

From: Simon Jones Corporate Director, Growth Environment and Transport

To: Susan Carey Cabinet Member for Environment

Subject: **Kings Hill Solar Park: Additional funding**

Classification: Part 1: Main Report Unrestricted
Part 2: Exempt Appendix – Section 12a Local Government Act

Electoral Division: Malling Rural East

Summary:

KCC is constructing a solar park at Kings Hill to provide a renewable energy source that will offset approximately 7% of KCC's electricity needs following receipt of a major capital grant in March 2021, from the Public Sector Decarbonisation Scheme (see decision 21/00034 for further information).

Building works are well underway at the site, with a completion date of June 2023.

The project has, however, been impacted by a number of issues, which has increased the capital cost of the project to £5,044,000. This means that additional funding of up to £878,000 is needed to complete delivery of the project.

Offsetting these increased costs in the longer term is the fact that the solar panels will be capable of generating power over a 40-year period, an increase of 10 years from initial expectations. In addition, based on current energy costs the solar park is projected to save KCC £360,000 in its first year of operation, and an annual equivalent of £330,000 per year for the life of the park.

Overall, the business case for the project has improved since inception and the project will be beneficial to KCC into the future, both financially and from a carbon reduction perspective. However, if approved it does in the short term, add pressure to the current financial situation.

Proposed Decision:

The Cabinet Member for Environment is asked to agree to deploy up to £878,000 of additional funding to cover the increase in costs including risk contingencies to complete the Kings Hill Solar Park project as shown at Appendix A

1. Background

- 1.1. In March 2021, KCC was awarded a grant of £20,643,000 from the Public Sector Decarbonisation Scheme (PSDS) to deliver a number of projects, including ultimately £3,465,000 to build the Kings Hill solar park. The grant conditions for the PSDS required funding to be spent by 31 March 2022, which was later extended to 30 June 2022 following lobbying from authorities in receipt of grant funding (see decision 21/00034 for further information).
- 1.2. An urgent key decision (21/00034) was taken to accept the funding, acknowledging the risk of the demanding delivery deadline and risk of the PSDS grant being spent in that time. This decision was subsequently endorsed at the meeting of the Environment & Transport Cabinet Committee (ETCC) on 18 March 2021.

- 1.3. The initial preferred site for the solar park was one of KCC's closed landfill sites but the necessary remediation work would have meant the grant deadline condition would not have been met. Further work identified a disused pig farm at Kings Hill as a deliverable alternative site.
- 1.4. Progress with the PSDS funding projects was provided at the ETCC on 29 June 2021. The Key decision on Kings Hill Solar Park (21/00109) to deploy funding whilst understanding the associated risks this could bring was taken as an urgent decision on 10 December 2021 and was reported to ETCC on 18 January 2022.
- 1.5. The land at Kings Hill was acquired in March 2022 and initial works started on site in the same month. Members were last updated on progress in delivering the projects funded by the PSDS on 19 May 2022.

2. Kings Hill progress

- 2.1. Building works are well under way at the site with a completion date of June 2023. Once completed, the solar park is projected to offset 633 tonnes of carbon per year, which equates to around 7% of KCC's annual carbon emissions.
- 2.2. The project has, however, been impacted by a number of issues, which have increased the capital cost of the scheme.
- 2.3. The project had initially anticipated to be on site in early February 2022, however whilst the legal work to purchase the site was progressed as expeditiously as it could have been, the land purchase timeline slipped by a few weeks into March 2022. This is the nesting season for birds and in compliance with ecology regulations, the project start had to be delayed until the bird nesting season was complete.
- 2.4. Following further works by UK Power Networks (UKPN), they advised that they needed to increase their costs to include two low voltage cables over the original single cable and there were also some alterations to the substation housing that they required.
- 2.5. RAF West Malling was heavily bombed during the battle of Britain in 1940 and in 2019, two 50kg bombs were found during developments around the area and had to be subsequently detonated. Because of this the project undertook an unexploded ordinance survey which identified numerous potential targets which then needed to be investigated to make sure there were no explosives on the site. No projectiles were discovered, but a World War 2 bunker¹ was found in the southwestern corner of the site.
- 2.6. Several unforeseen ground conditions were discovered during the project including some water pipes and high voltage cables that do not benefit from any legal rights that KCC were aware of. In addition to this, a cesspit was found, all these elements needed to be dealt with as part of the project.
- 2.7. From the time of the initial tender to the ordering of materials, the project has also been affected by inflationary pressures.

¹ There is no impact to the project from this discovery

2.8. As part of securing planning for the project, a condition has been placed on the scheme that requires the project to undertake a drainage report 12 months after Practical Completion. This report will seek to identify whether the concentrated rainfall coming off the panels has led to any soils being washed away and or whether there has been any scarification on the site. The risk is thought to be low and solar park consultants were not aware of any other schemes across the UK requiring having this done; nevertheless, an additional contingency has now been included in the costs to allow for this to be installed if required.

2.9. The following table gives a breakdown of the cost increases associated with the above.

	Increase	Comment
Additional contractor costs	£323,329	Compensation events for ecology, unexploded ordinance survey, ground conditions and inflation
Client team	£55,085	Increase in consultant fees in line with programme alterations
KCC staff time	£11,536	Increase in staff time assigned to project due to programme alterations and KCC governance
Land acquisition	£94,520	Increased legal fees, consultant time and KCC staff time
Other costs	£393,530	See exempt appendix
TOTAL	£878,000	

2.10. Key Decision 21/00109 approved the capital cost for the project at £4,167,000². These issues mean that the cost of the project has increased to £5,044,000, including anticipated variations and contingency.

