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## Executive

15<sup>th</sup> March 2011

Report of the Director of Communities & Neighbourhoods

## Installing Solar Photovoltaic on Council Homes

### Summary

1. A not for profit social enterprise organisation, Community Energy Solutions (CES) have presented a proposal to install Solar PV's on a minimum of 1,000 homes CYC Council homes at no cost to the council. The Council would be responsible for providing roof access agreements, consulting with tenants and identifying a list of potentially suitable properties. CES would source capital finance, install the Solar PV panels, monitor electricity production and maintain them for 25 years. After 25 years the ownership of the panels would transfer to the roof owner, in this instance the Council.

### Background

2. In April 2008 the Council approved the Local Authority Carbon Management Programme – Strategy & Implementation Plan. This plan set out a number of objectives, key ones as they relate to this report are:
  - An objective to reduce the carbon emission for the councils housing stock by 25% by 2020;
  - To capture opportunities for using low carbon technologies and practices;
  - To lead by example and encourage community partners, business and public to reduce carbon emissions
3. In April 2010 the Government launched a new incentive called 'Feed in Tariffs' (FIT's) to encourage people to generate their own electricity from renewable energy sources. FIT's are paid for every unit of electricity generated, with the rate paid varying according to the type of technology used. The most generous payment is for solar PV, which receives 41.3p per unit, (payable on system's installed before 31<sup>st</sup> Mach 2012) with payments index linked and guaranteed for 25 years.
4. A number of organisations are already marketing PV offers, which tend to be heavily weighted in favour of the company. Community Energy Solutions are proposing a more equitable option, which is differentiated from other companies in that they offer a profit share approach, to share benefits between the Council, tenants and CES.

### Benefits

5. There are a number of benefits that the council, tenants and the city as a whole benefit from as a result of adopting the CES model. As a result of installing 2kWp of solar PV panels per home on 1,000 homes, the key benefits would be:

- The provision of free daytime electricity to tenants worth approximately £108 pa to each tenant and collectively £2.71m over 25 years.
- The production of 1,668 MWh of clean renewable electricity pa, reducing CO2 emissions by 872 tonnes pa.
- Investment of approximately £7m in CO2 reduction on the councils housing stock with no capital outlay from the authority;
- No maintenance costs for 25 years;
- Create opportunities for local employment and training;
- Provide a complete supply, install and operate package; Generate an index-linked income to the council for 25 years (approx £70k per annum)
- Enable the council to show clear leadership within the city when considering opportunities for reducing CO2

### **Wider community Benefit**

6. The proposal put forward by CES includes for a profit share agreement between the partners which would, based on 1000 homes result in an annual income of approximately £35k which would be paid into a local community interest / social enterprise company<sup>1</sup>. The exact nature of the social enterprise company would be determined in consultation with the local residents and the council.
7. The proposal also allows for owner-occupiers to benefit from the scheme. Where a homeowner can raise the capital themselves they can enter into a separate agreement with a subsidiary / partner of CES who will install the Solar PV's for the owner. In this instance given that the owner has raised the capital themselves the FIT would be paid direct to the owners.
8. However, the CES model allows for owner occupiers who may not be in a position to raise the capital to also take advantage of the scheme and have the Solar PV's fitted to their home with no capital investment. In this case the owner will not receive the FIT or a payment for use of the roof however they will benefit from the free electricity that the solar PV's generate. After 25 years ownership of the Solar PV's will transfer to the homeowner.
9. Along with private owners, the CES model also allows for the option for other CYC buildings to be used if we felt, when considered against the councils long terms views regarding green energy generation, to also be part of the scheme. Other Social Landlords could also join the scheme and use the SPV as a way of improving their stock through installation of Solar PV's.

### **Options**

10. Option 1 - To agree to develop a partnership with CES to install a minimum of 1000 Solar PV systems on council homes, subject to successful contractual negotiations with CES by the Director of Communities & Neighborhoods.
11. Option 2 - To request officers to consider alternative options to reduce carbon emission from it council housing stock via the FIT's.

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<sup>1</sup> A social enterprise company is an organisation 'with primarily social objectives whose surpluses / money are principally reinvested for that purpose in the community, rather than being driven by the need to maximise profit for shareholders and owners'.

12. Option 3 - To decide not to take the opportunity presented via the FIT's.

### **Analysis**

13. Option 1 - The CES proposal is to establish a local delivery partnership, which would set up the scheme and be responsible for ongoing management of it. (see Annex A for details) A Special Purpose Vehicle<sup>2</sup> (SPV) would be established which would own the assets and represent all partners to the project (CYC, CES, the financiers and the energy companies). The FIT would be paid to the SPV and open book arrangements used to manage the finance over the period of the arrangement (25 years). The SPV would pay CYC a roof license for the use of our assets, pay CES a management fee, pay the investors and manage the profit share arrangements.
14. Agreement of Option 1 would deliver significant benefits as outlined in Para's 5-9.
15. When considering which properties would receive the work, the main criterion clearly needs to be the orientation of the properties and those where the roof structures allow maximum generation. However, subject to the council having more than 1000 homes that would benefit, targeting the installation within the city could also have a significant impact on alleviating fuel poverty.
16. As a service we would also consider opportunities for economies of scale and the potential to, where possible, link the work to other planned capital works i.e. re-roofing.
17. Option 2 - There are a number of alternative options that the council could consider.
  - The Council obtain finance and procure a company to install and maintain the PV systems on its behalf, but the Council retain the full FIT and use this to cover the cost of borrowing. – To go down this route the council would need to raise approximately £7m of capital and undertake a full EU procurement exercise.
  - An in-house scheme, including sourcing finance, procuring equipment, installation and maintenance, retain the full FIT and use this to cover the costs of borrowing. – As above, capital and EU procurement would be required, the council would also have to develop significant in-house technical expertise that is not currently in place.
  - Use a different commercial offering.
18. In all of the above alternatives, the council would be opening itself up to significant risk, both in terms of finance and reputation. The lead in time for the above alternatives would also mean that installation before 31<sup>st</sup> March 2012 is extremely unlikely.
19. Option 3 – Deciding not to take the opportunities presented by the FIT would mean that the council would not be in a position to reap the benefits outlined in Para's 5-9.

