

Agenda Item No: **Report No:**

Report Title: **Photovoltaic (PV) Panels to Housing Properties**

Report To: **Cabinet** **Date:** **2 June 2014**

Cabinet Member: **Councillor Paul Franklin**

Ward(s) Affected: **All**

Report By: **Gillian Marston - Director of Service Delivery**

Contact Officer(s)-

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Purpose of Report:

To report on progress to install Photovoltaic (PV) panel systems to Housing Properties through an external Provider and authorise officers to conclude discussions and move to delivery of the scheme.

To authorise officers to explore other sources of funding including use of the borrowing 'headroom' on the Housing Revenue Account in parallel should that be more advantageous to the Council to allow it to extend scheme to additional properties.

Officers Recommendation(s)

- 1** To conclude discussions and contract with Access Energy and Carillion Construction through the Sussex Energy Savings Programme Contract 2013 to provide PV Panels to approximately 694 identified properties as the first phase of this project.
- 2** In parallel to explore other sources of funding for the second phase of this project including the use of the borrowing 'headroom' of the housing revenue account for PV panel systems so that the whole PV scheme can be delivered by 31 March 2017.

Reasons for Recommendations

- 1** This is an opportunity to secure an investment of between £5m and £10m value of PV Panels to Council houses in the Lewes District which will reduce the cost of electricity for tenants receiving the panels.

- 2** This can be fully funded by an external provider. External providers rely on income from the Government's Feed in Tariff, at 13.5 pence per kW energy produced for 20 years to fund PV schemes. However, there is also the option of looking to fund the scheme or part of it from the Council's own resources to extend it to additional homes and buildings which may be advantageous to the Council by securing its own potential revenue stream through the feed in tariffs. It is important that this work does not delay the installation of PV panels.

Information

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- 3.1** The Government's current PV Feed in Tariff and relatively low costs of PV panel systems are such that a Provider has offered to install PV panel systems to qualifying housing at no cost to LDC tenants of the Council. This will enable LDC to install approximately £5 million of PV panels in the year.
- 3.2** The Council is committed to using its borrowing "headroom" to fund new affordable housing in the District. This means that it would not have been possible to fund a PV installation programme of this scale without the support of an independent provider.
- 3.3** Recently the Government has announced that councils can submit an expression of interest by the 16th June 2014 to increase that headroom through the Local Growth Fund – Housing Revenue Account Borrowing Programme (2015/16 and 2016/17). The extra headroom must meet certain criteria including the provision of affordable housing.
- 3.4** There may be other options to use different funding streams if there is a business case to do so, both for affordable housing schemes and PV schemes. The Council will continue to be open to all options which increase affordable housing supply or create a revenue stream to the Council to continue to provide services to residents and businesses of the district.
- 3.5** The Council has made significant progress on finding external funding for PV schemes through the Sussex Energy Savings Partnership (SESP) and the West Sussex procurement framework. Carillion plc. are the appointed contractor for the Sussex Energy Savings Programme Contract dated 13 October 2013 made between West Sussex County Council and Carillion Energy Services Limited (the "SESP Contract"). West Sussex County Council is the lead authority and has procured energy saving measures on behalf of a number of authorities. The SESP Contract has been procured under the European procurement regulations. Carillion secured the contract following a tender process.
- 3.6** Carillion together with their funding partner, Access Energy plc., have been working with the Council and are close to agreeing terms to be able to proceed to contract award and implementation stages.

