

CHESHIRE EAST COUNCIL

Cabinet

Date of Meeting:	3 rd May 2016
Report of:	Andrew Round, Interim Executive Director for Economic Growth and Prosperity
Subject/Title:	ELENA Technical Assistance Funding
Portfolio Holder:	Cllr Don Stockton, Regeneration

1. Report Summary

- 1.1 The Council's Energy Framework sets out a clear commitment to explore opportunities for renewable and energy efficiency projects in the Borough in order to improve energy security, reduce fuel poverty, and grow the low carbon economy.
- 1.2 Despite this commitment and ambition, obtaining the technical expertise and creating the organisational capacity to implement large energy efficiency and renewable projects has often been cited as a barrier by local government organisations and is an EU wide problem. In order to address the issue a funding stream known as "European Local Energy Assistance" or ELENA was launched by the European Commission at the end of 2009 with a stated purpose to "maximise investment in sustainable energy". The Fund was established with a target to realise €1 billion of energy efficiency and renewable energy projects.
- 1.3 ELENA covers up to 90% of the technical support costs needed to prepare, implement and finance an investment programme of energy efficiency and renewable energy projects over a three year period. This typically includes feasibility and market studies, programme structuring, energy audits and tendering procedure preparation. The stated assistance areas are as follows:
- 1.4 The eligible programme areas cover a wide variety of initiatives, including:
 - Local energy facilities that support energy efficiency and renewable energy
 - Energy efficiency and renewable energy in public and private buildings
 - Efficient urban transport
- 1.5 Following endorsement by the Cheshire East Energy Limited Shadow Board (CEEL Board) in May 2015, an outline application was developed to obtain technical assistance funding to the value of 1,739,585 EUR to deliver against the following key programme areas:
 - Priority A: Energy Efficiency
 - Roll-out of 26,000 LED street lighting units across the highway network
 - Priority B: Renewable Energy

- Delivery of district heating
- Delivery of dry Anaerobic Digestion project to generate renewable electricity and biogas for use in a local heat network, private wire, CHP or conversion to biofuel for vehicle use.
- Priority C: Energy Management
 - Development of a full ESCO to oversee the long term delivery of energy projects in Cheshire East

1.6 It is estimated that the technical assistance will unlock investments in these programme areas that will total over 66M EUR, and will result in a significant CO2 reduction for the Borough of c.9979t per annum, in addition to an increase in annual renewable energy production of c.50,000 MWh. The level of investment anticipated will result in a leverage factor of 38, which is well above the required minimum to receive ELENA funding.

2. Recommendation

Cabinet is recommended to:

- 2.1 Recommend that Council approve the submission of the bid to the European Investment Bank, who administer the ELENA funding on behalf of the European Commission, and delegate authority to the S151 Officer to sign the necessary declaration form on behalf of the Council
- 2.2 Recommend that Council approve a Supplementary Revenue Estimate of 1,739,585 EUR (£1.4m at current exchange rates), fully funded by, and subject to receipt of ELENA funding by the Council.
- 2.3 Delegate authority to the S151 Officer, in consultation for the Portfolio Holder for Finance, to take the necessary steps for the Council to enter into a grant agreement with the European Investment Bank in order to receive the ELENA funding
- 2.4 Approve that the Council contributes the 10% match funding required through the use of existing staff resourcing

3. Other Options Considered

- 3.1 The following options have been considered as alternatives to that recommendation:

Option	Reason for Discounting
1. The Council does not accept the ELENA technical assistance funding and seeks to use its own funding to deliver the	The level of funding required to deliver the required technical work is not available within the Council's existing budget and would have to be identified from existing commitments. This is likely to impact on the Council's ability to deliver its existing budget commitments.

technical work required to deliver the energy programme	
2. The Council does not accept the ELENA technical assistance funding and chooses not to use its own funding as an alternative	The identified technical work is essential to deliver the projects within the energy programme. Without undertaking the technical work, the projects are highly unlikely to be delivered, and the Council would be unable to meet its ambitions as set out in the Energy Framework.
3. The Council does not accept the ELENA technical assistance funding and seeks to secure funding from other sources to deliver the technical work required to deliver the energy programme.	Alternative funding sources have been appraised and the Council has already benefitted from three rounds of Heat Network Delivery Unit (HNDU) funding to progress its district heating priorities (ELENA Priority B – Renewable Energy) as far as possible under the remit of this funding stream. Alternative funding sources to undertake the necessary technical work are not currently available.

