a return.
- 4.7 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.
- 4.8 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.
- 4.9 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.
- 4.10 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.
- 4.11 The amendments to the Commercial Investment Strategy in line with the recommendations from the Internal Audit report on the Tavistock Hotel, will ensure that there are clearer processes and procedures in making decisions on both commercial acquisitions and developments on Council owned land.

5. Proposed Way Forward

- 5.1 That the HUB Committee recommend to Council the proposed revised strategy set out in Appendix A.

² Shovel ready – A construction ready project with all approvals in place including planning approval.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance		<p>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. Further legal advice will be sought on proposed renewable energy investments.</p> <p>The recommendations in the Internal Audit report set out legal and governance issues about acquisitions and developments which are addressed by the amendments in the attached Commercial Investment Strategy.</p>
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 capital 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.
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)

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

Background Papers:

None