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<sup>2</sup> An SPV is legal entity formed by a company for a particular project or task, typically to hold assets and not to make a profit.

## Corporate Strategy

20. Accepting the recommended option to develop a partnership with CES the support a number of themes within the Council's Strategy in particular the Sustainable & Thriving themes.

## Implications

21. **Financial** - The installation of Solar PV on 1000 CYC homes, would equate to approximately £7m capital investment into the council's housing stock, however this would be at no cost to the authority. All capital investment, installation and on going maintenance is paid for by through the SPV.
22. The council would receive a payment for the roof license and part of the profit share (assuming only a 1% per annum growth) would be in the region of £2m over the period of the agreement. The amount of money paid into any Local Community Interest / Social Enterprise company would be in the region of £1m over the agreement.
23. There would be a financial cost to the council once the ownership of the Solar PV's transfers to CYC after 25 years. There is likely to be increased maintenance costs that would need to be budgeted for and built into forward planning as part of the HRA Business plan.
24. **Legal** – The arrangement referred to in Option I is probably outside the scope of the public procurement rules, as the Council will not be entering into a direct public works contract, public supply contract, or public service contract. In this case, the purchaser and the entity contracting for the supply, installation and maintenance of the solar PV panels will be Empower Community Management.
25. Although the public procurement rules may not apply, any agreement which amounts to the provision of a commercial opportunity must be concluded in compliance with the general principles of the European Treaty, and in particular, the principles of transparency and non-discrimination. This would mean that there would be a requirement for some form of advertising, and some form of competitive tender process, if another entity expresses an interest.
26. The Authority should have the statutory power to enter into such an arrangement under its general powers of housing management contained in s21 Housing Act 1985. In addition, s2 Local Government Act 2000 provides the Authority with a power to do anything which it considers is likely to achieve the promotion or improvement of the economic, social or environmental well-being of the area. This power expressly includes the power to enter into arrangements or agreements with any person.
27. The Authority will be required to grant rights of access to its properties for assessment, installation, maintenance and repair during the 25 operating period. This will involve the Council granting licenses and easements, which it has the power to do under a general consent granted under s32 Housing Act 1985.
28. The Authority also has a duty, under s105 Housing Act 1985, to consult with any tenants who are likely to be substantially affected by a matter of housing

management, which specifically includes maintenance or improvement of dwelling-houses, or the provision of services.

29. **Equalities** – The targeted installation of Solar PV's will enable the council to have a positive impact on addressing fuel poverty.
30. **Human Resource** – The development and management of the programme from CYC's perspective will require a project resource within the Housing Asset Management team. This will be considered as part of the ongoing service review with Housing & Public Protection.
31. **Property** – There a number of HRA property implications linked to the proposal. Provision of the Solar PV's may impact on future maintenance of the roof structures, which would need to be considered as part of the process when identifying suitable properties. Solar PV's systems are now classed as permitted development, except in conservation areas or on listed buildings.
32. There are no Crime & Disorder or Information Technology implications arising from this report.

### **Risk Management**

33. Government had published FIT payment levels up to March 2020<sup>3</sup> but the CSR announced, "Feed-In Tariffs will be refocused on the most cost-effective technologies saving £40 million in 2014-15. The changes will be implemented at the first scheduled review of tariffs [post March 2012] unless higher than expected deployment requires an early review."<sup>4</sup>
34. CES presented an approximate timeline, which shows a four to five month lead in period from signing the agreements to starting on site. Therefore any delays to the decision making process would result in the council not being in a position to maximise the benefit of the higher FIT.
35. However, given that the proposed model does not involve the council sourcing the capital for the project it is felt that risks arising from this report are minimal and score less than 16.

### **Recommendations**

36. Executive are asked to approve:
  - Option 1 - To agree to develop a partnership with CES to install a minimum of 1000 Solar PV systems on council homes, subject to successful contractual negotiations with CES by the Director of Communities & Neighbourhoods.

Reason: To enable the council to reduce the levels of carbon emissions from its housing stock

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<sup>3</sup> For PV the rates are 41.3p to March 2012 then decline by approximately 10% pa for new applications.

<sup>4</sup> Energy Secretary, Chris Huhne launched a comprehensive review of the Feed in Tariffs (FITs) scheme on 7<sup>th</sup> Feb 2011, following growing evidence that large scale solar farms could soak up money intended to help homes, communities and small businesses generate their own electricity.

## Contact Details

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Wards Affected:	All		
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## Annexes:

**Annex A** – Diagrammatic Examples of how the Solar PV funding model works