4. Reasons for Recommendation

- 4.1 As set out in the Council's Energy Framework, the Council is fully committed to pursuing opportunities for renewable and low carbon energy in the Borough for the benefit of residents and businesses. ELENA funding provides a targeted resource for the Council to access essential external funding to undertake technical development work on complex renewable and low carbon schemes. This reduces the reliance on the Council's own resources whilst enabling projects to progress in order to meet the ambitions set out in the Energy Framework.

5. Background/Chronology

Context

- 5.1 Obtaining the technical expertise and creating the organisational capacity to implement large energy efficiency and renewable projects has often been cited as a barrier by local government organisations and is an EU wide problem. In order to address the issue a funding stream known as "European Local Energy Assistance" or ELENA was made available at the end of 2009 with a stated purpose to "maximise investment in sustainable energy". The Fund was established with a target to realise €1 billion of energy efficiency and renewable energy projects.
- 5.2 ELENA covers up to 90% of the technical support costs needed to prepare, implement and finance an investment programme of energy efficiency and renewable energy projects over a three year period. This could include feasibility and market studies, programme structuring, energy audits and tendering procedure preparation. The stated assistance areas are as follows:
- Additional personnel
 - Technical studies
 - Preparation of calls for tender
 - Financial structuring

- 5.3 The eligible programme areas cover a wide variety of initiatives, including:
- Local energy facilities that support energy efficiency and renewable energy
 - Energy efficiency and renewable energy in public and private buildings
 - Efficient urban transport
- 5.4 A pre-requisite of obtaining funding is that the programme must secure a 'leverage factor' of 25:1. The leverage factor is crucial as it requires that the programme should result in spend or investment of 25 times the value of the grant. For example a 500k grant would be expected to generate investment to a value of 12.5m EUR attributable to the project. The source of this investment may be provided by parties other than the applicant and would include for instance the cost of new plant, facilities or equipment – regardless of ownership.
- 5.5 To date there have been 36 schemes approved across the EU that cover a wide variety of projects, often delivering several 'streams' within each. These schemes range from energy efficiency measures, renewable energy installation (small and larger scale), district heating projects, low carbon transport, efficient street lighting and contracts for energy services and other energy related areas. The investment grants applied for range from €650,000 to over €3,200,000 and the average value is around €1,870,000. There have been 5 applications from UK local government, 3 from London (€2.9M, €2.9M, €3M) and the others from Bristol (€2.6M) and Birmingham (€1.5M).
- 5.6 The grant itself is provided in stages with 40% released at the start, then 30% after validation of interim report, and the remaining 30% after validation of final report.
- 5.7 Applications for ELENA funding are processed in two stages by the ELENA Team based at the European Investment Bank. Following the submission of an informal "preliminary" application, feedback from the ELENA team is received and used to develop a more detailed final bid. Following submission of a final bid, the bid is reviewed by the European Investment Bank and a recommendation is then submitted to the European Commission for final approval. This process typically takes between 9 and 14 months depending on the level of work required to satisfy the feedback received between the preliminary and final stages.

