From: Susan Carey Cabinet Member for Environment

Simon Jones Corporate Director, Growth Environment and Transport

To: Environment and Transport Cabinet Committee – 17 March 2022

Subject: **21 MW Solar Farm in the West Country**

Key decision: 22/00029

Classification: Part 1: Main report – Unrestricted

Part 2: Appendix **-** Exempt as defined in Schedule 12A of the Local Government Act 1972

Past Pathway of Paper: N / A

Future Pathway of Paper: For Cabinet Member Decision

Summary: KCC has secured a significant grant from the Public Sector Decarbonisation Scheme (see decision 21/00034 for more information) from which, £14.415M can be used towards the delivery of a large-scale solar farm.

KCC has been working with Commercial Services Kent Ltd (CSKL) - a KCC Teckal company, which manages KCC energy requirements with the aim to try and identify a suitable asset that CSKL could own and operate given their expertise in this market on KCC's behalf.

The partners have identified a Special Purpose Vehicle (SPV), which is a c21 MW Solar Farm based in the West Country which has proposed a fixed cost for the purchase of the SPV. The total project costs to purchase the solar farm can be seen in the exempt appendix and includes costs of c£400k (these costs cover external due diligence fees for technical, legal, and commercial reviews as well as KCC staff time).

The scheme will be funded in part by the Decarbonisation Scheme with a further capital contribution to meet the total project cost. This additional funding has been supplied from CSKL (as confirmed by Commercial Services' company Board approval on 17th of February 2022 and KCC Shareholder Board on the 1st of March 2022). See exempt section for figures.

CSKL will use the produced renewable electricity to reduce KCC's carbon emissions by c+30% as part of the Council's commitment towards 2030 Net Zero.

KCC is seeking approval to proceed with the project which will allow CSKL to purchase the SPV. In order to do this, KCC will need to transfer the grant funding secured under the Public Sector Decarbonisation Scheme to CSKL. Confirmation from Salix has been received on the new location and outputs and final confirmation has been received from Salix on the agreement between KCC and CSKL.

The scheme is to be spread across a leased property and to have installation of ground mounted photovoltaic (PV) solar energy generation system, associated infrastructure, security measures (including CCTV) and landscaping. Full planning permission has been obtained in December 2020 for a period of 40 years. Works completion is due to be achieved by mid-March 2022.

The project will involve the acquisition of the SPV shares and this will include the leases for the land, the constructed solar farm asset, and the fully commissioned grid connection.

The SPV will sit under CSKL and be managed by LASER. The former is a wholly owned KCC Teckal company. CSKL will be responsible for the ongoing asset management of the solar farm, including energy trading, carbon certification, energy/carbon reporting, financial reporting and managing the current contractor. During the first two years of ownership, the operations and maintenance will be undertaken by the contractor in order to cover off their 24-month defects liability period. The project will operate as a standalone SPV and financial, energy and carbon performance will be reported via CSKL to KCC on a regular basis, to ensure KCC is never in breach of our Salix Terms and Conditions on reporting with KCC benefitting from income generated by the Solar Farm.

Heads of Terms between CSKL and KCC continue to be discussed but it is currently envisaged that in years 1 to 3 of operations, LASER will provide a discount equivalent to £760k per annum on the KCC Streetlighting electricity bill and any profit above £760k, is likely to flow back to KCC through the dividend. This is one of the single largest electricity accounts in terms of costs to KCC. The discount figure will then be renegotiated for years 4 to 6 of operations based on prevailing electricity market prices and costs closer to the time. Beyond year 6, a discount or dividend maybe provided subject to the shareholder board approval and income will continue to flow through to KCC. KCC has had confirmed that this setup meets the Salix terms and conditions.

Recommendation: The Cabinet Committee is asked to consider and endorse or make recommendations to the Cabinet Member for Environment in respect of the proposed decision to:

1. Support the purchase, by Commercial Services Kent Limited, of the Special Purpose Vehicle (SPV), via the deployment of £14.415M of Public Sector Decarbonisation Scheme (PSDS) Funding (see decision 21/00034 for further details on PSDS Funding).

2. For the Corporate Director of Growth, Environment and Transport in consultation with the Director of Infrastructure and the Corporate Director of Finance, to transfer the necessary PSDS funding to Commercial Services Kent Limited for the purchase of the SPV, subject to:

- the terms and conditions of the PSDS grant being met;
- the technical, legal, and due diligence conclusions being acceptable to KCC;
- and that the remaining funding for the project can be secured;

3. Delegate authority to the Corporate Director of Growth, Environment and Transport to take relevant actions, including, but not limited to, entering into contract and other legal agreements as required to arrange and deliver this project.

The proposed Record of Decision is shown at Appendix A.

1. Introduction

1.1 Commercial Services Kent Ltd (CSKL - a KCC Teckal company) intends to purchase a Special Purpose Vehicle (SPV) that secures a c21MW Solar Farm, based in the West Country and to use the produced electricity to reduce KCC's carbon emissions as part of the Council's commitment to achieving carbon neutrality.

1.2 A fixed cost has been proposed for the purchase of the SPV. The total project cost includes KCC costs and officer time. KCC has received approval for the transfer of £14.415M of approved Salix funding to CSKL in order to allow it to purchase the SPV.

1.3 The scheme is to be spread across leased property and to have installation of ground mounted photovoltaic (PV) solar energy generation system, associated infrastructure, security measures (including CCTV) and landscaping. The Project has obtained full planning permission in December 2020 for a period of 40 years. Works completion is due to be achieved by mid-March 2022.

