REPORT TO:	**Finance and Management Committee**	**AGENDA ITEM: 13**
DATE OF MEETING:	**19th November, 2009**	**CATEGORY: DELEGATED**
REPORT FROM:	**Mark Alflat, Director of Community Services**	**OPEN**
MEMBERS' CONTACT POINT:	**Simon Mortimer, Corporate EMAS and Contaminated Land Officer Ext. 5945**	**DOC:**
SUBJECT:	**Salix Interest Free Loan for Energy Efficiency**	**REF: ES/SM/02**
WARD(S) AFFECTED:	**All District**	**TERMS OF REFERENCE: FM 01**

1.0 Recommendations

1.1 That Members accept proposals and consent to the application for an interest free loan to enable enable efficiency measures to be implemented.

2.0 Purpose of Report

2.1 SDDC propose to access Salix Finances, Central Government funded, interest free loans to improve and install high efficiency lighting around the Civic Offices, voltage optimisation technology, and install valve and flange insulation at the Civic Offices and possibly at Green Bank Leisure Centre, install new LED bulbs for all seasonal lighting and to replace the old boilers with new highly efficient boilers to reduce gas and electricity consumption.

3.0 Detail

3.1 The Department for Energy and Climate change provides a loan fund to help public bodies in England such as schools, hospitals and councils cut their carbon emissions and reduce their energy consumption.

3.2 A total of £51.5 million is available in interest free loan funding to install a wide range of energy efficient technologies, such as solar panels, wind turbines and insulation, etc. There is no maximum level of loan funding available but the minimum loan is £5,000.

3.3 The funding is being administered by Salix Finance an independent company funded by the Carbon Trust which is already working with 128 bodies, including local authorities, NHS Foundation Trusts, and further and higher education institutions to reduce their carbon footprint.

3.4 The next call is now open and has a closing date of 31st December 2009.

3.5 With the current financial climate and the Councils financial outlook this opportunity enables us to invest in technologies to reduce our environmental impact, reduce our carbon emissions and reap the financial benefits of these without any capital out lay.

4.0 Financial and Resource Implications

4.1 The scheme is financed by Central Government. The scheme is proposed and assessed by a Salix spreadsheet to confirm that your proposed schemes comply with the requirements of the loan i.e. that it makes the financial and carbon savings necessary.

4.2 The scheme works by the finance company providing 100% of the capital required to install the improvements. Nothing is paid back until March 2011 enabling the organisation to reap the financial savings for twelve months. From March 2011 the repayments are split evenly over eight payments over the following four years (payable in March and September respectively).

4.3 The loan and payback period for accepted and assessed projects is designed to enable the organisation to recoup the costs of the project(s) directly from the savings made. In essence the project is installed and operational at ‘zero’ cost as it never impacts on our capital. After the repayments have been met from the savings on utilities we then realised the savings on our books.

4.4 Final quotations are being sought from suppliers but it is likely that we will apply for an investment of £60,315 with a payback rate, per annum, of circa £23,718.

Prudential Borrowing

4.5 In order for the Council to borrow, it must demonstrate under the National Prudential Code that the associated costs are affordable and sustainable. In addition, the Council’s Capital Investment Strategy provides for borrowing on an “invest to save” basis. This means that the costs of borrowing must be met from the savings of any proposed investment.

4.6 Under the National Code, in this case, each proposed scheme should be appraised individually. There are 6 separate projects being proposed and a financial analysis is detailed in **Appendix 1**.

4.7 Effectively, this compares the cost of servicing the loan finance with the estimated savings over the life of the borrowing period, as required by the Prudential Code.

4.8 Although loans are interest free, under accounting regulations, the principal outstanding each year will be subject to a Minimum Revenue Provision (MRP) at a rate of 4%. This reflects that the Council has to set-aside provision against the debt liability in its accounts.

4.9 In addition, the borrowing will affect the level of capital charges transferred from the General Fund to the HRA each year. However, the effect of the MRP and interest adjustment is fairly minimal over the loan period but must be taken into account under the Prudential Code – it will represent a cost in the Council’s accounts by undertaking the proposed borrowing.

4.10 The main assumption in the financial analysis is that all works will be completed in the financial year 2010/11 and the estimated savings start to be realised from 2011/12.

4.11 Consequently, with all 6 projects, there is a cost in Year 1 reflecting the initial loan repayment, However, except for project 6, the savings far outweigh the costs of borrowing (repayment plus accounting adjustments) over 4 years.

4.12 The overall saving is estimated at approximately £33,000 to 2014/15 based on the proposals, although £6,500 (project 4) will ultimately pass to the contractor of Green Bank Leisure Centre under the terms of the current contract. The overall analysis is summarised in the following table.

Overall Financial Analysis (Figures are in Pounds)

	2010/11	2011/12	2012/13	2013/14	2014/15	**Total**
Financing Costs	8,331	15,267	14,966	14,966	7,539	61,069
Estimated Savings	0	-23,719	-23,719	-23,719	-23,719	-94,876
Net Cost/(Saving)	8,331	-8,452	-8,753	-8,753	-16,180	**-33,807**

4.13 The table shows that on-going savings (from 2015/16) after the loans have been repaid is £23,719 per year at today's prices, of which £21,400 will accrue directly to the Council.

Risk Analysis

4.14 This is shown in the following table.

Risk	**Rating**	**Mitigation**
Cost of capital investment is greater than borrowed either through contract price on tender or delay/problems with implementing works.	Medium	The money is only released once the project is completed or in stages. Full quotations must be obtained to allow for installation at the contractors risk (Project price) to ensure this risk is managed.
Estimated savings are not realised due to incorrect forecast or volatile price changes mask any efficiencies.	Medium	Savings will be based on real data and so will reflect our position accurately. Significant savings will be made. Five year modelling and repayment will yield at least break even with saving ongoing year on year against today's budget.
Accounting regulations force hidden costs through new International Financial Reporting Standards.	Low	As the loan is interest free, it will be classed technically as a financial instrument which attracts special disclosure in the Council's accounts. However, accounting adjustments will not affect the "bottom line."

5.0 <u>Corporate Implications</u>

5.1 Given the current economic climate this scheme makes sound business sense, at zero cost, whilst allowing the council to take full advantage of the savings, the improvements and carbon reductions enabling us to fulfil our commitments in the Corporate Plan to our own sustainable growth, and providing increased value for money through improved efficiency and resource consumption.

6.0 Community Implications

6.1 The Community Strategy is entirely focused on creating a more sustainable area. By taking up the zero cost loan we are demonstrating that if the will is there we can all improve our environmental and financial performance and efficiency through available means and show that we are willing to practise what we preach.

7.0 Conclusions

7.1 This is a great opportunity to install technologies that will make a real impact in reducing our carbon footprint, shows that are willing to practise what we preach and will yield significant, much needed, financial savings.

8.0 Background Papers

8.1 The salix assessment spreadsheet.