

Agenda Item

Executive Board

3 March 2010

FM

Supplemental Grant Funding Agreement Low Carbon Infrastructure Fund for Biomass Combined Heat and Power /District Heating Scheme at Cranbrook

Exempt Information

Para 3 Schedule 12A information relating to the finance or business affairs of any particular person

Summary

A report was taken to EDDC Executive on 2 December 2009 seeking authorisation to enter into a Funding Agreement with the Home and Communities Agency (HCA) to draw down £2.58m of funding from the HCA Low Carbon Infrastructure Fund (LCIF). This funding had been awarded to EDDC following a successful bid to develop a Combined Heat and Power Plant to provide District Heating for Cranbrook. Authorisation to enter into a Funding Agreement with the HCA was approved at that meeting and it was also agreed to enter into a Supplemental Agreement on the same terms with E.ON, who are the chosen energy partner for the District Heating scheme. The EDDC/E.ON Supplemental Agreement has the function of administering the fund from the HCA via EDDC to E.ON, in accordance with the terms and conditions of the Fund.

Since this meeting the HCA have been able to provide additional LCIF funding for the project and have offered a **further £1.12m** of grant aid, which will be provided on the same terms as the original Funding Agreement. This additional money will be administered by the HCA by means of a Supplemental Grant Agreement **varying the maximum sum** of the grant **to £3.7m**.

Funding under this initiative must be drawn down from the HCA by the end of March 2010. The principal Agreement with the HCA has now been signed and the Supplemental Agreement with E.ON is at final draft stage awaiting approval & signature by E.ON. The new Maximum Sum will be incorporated into the Agreement with E.ON once this HCA Supplemental Agreement for the additional £1.12m grant funding is signed off by the Council. The agreement will also cover the £400,000 pledged to the project by SWRDA, Devon County Council, Exeter City Council and EDDC. This will increase the maximum sum in the funding agreement to **£4.1M**.



Recommendations

1. That the Executive Board authorise a contribution of £100,000 from East Devon District Council to supplement the funding package for the combined heat and power plant to assist the Council's Corporate Strategy of delivering Economic Growth and transferring to a low carbon economy.
2. That the Chief Executive be authorised to enter into a Supplemental Funding Agreement with the Homes and Communities Agency to vary the Maximum Sum of the HCA LCIF grant to a total of £3.7m and similarly vary the Maximum Sum in the Funding Agreement with E.ON to reflect this further grant.
3. That the £400,000 pledged to the project from SWRDA, DCC, ECC and EDDC be reflected in the funding agreement with E.ON bringing the maximum sum of the grant to £4.1M.

a) Reasons for Recommendation

The New Growth Point Delivery team has been working with the HCA, the Cranbrook New Community Partners, Skypark (St Modwen) and E.ON over a number of months to deliver a District Heating Scheme for Cranbrook. Having successfully obtained grant funding from the HCA and resolved the mechanics of drawing down the grant monies, we are now in the final stages of developing the scheme. A planning application for the Energy Centre has been submitted to EDDC and the three partners are locked in negotiations over the Energy Supply Agreement for Cranbrook and Skypark. The last few weeks of negotiations have revealed a further funding gap between the partners (Cranbrook NCP's, Skypark and E.ON). The public Sector has been closely involved in these negotiations, because of the interrelated public sector funding packages to deliver all of the required transport, social and community infrastructure for the new community. These funding packages have also been subject to conditions and deadlines for drawing down the funding, the main one being the 31st March 2010.

