

CABINET

13 OCTOBER 2010

INSTALLING SOLAR PHOTO VOLTAIC PANELS ONTO COUNCIL OWNED HOMES

REPORT OF HEAD OF LANDLORD SERVICES

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

The Council has the opportunity to install solar PV panels onto its Council-owned residential properties but without the need to fund the capital costs. This has arisen out the Government's new feed-in-tariff incentive scheme and would:

- Significantly raise the profile of renewable energy in the District;
- Attract a multi-million pound investment and possibly create new 'green jobs';
- Reduce the carbon footprint;
- Allow some Council tenants to lower their fuel bills.

This Report was included in the Forward Plan as a Key Decision to be made at the November Cabinet, but has been brought forward in order for the procurement process to commence as soon as possible. The Chairmen of the Principal Scrutiny Committee and the Social Issues Scrutiny Panel have been informed.

RECOMMENDATIONS:

- 1 That tenders be sought in accordance with the Public Contracts Regulations 2006 for the rights to place solar PV cells on relevant properties in the Council's housing stock, such tenders to be evaluated on the basis of the most economically advantageous tender;
- 2 That the tender be sufficiently flexible to test best value and allow, but not commit to, the inclusion of Solar PV provision in the Council's corporate stock.

- 3 That the opportunity be advertised in the OJEU, the Council's website, and other publications as determined by the Head of Landlord Services.
- 4 That delegated authority be given to the Head of Landlord Services, in consultation with the Portfolio Holder for Communities, to:-
  - a) Determine the choice of tender process (Open or Restricted);
  - b) (If the Restricted Procedure is chosen) select tenderers from those expressing interest and completing a pre-qualification questionnaire;
  - c) Approve the specification and other contract terms;
  - d) Approve the detailed evaluation model, subject to a minimum of 80% in the price:quality assessment being based on price.Subject to the adopted approach, approve any shortlist and be responsible for the evaluation process.
- 5 That a report be made to Cabinet recommending Contract Award.

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### INSTALLING SOLAR PHOTO VOLTAIC PANELS ONTO COUNCIL-OWNED HOMES

#### REPORT OF HEAD OF LANDLORD SERVICES

##### DETAIL:

#### 1 Introduction

- 1.1 In April 2010 the Government introduced electricity feed-in tariffs (FIT) to accelerate the implementation of technologies that create on-site renewable electricity. These rates are considered generous and ultimately reward investment in renewable technologies. Combined with this, the payback periods have also been set at what is considered to be at a realistic and competitive level.
- 1.2 Solar PV installation companies, together with the backing of private investment companies, have used these incentives to create a unique product for social housing landlords.
- 1.3 Companies are now willing to pay for the capital costs to install solar PV panels onto the roofs of homes if, in return, they receive the FIT incentive over a 25-year period. These companies should also be able to cover the potential additional costs outlined in paragraph 8.2. In addition, it should be possible for the Council to generate additional receipts, by some form of "profit share" agreement.
- 1.4 The proposal will help to tackle fuel poverty by reducing residents' electricity bills as they can use (free of charge) electricity that is being generated by the panels during the day, with a consequential minimal need to draw upon the national grid electricity from a traditional supplier. This in turn will help the District to reduce its carbon footprint, as a number of residents will directly be using renewable energy to meet some of their electricity needs. Surplus electricity generated is fed back to the national grid thereby helping to reduce the need for electricity production from fossil fuels.
- 1.5 The Government will guarantee the feed-in-tariffs (set out in current legislation) for 25 years, although current tariff levels are only guaranteed if panels are installed and operational by April 2012. Panels installed after that date will still benefit but at a reduced level.

#### 2 Procurement

- 2.1 It is possible that each dwelling could have £7,000 worth of solar PV installed onto each roof. Assuming that approximately 2000 dwellings would be suitable (due to the fact that residents roofs have to have a certain orientation

and pitch to make them viable) then the total investment could be as much as £14m.