The Council's Bid Submission

- 5.8 Following endorsement by the Cheshire East Energy Limited Shadow Board (CEEL Board) in May 2015, an outline application was developed to obtain technical assistance funding to the value of 1,739,585 EUR to deliver against the following key programme areas:
- Priority A: Energy Efficiency
 - Roll-out of 26,000 LED street lighting units across the highway network
 - Priority B: Renewable Energy
 - Delivery of district heating

- Delivery of dry Anaerobic Digestion project to generate renewable electricity and biogas for use in a local heat network, private wire, CHP or conversion to biofuel for vehicle use.
- Priority C: Energy Management
 - Development of a full ESCO (Energy Supply Company) to oversee the long term delivery of energy projects in Cheshire East

5.9 It is estimated that the technical assistance will unlock investments in these programme areas that will total over 66M EUR, and will result in a significant CO₂ reduction for the Borough of c.9979t per annum, in addition to an increase in annual renewable energy production of c.60,000 MWh. The level of investment anticipated will result in a leverage factor of 38, which is well above the required minimum to receive ELENA funding.

5.10 Given that ELENA is only able to meet 90% of project costs, the Council will be required to provide 10% match funding as a condition of the funding award. The Council will use the cost of existing internal staff resources which will be required to manage the day to day implementation of the programme, provide secretariat support the steering and working groups, and manage the procurement of external consultants. This is quantified as being equivalent to 191,681 EUR over 3 years.

Priority	Project Area	Description	Est leveraged invest.	Output from the Technical Assistance
Priority A: Energy Efficiency	Roll-out of 26,000 LED street lighting units across the highway network	The Council is responsible for almost 38,000 street lights across its highway network, with street lighting accounting for 14% of the Council's total CO ₂ emissions. In 2015/16 the Council invested in the conversion of approximately 12,200 units on its key traffic routes to LED units. Once completed, this investment will deliver a 30% saving in energy/carbon usage across the street lighting asset in Cheshire East. The remaining 26,000 units are mainly sited in residential areas of the network and generally consume much less energy than those on the main traffic routes. Therefore, the potential energy, carbon and financial savings are much lower. Technical advice is required to establish accurate details and mapping of the outstanding units, exploration of potential conversion technologies, and compilation of a full business case which sets out financial, carbon and energy savings which could be achieved, in order for the Council to identify funding for the programme. The technical advice will culminate in the production of a detailed project specification which will be delivered through the Council's Highway Services Contract with our integrated service provider, Ringway Jacobs. The Highway Services Contract is an OJEU compliant contract which allows for the delivery of street lighting schemes.	9.45M EUR	<ul style="list-style-type: none"> - Mapping study of outstanding units requiring conversion - Full business case setting out technology options, and the financial and carbon savings which could be achieved - Detailed project specification for delivery of conversions via the Council's Highway Services Contract
Priority B: Renewable	Delivery of District Heating Systems	<p>The Council has made a strong commitment to explore opportunities for deep geothermal energy, and the Council's Energy Framework set out a commitment to increase opportunities for decentralised energy networks in the Borough. In order to deliver on these commitments, the Council will shortly be announcing a long term joint venture partner who will work with the Council to deliver district heating networks in Cheshire East. The Council has already undertaken some primary investigations into the potential for incorporating deep geothermal technologies as part of plans to deliver a number of district heating networks in major towns across the Borough. Work has been undertaken to:</p> <ul style="list-style-type: none"> • Review the DECC National Heat Map and future development proposals to identify clusters of existing and future heat demand • Identify and characterise opportunities for heat supply 	33.3M EUR	<ul style="list-style-type: none"> - Full 5 case business case for each scheme - Detailed project specification for delivery of the projects via the Council's district heating joint venture partnership.

