

**To:** City Executive Board

**Date:** 15 October 2015

**Report of:** Stephen Clarke, Head of Housing and Property

**Title of Report:** Arrangements to facilitate the fitting of solar panels on council-owned housing stock

## Summary and Recommendations

**Purpose of report:** To outline proposals to facilitate the fitting of solar panels on Council-owned housing stock in such a way that reduces the demands on the HRA capital programme

**Key decision** Yes

**Executive lead member:** Councillor Mike Rowley, Housing

**Policy Framework:** Sustainability Strategy, Low Carbon Oxford, Housing Asset Management Strategy

**Recommendation(s):** That the City Executive Board resolves to:

1. **Grant project approval** to fit solar panels on Council-owned housing stock in the manner described in this report;
2. **Delegate authority** to the Chief Executive, in conjunction with the Head of Finance, to enter into an Agreement to Lease with the Low Carbon Hub IPS (on the basis that this would permit leases to the roof space of individual Council properties to be drawn up and executed if required) plus any ancillary agreement required; and to submit an appropriate VEAT notice to the EU; and
3. **Agree** that on the basis of the matters set out in this report, the proposed arrangement with the Low Carbon Hub IPS represents best value to the Council.

### **Appendices to report:**

Appendix 1 Risk Register

## Background

1. This report proposes that the Council enters into arrangements to install photo voltaic solar panels on the roofs of council homes to produce electricity for the following reasons:-
  - The technology is now proven with highly predictable costs and benefits
  - Concerns about current and future costs of utilities and the impact on household budgets particularly those on low or fixed incomes
  - The opportunity to increase the proportion of renewable energy produced in the city and the consequent reduction in the carbon footprint
  - The timing in the reduction to the feed in tariff announced by the Government is such that some of a programme launched now would provide some benefit from current higher rates
2. The benefits can be summarised as:
  - Free electricity to the affected tenants during daylight hours estimated to reduce typical household electricity bills by around £150 pa.
  - A reduction in carbon dioxide emissions of 1200tCO<sub>2</sub> p.a. based on 1000 roofs, being included in the scheme, contributing to the Council's target of reducing city-wide emissions by 40% by 2020 and more than doubling the Council's emissions reductions on its own estate in a given year.
3. Tenants were consulted as part of the Housing Revenue Account Business plan, budgeting and rent setting and the Housing Asset Management Strategy. Included in this consultation was a proposal to invest in the energy efficiency of the housing stock. Thermal comfort, energy efficiency and fuel poverty have been identified as key concerns of tenants in the STAR surveys and other engagement activities. It is estimated that 20% of Oxford City Council housing tenants are in fuel poverty at the time of writing.
4. As a result of a number of proposed legislative changes there will be more constraints on investment programmes within our HRA business plan going forward and officers have been seeking alternative means of funding such programmes. In this case an option has been identified that is based on leasing free of charge roof space to Oxford-based social enterprise the Low Carbon Hub (the Hub). The Hub would raise the capital to install solar panels through a community share offer backed up as required by ethically sourced debt finance. By financing the installations in this way, the £5m programme currently included in the HRA capital programme would no longer be required, enabling those

funds to be directed to other areas of investment where there are no alternative sources of funding.

### **How the community-benefit model works**

5. In general terms the benefit derived from the power generated is distributed back to tenants in the form of free electricity and to investors in the Hub share offer to cover cost of the capital works. Any further surplus is then used to fund further investment in the community through other energy related projects delivered by the Hub.
6. The high level process for delivery would be:
  - The Council and the Hub would identify a pipeline of potential homes suitable for installation.
  - The Hub would raise share capital to cover the capital costs.
  - A project liaison officer, funded by the programme, would work with the Council and the Hub to identify those properties where the scheme could go ahead and support the effective running of the works programme.
  - The Council would lease at zero cost the roof of the property to the Hub.
  - The Hub would install and commission the panels.
  - The tenant would receive advice and support as to how to maximise the benefit from the panels and other related energy advice.
  - The tenant would receive free of charge electricity produced from the panels.
  - The investors would receive a return based on the Hub share offer prospectus, funded by surplus energy sold to the grid by the Hub and feed in tariff payments to the Hub.
  - The balance of cash would be retained by the Hub to re-invest in energy related projects in the city.

