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**REPORT TO THE NORTH WALES ECONOMIC AMBITION BOARD**  
**24<sup>th</sup> March 2023**

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**TITLE:** Smart Local Energy – Outline Business Case

**AUTHOR:** Elgan Roberts, Energy Project Manager

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**1. PURPOSE OF THE REPORT**

- 1.1. The purpose of the report is to present the Smart Local Energy Outline Business Case (OBC) for consideration by the Board.

**2. DECISION SOUGHT**

- 2.1. That the Board approve the Outline Business Case for the Smart Local Energy project subject to Welsh and UK Governments' approval of the assurance process undertaken, and the Portfolio Management Office addressing the matters set out in the report, as set out in Section 7 request that a Full Business Case is prepared for the Board to consider following the completion of the procurement process and the consenting process.
- 2.2. That the Board delegate to the Portfolio Director in consultation with the Chair and Vice Chair final approval of the procurement specification and social value criteria prior to commencing procurement.
- 2.3. That the Board note that the final funding arrangements for the project will be agreed at the Full Business Case stage and authorise the Portfolio Director in consultation with the Host Authority Section 151 Officer and Monitoring Officer to agree draft terms for approval by the Board.

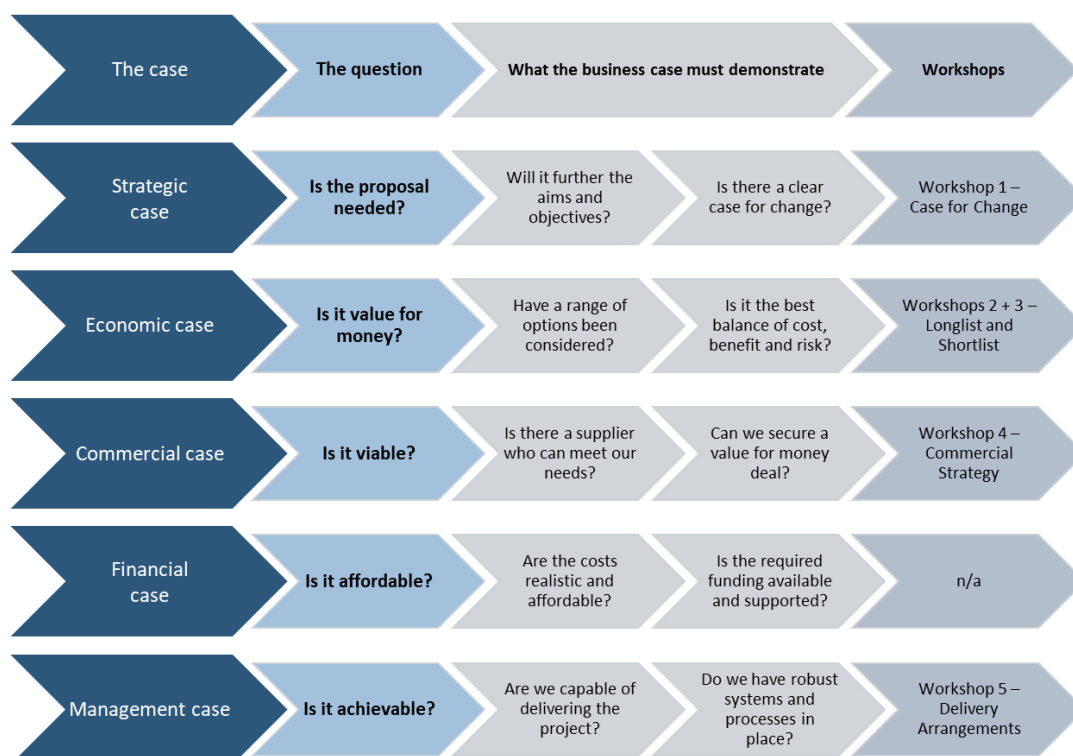
**3. REASONS FOR THE DECISION**

- 3.1. To seek the Boards approval of the Outline Business Case (OBC) for the Smart Local Energy project.

