South Somerset District Council

SSDC Opium Power Limited – Update Report

Executive Portfolio Holder:	Peter Seib, Finance and Legal Services John Clarke, Economic Development & Commercial Strategy
SLT Lead:	Karen Watling, Chief Finance Officer (S151) Jill Byron – District Solicitor and Monitoring Officer
Lead Officer:	Karen Watling, Chief Finance Officer (S151)
Contact Details:	Karen.Watling@southsomerset.gov.uk or 07521 460232

Purpose of the Report

1. At the Audit Committee meeting on 26 May 2022, several questions were raised by Members regarding SSDC Opium Power Limited (SSDC OPL). In addition to the answers provided by Officers, the Council's Chief Executive Officer agreed to provide a specific report on SSDC OPL to address any queries and questions and to update Members on the latest financial position of the company.

2. The purpose of this report is to provide an update on SSDC OPL. This report is an Officer led report, however Directors from SSDC OPL have been invited to attend this meeting to answer any questions Members may have on the on the performance and direction of the business as a going concern.

3. This report is a financial update on SSDC OPL and is not a forensic accounting investigation. The report focuses on the implications for the Council's own budget arising from the investment made in these companies. There is a separate report in progress from South West Audit Partnership (SWAP) who are carrying out a specific Internal Audit of SSDC OPL.

4. In view of the amount of public interest SSDC OPL has attracted over the years, where possible, this report is in the public domain. It is however important to recognise that elements of this report are commercially sensitive and could, if made public, have a detrimental effect on SSDC OPL's business and consequently on public finances.

Recommendations

5. The Audit Committee are asked to note the contents of this financial update paper.

Summary

- As part of the 2018 approved commercial strategy SSDC has made a significant investment to SSDC Opium Power Ltd and its two subsidiary companies.

- The investment totals £42.2m and comprises lending at commercial rates of interest to the companies so that new Battery Energy Storage Sites could be established and, once operational, trade to achieve a profit.

- The council benefits financially by receiving interest income over and above the amount it itself needs to borrow in order to lend to the company.

- It will also receive a share in the profits generated via an annual dividend payment.

- The confidential annex to this report shows in detail the loan repayment periods and interest rate charges agreed and how much of the loan has been repaid along with the schedules for future repayments. The loans are secured on the assets of the companies.

- Whilst the companies have not been profitable up to the end of 2021/22, this is because they are turn-key investments requiring investment before they start to generate an income. The confidential annex to this report shows future forecast income projections for the companies. It is anticipated that (a) the loan will continue to be repaid to the council, along with the agreed interest charges, and (b) that SSDC will receive a dividend income this financial year (2022/23) and in future years.

Commercial investments and the context for the Council

6. Like many Councils, South Somerset District Council (SSDC) has chosen to develop a range of commercial interests to generate additional income streams to reduce the burden on the local Council Taxpayer due to reductions in central government grant funding.

7. During the financial year 2017/18, SSDC reported a forecast revenue gap of £4.7m (source - Medium Term Financial Plan 2017-18) with the probability that this number would increase to over £10m in years to come. To help bridge the gap, a commercial strategy was developed by Officers to generate extra income. This was subsequently approved by the Council for the period 2017 to 2021.

8. The objective of the Commercial strategy was to deliver a minimum of £1.35m per annum of revenue receipts by 2021/22. A £75m block allocation of capital funding was approved to engage in commercial activity and asset management, which could include renewables, commercial or residential property investment, regeneration, or development. This investment allocation was increased from £75m to £150m as part of a 2019 commercial strategy review. The Council engaged specialist commercial staff to lead this work.

9. The development of commercial interests is wide-spread in local government and since the 1980s, many Councils have set up trading companies and commercial arms to generate revenue and improve service delivery. Various institutes have endorsed this approach. There has also been an expectation from Central Government for Councils to become more commercial and cutting-edge in their approach.

10. Council commercial investments have also gained traction due to historically low rates of finance with borrowing at 1-2% in recent years. However, and as the Committee will know, the revised Prudential Code, published in December 2021, considerably restricts councils undertaking new commercial investments.