Following a meeting with the NCP's on the 8th February 2010, additional contributions have been pledged by the energy partner and the public sector and the required funding has now been found. The remaining identified shortfall of £900,000 has been made up from the following contributions that have been pledged:-

£250,000 – Cranbrook New Community Partners
 £250,000 – St Modwen (Skypark)
 £100,000 – South West RDA
 £100,000 – DCC
 £100,000 – ECC
 £100,000 – EDDC

£900,000

b) Alternative Options

Do not enter into supplemental funding agreement with HCA. The Low carbon project will not be delivered and the Regional Infrastructure Fund of £22m will not be forthcoming.

c) Risk Considerations

The responsibility for the administration of the grant falls to EDDC once the grant monies have been drawn down from the HCA, and the Authority will need to ensure that any subsequent grant provided to the Energy Partner is done so in accordance with the terms and conditions of the grant and the work is procured in the appropriate manner. However, once it is drawn down to EDDC's account it will be at the discretion of EDDC to administer the fund. The grant is for capital works only. Other risks are associated with the quality and specification of the proposed project and the timing of delivery and these will be dealt with in legal clauses within the funding agreement. E.ON is the world's largest Investor-owned power and gas company.

d) Policy and Budgetary Considerations

Support for these projects is entirely consistent with EDDC's corporate strategy, existing Local Plan and emerging LDF together with previous decisions already made by the Council's Development Control Committee (now Development Management) in respect of the Cranbrook Planning Application. The payment profile of the grant funding is such that the funding would be in the EDDC account before the grant is drawn down by the Energy Partner, so no borrowing would be involved. Administration and legal costs of the grant would be covered by the HCA Grant or by the Growth Fund. The stark reality is that without this grant package the complex funding package assembled to release Cranbrook and Skypark will come to nothing. Cranbrook would be delayed by years.

1 Main Body of the Report

- 1.1 Members are asked to refer to the main body of the report to EDDC Executive on the 2nd December 2009 which will give full background information on this report and the Homes and Communities Low Carbon Infrastructure Fund.
- 1.2 This project and the supporting funding from the HCA presents a unique opportunity to deliver a highly sustainable and low carbon energy solution for Cranbrook, in advance of sustainability targets contained in current legislation and over and above the Code 3 (Code for Sustainable Homes) housing currently agreed in the Cranbrook S106 Agreement . It will be an exemplar scheme and will help lever in other public sector funding (RIF and HCA NAHP funding) to ensure the early delivery of Cranbrook and much needed housing.
- 1.3 The financial model for delivering the CHP plant is challenging even with the HCA grant. The private sector partners have been working hard with the public sector to put together a funding package that will enable the development to proceed. Saint Modwen, on behalf of the Skypark joint venture, will contribute a further £250,000 and the new community partners £250,000. This funding will be made direct to E.ON. The public sector partners, SWDRA, DCC, ECC and EDDC, will contribute £100,000 each and the proposal is that funding be collected by EDDC and included in the funding agreement with E.ON, raising the maximum sum in the funding agreement to £4.1M.

Legal Implications

EDDC will be Host Authority for the purpose of the HCA Grant and ultimately the legal responsibility for the management and distribution of the Grant rests with EDDC. The grant is facilitated via a grant Funding Agreement a summary of the main clauses in the Agreement, provided by the Council's consultant solicitors are contained in Appendix 1. The structure of the funding agreement with HCA/E.ON will need to be considered further to ensure any possible State Aid issues arising out of the grant are managed in such a way that the Council is compliant; this is not expected to be a problem provided the timetable is closely managed.

Financial Implications

The financial implications are included in the report. The Council's contribution of £100,000 would comprise £80,000 from the Local Authority Business Grant Initiative and £20,000 from the Carbon Grant.

Consultation on Reports to the Executive

Reports to the Executive re the budget/policy framework must detail the nature, extent and outcome of consultation with stakeholders and relevant Overview Committees. Reports about other matters must give details and outcome of consultation as appropriate

Background Papers

RIF Funding Agreement
HCA Funding Agreement
HCA Supplemental Agreement (to vary maximum sum)
Draft EDDC/Eon Supplemental Agreement
Report to EDDC Executive 2 Dec 2009

Fliss Morey, Projects' Director

Executive Board 3 March 2010

Karime Hassan, Corporate Director