**4. BACKGROUND AND PROCESS**

- 4.1. The North Wales Growth Deal is an agreement between the UK Government, Welsh Government and the North Wales Economic Ambition Board to deliver a transformational £1billion investment in the North Wales economy. The aim of the Growth Deal is to build a more vibrant, sustainable and resilient economy in North Wales, building on our strengths to boost productivity while tackling long-term challenges and economic barriers to delivering inclusive growth.
- 4.2. As per the Final Deal agreement, business cases are to be developed for each project within the Growth Deal in line with the 'Better Business Case' guidance developed by Welsh

Government and HM Treasury. Each business case includes 5 cases which address key questions and should be supported by workshops. The diagram below provides an overview of the five cases, the key questions and what the business case must demonstrate.



- 4.3. The North Wales Economic Ambition Board acts as the decision-making body for the North Wales Growth Deal with the Welsh Government and UK Government as funders of the Growth Deal, retaining a role in approving the assurance process each project has undertaken. The assurance process undertaken by projects will be included in all reports for consideration.
- 4.4. The Smart Local Energy Outline Business Case was developed by the Portfolio Management Office in line with the 'Better Business Case' guidance. The OBC covers the project planning phase. The purpose of this stage is to identify the option that optimises public value following detailed appraisal; and to set out the possible Deal while confirming affordability and putting in place the management arrangements for the successful delivery of the project.
- 4.5. Approval of the OBC by the Economic Ambition Board would provide the necessary approval for the project to move to the next phase, which, subject to Welsh Government and UK Government approval of the assurance process, would see the procurement process completed following the completion of the Public Review and a Full Business Case (FBC) developed for a final investment decision by the Economic Ambition Board.
- 4.6. Should the Board decide not to approve the OBC, it may reject the business case outright or request further information to be included in a revised version of the business case for consideration.



## 5. INTRODUCTION TO THE SMART LOCAL ENERGY PROJECT

- 5.1. The Smart Local Energy project forms part of the Low Carbon Energy programme, which aims to unlock the economic benefits of transformational low carbon energy projects and position North Wales as a leading UK location for low carbon energy generation, innovation and supply chain investment.
- 5.2. The aim of the Smart Local Energy project is to establish a £25m fund to invest across all areas of intervention aligning with the Regional Energy Strategy. The fund will be administered by Ambition North Wales over a period of up to 10 years. Capital funding will be allocated through grants, loans or other financial instruments, with a target of 75% match as an average across the fund.
- 5.3. The project spending objectives are as follows:

<b>Project Spending Objective 1 Job Creation</b>	Create 156-193 new jobs in North Wales associated with the delivery and operation of clean energy solutions that contribute towards net additional GVA of £110-134M by 2036.
<b>Project Spending Objective 2 Investment</b>	Deliver a total investment of £101-111M in clean energy solutions in North Wales by 2036.
<b>Project Spending Objective 3 Carbon Savings</b>	Generate 130,000-170,000 tonnes of carbon savings from improved efficiencies and decarbonisation of energy systems in North Wales using a diverse range of solutions by 2036.
<b>Project Spending Objective 4 Local Ownership</b>	Establish a strong and sustainable local ownership element to new clean energy assets delivered and supported by ensuring Welsh Government's local & shared ownership policy objective is met or exceeded by all project investments <sup>1</sup> .

- 5.4. The impact of the project at the Wales level is estimated at **£133m additional GVA (undiscounted), and a discounted NPSV of approximately £100m** and a Benefit Cost Ratio (BCR) of 3.88 (Total public sector funding).

Over the 15-year Growth Deal term, other measurable benefits the project is projected to deliver include:

- Direct & Indirect employment created – Up to 193 jobs
- Increased high value employment, especially for women, young people from North Wales and those from low-income and rural communities
- Income from energy generation
- Reduced energy costs
- Reduction in CO2 emissions

- 5.5. Within the OBC, it explains how the project will deliver on the EAB's Climate and Biodiversity position statement. Stakeholders applying for funding will need to set out the carbon emissions and biodiversity impacts of their proposals and how they aim to align with the

<sup>1</sup> In line with 'Local and shared ownership of energy projects in Wales: Guidance for developers, local communities & decision-makers'

Growth Deal targets. The level of detail and justification required from applicants will be proportional to the amount of funding requested.