11. In broad terms, there are two types of commercial investment that Councils tend to engage in, the first is often referred to as an “off the shelf” investment; which is an investment such as purchasing a commercial property with a tenant in place. This type of investment tends to deliver results immediately and will usually produce a steady level of income once a purchase is made. There are risks attached (as with all investments) but this type of investment tends to be self-contained and relatively easy to manage as long as a tenant remains in place.

12. The second type of commercial investment is often referred to as a “Turn-key” investment. An example would be an asset or business where something must be built or constructed, or a specific technology is involved. This type of investment often requires funding in advance before it delivers an income stream. It may also be subject to risks such as build delays or technical testing. However, once built, these investments often deliver a stronger level of income in the medium to longer term when the asset operates at full capacity.

13. It has been determined that all of the Council’s investments in SSDC OPL that are detailed in this report fall under the category of turn-key investments.

SSDC Opium Power Limited – the original commercial investment (Fideoak site)

14. This section of the report explains the rationale for the original Fideoak site investment and why SSDC OPL as a company was formed. It also details how a second stage of development was added, plus two further battery storage sites with these set up as subsidiary companies to SSDC OPL.

15. In 2017/18 the Council was evaluating commercial opportunities and an opportunity arose with a local business called Opium Holdings Limited. The opportunity could lead to a future income stream for the Council and capital appreciation of the assets due to the technology that was involved.

16. The opportunity was a “turn-key” investment into the renewables energy market by developing a battery storage facility at a site called Fideoak Mill in Taunton Somerset. The storage facility would be built and linked to the national power grid with the ability to store and send back energy to the national grid at peak demand periods. The energy renewables market was (and still is) seeing incredible growth with the climate change agenda moving ahead strongly and a desire to move away from fossil fuels. The objectives of this investment also fell within SSDC’s green policy objective of becoming carbon neutral and relying on renewable clean energy wherever possible.

17. At this point in the report it is helpful to give a brief technical explanation of the purpose of battery storage in terms of how it interacts with the national power grid. In short, the business of the company is to sell stored energy to the National Grid and energy providers by setting up and managing a Battery Energy Storage System (BESS).

18. The table below explains the benefits of a BESS and its interaction with the national grid:

<u>How a battery energy storage system (BESS) provides benefits to and from the national grid</u>

Benefit	**Explanation**
Grid frequency balancing	The national grid has peaks and troughs in terms of power supply – the use of battery technology allows power to be drawn from the grid at off peak times and be re-supplied during peak periods as renewable energy – per megawatt unit
Capacity standby	Emergency losses of power can be resupplied or redirected to the grid per mega- watt from the battery storage system
Balanced mechanisms	To take excessive power from the grid when it is not being generated, e.g. a wind turbine is programmed to shut down if the grid is in full supply – battery storage can be used to draw off this excess supply if the turbine is kept in use
Wholesale trading	From a purely commercial point of view – power supply from the battery storage can be sold by an optimiser company to the grid on a wholesale basis and rates have increased markedly since 2019 with sharper increases expected in 2022 to 2029

19. The Fideoak investment was structured as follows; Opium Holdings Limited would bring to the Council a complete package comprising a conditional contract to acquire the land, the purchase of the plant and equipment (including a 25 mega-watt (MW) BESS. They would fully develop the project and manage the site with full energisation and connection to the national grid. SSDC would fund the entire investment and be a joint business partner.

20. SSDC OPL is a 50:50 joint venture using a limited company structure with Opium Power Limited. However, the Council has the right to veto or sanction any decision.

21. In terms of the financial benefits, once operational the investment was projected to provide an annual income stream to the Council via a dividend, based on the 50:50 shareholding. The Council would also benefit from loan interest gained by lending to the company at commercial rates. Under state aid rules the Council must lend at market rate to avoid anti-competitive behaviour. The Council can borrow at significantly less than current commercial rates due to its counter-party strength and unique position in the financial markets.

22. The funding required from SSDC is a commercial loan to the company of £9.84m secured by legal charges on the assets (the land, plant, and equipment)

to protect the Council's interest. There are in fact six legal charges registered with Companies House as active in favour of the Council for this investment.

23. As the Council was providing all the funding for this joint venture (and carrying the risk), it was agreed that any net profit declared for dividend, would be first used to redeem the loan from SSDC. Only when the loan was fully repaid (however many years this took) could a dividend be declared for shareholders. This factor added additional financial security to the Council alongside the six legal charges on the land and assets.

