

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF ENVIRONMENT AND NEIGHBOURHOOD SERVICES

TO:	STRATEGIC ENVIRONMENT PLANNING AND TRANSPORT COMMITTEE		
DATE:	13 JULY 2016	AGENDA ITEM: 11	
TITLE:	SOLAR COMMUNITY SCHEME - PURCHASE OF SHARES		
LEAD COUNCILLOR:	COUNCILLOR PAGE	PORTFOLIO:	STRATEGIC ENVIRONMENT, PLANNING AND TRANSPORT
SERVICE:	SUSTAINABILITY	WARDS:	ALL
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1.0 Executive Summary

- 1.1 This report seeks to delegate authority to officers to purchase shares in the Solar Community Project being developed by Reading Community Energy Society (RCES).
- 1.2 The Society was formed to install solar panels on to a number of community buildings in Reading.
- 1.3 RCES are seeking to raise up to £450,000 of equity financing through a share issue to cover the costs of installation of the systems. This amount will be dependent on the number of systems that are able to progress and is likely to be less than the full £450,000.
- 1.4 The Council has been offered two seats on the board of directors of RCES.
- 1.5 It is proposed that the Council purchase £10,000 of shares but in the event that the full quota of shares are not purchased by the public it is proposed that the Council purchase the remaining shares up to a maximum of £100,000.
- 1.6 Appendix 1 - Share Offer
Appendix 2 - Risk Table
Appendix 3 - Performance of Other Schemes

2.0 Recommendations

- 2.1 That the Strategic Environment, Planning and Transport Committee delegate authority to the Head of Finance in consultation with the Director of Environment and Neighbourhood Services and the Lead Councillor for Strategic Environment, Planning and Transport to purchase up to 100,000 (value £100,000) shares in Reading Community Energy Society according to the terms laid out in the share offer.

3.0 Background

- 3.1 In August 2015, the Government announced that it was dramatically reducing the subsidies available for photovoltaic solar panels called Feed-in-Tariff (FiT). However, an exemption for community schemes was subsequently announced. The Council joined forces with a local group, the Berkshire Energy Pioneers, to work with an organisation called Energy4All to pre-register 23 roofs for a solar community scheme.
- 3.2 The Strategic Environment Planning and Transport Committee on 24th November 2015 agreed to lease a number of RBC owned building roofs to Reading Community Energy Society in order to install solar panels using capital raised by a public share offer ([Link to report](#)). A number of these buildings are unlikely to proceed, but share capital will be raised if possible to cover 16 buildings. These have an estimated capital cost of approximately £450,000.
- 3.3 RCES is a community benefit society established for the purposes of installing solar panels on community buildings in Reading. The board consists of three board members proposed from Berkshire Energy Pioneers, two from the Council and one from the Reading Climate Change Partnership (RCCP). In addition, Energy4All (E4A) has two places on the board. A total of 8.
- 3.4 Seats on the board are available to any member through the processes set out in the Society rules. The Council has been offered two seats on the board on the basis that one seat would be representing the Council's share holdings and the other would be an unelected seat offered to the Council in its capacity as an organisation that represents the local community.
- 3.5 The scheme will seek to raise capital funds through community share issued by 'Reading Community Energy Society' (RCES). The share offer was launched on Friday 17th June. Investing in the scheme will give shareholders an estimated return on investment of 5% per annum. After annual costs have been met, the Society is expected to have a surplus fund, which will be allocated to local community projects.
- 3.6 The proposal is that the Council buy the remaining share holdings at scheme closure, up to a maximum of £100,000 (100,000 shares). It is proposed that the Council purchase a minimum of £10,000 (10,000 shares).
- 3.7 E4A will provide strategic and administrative support to the board. They will also manage the project to launch and administer the share offer and then to install solar panels. Their involvement will continue while the FiT payment is in place and for the duration of the leases (20 years). Their services will be charged in line with the service agreement between the Council and RCES.
- 3.8 The profits of the organisation will be used to fund local charitable activities. In the Society rules state that the objectives of the organisation are to carry out:

- The conservation of energy through advice on energy efficiency including energy efficient products and the supply of energy efficient products;
 - The generation of income to provide grants to community organisations in the locality of any energy project supported by the Society;
 - The promotion of awareness of environmental and related Issues and support for educational initiatives related to renewable energy; and
 - Enabling the local and wider community to share in the ownership of, and reinvest in, renewable and low carbon energy generation and energy efficiency initiatives.
- 3.9 RBC backing of a local share offer through its purchase of shares, its involvement in a scheme and actively publicising it will be beneficial to the Society's reputation and ultimately to its success.
- 3.10 The risk table shown in appendix 2 is summarised below, showing the implications for Directors, shareholders and building owners and the measures in place to minimise their impact. The likelihood rating has been put together with the advice of E4A who currently support 20 societies nationally. Reputational risk is considered in respect of the Society and other organisations that board members are associated.
- 3.11 Table 1 - Project Risk Summary table (Full table Appendix 2)

Risk	Mitigation	Residual Risk
Incomes and dividends lower than predicted	Feed in tariffs fixed, reliable technology	Low
Borrowing cannot be repaid	Low amounts or for short period - repayment would be prioritised	Low
Shareholders hold RBC responsible	Share offer and promotional material will state that RCES is separate from RBC.	Low
Shareholders disagree with board	The process allows vote for members and re-election of board members.	Low
A host building wants to temporarily or permanently remove panels.	License or lease protect scheme. If permanent shareholders are repaid.	Med
Decisions of RCES create a conflict of interest for Council board members.	Rules of Society allow for declaration of interest and guide as to appropriate course of action in the case of a conflict of interest.	Low

4.0 CONTRIBUTION TO STRATEGIC AIMS

4.1 The scheme would contribute to the following strategic aims:

- Keeping the town clean, safe, green and active;
- Providing infrastructure to support the economy; and
- Remaining financially sustainable to deliver these service priorities.

5.0 COMMUNITY ENGAGEMENT AND INFORMATION

5.1 Section 138 of the Local Government and Public Involvement in Health Act 2007 places a duty on local authorities to involve local representatives when carrying out "any of its functions" by providing information, consulting or "involving in another way".

5.2 Community engagement will be considered in the development of the solar community scheme in particular in promoting the share offer to a cross section of society so all Reading people feel involved and benefit from the scheme.

5.3 Once the scheme is running, shareholders have one member vote each at the AGM to elect board members from the membership of the Society.

6.0 EQUALITY IMPACT ASSESSMENT

6.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to—

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

6.2 An Equality Impact Assessment is not relevant to this decision.

7.0 LEGAL IMPLICATIONS

7.1 The Council is able to purchase shares in a company under part 1 of the Localism Act 2011. Section 1 (1) of the Act introduces 'The General Power of Competence', which enables a Local Authority "to do anything that individuals may do". This can include the ownership of shares in a company and/or the involvement in the establishment of such a company for the purposes of the provision of energy services, which are not statutory for Local Authorities.

7.2 Reading Campus Community Energy Society is already established and has been registered with Companies House and the Financial Conduct Authority (Registration Number 7156 registered on 03 July 2015). The Directors are currently from E4A but new Directors will be appointed as detailed in paragraph 3.5 above.

7.3 E4A is registered as a private company, limited by guarantee. As such any profit is directed to the Company's objects. The Company's primary object

is to “promote and support the development of and community ownership and/or community participation in renewable energy projects including wind farms”.

- 7.4 It is currently proposed that RBC representatives hold two of the Directors appointments. They would not be able to hold RBC responsible or accountable for any matters of liability or responsibility relating to their Directorship of RCES. A Director’s primary responsibility is to the Company concerned and in the event of a conflict of interest arising between the interests of the RCES and the interests of RBC, the Directors’ first duty would be to the objects and interests of RCES.
- 7.5 Each RCES Director will have one vote on the Board of Directors. The Board of Directors can put key proposals to the members of the company to be voted on at the AGM. Equally the company members have the power to call members meetings to discuss company business and decisions are by majority vote both at the Board of Directors meetings and at members meetings.