- 5.6. Within the OBC, the Portfolio Management Office explain how the project aligns with the Economic Ambition Board’s adopted Procurement Principles. To ensure alignment with the above, the project has undertaken a mapping exercise to show how project procurement will deliver against these principles.

**6. ASSURANCE PROCESS AND OUTCOMES**

- 6.1. In accordance with the arrangements set out within the Final Deal Agreement, the Outline Business Case has been subject to the following assurance activity:

Assurance Activity	Date	Outcome
Business Case Workshops	Aug-Dec 2022	In accordance with the guidance, workshops were held to support the development of the OBC with input from a wide range of stakeholders.
PMO OBC review	January 2023	With support from external consultants and Welsh Government economist, the PMO’s initial review resulted in a series of recommendations for how the OBC could be strengthened.
Gateway 2 Review	13-15 February 2023	The review team found the OBC to be of high quality and the process for OBC development and the Project governance were also very good. It was widely acknowledged that the nature of the Project means there is inevitable uncertainty over realisation of benefits at this stage. The delivery confidence is assessed against the likelihood of achieving the Project objectives within the 15-year timescale. On that basis the rating is Amber; there are significant issues that have been identified, but there is confidence that these will be resolved.
Project & Programme Board Review	31 Jan 2023 to 17 Feb 2023	Review resulted in a small number of recommendations to strengthen the OBC.
Project Board Endorsement	24 Feb 2023	Endorsed with no conditions
Programme Board Endorsement	1 Mar 2023	Endorsed with no conditions
Portfolio Board Endorsement	3 Mar 2023	Endorsed with no conditions
Business Delivery Board Endorsement	14 Mar 2023	<i>To be confirmed</i>
Economic Ambition Board Approval	24 March	<i>To be confirmed</i>



## 7. PMO OVERVIEW OF OBC AND KEY RECOMMENDATIONS

7.1. The following table provides a summary of the PMO, Project Board, Programme Board and Gateway Review 2 Assessment of the Outline Business Case (OBC) and the key recommendations that will be addressed by procurement or by Full Business Case (FBC).

OBC Section	Summary of PMO, Project & Programme Board Assessment	Key Recommendations
<b>Strategic Case</b>	<ul style="list-style-type: none"> <li>• Proposal aligns with Growth Deal and Programme objectives</li> <li>• Spending objectives are clear and SMART</li> <li>• There is a clear need and demand for the project</li> <li>• The benefits have been clearly defined</li> <li>• The main risks been identified</li> <li>• Key constraints and dependencies have been identified</li> </ul>	<p><b>By Procurement:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul> <p><b>By FBC:</b></p> <ul style="list-style-type: none"> <li>• Continue to update the list of other funding sources available as it changes often in this sector. Consider how any changes may impact the strategic case for this project</li> </ul>
<b>Economic Case</b>	<ul style="list-style-type: none"> <li>• Critical success factors been identified and are appropriate</li> <li>• Shortlist of options have been identified and is it clear how this has been arrived at</li> <li>• Shortlist of options have been subjected to robust analysis</li> <li>• There is strong evidence to support the analysis of the preferred option</li> <li>• Economic appraisal indicates that the project will deliver good value for money</li> </ul>	<p><b>By Procurement:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul> <p><b>By FBC:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul>
<b>Commercial Case</b>	<ul style="list-style-type: none"> <li>• The proposed procurement strategy been clearly set out and explained</li> <li>• The strategy delivers against the Economic Ambition Board procurement principles</li> <li>• There is scope for a deal to be achieved which would meet the project objectives and secure value for money</li> <li>• The potential deal been considered in sufficient detail</li> <li>• The potential deal is likely to be acceptable and deliverable by the private sector, soft market testing will add more certainty to the process</li> <li>• The commercial case covers the operational phase of the project outputs</li> </ul>	<p><b>By Procurement:</b></p> <ul style="list-style-type: none"> <li>• Confirm the scope of works for Fund Advisor during operational phase</li> </ul> <p><b>By FBC:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul>