24. It was agreed that no director of the company would receive a salary from the company in the early years (and this is still the case). Opium Power Ltd, would however, receive a management fee to cover project management costs in the early stages of the build. The management fee would cease at an early point after the site became operational.

25. In April 2018, the Council's "Investment Asset Group" (IAG) met to consider the proposal. The IAG was a Board set up to consider and approve investments proposals of this nature, with final decisions being approved by the Chief Executive in consultation with the Leader of the Council. IAG approved this investment on 18 April 2018 with a recorded decision. The IAG evaluation report detailed the key aspects of the investment including risks and likely income streams. This paper was supplemented with a business case, draft development agreements, loan agreements as appropriate. A financial model was also produced with the first 10 years of income projection data supplied by Kiwi Power who were the expert energy optimiser at the time. SSDC OPL has since engaged Limejump Ltd (from 2020) as its new energy optimiser. Limejump are part of the Shell Oil's group.

26. In terms of risk, the IAG report noted that project delay could be a key factor given that the site development was complex, and connection was needed to the national grid.

27. It was agreed the joint venture company would be called SSDC OPL. In terms of deliverables, it was anticipated that the facility would be operational in quarter three of 2019 after allowing a year to acquire and develop the site. The site was in fact energised in November 2019 and generated its first sales income in April 2020 after a period of commissioning.

Company formation SSDC Opium Limited

28. SSDC OPL was incorporated at Companies House on 2 May 2018 with a written resolution adopting the articles of association being filed in May 2018. The company is owned 50% by South Somerset District Council and 50% by Opium Power Limited. Each owner holds ordinary 50 shares with a nominal value of £0.10 each.

As a limited company, SSDC OPL has a Board of Directors, who are appointed by the shareholders. The table below lists the current Directors. The Board is chaired by a Council appointed director. The following link to Companies House also provides details of the company formation, charges, and titles.

SSDC Opium Power Ltd - Companies House

Name	Title	Appointed
P. Ashton	Company Director (Independent)	5 November 2019
J. Divall	Director	22 April 2021
J. Dobson	Company Director	2 May 2018
R. Orrett	Director	15 February 2022
D. Owen	Company Director	2 May 2018

SSDC OPL Phase 2 – rationale and approval

29. The Fideoak site received planning permission during 2018/19 and commenced build of the 25 MW BESS. It received a Direct Network Operator licence (DNO) for a larger 30 mega-watt BESS. This was a positive outcome for the company but came with a condition that if the full 30 MW licence capacity was not utilised within 12 months of energisation, then the additional 5 MW capacity would be lost.

30. As this could lead to a lost income opportunity, a Phase 2 for the project was considered to add the 5 MW and take advantage of the economies of scale on offer by rolling phase 2 and phase 1 programmes together. This would save contractor costs and efficiently dovetail with phase 1. The Council would have to provide an additional £2.033m of loan funding for Phase 2 of the project.

31. A second Investment Asset Group report was prepared in July 2019 for Phase 2 approval. The report (as examined for this review) did point out that Phase 1 was delayed, and the introduction of Phase 2 could further push back the development programme and energisation of the entire BESS.

32. IAG also noted that the income projections for the BESS were still being provided externally by the expert aggregator Kiwi Power Ltd and that reliance had to be placed on this. It was noted in the report sheet that the Chief Executive would require Officers to take a stronger oversight of the project roll out to ensure that warranties, contracts, insurances were in place and monitored to SSDC's satisfaction However, in overall terms, the benefits of extending the Phase 2 programme was seen as an advantage in terms of the investment income targets the Council had to meet.

33. IAG approved the Phase 2 development on 16 July 2019 and this was signed off by the former Chief Executive and Leader of the Council. The approval was supplemented with a business case, share agreements, loan agreements, development agreements and specified paperwork as required.

34. With Phase 2 of the Fideoak development approved, work continued to complete the BESS, however as highlighted in paragraph 31 above, there were already delays with Phase 1, one delay resulted in the need for additional

funding for the project, and the other delay necessitated an insurance claim for an outage spike. These delays are explained below.