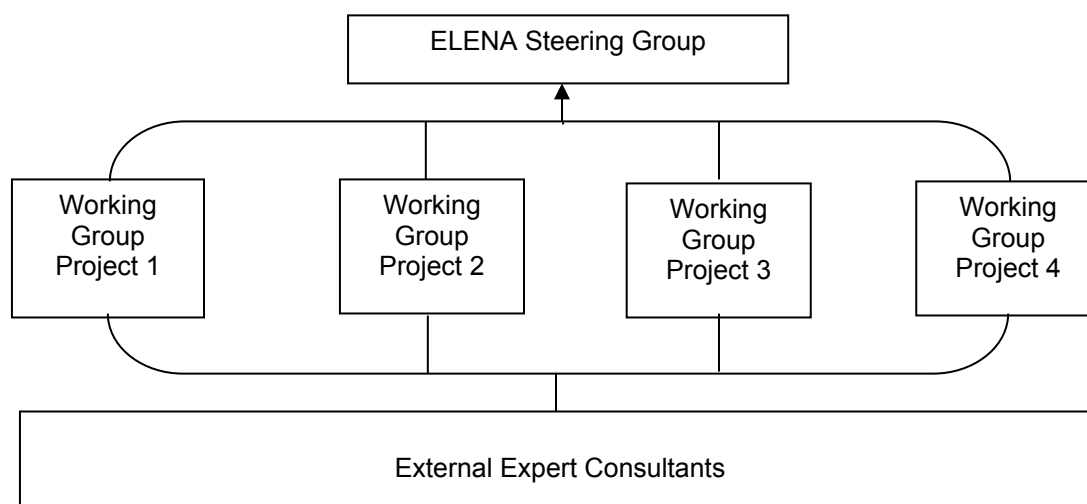
		<ul style="list-style-type: none"> Identify high level network routings, including identification of potential constraints and barriers Carry out economic assessments and modelling to identify project costs and returns <p>Work to date suggests that there is a good opportunity for deep geothermal energy to be incorporated as part of a wider renewable energy mix for new district heating systems. Initial feasibility work undertaken on behalf of the Council by AECOM and BRE has identified up to 3 potential networks in the towns of Crewe and Macclesfield. Whilst the Council has undertaken initial masterplanning and mapping of the heat network opportunities, technical advice is required for detailed network design and to develop the full business cases for the networks, including work to:</p> <ul style="list-style-type: none"> Provide a full financial and economic appraisal of the identified networks, including a review of the capital costs of installation, and ongoing costs of operation and maintenance Provide a full benefits map, including both social and environmental benefits as well as income generation Develop a detailed technical specification for each scheme including the creation of detailed engineering drawings on pipe routing and pipe sizes. Develop a detailed technical specification for the energy centre for each scheme 		
Priority B: Renewable	Delivery of dry Anaerobic Digestion project to generate renewable electricity and biogas for use in a local heat network,	The creation of a dry anaerobic digestion operation in Cheshire East is a major opportunity for the Council to deal more sustainably and innovatively with green and household waste. This is of particular importance in the context of rising landfill gate fees and increasing EU landfill reduction targets and requirements. This fully aligns with the Council's Waste Strategy which seeks to reduce waste sent to landfill to zero and create value from its waste stream through energy generation. The opportunity to initiate food waste collection from households using a co-mingled collection of food and garden waste has led the Council to investigate the use of dry Anaerobic Digestion following a detailed review and analysis of available technologies. To date the Council has commissioned two studies to determine methods to treat organic waste streams and the potential outputs	22.4M EUR	<ul style="list-style-type: none"> Full engineering solution and business case for AD to deliver the Council's objectives Technical specification to integrate the scheme with the proposed Crewe Town Centre district heating scheme