OBC Section	Summary of PMO, Project & Programme Board Assessment	Key Recommendations
<b>Financial Case</b>	<ul style="list-style-type: none"> <li>• A breakdown of project costs been provided</li> <li>• It is clear where capital funding for the project is coming from</li> <li>• A financial appraisal has been included for the preferred option</li> <li>• A breakdown of operational (revenue) costs and income has been included</li> <li>• It is clear where the proposed operational funding for the project is likely to come, but some uncertainty around source remains</li> </ul>	<p><b>By Procurement:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul> <p><b>By FBC:</b></p> <ul style="list-style-type: none"> <li>• Confirmation on source of revenue funding for first 2 years of operational phase</li> </ul>
<b>Management Case</b>	<ul style="list-style-type: none"> <li>• There is clear governance (e.g. project management) arrangements in place for the project delivery phase</li> <li>• Appropriate arrangements are in place for risk management and monitoring</li> <li>• External professional advice has been taken to support the project (e.g. feasibility studies, legal advice etc.)</li> <li>• There are change management procedures in place</li> <li>• There are clear resourcing plans (e.g. management, staffing) in place for the operational phase of the project</li> <li>• There are plans in place for benefits realisation, monitoring and evaluation</li> </ul>	<p><b>By procurement:</b></p> <ul style="list-style-type: none"> <li>• Consider how partner universities and others can support with technical due diligence and emissions and biodiversity activities</li> </ul> <p><b>By FBC:</b></p> <ul style="list-style-type: none"> <li>• Stakeholder engagement plan to be further developed with clear ownership to drive it forward</li> <li>• To review risk ownership going forward as most are currently with SRO</li> <li>• Consider how investor readiness support can be given to applicants to help them develop submissions</li> </ul>
<b>Climate Change &amp; Biodiversity Methodology</b>	<ul style="list-style-type: none"> <li>• Plan to bring in specialist post OBC to incorporate methodology into fund application process.</li> </ul>	<p><b>By Procurement:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul> <p><b>By FBC:</b></p> <ul style="list-style-type: none"> <li>• None at this stage</li> </ul>

## 7.2. Key Risks and Mitigation

7.2.1. Sections 1.9, 2.9 and 4.4 of the OBC describe the main project risks and an outline of the mitigation strategy, with key risks summarised below. These risks are expected to be resolved or reduced before the FBC is submitted.

Risks	Mitigation
<b>If there is a lack of suitable applications for Smart Local Energy funding, there is a risk</b>	<i>-The preferred way forward is based on an open fund rather than a targeted fund to avoid unnecessarily discounting good investment opportunities. Fund will be flexible and have the opportunity to extend duration if needed. [CLOSED]</i>