35. The first delay was a rectification issue that required additional works. This was due to several factors, being the complexity of the build, contract and project management issues, and the complex technology. In order to resolve these issues and complete the work, a further element of funding was required at £1.284m, and a loan was approved by IAG (Chief Executive).

36. A second delay at the Fideoak site occurred in June 2019 when there was a local power outage. In short, there was an over-powering from the grid which caused a power spike damaging the local electricity sub-station switch gear, which also knocked out the electricity supply at a number of residential sites including a local hospital in Taunton. The power supply for residents was re-routed and the local hospital at Taunton was provided with emergency generators. In total, SSDC OPL faced a four-month delay before it could operate again with grid connection not possible. A successful insurance claim has since been made for the loss of revenue and this has recently been settled for circa £900,000+ which has now been paid to SSDC OPL.

37. Subject to the delays above, the site was finally energised in November 2019. The site is now fully operational and producing a strong revenue income stream. The battery storage system is operating in the Stability Services market (Dynamic Containment market). This is the highest earning market for Grid Scale Batteries. Due to the overall build time and delays in energisation, there has been a shortfall in initial income and need for rescheduling of the first loan repayment, although accrued interest has been charged for this.

Fareham Energy Reserve Ltd – rationale, creation, and approval

38. In early 2020 the Council discussed a further investment proposal with Opium Power Ltd to invest in another battery energy storage site which had potential for a 40 mega-watt storage facility.

39. The 3.66-acre site was located outside of the District at Tanners Lane in Fareham Hampshire. The proposal was based on a leasehold tenure of 25 years. In addition to the income potential, there was an existing private investor company (looking to sell) who had already secured the Grid Licence, planning consent for 40 MW BESS and land lease. By purchasing this as a going concern, the development phase would be simpler than at Fideoak. It would also give a lower cost grid base than rival developments in this new technology as the licence was attained at lower value. There was an exclusivity period to this offer to the Council which would end on the 10 July 2020.

40. The cost of the investment would be circa £18m. The potential financial benefits to the Council were detailed in an IAG report which showed a return (after build) as a dividend, plus a net return on interest on the commercial loan. This would again be a turn-key investment.

41. In terms of the company structure, the new Fareham site would be incorporated as a separate company called "Fareham Energy Reserve Ltd (FERL1) and this would be set up as a subsidiary company of SSDC OPL. The company would be purchased from the existing owners via a share purchase agreement. As part of the due diligence, it was noted that there was also an option to purchase another site at Fareham (from the same owner) which had gained approval and planning permission to develop the site with a 20MW battery storage system.

42. In terms of potential return to the Council, a revised arrangement for dividend distribution was negotiated with Opium Power Limited to reflect the additional risks the Council was taking and because the Council was still the sole fund provider.

43. On 20 May 2020, the IAG approved the Fareham investment after carefully considering a detailed business case, a 25-year finance cashflow model, the planning consent and grid licence. The IAG approval form was signed off by the former Chief Executive and Leader of the Council.

44. Fareham Energy Reserve Ltd (FERL1) was registered at Companies House on 10 July 2020 and effectively has the same Board membership as SSDC OPL.

SSDC Opium Limited – Fareham Energy Reserve 2 Ltd – rationale and approval

45. As highlighted in paragraph 41, there was an option in the initial Fareham proposal to purchase a second site at Tanners Lane Fareham (from the same original owners) with planning permission and the relevant grid licence to develop a 20 Megawatt battery storage facility. The lease term was again 25 years and the site were approximately 1.8 acres. Note that at this time, the development of the original BESS Fareham site was in build and due to be energised by March 2022.

46. Details of the Fareham 2 investment were very similar to the original Fareham acquisition but on a smaller scale as the BESS was 20MW. The cost of the investment would be £10.3m and the Council would again fund this via a loan to the company at a commercial rate.

47. On 11 February 2021, the Commercial and Income Generation Director put forward a further evaluation report to IAG with supporting papers including a business case, 25-year cashflow model and planning and other relevant documents. This investment would be further in favour of the Council as the dividend split would be 70:30 if the site was energised on time.

48. The IAG considered the risks of the scheme and in the report, it was acknowledged that due to the number of sizeable investments that the Council now had in BESS, a future strategy might be to sell on some of the portfolio to a third party. It is clear from the IAG papers that risk factors were considered. It was also acknowledged that these investments would place SSDC as one of the leading councils in the Country in this sector.