- 3.7** The funding Provider, Access Energy will contract with LDC and Carillion are in contract with Access Energy as their installer.
- 3.8** The team have identified 694 houses and bungalows from a list of 1,807 which have suitable roofs. There is a potential for 300 additional houses and PV systems to blocks of flats, subject to negotiation.
- 3.9** Tenants in the houses and bungalows on which panels are installed will benefit by receiving some free electricity generated during daylight hours only. They will therefore see a reduction in their electricity bills.
- 3.10** LDC has an extensive tenant consultation network and consultation has begun with the TOLD (Tenants of Lewes District) group. Consultation will continue with TOLD and will need to commence on a tenant by tenant basis once the agreement with Access Energy is in place.
- 3.11** Before PV panels can be installed at a property it will be necessary for the tenant to enter into a tenant agreement confirming that the tenant agrees to the PVs being installed and that they will allow access for the survey, installation, operation and maintenance of the PV system. The agreement will also confirm that the tenant can use electricity generated by the PVs without charge. If a tenant refuses to sign the agreement there will be no obligations or liabilities on the Council as a result of this decision by the tenant.
- 3.12** The Provider (Access Energy) will fund the supply, installation, operation and maintenance for the PV systems for 20 years at no cost to LDC. Carillion plc are actively seeking local PV installers to work on the project
- 3.13** Aside from the tenant agreements there are two main contractual documents for this project, namely the Pre lease agreement and the rooftop Lease. The Pre lease agreement would permit Access Energy the rights to assess, survey, install, operate and maintain the systems installed at the properties owned by the Council. The Lease would give rights for the owner of the PV system (Access Energy) to occupy the roof for 20 years and to operate and maintain the systems installed. In practical terms there will be more than one lease because the PVs are to be installed across a number of properties on a phased basis.
- 3.14** Each lease will be an “omnibus” lease covering between 10 and 100 rooftops. Based on information provided by Carillion we have assumed that there will be in the order of 30 omnibus leases. External legal resources will need to be procured to enable the Council to grant the omnibus leases to Access Energy and to complete related legal work including deducing title and dealing with title queries from Access Energy. We have obtained a high level quote for this work and suggest allowing a budget of approximately £30,000. The Council’s legal team does not have sufficient capacity to carry out this work in-house. This cost could be recovered by means of a service charge applicable to a home at which PV panels have been installed.

- 3.15** The Scrutiny Committee received a verbal briefing and noted a request to seek other properties such as garage sites or similar to receive panels and to ensure that all panels are fitted in a neat manner.

Financial Appraisal

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- 4.1** The Provider will bear the costs of installing the PV panel systems as well as costs of ownership (management, maintenance, insurances etc). After 20 years, ownership will transfer to the Council at no cost. The PV panel systems are expected to have a life of up to 35 years.
- 4.2** The Provider will be able to fund the cost of the investment in the PV panel systems from the Feed in Tariff paid to it by electricity suppliers in respect of the electricity generated by the PV Panels. Although Feed in Tariff rates (which are determined by the Government) have reduced, the Provider will generate a surplus from its investment over time.
- 4.3** The Council does not have sufficient funding capacity within the HRA to implement a PV installation programme of this scale in its own right. This is because it would need to borrow to fund the installation of the PV panel systems but the Government has placed a cap on local authority HRA borrowing. The Council could borrow a further £5m without breaching that cap but *this* 'headroom' is committed for the funding of new affordable homes.
- 4.4** The legal costs, estimated at £30,000, associated with creating rooftop leases referred to above would be met initially from the Special Projects element of the Housing Revenue Account Balance (£97,000 at 31 March 2014). The cost could then be recovered by means of a service charge applicable to a home at which PV panels have been installed. In this way tenants who cannot benefit from such an installation will not contribute towards the cost.
- 4.5** Tenants will have to sign a tenant agreement before PVs can be installed at their properties (see paragraph 3.11). Note that these agreements are separate from the rooftop leases. Approximately 694 properties have been identified as the first phase of this project meaning that there is the potential for 694 tenancy agreements to be created. The cost of creating 694 tenancy agreements is not included in the legal costs of £30,000 referred to above. This work will be covered from within Housing Services in a format agreed with Legal Services.

Legal Implications

- 5** The Legal Services Department has made the following comments:

- 5.1** A number of legal issues have been covered in the main body of this report.

5.2 Additional issues are set out in the attached confidential Appendix 1.

Sustainability Implications

6 I have completed the Sustainability Implications Questionnaire (LDC 32657) and found the following significant effects which I propose to mitigate/enhance in the following ways:

The 700 or so systems installed will together produce 2,365MWh of energy per year, offsetting over 1 million kg of CO2 per year and the Council will be able to monitor performance on-line through a system provided and maintained by Access Energy.