<p><b>that Project Spending Objectives (jobs, investment, carbon saving and local ownership) will not be achieved.</b></p>	<p>-ANW completed SLES feasibility studies and SOCs for 4 LA areas in N Wales with CRF funding - this will help identify potential projects and raise awareness of SLE project. [CLOSED]</p> <p>-Market research questionnaire provided a better understanding of demand for funding and type of funding required. [CLOSED]</p> <p>-Robust project business case developed in line with 5 Case Business Model to fully assess options with input from key stakeholders to ensure all potential options are considered and assessed against the Spending Objectives, and they deliver value for money and are affordable. [ONGOING]</p> <p>-Project will have a robust marketing, stakeholder engagement and communications plan in place to raise awareness of and promote opportunities and benefits. [ONGOING]</p> <p>-SPF bid made for funding to provide investor readiness support to support businesses and community organisations to develop their proposals. [ONGOING]</p>
<p><b>If private and public investment cannot be leveraged; there is a risk that Project Spending Objectives (jobs, investment, carbon saving and local ownership) will not be achieved.</b></p>	<p>-Market research questionnaire distributed to stakeholders to gain better understanding of how much funding is required and where other leveraged funding could come from. [CLOSED]</p> <p>-Fund structure designed to allow for maximum co-investment opportunities. [CLOSED]</p> <p>-A robust business case developed for the project in line with the 5 Case Business Model to ensure the outputs deliver value for money and are affordable. [ONGOING]</p> <p>-The business case will also look at other potential funding streams that could be accessed/used by applicants to match Growth Deal funding. Potential applicants will be made aware of opportunities, and potential partnership could be established with other funders to help facilitate leverage. [ONGOING]</p> <p>-Engaging with key deliverers of existing funds and finance products to explore partnership opportunities that could lead to leveraging additional investment or co-funding solutions. [ONGOING]</p>
<p><b>If there is a lack of resource capacity and skills capability within the project team, region, supply chain and other stakeholders (PMO, Partners, output owners), there is a risk that outputs will not be delivered within Growth Deal timescales.</b></p>	<p>-Project has a dedicated project manager and good support within the PMO with funding in place for FBC development phase. [CLOSED]</p> <p>-The NWEAB partners are represented on the project board, programme board, portfolio board and the NWEAB and issues relating to capacity and capabilities will be escalated up the boards. [CLOSED]</p> <p>-Sell2wales will be used, and the PMO's increasing database of specialists will be notified of tendering opportunities to provide specialist support to project development and delivery. [ONGOING]</p> <p>-Fund specialist brought on-board to assist with Business Case development and Fund Advisor will be procured after OBC approval. [ONGOING]</p> <p>-SPF bid made for funding to provide investor readiness support. [IN PROGRESS]</p>
<p><b>If the benefits are not realised locally (local jobs, local supply chain opportunities, local investment), then there is a risk the project does not contribute towards the Growth Deal aims for North Wales.</b></p>	<p>-The project will engage with the Regional Skills Partnership and NWEAB Education providers to identify the types of skills required and timescales of potential new jobs, so relevant plans and resources can be put in place to offer local opportunities. [ONGOING]</p> <p>-The project will engage with supply chain representatives identified in the stakeholder engagement plan to notify of opportunities. [ONGOING]</p> <p>-The project will develop a benefits realisation plan to manage, track and realise the benefits as set out in the business case. [ONGOING]</p> <p>-The project will develop a procurement plan that includes a social value strategy with the PMO's procurement specialist. [ONGOING]</p>
<p><b>If the intended intervention of a fund</b></p>	<p>-Fund structure (umbrella fund) designed to be flexible and adaptable [CLOSED]</p>





<p><b>duplicates, or overlaps with, other sources of funding available to stakeholders; there is a risk that the Growth Deal funding displaces opportunities of bringing in additional investment into the region.</b></p>	<p>-Mapping current support schemes and funding sources to be considered during business case development process. [ONGOING]          -Engaging with key deliverers of existing funds to ensure the project has sight of funds in development that are likely to become operational in the short term, and take them into consideration during the business case development process. [ONGOING]</p>
<p><b>If the revenue funding needed to cover the running costs of the fund is not identified and secured, there is a risk that the fund will not be able to launch or remain operating for the lifetime of the fund and deliver against the spending objectives.</b></p>	<p>-Project will use revenue income from loans to fund operational costs and will cover any reserves or borrowings used to cover the gap in the first year or two of operating. Funding for the first year of operation, prior to revenue returns being generated, has been identified. [CLOSED]          -Revenue identified from PMO project reserves to cover the gap in funding for first year of operating. [CLOSED]          -The forecasted uptake of funding in year 1 has been reduced in the financial modelling to reflect a gradual up-take of funding in year 1. [CLOSED]          -If there is a requirement for revenue funding beyond the first year, the following options will be considered:</p> <ul style="list-style-type: none"> <li>• Use of project capital funding</li> <li>• Use of ANW project development budget</li> <li>• Use of Ambition North Wales Reserves</li> <li>• Use of Growth Deal grant 1.5% PMO top slice</li> <li>• Funding from Ambition North Wales partners</li> <li>• Funding from Welsh Gov/UK Gov</li> </ul> <p>or a combination of the above [ONGOING]</p>