- 2.2 With this likely level of investment the Council will be required to procure these services in accordance with the European Procurement Rules under the Public Contracts Regulations 2006. The process would include publication of an advertisement in the Official Journal of the European Union (OJEU).
- 2.3 Given the level of expected interest, it is in the Council's interests to tender for this type of arrangement, in order to obtain the best possible value as well as comply with relevant legislation and thereby minimise the risk of any challenge.

### 3 Potential Benefits

- 3.1 The City Council has approximately 5000 roofs available but not all of these are suitable because of their orientation. An initial assessment of the numbers that could be used has put the number of HRA dwellings that have a "south/south east to south/south west orientation to at least part of their roof at roughly 2600. However, many other factors need to be taken into account such as pitch, shade, chimneys etc and this may reduce potential numbers significantly, potentially to as few as 15 to 20% of the stock. In addition, the Council also has its corporate asset stock such as offices, leased premises, leisure centres, trading estates within its ownership and consideration needs to be given to the potential to utilise these roofs also. It is proposed that the potential to provide a solar PV solution to corporate stock be tested through the procurement process, but at this stage no commitment be given to include particular buildings.
- 3.2 Based on an estimate of 2,000 roofs being suitable, any PV proposal could create a reduction in CO<sub>2</sub> emissions in excess of 2,000 tonnes per year. To put this in context, the current Heatseekers and Green Home Scheme has (to June 2010) installed measures giving a reduction of 320 tonnes per year. There are clear reputational benefits in demonstrating specific action to reduce CO<sub>2</sub> emissions from the housing stock to support other work to improve thermal efficiency and insulation.
- 3.3 Tenants of houses with installed PV will get free electricity during daylight hours only and therefore experience reduced energy costs, the extent of which will depend upon the energy management practices employed (use of equipment during daylight hours etc). This could equate to an estimated saving of between £80 and £125 per year, which would make a material difference to those tenants suffering from fuel poverty.
- 3.4 Consideration needs to be given to the properties not suitable for this solution. By seeking to maximise the Council's financial benefits from such a scheme, it should be possible to reinvest surpluses to fund further energy efficiency works to benefit all tenants, not just those who benefit from the PV solution.

- 3.5 Potential financial benefits to the Council are still being assessed. The recommendation to follow OJEU procurement will seek to balance environmental and financial benefits.

#### 4 Planning Restrictions

- 4.1 The installation of solar PV is considered “permitted development”. However, it is likely that restrictions will apply, such as in conservation areas and this requires further investigation. It has to be noted that with the number of panels potentially being installed there will no doubt be visual impact on estates which will need to be considered.

#### 5 Options Appraisal

- 5.1 The Council has been approached by a number of organisations, all keen to exploit the opportunity offered by FITs. The Council is asked to retain the panels on roofs for a 25 year period. In return, the PV panels are installed and maintained at no cost to the Council or Tenant, with the supplier receiving the FITs due as a result. Suppliers would offer a payment to the Council in return for the right to receive the FITs, and the extent of such a payment will be the primary factor to be evaluated in selecting a potential supplier(s).
- 5.2 All proposals offer similar benefits to tenants and to the Council in respect of carbon reduction, although it has to be said that projected outcomes do vary significantly. Testing assumptions, most of which have been based on computer modelling rather than field trials or pilots, will be difficult due to the lack of any track record in this country for such schemes. Some proposals claim the potential to generate very significant surpluses. However, they are all much more cautious when asked for guarantees. It is therefore recommended that any evaluation of proposals is based on guaranteed financial returns to the Council (a fee paid for access to roofs) rather than attempt to evaluate claimed but unproven community and environmental benefits that could be achieved if assumptions are correct.
- 5.3 The Council could consider the potential to fund such works itself through prudential borrowing. If the potential profits claimed by some providers are to be believed, such borrowing could be fully funded and additional surpluses generated. However, it is proposed at this stage to pursue the approach where the scheme is fully funded by a partner organisation because:
- a) The lack of any real track record or testing means that officers cannot be sufficiently confident on potential financial risks;
  - b) The Government’s proposals for HRA reform are based on a borrowing cap which may well restrict additional borrowing in relation to Council stock;
  - c) The Council does not have sufficient expertise or capacity to pursue a scheme of its own. Procuring consultancy support could make it work but there is insufficient evidence to guarantee such an approach would be more cost effective overall;

d) Time to exploit this opportunity is limited as discussed below.