There is an opportunity to promote and stimulate an increased take-up of similar PV schemes across private sector homes by promoting its economic viability.

Tenants will save between $\frac{1}{3}$ and $\frac{1}{2}$ of their electricity costs.

Risk Management Implications

7 I have completed a risk assessment (LDC 32658).

There is a risk that Government Feed in Tariff rates may reduce at any quarterly update meeting. This will be mitigated by moving to contract award and implementation stage as soon as possible.

The table below lists risks from the contract being discussed:-

Take up	This risk falls exclusively on the Provider. While the council will support the consultation and engagement process if take up is below expected levels there will be no implications for Lewes District Council.
Right to Buy	The risk sits with the Provider except where a leaseholder refuses to agree to either sign up to a new agreement as the leaseholder or and does not agree to purchase the system from the Provider. Only where a leaseholder refuses both of these options would the council have to pay a Termination Fee which is equivalent to the remainder of the FiT to the Provider. This is unlikely to happen and can be integrated with the right to buy process to ensure the risk is minimised to all parties. The risk would be that the Council have to pay the Termination Fee – this risk will be managed.
Voids	This risk sits with the Provider but if the electricity is not turned off (just the appliances) electricity will continue to be generated and exported to the grid. The Council has to manage the void process.
Pre payment meters	Again the risk sits with the Provider. To mitigate that risk the Provider will require information on numbers of Pre-payment meters. The PV system cannot work with pre-payment meters. Tenants will have to arrange for changing their meter
Demolition	This is unlikely to be a significant issue in Lewes District Council as there are no plans to demolish council homes.
Tenant Agreement	Tenants will need to sign a direct agreement with the Provider which confirms that the tenant will allow access to the Provider

	(or representative) required for the operation and maintenance of the system, and the agreement also confirms that the tenant will not interfere with or damage the system. A new agreement will be required in the event that a new tenant occupies the property. The Provider will need to work with Lewes District Council to agree a process for tenant changeovers at properties where PV is fitted to ensure that an agreement remains in place
Repair and/or replace roof	The Council will be entitled to carry out essential / emergency roof repairs to its property during the term of the rooftop lease. However, the Council will be liable for the Provider's reasonable costs of removal and reinstatement of the PVs to facilitate such repairs and any additional loss of FiT entitlement during the period of removal. The install programme will be matched to any future roof repair or replacement programmes to make sure that any risks are minimised. In addition the survey process will identify any obvious roofing problems. If the roof is damaged as part of the install this will be a Provider/installer issue.
Maintenance	A maintenance contract will ensure that residents are protected against any system failure. The Provider will pay for this service and because they are driven to minimise down time and maximise the output (and therefore the FIT payments) this operates as a highly pro active service.
Inverters	Inverters - the funding model assumes that the inverter will be replaced at least once during the 20 year life of the feed in tariff. However if there are higher failure levels then the Provider will pick up this risk along with the manufacturer's warranties. The inverter converts the energy produced by the PV panels to feed into the electricity system in the home.
Removing panels – end of Feed in Tariff period	In the early days of the feed in tariff there was some concern about what would happen to panels at the end of the feed in tariff period. However as the market has evolved it is now clear that panel life is up to 35 years and while there is some degradation in panel performance residents will receive significant benefits and savings from the panels long after the feed in tariff payments end. It therefore makes no sense to take down the panels after 20 years. The eventual removal risk will remain with LDC

Equality Screening

- 6** An initial Equality Impact Assessment identifies no negative impacts and in fact increasing the number of installations would benefit a wide range of tenants. To ensure all tenants are aware of the programme and its benefits targeted communications will take place to ensure the scheme is well known and understood by many groups including the vulnerable.

This project will help many tenants to save costs of electricity.

Appendices

Appendix 1 – Confidential legal advice