49. The IAG approved this investment on 16 February 2021 and the former Chief Executive and the Leader of the Council signed off the investment approval.

50. It was agreed that a further subsidiary company named “Fareham Energy Reserve 2 Ltd” (FERL2) would be established for this investment and FERL 2 was registered at Companies House on 14 May 2021 and a Board of Directors appointed. The Board has the same Directors as SSDC OPL as outlined in paragraph 24.

51. In summary, the three companies formed are separate entities and file all required documentation with Companies House individually. The information in respect SSDC Opium Power Ltd, FERL1 and FERL2 is held at Companies House and can be found via the links below.

- SSDC Opium Power Ltd - Companies House
- Fareham Energy Reserve Limited - Companies House
- Fareham Energy Reserve Limited 2 - Companies House

52. The Table below provides a quick reference summary of all the investments made by the Council with SSDC OPL and FERL1 and FERL2. The table details each site, the amount of loan provided, the date Council approved the investment and the date the site was energised.

Table - Summary of Investments by site

Site / Phase	BESS	Loan provided £m	Investment approved	Site energised	First Income delivered
Fideoak phase 1	25 MW	9.840	18/4/2018	November 2019	April 2020
Fideoak phase 2	5 MW	2.033	16/7/2019	November 2019	April 2020
Fideoak rectification		1.284	24/6/2019	November 2019	
Fareham 1	40MW	18.690	20/5/2020	March 2022	April 2022
Fareham 2	20MW	10.319	16/2/2021	July 2022	Aug 2022
Total	**90MW**	**42.165**			

Financial Performance of the company

53. The confidential annex of this report provides a financial overview for each of the three companies (SSDC OPL, FERL1 and FERL2). The only information that can be given in this public report is already published information held at Companies House.

54. Since formation, all three companies have had their accounts prepared and audited by a local private sector accounting company called Old Mill Audit Limited (OMAL) who are based in Yeovil. OMAL also accounts for the day to day transactions of the company on their ledgers.

55. Naturally, OMAL provide regular cashflow and financial advice to the Board to help them with business direction. The Council does not manage the companies day to day finances or produce or audit the accounts - the only

exception to this is that the Council has to account for the companies' results in the year-end group accounts of the Council as it has joint ownership.

56. Since formation, OMAL have prepared the accounts for SSDC OPL for 2018/19 through to 2021/22 (4 years – but note 2020/21 & 2021/22 are draft)). They have also prepared accounts for FERL1 from 2020/21 to 2021/22 (2 years) and for FERL2, (1 year) one year for 2021/22. The accounting process starts when the company starts to trade or has incurred costs and/or generated income.

57. The accounts can be found on the Companies House website with the links provided in paragraph 51. The accounts at Companies House tend to be micro versions and not the full accounts suite.

58. The accounting follows the requirements laid out in the various Companies Acts and accounting and audit standards. The format of the accounts follows the usual private sector, industry, and commerce practice of having a profit and loss account (P&L), a balance sheet and accompanying notes (or disclosures) to the accounts and annual report.

59. The results show losses for the first three financial years with the company moving into profit from year 2021/22. The reasons for the losses in 2018/19 to 2020/21 are due to the BESS build time and fact that no sales income was achieved until the site was energised. Although the Fideoak site was energised in November 2019, a period of commissioning followed, and the first income stream arrived in April 2020.

60. The confidential annex shows that the expectation is that given recent sales income and future estimates the company has now moved into a profit generating position.

<u>Financial impact on the Council</u>

61. This section of the report provides an overview of the financial interactions between the Council and SSDC OPL and FERL1 and FERL2 and the impact of this investment on the Council's budget. Detailed financial information is given in the confidential annex to this report.

62. In terms of the loans, the report has already identified the loans made. The balance of the loans sits on the Council's own Balance Sheet and reduces annually as further scheduled repayments are made. The latest set of Council accounts for 2021/22 (draft) discloses a Long Term Debtors balance in Note 23 to the accounts: for SSDC OPL the loan balance is £37.7m for 2021/22. It needs to be noted that in terms of the lending made for FERL2 (£10.3m) loan repayments have been agreed to only start in April 2023.

