



Salix Finance extends its influence further into **Higher Education**

New funding source helps implement carbon saving projects in the sector

Bridging a financial gap has been the role of specialist institutions for as long as enterprises have tried to fund projects that do not fit into the conventional models of bank lending or equity; even when those institutions are not firmly in lock-down mode as they are today. Climate change and carbon reduction create a demand for *unconventional* funding.

A university management might have the best intentions when it sets out to cut its emissions by 15% by installing a more efficient boiler system, but if it does not have sufficient funds in its tightly stretched budget to make the capital purchase in the first instance, the savings and the subsequent benefit are unlikely to be achieved.

Source of loan funds

Salix is an independent company that provides interest free loan funding to the public sector to invest in energy efficiency measures and technologies that will reduce carbon emissions.

The company is funded through the Carbon Trust – to which reference has been made in this and previous editions – whose role is to stimulate the infrastructure changes that will lead to energy saving and the reduction of carbon emissions.

Salix Finance plays its part in delivering the UK Climate Change Programme through its business model which is designed to assist its clients to turn national policy into reality.

The organisation works primarily with local government, higher education, further education, the NHS and Central Government. By combining funding and support, Salix gives organisations an opportunity both to improve energy efficiencies and reduce energy costs while taking a leadership role in tackling climate change.

The organisation can be instrumental to the processes that public sector bodies must undertake if they are to meet their obligations relating to energy efficiency and carbon savings.

The intervention is intended to achieve rather more than a simple energy reduction: Salix encourages its clients to be cost-effective in their use of energy, and its investment is generally directed to that end.

Higher Education Funding Council for England is responsible for funding universities in England, and this body approached Salix to provide the sector with a funding source to implement carbon saving projects.

At its most basic, the business model adopted by Salix is an interest-free loan that has to be matched pound-for-pound by the client. There are two criteria that have to be met before any investment can be made from that pot. Every project has to demonstrate that it is a cost-effective use of funds by being paid back within 5 years and operating at a carbon price for the lifetime of the project of under £100 per tonne.

Adapting to circumstances

When Salix Finance was established back in 2004, it was not intended that its approach to funding should be set in stone for all time: every organisation providing a specialised service has to respond to the particular needs and circumstances of its client base. As the 'clients' operate within the public sector, the basis on which those organisations are themselves funded evolve over time, and the basic Salix model has to adapt alongside it.

The higher education sector in England is a very good example. The Higher Education Funding Council for England (HEFCE) is responsible for the provision of funding to universities in England and this body approached Salix to consider providing the sector with a funding source to implement carbon saving projects.

After a period of consultation with all the universities the agreement was for HEFCE to launch a Revolving Green Fund with two components: an Institutional Small Projects fund (ISP) and a Transformational fund.

The ISP would provide a source of funding separate from the universities' own resources, resulting in an opportunity for

changing the mix in the ring-fenced fund to which Salix contributes. Alastair Keir, the MD of Salix Finance, described how HEFCE has contributed £10 million over two years for the ISP fund; a sum which Salix has matched from its own funding stream.

In Scotland, it should be noted, a scheme similar to the ISP is being operated for Scottish Universities and this is sourced from the Scottish Executive.

HEFCE is also making available a further £10 million specifically for transformational projects which would not be eligible for any Salix funding yet would have a major bearing on the university's ability to reduce carbon emissions. Salix is managing the Transformational Fund on behalf of HEFCE.

As Mr Keir observed, this fund is for major projects that will generate cash savings and change the way energy is handled at the university. "Funds would not be awarded for a big double glazing project, for example."

Universities which are granted loans under the ISP heading of HEFCE's Revolving Green Fund will be required to

Kings College London University was one of the first Higher Education establishments to receive Salix Finance funding.



add a sum equivalent to 25% of the pot as it then stands. So, where a university has justified a fund of (say) £400,000 - and clears the hurdles which Keir would later explain - Salix and HEFCE will each provide £200,000. The university has to find 25% of £400,000, or £100,000, from its own resources.