	private wire, CHP or conversion to biofuel for vehicle use	<p>from the use of Dry AD based on a range of tonnage and compositional scenarios. It is now in a position to develop a tender to seek market solutions to treat co-mingled waste.</p> <p>Technical expert advice and support is required to identify a suitable, feasible and efficient engineering solution which will maximise the carbon savings and efficacy specifically for the Cheshire East feedstock mix. Technical expert advice is also required to develop the full business case for exporting resulting electricity and/or biogas via private wire to nearby users, and integrating the scheme into the district heating proposals for Crewe Town Centre. The opportunity to develop biofuels and convert some of its vehicle fleet from the AD process is also an opportunity the Council wishes to investigate.</p> <p>Technical advice will be used to:</p> <ul style="list-style-type: none"> • Develop a full engineering solution in line with the Council's objectives, supported by a full business case demonstrating financial and technical feasibility of the proposed solution. • Develop the technical specification for integrating the scheme into the district heating proposals for Crewe Town Centre, supported by a full business case. • Review opportunities to develop biofuels and provide a report on the technical and economic feasibility of doing so. 		- Technical and economic feasibility report into opportunities for biofuels
Pri ty C: Ener	Developme nt of a full ESCO to oversee the long term delivery of energy project in Cheshire East	Given the large number of activities and opportunities identified by the Cheshire East Energy Framework, a mechanism is required to deliver this programme holistically and raise finance for delivery. The Council is committed to creating a full ESCO, owned by the Council, to assist in making more cost-efficient use of its assets, enable greater security of supply to local businesses and communities, and help promote inward investment into Cheshire East. The purpose of the ESCO would be to fill the gaps in current provision, drive the implementation of the Council's Energy Framework, and act as a strategic investment vehicle to develop a range of varied renewable energy projects and energy services. This would include the design and technical development of the Council's District Heating projects and subsequent legal structures ensuring they are developed in a coherent way to maximise their future success. Specialist planning	1.4M EUR	-

		<p>consultants will also be appointed into the project team to produce Local Development Orders that shall fast track the planning requirements for the delivery of the district heating schemes.</p> <p>The ESCO would also enable a 'joined up' approach that could enable projects to be 'bundled' so that all projects can benefit from an overarching package of services, particularly important to some projects with clear social benefits that are only financially marginal.</p> <p>Specialist advice is required to undertake feasibility and market studies, review procurement and legal procedures, review and determine proposed company activities, provide specialist financial advice, develop a detailed business case for the ESCO, and compile a full risk register. Particular advice is required on how best to integrate the proposed ESCO with existing commercial structures created through the FairerPower partnership.</p>		
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Governance

- 5.11 The ELENA programme will be overseen by an ELENA Steering Group comprised of senior officers and the lead member for energy. The Skills and Growth Company will be the delivery agent for the ELENA grant award and will project manage the grant on behalf of the Council. The Steering Group will delegate oversight of each individual project to a supporting work group comprised of relevant officers. Each working group will appoint external technical experts to carry out the technical assistance, with such experts appointed in line with the Council's Contract and Procurement Regulations and with input from the ELENA Steering Group as appropriate.



- 5.12 The decision to progress with projects will be made in line with the Council's Constitution, with projects progressing through TEG and EMB as required. Should a project require a key decision (defined as one which is likely to result in the local authority incurring expenditure which is, or the making of savings which are, significant having regard to the local authority's budget for the service or function to which the decision relates; or to be significant in terms of its effects on communities living or working in an area comprising one or more wards or electoral divisions in the area of the local authority) then Cabinet approval will be sought.

6. Wards Affected and Local Ward Members

- 6.1 As the ELENA funding will benefit a wide range of energy projects across the Borough, all wards are affected.

7. Implications of Recommendation

7.1. Policy Implications

- 7.1.1. The receipt of ELENA funding is fully aligned to the following corporate priorities and policies:

- The Council's Three Year Plan
 - Outcome 2: *Cheshire East has a strong and resilient economy*
 - Priority 1: *Local Economic Development*
 - Change Project 1.3 (*Investment to support business growth*).
- Ambition for All: Sustainable Communities Strategy 2010-2025: Priority 2 Create conditions for business growth
 - Harness emerging growth opportunities;
 - Create a climate attractive to business investment.

7.2. Legal Implications

7.2.1 The terms and conditions of the funding are not yet available. Once received, they need to be carefully scrutinised and legal advice sought, to ensure that the proposed arrangements for managements, administration and use of the funds accord with EU requirements.

