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Report of the Director of Environments & Neighbourhoods

Executive Board

Date: 30th March 2011

Subject: Solar PV Initiative – Use of Income to Fund Home Insulation Scheme

Electoral Wards Affected:



Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In



Not Eligible for Call In

(Details contained in the report)



NOTE ON EXEMPT INFORMATION

The Access To Information Procedure Rules allow exclusion of certain categories of information (exempt information). Paragraph 10.4.3 refers to a category covering information relating to the financial or business affairs of a person (including the Council). A condition of the exemption is that in all of the circumstances the public interest in exempting should outweigh the public interest in disclosing. In the Council's judgment, the commercial information relating to this proposal should not be disclosed for two reasons. First, disclosure may prejudice negotiations yet to be concluded between the Council, Community Energy Solutions (CES) and their funding partners Empower Community Management (ECM). Second, CES and ECM's commercial interests could be prejudiced if these financial terms became available to their competitors. Therefore, the financial information is contained within Exempt Appendix 1.

EXECUTIVE SUMMARY

1. In December 2010 a report on the Solar Photovoltaic (PV) Panel Initiative was submitted to the Executive Board. One of the resolutions was to explore the use of income from this scheme as collateral for prudential borrowing for a private sector free insulation scheme (the Home Insulation scheme).
2. There is £1.3m currently identified for the scheme in the capital programme for 2011/12. With match funding from utilities, under their CERT obligations, this would allow

measures to be installed to an estimated 3 wards. Further funding is required to continue the scheme beyond 2011/12.

3. Utilising income from the Solar PV Initiative to finance Prudential Borrowing for the Home Insulation scheme presents a partial solution to the funding shortfall.
4. Solar PV income is made up of two separate revenue income streams - a Roof Access Fee – paid for allowing PV systems to be installed on council properties and a Profit Share – paid after capital funding and operational costs have been accounted for. The Profit Share income is anticipated to be General Fund, although this is subject to the detail of the Roof Access Agreement, which is still in negotiation. The Roof Access Fee income is HRA.
5. Both income streams could be used to finance Prudential Borrowing. Prudential Borrowing based on the Profit Share income could be used to fund the Home Insulation scheme. Prudential Borrowing based on the Roof Access Fee income could be used to fund energy efficiency/carbon saving works to the HRA stock.
6. CES/ECM's standard operating model is that Profit Share income is split 50:50, with half paid directly to the council and half paid into a local charitable foundation, to ensure that at least 50% of the profit share income generated is re-invested in other energy efficiency/carbon saving projects and not used to off-set other budget pressures faced by local authorities.
7. CES/ECM have been asked to look at how they could assist the Council with maximising the contribution from solar PV to the shortfall in the Home Insulation scheme budget. Negotiations are continuing on this matter.
8. It is recommended that Executive Board ring-fence Solar PV income for energy efficiency and low carbon measures, such as the Home Insulation scheme.
9. It also recommended that Executive Board grant delegated authority to the Director of Environment and Neighbourhoods to conclude negotiations with CES/ECM, secure Prudential Borrowing against the Solar PV Initiative income and secure delivery partners for the Home Insulation scheme as set out in this report.

1.0 Purpose Of This Report

- 1.1 This report advises Executive Board of progress with the Solar Photovoltaic (PV) Panels Initiative and seeks approval to ring-fence the income generated from the initiative to fund a city-wide, private sector free insulation scheme (the Home Insulation scheme) and other energy efficiency/carbon reduction projects.

2.0 Background Information

- 2.1 In December 2010 a report on the Solar PV Panel Initiative was submitted to the Executive Board. Approval was given to the formation of a partnership with CES/ECM (two social enterprises specialising in energy and financing) to install at least 1,000 solar PV systems on Council homes before March 2012. One of the other resolutions was to explore the use of income from this scheme as collateral for prudential borrowing for a private sector free insulation scheme.
- 2.2 The Administration is committed to developing and delivering a free cavity wall and loft insulation scheme for viable private sector properties in the city. If delivered in full, this will insulate c64,500 homes, saving residents £11m on their fuel bills annually and reducing CO₂ emissions by 68,000 tonnes p.a. The implementation of the scheme will take c4,800 households out of fuel poverty, reducing fuel poverty across the city by c2%.
- 2.3 To ensure efficient delivery, a ward-by-ward approach will be used, utilising ongoing citywide promotion and intensive community marketing within each ward. Letters will be delivered to every private sector home in the city over the life of the project. These will be followed up by assessors visiting every home at least 3 times to promote and explain the scheme.
- 2.4 Data will be collected for all properties visited and energy advice will also be offered. All properties that are suitable for cavity and/or loft fill will be included in the scheme and the appropriate measures installed, subject to funding availability.
- 2.5 Fuel poor households in 'hard to treat' properties that are not suitable for cavity or loft fill will be assisted via energy advice, benefit checks to maximise income and, where appropriate, referrals to Warm Front and Health Through Warmth for heating measures. The data collected for these properties will be used to inform and direct future schemes targeted at 'hard to treat' properties via the Green Deal, Renewable Heat Incentive, Energy Company Obligation or other funding mechanisms that become available. This approach is consistent with the Leeds City Region Domestic Energy Efficiency Project (DEEP) proposal to the Regional Growth Fund, which has the potential to bring additional capital to the project and to reduce costs through economies of scale. A total of £2.6m has been bid for to be allocated to Leeds. The results of the bid should be available to report verbally to the Executive Board.
- 2.6 Any vulnerable householders identified during the survey process will be signposted to other partner services where appropriate.
- 2.7 There is £1.3m currently identified for this scheme in the capital programme for 2011/12. With match funding from utilities, under their CERT obligations, this would allow measures to be installed to c6,500 properties (3 wards). Further funding needs to be identified to continue the scheme beyond 2011/12, as described in Exempt Appendix 1. One potential source of funding is income from the profit share

of the Solar PV Panel Initiative. It is recommended that Executive Board ringfence the income to this objective.