Criteria remain for Salix funds

Reference has been made to the two criteria which every Salix-assisted project has had to meet since the company's inception - a five-year payback and a cost of under £100 per tonne of carbon.

That remains the case for the core funding - the HEFCE and Salix contributions - but less onerous conditions apply to the top 25% supplied by the university. "The maximum payback on projects funded out of that top-up is extended to 10 years, and the ceiling on energy cost is increased to £400 per tonne."

Does the option to extend the payback period, and operate with a higher carbon cost, mean that the universities will be able to purchase technology such as wind turbines, which have a payback in excess of 5 years?

Alastair Keir accepted the point, but doubted whether the present capital cost of an effective turbine could reasonably be met from the 25% add-on. "The collective wisdom on the subject of wind energy holds that small turbines under 30 metres do not deliver viable amounts of power: beyond that point, the capital cost would be greater than the funds available."

All of the other Salix Finance conditions remain: sums invested from either

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Alastair Keir, MD of Salix Finance (below)

another accounting ‘column’, however. Once the size of the project loan has been established, the institution may add a management charge of up to 15% to the total cost of a project once it has completed its technical and financial assessment.

Justifying use of funds

For a university to show a portfolio of good ideas that would repay in 6 months and have a carbon cost of £10 per tonne would be laudable. But it would not automatically qualify for project funding through Salix Finance. Applicants first have to clear a selection process.

Alastair Keir explained what has been involved in the 2008 round. The first approach by universities was a formal ‘expression of interest’ in response to an invitation across the sector. The step involved no more than completing a short form indicating that the university was considering a more detailed application for a specific sum and stating the present size of its energy bill.

No less important, it had to declare that it had available the 25% contribution it would need to make if the application were to prove successful.

2008 has been the first year when the new scheme for English universities has been in place, so the organisers were interested to see the level of interest being expressed. There were in fact 63 of these preliminary applications. “The total amount being requested was £23.7 million pounds against this year’s fund of £10 million.”

To meet the applicants face-to-face for the first time, Salix Finance organised four workshops at the end of September in Bath, London, Manchester and Sunderland. An integral part of the workshop was a



structured interview for each applicant to ascertain the basis of their application.

Long term commitment

Of the original 63 institutions, 53 took their case to the interview stage. “It was important that we could meet them and understand what they were able to deliver by way of supporting the fund’s activities.

“Could they demonstrate a long term commitment rather than just a clutch of three or four projects which would be complete in six months?

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“That means we are looking for evidence of a management regime that could be handling carbon reduction 15 or 20 years into the future. The funding the University receives will continue to be recycled until there are no further

projects and it will then be returned to Salix to be re-allocated.”

The quality of applications was high, Keir noted. The interviews had been scored against a range of factors: one of the applicants secured 98 out of a possible 100, and none scored less than 50.

Funds allocated to 31 applicants

Ranking all of the universities which had completed the interviews in this way, and then aggregating the sums being requested, gave the Salix Finance team 31 ‘successful’ applicants before all the funds had been provisionally allocated.

Success is a relative term, of course: those universities above the cut have all been notified and will have their formal proposals scrutinised by a group of independent assessors appointed by HEFCE before their projects can start.

The remaining 22 applicants may well re-apply in 2009, but none is assured of a share of the fund on that occasion: every bid has to be reviewed on its merits.

Salix Finance is an organisation that is punching well above its weight in the campaign to reduce public sector carbon emissions. With just a four year track record it has jointly funded 1400 projects in the public sector bringing lifetime carbon savings of 315,000 kilotonnes.

It is involved in energy efficiency projects worth over £100 million over the next two years including work with Further Education for the Learning and Skills Council (where its work is wholly grant funded).

The sum is significant in its own terms, but the savings of £20 million per annum which that commitment will surely generate will outstrip that figure many times over during the lifetime of the projects it supports. §