### **Value for money**

7. Although not a procurement the Council does need to satisfy itself that such an arrangement does provide best value and provides good value for money. Below are set out reasons why the Council could consider that the LCH provides a best value solution.
8. The Hub meets the criteria that the Council has previously adopted in a policy which steers the selection of partners for energy related projects in favour of:
  - Not for profit social enterprises
  - Local organisations likely to provide jobs and contribute to the local economy
  - Organisations who reinvest surpluses back into local communities

9. The Hub has a current proven track record in both raising capital through community share offers and the installation of renewable energy projects.
10. There are existing partnership and contractual relationships between the Council and the Hub
  - Low Carbon Oxford
  - Loan facility to Hub to provide working capital for other renewable energy schemes
  - The Hub is a partner in the Intelligent Energy Europe programme locally called OxFutures which has a current programme to deliver £18m of renewable energy projects
  - Re-investment in the communities of Oxford from previous schemes valued at in excess of £500k
  - The Council has a nominated officer as an Non- Executive Director on its boards
  - The Hub has a scheme that is ready to launch
11. There is a high degree of trust and confidence between the Council and the hub that has built up through these arrangements as well as an understanding of their financial models and business plans.

### **Legal arrangements**

12. It is proposed that this arrangement would be structured through the Council entering into a composite Agreement for Lease with the Low Carbon HubIPS (“LCH”), under which the Council would grant rights to the LCH to fit solar panels to the roofs of those Council properties which meet the relevant technical and practical requirements. The LCH would then be solely responsible for the installation process and all costs involved and would be entitled to receive any income derived from generation of additional electricity. As such, this arrangement with the LCH would constitute a land deal, and would not be subject to the European procurement regime. The Council would, however, be under a legal duty to ensure that this arrangement represents best value, and it must bear this in mind when deciding whether to enter into the proposed arrangements with the LCH. To ensure public transparency, the Council would wish to advertise this proposed arrangement by way of a VEAT notice in accordance with the European procurement regulation.

### **Right To Buy**

13. A tenant may purchase a property with solar panels installed under Right To Buy. The Hub has taken legal advice on this issue as the risk essentially sits with them. They believe that by initially gaining the tenant’s consent to install the solar panels under these arrangements, the rights and obligations between the Hub and the Council would in effect continue between the Hub and the new owner after the right to buy

has been exercised. The agreement with the Hub will need to ensure that the risk arising from a tenant/owner seeking to challenge that view rests with the Hub.

### **National policy framework**

14. The Department for Energy and Climate Change published a consultation on the future of the Feed In Tariff (FIT) incentives on 27 August 2015. The precise impacts of this complex consultation is yet to be determined but it recommends steep reductions in all FITs and for domestic, a reduction from c. £0.12 to £0.0163 per unit electricity exported to the grid. It is proposed that this is effective from January 2016.
15. If this goes ahead, it is not expected that any commercial rent-a-roof models for delivery will be viable anymore. Examples from the past show that these schemes offered a poor return to landlords even when the FIT was high (£0.44 per unit). It is possible, but not confirmed, that community energy groups could still be offered better FIT rates. In that case community-benefit models for delivery of schemes such as the one proposed may be the only viable route.
16. Recent Government budget announcements will place significant constraints on Local Authorities investment programmes going forward.
17. These policy changes, and any future changes, may impact on the viability of the programme for either the Low Carbon Hub or the Council. It is proposed that the installation programme would be rolled out in phases with agreement between both parties to proceed in each case. By proceeding in this way we can maximise the benefits realised while retaining flexibility to respond to changing circumstances.