1.4 The scheme will be funded by the Decarbonisation Fund (see decision 21/00034 for more information) with £14.415M grant authorised for use by this decision. The remaining capital contribution is expected to be supplied from CSKL.

1.5 The project will involve the acquisition of the SPV, including the constructed solar farm asset, grid connection agreement and associated land leases.

1.6 The SPV will sit within CSKL and managed by LASER. CSKL are a wholly KCC owned Teckal company. It will operate as a standalone SPV. All financial, energy and carbon performance will be reported via CSKL to KCC in order to ensure KCC is never in breach of its Salix Terms and Conditions to report on the same.

1.7 CSKL will be responsible for the ongoing asset management of the solar farm, including energy trading, carbon certification, energy/carbon reporting, financial reporting and managing the contractor during the two-year defect liability period. The facility management contractors will be procured by CSKL except for the first two years of operations and maintenance, which will be contracted to the main contractor for the site to oversee the two-year defect liability period.

2. Options Analysis

Option 1 - Do Nothing: Site is not developed for a Solar Farm:

2.1 Under this option, KCC would seek alternative carbon reduction solutions; this would mean handing back the PSDS grant funding and would be a financial loss to KCC. This option is therefore not recommended.

Option 2 – Purchase of the Special Purpose Vehicle (SPV) for the Acquisition of the Solar Farm

2.2 This option can deliver KCC carbon savings and secures the PSDS grant funding. This is the recommended option.

Option 3 – Purchase a Site in Development with Planning

2.3 This option would incur significant timeline and project risks including seeking a willing seller, leading to potential loss of the grant funding. This option is therefore not recommended.

Option 4 – Purchase Existing Solar Farm

2.4 This option would incur a loss of grant funding to KCC as Salix grant does not support existing facilities and is therefore not recommended.

3 Finance

3.1 Total project costs can be seen in the exempt appendix. Salix grant funding has been secured for £14.415M and KCC are being supported by CSKL for the remaining funding. This project still complies with the Salix long term carbon saving terms and conditions for the programme and Salix have confirmed the switch and confirmation on the setup.

3.2 The project is anticipated to deliver a financial benefit to KCC either via a discount on electricity costs or via the CSKL dividend. Over the lifetime of the asset (40 years) the average net income from the solar farm is anticipated to be c£1.2M a year (excluding depreciation and tax).

3.3 KCC will pass all Salix grant funding across to CSKL who will make a 'Cash On Delivery payment to Ethical Power subject to technical, legal and due diligence checks.

3.4 As part of the Council's pre-exchange due diligence, Carter Jonas have undertaken a value for money assessment on the project and have confirmed that the transaction does represent value for money.

4 Legal

4.1 Burges Salmon are representing KCC on all Legal issues for the transaction. Heads of Terms have been drafted between KCC and CSKL over the current proposed funding arrangements and are being finalised.

4.2 The SPV will sit within CSKL and managed by LASER. CSKL are a wholly KCC owned Teckal company. It will operate as a standalone SPV, financial, energy and carbon performance will be reported via CSKL to KCC.

4.3 CSKL will be responsible for the ongoing asset management of the solar farm, including energy trading, carbon certification, energy/carbon reporting, financial reporting and managing the main contractor. The facilities management contractors will be arranged by CSKL except for the first two years of operations and maintenance, which will be contracted to the main contractor who will cover their defect liability period.

4.4 KCC has entered into the Terms and Conditions of the Salix grant funding which mean that the energy produced by the Solar Farm must directly benefit KCC through lower carbon outputs. The scheme is estimated to reduce 4663 tonnes of carbon a year from KCC's energy requirement being c+30% of KCC carbon emissions.

5 Strategic case

5.1 The provision of the project will contribute significantly to the de-carbonisation of KCC energy supplies and in meeting its carbon neutrality 2030 target. It will also provide for some security of energy supply for KCC especially with regard to volatile fossil fuel prices at the present time. The project also fits with the energy and low emissions strategy and the overall Kent Environment Strategy.

6. Conclusion

6.1 This project makes a significant contribution to the reduction of the de-carbonisation of KCC energy supplies and in meeting its carbon net zero 2030 target.

6.2 The project is seeking to be fully funded through the Salix PSDS grant funding and a contribution from CSKL.

7. Recommendation

The Cabinet Committee is asked to consider and endorse or make recommendations to the Cabinet Member for Environment in respect of the proposed decision to:

1. Support the purchase, by Commercial Services Kent Limited, of the Special Purpose Vehicle (SPV) , via the deployment of £14.415M of Public Sector Decarbonisation Scheme (PSDS) Funding (see decision 21/00034 for further details on PSDS Funding).

2. For the Corporate Director of Growth, Environment and Transport in consultation with the Director of Infrastructure and the Corporate Director of Finance, to transfer the necessary PSDS funding to Commercial Services Kent Limited for the purchase of the SPV, subject to:

- the terms and conditions of the PSDS grant being met;
- the technical, legal, and due diligence conclusions being acceptable to KCC;

- and that the remaining funding for the project can be secured;

3. Delegate authority to the Corporate Director of Growth, Environment and Transport to take relevant actions, including, but not limited to, entering into contract and other legal agreements as required to arrange and deliver this project.

The proposed Record of Decision is shown at Appendix A.

8. Background Documents and Appendices

8.1 Appendix A – Proposed Record of Decision
8.2 Exempt Appendix
8.3 Equality Impact Assessment

9. Contact details

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