63. In terms of dividends payable there are clear benefits for the Council as the joint venture investor. The figures given in the confidential annex show that the

Council expects to receive significant dividend income from this financial year 2022/23 onwards.

64. In terms of the Council's own budget arrangements, it can be reported that no dividend assumption has ever been built into the Council's Budget (for any year) for any of these companies. Furthermore, the current S151 Officer has made the same assumption for the current 2022/23 Budget. In hindsight this could be considered a prudent decision as all investments are turn-key, i.e. they have the potential to deliver gains only when built and established.

65. As such, any dividend payment to the Council now, or in future years will be a pure gain and contribute to the Council's General Fund (GF) balance or be used to fund other requirements.

66. In accordance with State Aid rules and competition law, the Council is required to lend at commercial market rates to these companies. The rates for the loans to the companies range from 4% to 7.5%. These rates were determined by market rates at the time and advice from respective treasury advisors.

67. As the Council can borrow at lower rates due to its unique position (and in accordance with its Treasury Management Strategy), a gain will be made on loan interest due to rate differential. The Council manages its annual cashflow position with a specific borrowing strategy which is agreed in consultation with its treasury adviser; Arlingclose Ltd. The Council's strategy is to short term borrow for most of its requirements to maximise the interest rates on offer from lenders.

68. Further analysis highlights the average rates of short term borrowing for the Council since 2018/19 through to the current year 2022/23 based on actuals.

Short term borrowing rates (average)

Year	Rate %
2018/19	0.83
2019/20	0.88
2020/21*	1.33
2021/22	0.77
2022/23	0.94

Note * - short term borrowing rates spiked in 2020/21 due to Covid 19 and Councils retaining funds

69. The low short-term rates above, have proved to be beneficial for the Council. However, it must be recognised that interest rates are rising in the UK, now at 1.75% as recently set by the Bank of England's Monetary Policy Committee with further increases possible as due to rising inflation and other pressures.

70. Advice from the Councils Treasury Advisor; Arlingclose suggests a forecast rate peak of 2.75% by June 2023, with this tapering down to 1.75% in June 2025 onwards. This advice has been used to model the future interest rate differential projections for the Council shown in detail in the confidential annex.

71. The differential (or net income) the council forecasts to receive on interest charges received from the company over the loan periods is in the order of £9.8m.

72. A number of performance indicators have been calculated and shown in the confidential annex to show the forecast financial results for the council of these investments. The indicators compare dividend and interest rate returns to the original IAG forecasts for return. The forecast results are higher than originally anticipated.

73. These indicators provide a useful performance snapshot, but it must be stressed that they are indicative only, and a medium to longer term evaluation (based on actuals over time) is the most accurate way to assess full performance and investment return.

Reporting to other Committees and internally at SSDC

74. The progress on the schemes which included an update (then) on site construction and from a finance perspective are reported to committees via a number of avenues, which are:

75. **Investment Assets Update** – The Commercial Property, Land and Development Manager provides a quarterly report to District Executive, part of which is an update on the Battery Energy Storage Schemes.

76. **Treasury Management Reports -** Two progress reports are provided to audit committee on the Councils' investments. A mid-year update and outturn report are provided. Both reports contain information on the value of loans made to the company which are classified as 'Non-Treasury Investments'.

77. In addition, the annual Treasury Management Strategy which falls within the terms of reference of Audit Committee, and is subsequently approved by Full Council, provides details on the value of 'other investments' made of which the loans to SSDC OPL are classified. The strategy statement details the balance owing and proposes the 'approved limit' for the forthcoming financial year for this type of investment.

78. **Capital and Revenue Budget Monitoring** – The quarterly budget monitoring reports to District Executive provide information on the spend and income in respect of the company. The capital programme includes the approved budget for the loans (as they are classified as capital loans) and will also include the total spend (amount loaned). In addition, the loan repayments received from the company are included as financing for the capital programme and therefore reduces the external borrowing requirement for the council.

79. **Annual Statement of Accounts** – The annual accounts include the financial performance of the company as part of the Council's group accounts. The

accounts incorporate the position of the company and the council's share of the profit or loss for the year and the share of the assets and liabilities.