## 8. PROJECT TIMETABLE AND NEXT STEPS

Activity	Target Dates
Economic Ambition Board OBC approval decision	24 March 2023
Soft Market Engagement with fund advisors	Mar – Apr 2023
Procurement of Fund Advisor and FBC Consultant(s)	May – Aug 2023
Issue Draft FBC	Oct / Nov 2023
Gateway 3 Review (TBC)	Nov / Dec 2023
PMO, Project Board and Programme Board review of FBC	Nov / Dec 2023
Portfolio Board consideration of FBC	Dec 2023 / Jan 2024
Economic Ambition Board consideration of FBC (funding decision)	Dec 2023 / Jan 2024
Launch of fund	Jan / Feb 2024
Closure of fund	End of 2028/29
Final evaluation	End of 2033

## 9. FINANCIAL IMPLICATIONS

- 9.1. The Smart Local Energy project is one of the projects contained within the Portfolio Business Case, with £25m capital funding provisionally allocated to support the project, subject to the final approval of a full business case.
- 9.2. There are no direct financial implications from the approval of the OBC, however this does represent a significant milestone for the project and should the Board approve the business case further work will be required to update the business case post procurement to provide



clarity on the costs, risks and benefits associated with the project before a final investment decision by the Board.

- 9.3. Revenue costs associated with completing the procurement process and developing the FBC are to be funded through the existing Portfolio Management Office budget.
- 9.4. It is proposed that the revenue income generated by the Fund via interest charges will cover all internal costs for resources and external costs for management as well as any transaction fees and charges not charged to applicants. However, there is an initial revenue funding requirement of c£150,000 to meet operational costs during the launch period and the first full operating year of the Fund which will be met from the Portfolio Management Office project reserve. Any surplus revenue generated by the project via interest charges will be retained by the Portfolio Management Office in future years.

## 10. LEGAL IMPLICATIONS

- 10.1. The business case development and the assurance processes have been undertaken in line with the requirements of the Final Deal agreement.
- 10.2. Initial external legal advice has been sought on the project to confirm the ability of the Board to invest in the project in a subsidy control (state aid) compliant manner. The initial advice is being reviewed and will inform the work leading up to the submission of the FBC. Further legal advice may need to be commissioned following receipt of the FBC before the Board makes a final investment decision.
- 10.3. Should the Board approve the outline business case, the relevant documents will be submitted to Welsh Government and UK Government to approve the assurance process before the project can proceed to the next stage.

## 11. IMPACT ASSESSMENTS

- 11.1. An integrated impact assessment (Appendix B) has been undertaken to assess the impact of the project on the Welsh Language, equalities and against the Future Generations Act. No negative impacts were identified through the assessment.

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### APPENDICES:

<b>Appendix A</b>	Outline Business Case - 'Smart Local Energy OBC V1.1'
<b>Appendix B</b>	Integrated Impact Assessment

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### BACKGROUND DOCUMENTS (some documents contain exempt information):

- Outline Business Case - 'Smart Local Energy OBC V1.1' Appendices
- SLE\_OBC\_PMO Review Tracker rev1
- NWGD Gate 2 Review AH 22 128 Version 7.0 to SRO

## STATUTORY OFFICERS RESPONSE:

### i. **Monitoring Officer – Host Authority:**

“The submission of the OBC for consideration and approval by the Board is a key step in the implementation of the Growth Deal. This is an interim step towards the preparation of the Final Business Case and approval of funding. The report properly highlights the risks and elements which will need to be addressed or confirmed prior to the submission of a Final Business Case. Finalising the legal position on subsidy control will form part of this work. The funding agreement, which is a key legal document in defining and securing the Boards expectations for delivery and the manner of delivery of the project will need to be prepared as part of this work.”

### ii. **Statutory Finance Officer (the Host Authority’s Section 151 Officer):**

“The documents submitted show that very detailed work has been undertaken in the delivery of this Outline Business Plan. I believe that the relevant financial and non-financial risks have been properly addressed, and appropriate mitigation arrangements are in place, or have been outlined.

I am satisfied with the financial accuracy of the information that has been submitted, in particular Part 4 of the Outline Business Case which is the Financial Case. Work on these aspects will continue during the development of the Final Business Plan. I can confirm that the Growth Deal funding package is capital only.

Therefore, on the basis of the evidence I have seen, I have no objection to the decisions sought.”