5.4 As panels may need to be installed and operational by April 2012 to exploit the maximum level of FITs, providers are seeking agreement to commence schemes in the very near future. Advice is currently being sought on how the Council may reasonably be able to minimise the timescale of any procurement process.

## 6 Procurement Process

6.1 As set out above, it is proposed to advertise for tenders by placing a public notice in the OJEU, and proceeding under the requirements set out in the Public Contracts Regulations.

6.2 Given the level of interest, it may be appropriate to carry out a Restricted Procedure tender, whereby expressions of interest are sought and evaluated, and a limited number of tenderers then invited to tender. Alternatively, an Open Procedure could be adopted, which may be marginally quicker, and (if the financial benefits are the primary evaluation factor) may not be significantly more onerous to evaluate

6.3 Officers are considering whether to tender in the form of a framework agreement with one or more contractors, whereby a minimum level of installations is offered (say 1000) and additional installations are then offered to the extent available. As stated in 3.1 above, the agreement will need to provide for, but not commit to, the inclusion of corporate stock.

## OTHER CONSIDERATIONS:

### 7 SUSTAINABLE COMMUNITY STRATEGY (RELEVANCE TO):

7.1 This proposal will make a positive contribution towards achieving the High Quality Environment outcomes included within the Sustainable Community Strategy.

### 8 RESOURCE IMPLICATIONS:

8.1 It is proposed that the procurement process be coordinated by existing staff. Whilst this will no doubt have some impact on capacity to deliver other projects, the opportunity is considered too important to miss. At this stage, no additional budget provision to support this project is recommended.

8.2 There are a number of potential costs that could be faced by the Council and it is proposed that any agreement ensures that all such costs are covered by the provider as part of the agreement, including:

- a) Any maintenance liabilities that arise in respect of roofs damaged by the installation
- b) All maintenance costs of the panels themselves or associated elements of the installation

- c) Insurance cover for the panels
- d) If the roof needs to be repaired within the 25 year period then there will be a cost to remove and re-install the solar panels
- e) Additional costs and implications of tenant liaison.

8.3 Depending on the nature of any final agreement, it is possible that the arrangement will need to be accounted for as a financial lease, with the panels appearing as an asset in the Council's balance sheet. This will mean that any income from the scheme generated from the housing stock will need to be treated as a capital receipt and maybe subject to pooling rules. This effectively means that the Council can only retain 100% of such receipts if they are reinvested in affordable housing or regeneration. The re-investment of the income to fund energy efficiency work to stock not benefiting from panels will fall within this definition, as would any capital improvements to address maintaining the decent home standard or addressing the current shortfall in the Council's maintenance programme. Any receipts generated from corporate General Fund properties are not subject to the same pooling rules and can be re-invested in any council related activity.

## 9 RISK MANAGEMENT ISSUES

9.1 There are a number of risks the Council may face through such a scheme and these are discussed in the paper. It is proposed that these risks be addressed through procuring a fully externally funded solution with a specification which includes provision for risks as set out in paragraph 6 above.

## 10 TACT COMMENT

10.1 The TACT Chairs and members are keen to support the installation of photo voltaic panels onto council owned homes, for the reasons stated in the Executive Summary of the paper.

10.2 Winchester City Council, along with many other types of council around the country, are all working on the ways they could bring this about, for the benefit of their tenants and councils alike.

10.3 TACT takes on board the points raised in the CAB Paper- Option Appraisal 5.4 points (a) (b) (c) (d)

10.4 Due to the timescale of any procurement process, April 2012 swift action is needed.

10.5 8.1 TACT fully agrees it is an opportunity to important to miss. Paragraph 8.2 Contains points that need careful clarification.

10.6 TACT, are sure these will be looked into by the council with due care and attention. This could well be a step in the right direction for bringing about

renewable energy to our council homes, and TACT welcome the chance to do so.

11 APPENDICES:

11.1 None.