2.11. The additional time needed to deal with some of the unknown costs resulted in £2,205,149 of the allocated £3,465,000 PSDS grant being spent by the deadline of 30 June 2022. In order not to lose these funds, including the remaining unspent grant funding from wider KCC projects, Salix who oversee the PSDS grant confirmed that all remaining unspent grant funding (£1,294,127) could be switched towards the Bowerhouse 2 Solar Park. This project had sought additional investment from Commercial Services Kent Ltd (CSKL, a wholly owned KCC subsidiary). This grant switch essentially allowed CSKL to recover part of their investment early and for this to be returned to part fund the Kings Hill Solar Park via the dividend.

2.12. Set against the increased costs of the project is the confirmation that the solar panels will be capable of generating power over a 40-year period. Changes to energy values also mean that the financial benefit of the project has improved and is projected to

² Funding – approved under Record of Decision and Key Decision £4,167,000.00
 PSDS £3,465,000
 KCC £ 392,000
 CCF £ 310,000 (Climate Change Fund – Now Net Zero Reserve)

offset KCC's energy costs by £360,000³ in its first year of operation and an annual equivalent of £330,000 per year, for the life of the project (total of £13,200,000).

3. Options analysis

3.1. Four options were considered:

3.2. **Do nothing** –stop works and do not complete the project due to the cost increases. There is the risk/likelihood that KCC would have to hand back the full PSDS grant, will incur abortive costs that will exacerbate the in-year 2022/23 revenue monitoring overspend position as well as have to adjust the Medium-Term Financial Plan (MTFP) and remove the planned surplus/rebate of £140,000 per year from future budgets. **(REJECTED)**

3.3. **Seek alternative funding** – potential to stop works and seek alternative funding solutions, applying for further funding where possible. There is a risk that KCC might have to hand back the full PSDS grant funding used on the project if it is not completed. KCC would also incur significant abortive costs on the project to date and not benefit from the income the project would generate in the future if works were not completed which is already built into the 2022/23 and 2023/24 KCC budgets. **(REJECTED)**

3.4. **KCC fund the shortfall** complete the project, retain the full PSDS allocated grant, including the element via switch funding, and fund the additional capital cost with Net Zero Reserve funds. **(PREFERRED OPTION)**

3.5. **KCC fund the shortfall (Borrowing)** – complete the project, retain the allocated grant, and fund the offset with KCC capital borrowing. Currently KCC is very close to its key performance indicator of borrowing costs at less than 10% of revenue budget, plus KCC's capital strategy is to prioritise borrowing towards statutory projects/rolling programmes such as basic need, highways, and the corporate estate. **(REJECTED)**

4. Finance

4.1. The total capital cost of the proposed project is now anticipated to be £5,044,000 against a previously agreed budget of £4,167,000. The funding gap is £878,000 and it is proposed to be funded through the Council's Net Zero Reserve.

4.2. Net income will be dependent on electricity prices but is currently anticipated to have an annual equivalent of £330,000 per year over the 40-year lifespan of the project. This has increased from £140,000 per year over 30 years when the project was initially approved.

4.3. The Environment Board has agreed in principle to the use of Net Zero Funds for this project subject to final agreement from the S151 officer and approval by the Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services.

4.4. The project assumes that the PSDS switch funding of £1,294,127 is coming back into the project via the CSKL dividend. Further discussions are underway with CSKL

³ Income is higher in years one and two based on current market conditions but the business case assumes these values fall in year 3 before returning to normal inflationary growth thereafter.

around alternative funding options that maybe more beneficial for the Council to pursue.

- 4.5. The Council is projecting a significant overspend in the current year so the funding options and approach to complete the project may change to ensure minimal impact on the Council's financial position.

5. Legal

- 5.1. The terms and conditions of the Salix grant funding mean that the energy produced by the solar park must directly benefit KCC through lower carbon outputs and these must be reported back to Salix over the coming years.
- 5.2. Salix has confirmed that the underspend on the PSDS grant of £1,294,127 can be switched to Bowerhouse.
- 5.3. KCC has entered into contract with Kier for the construction of the solar park.
- 5.4. KCC will enter into contract(s) with private and or KCC owned companies for the running of the solar park including both operations and management and the sale and purchase of electricity.

6. Strategic case

- 6.1. The provision of the project will contribute significantly to the de-carbonisation of KCC energy supplies and in meeting its Net Zero by 2030 target. The project also fits with the Kent and Medway Energy and Low Emissions Strategy and the Kent Environment Strategy.
- 6.2. The Decision also meets the following priority actions within KCC's Council Strategy 'Framing Kent's Future':
 - Support Kent to become a leading county for carbon zero energy production and use
 - Make use of low-grade land (e.g., landfill, low grade agricultural through use of solar and wind farms)
 - Work towards Kent being Net Zero by 2050
 - Use our commissioning and procurement power to support Net Zero and the green economy, reduce our carbon miles and prioritise buying local goods and services wherever possible, and to further support green economy jobs in Kent
 - Support strategic opportunities for growth through the delivery of sites and premises and support for new investment and business expansion where it will deliver higher value jobs and increased productivity and contributes to our net-zero target.

7. Conclusion

- 7.1. This project makes a significant contribution to the de-carbonisation of KCC's energy supplies and in meeting its Net Zero by 2030 target.
- 7.2. Whilst additional capital costs are required to complete the project, the increased lifespan of the solar panels and higher than projected energy costs mean that the

financial benefit to KCC in the future for the solar park has increased since project inception.

8. Recommendation

The Cabinet Member for Environment is asked to agree to deploy up to £878,000 of additional funding to cover the increase in costs including risk contingencies to complete the Kings Hill Solar Park project as shown at Appendix A

9. Background documents and appendices

- Appendix A – Record of Decision
- Decision: [21/00109](#)
- Decision: [21/00034](#)

10. Contact details

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