8.0 FINANCIAL IMPLICATIONS

- 8.1 The purchase of shares represents a financial investment. Members (shareholders) would be paid dividends annually as well as being repaid 1/20th of their share capital per annum. Shares will be paid out at 5% return in year one and this will rise with inflation. Note - the repayment of capital is at the discretion of the RCES board and could be repaid over a different profile. It would be repaid in full by the end of the scheme unless the scheme performance did not meet expectations.
- 8.2. Shares can only be withdrawn at the discretion of the RCES board. If there are sufficient funds it is intended that shares redeemable at a value of £1 per share.
- 8.3 Any proceeds received after returns to local shareholders, any debt finance repayment and the scheme administration costs have been taken out would go into the community fund. RCES are required to use this to support local activity as set out in the rules which could relate to objectives such as fuel poverty, renewable energy and climate change activity.
- 8.4 The Council would need to source its funding by borrowing through the Public Works Loans Board. The borrowing costs are currently set at a lower rate than the returns shareholders forecasted by the model. This means that the Council would make a small profit on its invested funds. There is a risk that the scheme would not return the necessary dividend to cover the cost of borrowing. During any period in the scheme where this was to occur, the Council would make a loss on the scheme. The finance model, however sets the initial dividend rate at 5% and this rises with RPI through the scheme. Appendix 3 contains some information about the performance of another similar scheme.
- 8.5 The value of the share offer will be a maximum of £441,000 (if all currently feasible pre-registered systems were installed) which will pay for the installation of the solar panels. A total of eight systems with

total capital expenditure of £166,000 are currently signed up to the scheme, with an additional eight (£276,000) awaiting confirmation.

- 8.6 The shareholders will be given an estimated return of >5% (the exact amount will be decided by the board and will depend on the performance of the PV systems and the cost of install/maintenance/repair).
- 8.7 The financial benefits for the council of purchasing shares in the scheme are defined by the extent to which the return on investment exceeds the cost of borrowing. A table showing the predicted net benefits of minimum and maximum share investment scenarios is provided in Table 2.

Table 2 - Illustration of Return on Investment at £50,000 Investment Scenario.

Year	Shares (£)	Capital Repayment	Dividend @ 5%	Cost of Borrowing	Net return
0	£50,000.00	£0.00			
1	£47,500.00	£2,500.00	£2,500.00	£1,663.00	£837.00
2	£45,000.00	£2,500.00	£2,375.00	£1,575.00	£800.00
3	£42,500.00	£2,500.00	£2,250.00	£1,488.00	£762.00
4	£40,000.00	£2,500.00	£2,125.00	£1,400.00	£725.00
5	£37,500.00	£2,500.00	£2,000.00	£1,313.00	£687.00
6	£35,000.00	£2,500.00	£1,875.00	£1,225.00	£650.00
7	£32,500.00	£2,500.00	£1,750.00	£1,138.00	£612.00
8	£30,000.00	£2,500.00	£1,625.00	£1,050.00	£575.00
9	£27,500.00	£2,500.00	£1,500.00	£963.00	£537.00
10	£25,000.00	£2,500.00	£1,375.00	£875.00	£500.00
11	£22,500.00	£2,500.00	£1,250.00	£788.00	£462.00
12	£20,000.00	£2,500.00	£1,125.00	£700.00	£425.00
13	£17,500.00	£2,500.00	£1,000.00	£613.00	£387.00
14	£15,000.00	£2,500.00	£875.00	£525.00	£350.00
15	£12,500.00	£2,500.00	£750.00	£438.00	£312.00
16	£10,000.00	£2,500.00	£625.00	£350.00	£275.00
17	£7,500.00	£2,500.00	£500.00	£263.00	£237.00
18	£5,000.00	£2,500.00	£375.00	£175.00	£200.00
19	£2,500.00	£2,500.00	£250.00	£88.00	£162.00
20	£0.00	£2,500.00	£125.00	£0.00	£125.00
Total		£50,000.00	£26,250.00	£16,630.00	£9,620.00