7.2.2 It is noted that the technical advice is to be procured in accordance with the Council's Contract Procedure Rules. The technical advice obtained from this funding will form the basis of further work which it is proposed will be procured via existing contracts/ASDVs/joint ventures. This raises potential procurement and State Aid issues. Legal advice needs to be sought upon any firm proposals to extend the scope of existing contracts, directly award contracts to ASDVs and/or to directly transfer technical advice to a joint venture partnerships so that contracts are procured compliantly and within the grant terms and conditions and any state aid issues are properly managed.

7.2.3 Amongst the identified risks (8.1) it is noted that the Council would need to repay funding should external factors impact on delivery of projects. Any external factors should as far as possible be identified and carefully monitored.

7.3. Financial Implications

7.3.1 As noted in 7.2.1 the terms and conditions of the grant funding are not yet available and it is therefore not possible to comment on how onerous the reporting, record keeping, audit provisions and grant repayment terms are likely to be. Once the grant conditions are known, there are two particular areas that the Council will want to examine to ensure it is not exposed to an unacceptable level of financial risk:

- The extent of any liability the Council might have to carry in respect of currency conversion changes. Both the grant and the assessment of leveraged investment are made in Euros and the value in pounds sterling could change significantly over the lifetime of the project. The Council would need to understand the extent of the risk it would carry with regard to currency conversion changes and whether gains and losses would be retained or repaid by the Council.

- The full extent of the requirements of the Council to verify the delivery of the 25:1 leveraged funding. There is a risk that the Council would have to repay a proportion of the grant to the extent that the leverage target of 43M Euro is not met and we would therefore need a high level of surety that the reporting requirements attached to the grant were reasonable and achievable.

7.3.2 Recommendation 2.2 asks for a Supplementary Revenue Estimate of £1,739,585 Euro (approx. £1.4m) fully funded by the ELENA grant. However, it is possible that a small element of the expenditure on the three key programme areas identified could qualify as capital expenditure. This will be assessed as the project develops with expenditure and associated funding be reclassified as appropriate.

7.4. Equality Implications

7.4.1. The recommendations do not have any direct equality implications.

7.5. Rural Community Implications

7.5.1 The recommendations do not have any unique implications for rural communities.

7.6. Human Resources Implications

7.6.1. The recommendations do not have any direct human resources implications.

7.7. Public Health Implications

7.7.1. The recommendations do not have any direct public health implications.

8. Risk Management

8.1. The following risks have been identified:

Risk	Mitigation
The key risk lies in meeting the 25:1 leverage factor as it is possible (although the Council is not aware of any cases where this has occurred) that if the required leverage factor is not met, a proportion of the funding would need to be returned (proportionally to meet the 25:1).	<p>In order to mitigate this, the bid includes a suite of projects so that there is sufficient surplus to enable the factor to be reached even if one project element was unable to proceed.</p> <p>In addition, previous project proposals</p>

	approved by the EIB demonstrate that it is not necessary to achieve the 25:1 leverage factor in every line of activity, only that the funding overall meets the minimum leverage requirements.
There is no flexibility in the re-allocation of ELENA funds once granted resulting in a risk that the Council would have to re-pay funding if external factors impacted on the delivery of certain projects and activities.	Given that the funds largely cover the aggregate cost of staff teams that will cover multiple areas, should there be a change of CEC priorities or external factors impacting the delivery of certain functions or activities, then the focus and time of staff could switch to match new proportions of delivery.
ELENA funding is awarded in Euros so there is a risk that fluctuation in exchange rate could reduce the level of funding the Council receives.	The Council will regularly review exchange rates and amend the project programme should funding levels change significantly.
Should the EU referendum in June result in the UK's exit from the European Union, there is a risk that ELENA funding could be withdrawn.	The ELENA Steering Group will regularly review any guidance relating to the impact of a potential EU exit and will discuss with the European Investment Bank/ European Commission at the earliest opportunity should the risk arise.

9. Access to Information/Bibliography

9.1. Further information can be found at the following sources:

- <http://www.eib.org/products/advising/elena/index.htm>

10. Contact Information

Contact details for this report are as follows:-

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