80. In addition, the auditing of the company accounts and the SSDC accounts, which incorporate the position of the company and are audited by Grant Thornton, provides certainty around the reported performance of the company.

Investment approval decisions - governance

81. As detailed in the early sections of this report, all the investment decisions made by the Council (for SSDC OPL, FERL1 & FERL2) were considered and approved by the Council's IAG. All IAG approvals were approved with supporting business cases, cashflow models and planning papers. The FERL1 and FERL 2 investments were approved rapidly as the sites were subject to an exclusivity arrangement, open to the Council and its joint venture partner Opium Power Ltd.

82. All of the IAG decisions are summarised below with the dates approved. All loans made below are subject to loan agreements and legal charges as prepared by the Council's legal team.

Site / Phase	Loan provided £m	Investment approved
Fideoak phase 1	9.840	18/4/2018
Fideoak phase 2	2.033	16/7/2019
Fideoak rectification	1.284	24/6/2019
Fareham 1	18.690	20/5/2020
Fareham 2	10.319	16/2/2021
Total	**42.165**	

Financial risks

83. All investments by their nature introduce a layer of risk to the council, these factors are considered below:

- **Loan Repayments** – The capital loans made to the company are being repaid in full and are on track with a loan repayment schedule which details the payment date and the principal and interest payment due. The main risk is a future loan default and the subsequent impact on both the Council's revenue budget and external borrowing requirement. The Council has a provision for bad debts, but this would not cover a continued loss of this size.

- **Legal charge over assets** – It should be noted that the Council has a charge over the company's assets and land at Fideoak site. If the company fails then the value of the assets would have to be considered in terms of the cessation arrangements and liquidation.

- **Selling as a going concern** – the Council could possibly sell its shares of the investment to a new buyer. This would depend on market circumstances, valuations, legal and financial considerations, and a prospective buyer's ability to repay capital to the Council to redeem the loans, and goodwill (increased value).

- **Interest payments –** interest gain on the loans is factored into the Council's Treasury Management income strategy – any loss of interest would add a similar burden on the revenue budget and general fund.

- **Interest rate risk** – the Council has lent to the companies based on a fixed rate of interest for each loan at a commercial rate. However, in accordance with its Treasury Management Strategy and advice from Arlingclose, the Council has short term borrowed to fund these loans. There is a risk of Band of England base rate rises in the current economic climate although this risk has been factored into the calculations of interest gain shown in the confidential annex to this report. The Council has an earmarked reserve to cover interest rate risk.

- **Divided Payments** – Each of the companies has a different equity ratio for the Council's share. Based on the forecasts shown in the confidential annex to this report, dividends should be payable this and in future years and be available for distribution.

- As these are turn-key investments, the Council's S151 Officers (past and present) have prudently made zero level assumptions for dividend payment in the Council's Budgets. Any dividend received in future (subject to SSDC OPL repaying debt first) would be therefore represent additional income for the Budget.

- **Lower levels of Sales income** – as with any business, the sales income generated by their product in future years is crucial to cover costs and ultimately make a profit. The risk here is that BESS is a new technology and generation of revenue is dependent upon factors such as legislation around renewable energy and energy policy. That said, the demand for energy on the national grid and BESS sales at the current time for this product is increasing exponentially due to economic and world events.

- **Company closure / failure** – The closure of the company would not only have financial but reputational damage to the council. As mentioned above, the capital loan value remaining, would potentially be covered by the charge over the assets. Many other factors would need to be considered in terms of options depending on the reason for closure. This would be a position of last resort.

Financial Implications

84. There are no direct financial implications related to this report, but it will be shared as part of the on-going collaborative work in preparation for vesting day on 1 April 2023.

Legal implications (if any) and details of Statutory Powers

85. There are no direct legal implications related to this report.

Council Plan Implications

86. This report is consistent with the Council Plan 2020-24.

Carbon Emissions and Climate Change Implications

87. As has been explained above, in addition to income generation, this innovative investment by the Council also supports our Environment Strategy by providing facilities to capture surplus energy generated from renewable resources for storage and release when needed.

Equality and Diversity Implications

88. There are no direct implications within this report.

Privacy Impact Assessment

89. There are direct implications as the annex to this report contains commercially sensitive data.

Background Papers

- Council Plan 2020-24 and Annual Action Plan 2020/21.