### **Delivery risks**

18. It is proposed that the terms and conditions of the Agreement to Lease will set out the requirements on the Hub to mitigate delivery risks to the Council.
19. **Financial failure of the Low Carbon Hub:** The installation programme would be rolled out in phases. In each phase the Hub will secure capital to pay the installation contractor in advance. This mitigates the risk of financial failure of the Low Carbon Hub during the installation period as the contractor will still be required to complete that phase of installation. Once operational there could still be a risk of default in the event of financial failure of the Hub. The Council and the Hub will agree appropriate measures to safeguard the installations, panels, and the associated FIT income, with the preferred option being to transfer the lease, panels, income and operational obligations to an organisation with similar objectives to the Hub.

20. **Tenant liaison:** excellent communications and engagement of tenants is required in order to, e.g.: secure tenant consent to installations (paving the way for a smooth installation process); set clear expectations for the suitability of any given property and the process to establish that; and to ensure that tenants know how to make the most of their system and how to seek support in the case of any issues. It is proposed that the Hub fund a tenant liaison officer who would be seconded to the Council to work closely with Housing and Property officers and tenants.
21. **Electrical standards of the installation:** It is proposed that the Hub will be responsible for the checks needed for the installation of the solar panels and liable for their installation meeting the standards that the Council must meet in its properties. The Hub's installers will not carry out checks beyond the scope of the solar panel installation, but will be required to escalate any issues they observe when visiting the property.
22. **Dependencies on Council housing portfolio management:** as the Council runs an on-going programme of maintenance on its properties it is essential that processes are in place to manage any dependencies with the Hub installations. It is proposed that properties are selected in the following way for each phase of delivery:
  - an initial desktop assessment to select properties based on orientation, roof pitch and size
  - a process to cross check with the Council regarding roof replacement, presence of asbestos etc
  - gaining consent of the tenant
  - a sign-off process with the Council for properties in that phase
23. The design of an agreed, detailed process flow would be a requirement of the Agreement to Lease.

### **Financial Issues**

24. The scheme has been designed to be funded from external resources and associated financial risks managed by the Hub. Officer resources will be required to ensure close liaison with the Hub however, these are already accounted for in the planning of the capital programme. The route of external funding proposed relieves a £5m pressure on the planned HRA capital programme.

### **Environmental Impact**

25. Based on a programme of 1000 rooftop installations the following environmental benefits are expected:
  - 3MW of capacity installed leading to 1200tCO<sub>2</sub> avoided every year
  - an income stream for Low Carbon Hub that will be reinvested in local projects that further reduce environmental impact. Previous examples include: £245,610 of investment to build 152kw of solar

pv on city schools; Hub staff support for city community groups to develop their own energy projects; contributions of time and materials on the Warming Barton external wall insulation project and the establishment of Good Food Oxford

### **Equalities impact**

26. The policy offers an opportunity to as many social housing tenants as reasonably practicable to reduce their household electricity costs. The council must consider the potential for differential impacts on the six primary equality strands: race, disability, age, gender, religion or belief, sexual orientation.
27. Selection of properties (and hence tenants) for the programme will be on the basis of the technical suitability of the property for the installation. For example: orientation, roof structure and slope and state of electrical systems. This selection is dependent on the tenants and therefore not biased to any groups with protected characteristics.
28. There will be a further 'consent' process in which tenants in eligible properties are engaged to gain their consent to the scheme. The Low Carbon Hub has a strong track record of working with communities to engage residents and secure sign-up to previous programmes such as the Warming Barton project. As the Hub will require access to the properties to complete the installation they will be required to meet the council's standards for safeguarding and managing the requirements of tenants. The tenant liaison officer would be the lead in working with the Council on this programme.
29. Monitoring will be provided through analysis of the potential pipeline of projects, the reasons any properties fall out of the pipeline and those that are completed along with equalities data captured as part of the tenant liaison process.
30. Given the considerations above the impact is positive as the initiative will provide opportunities for groups with protected characteristics who would not otherwise benefit.

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