2.8 A Project Board has been established to provide governance for both projects. The Board considered 4 options:

- 1,000 installations in partnership with CES/ECM;
- 5,000 installations in partnership with CES/ECM;
- 10,000 installations in partnership with CES/ECM; and
- 5,000 installations in partnership with CES/ECM plus another 5,000 in-house.

2.9 A number of factors were taken into account when considering these options, including:

- There are only a finite number of suitable roofs within the ALMO stock – initial analysis was 8-9,000 properties – although the exact number cannot be assessed until detailed surveys have taken place;
- It is likely that tenants in some suitable properties will not take up the offer of PV installation, further reducing the number of properties that could be included;
- The Feed In Tariffs, from which project incomes are derived, are only paid at the highest rate until the end of March 2012 and are currently under review by government;
- Even if a sufficient number of properties could be identified, there are likely to be significant logistical difficulties in installing 10,000+ systems by March 2012; and
- There is a risk that a ‘tipping-point’ could be reached, where achieving a higher number of installations would result in a lower level of customer service.

2.10 The Board noted that 1,000 installation was very low risk but would not maximise income from the initiative.

2.11 They also noted that 10,000 installations was unlikely to be achieved due to the finite number of suitable roofs and the logistical difficulties involved. There were also concerns about the potential drop in customer service associated with attempting to install so many systems in a relatively short space of time.

2.12 The Board also noted that there were two considerable financial risks involved in delivering 5,000 installations in-house. Firstly there was the risk associated with committing the Council to significant levels of up-front capital investment to purchase and install the PV systems, estimated at c£30m. Secondly there was a risk of not achieving all installations in 2011/12. Installations after this date would attract a lower level of Feed In Tariff, reducing the income generated and financial viability of this option.

2.13 As a result, the Board recommended the installation of 5,000 PV systems in partnership with CES/ECM by March 2012. This presented the most prudent option and struck the optimum balance between maximising income, ensuring deliverability and minimising risk.

2.14 Installation progress will be closely monitored and, if ahead of schedule, additional properties will be added into the scheme, subject to agreement with the project operator.

3.0 Main Issues

- 3.1 Negotiations are ongoing with CES/ECM regarding the detailed legal structures that will be established to deliver the solar PV initiative.
- 3.2 During these negotiations it has become clear that, under current proposals, there are two separate revenue income streams arising from the PV initiative. Both are derived from the Feed In Tariff payments that are generated by the PV systems and will be paid for 25 years. These are:
- a Roof Access Fee – paid for allowing PV systems to be installed on council properties and granting ongoing access for maintenance, monitoring etc; and
 - a Profit Share – paid after capital funding and operational costs have been accounted for.
- 3.3 The Profit Share income is anticipated to be General Fund, although this is subject to the detail of the Roof Access Agreement, which is still in negotiation. The Roof Access Fee income is HRA.
- 3.4 Both income streams could be used to finance Prudential Borrowing. Prudential Borrowing based on the Profit Share income could be used to fund the Home Insulation scheme. Prudential Borrowing based on the Roof Access Fee income could be used to fund energy efficiency/carbon saving works to the HRA stock.
- 3.5 CES/ECM's standard operating model is that the Profit Share income is split 50:50, with half paid directly to the council and half paid into a local charitable foundation (which they will establish) for use on other energy efficiency/carbon reduction projects within the city. This aims to ensure that at least 50% of the profit share income generated is re-invested in other energy efficiency/carbon saving projects and not used to off-set other budget pressures faced by local authorities.
- 3.6 CES/ECM are working with the Council to maximise the contribution from the solar PV scheme to the shortfall in the Home Insulation scheme budget. As the local charitable foundation is still in the process of being established they are unable to pre-empt any decisions that will be made by the board of trustees. However, they have offered to consider proposals regarding the provision of further funding for the Home Insulation scheme and for funding works to hard-to-treat properties. Negotiations are continuing on this matter.
- 3.7 Further details of the estimated income generated by the PV scheme, the amount of Prudential Borrowing that could be accessed for the Home Insulation scheme and the funding shortfall for the Home Insulation scheme are contained in Exempt Appendix 1.

4.0 Implications For Council Policy And Governance

- 4.1 Both the Solar PV Initiative and Home Insulation Scheme will make significant contributions to improvement priorities in the Leeds Strategic Plan and Climate Change Strategy, including to 'Reduce emissions from public sector buildings, operations and service delivery, and encourage others to do so' (LSP ENV-02), 'Improve the quality and sustainability of the built and natural environment' (LSP ENV-05), 'Reduce premature mortality in the most deprived areas' (LSP H&W-01), 'Increase the number of vulnerable people helped to live at home' (LSP H&W-07),

'Improve safeguarding arrangements for vulnerable children and adults through better information' (LSP H&W-09), 'Reduce the number of people who are not able to adequately heat their homes' (LSP TP-4 (NI187)), 'Reduce worklessness across the city with a focus on deprived areas' (LSP TP-10), 'Reduce the number of children in poverty' (LSP TP-11), 'Support landlords to install cost-effective energy efficiency measures into all households as quickly as possible and to trial and finance new cost-effective insulation and renewable technologies' (CCS-2).

- 4.2 Detailed consultation with ward members, ALMOs and local communities will take place once the specific areas and properties proposed for inclusion in the PV initiative are determined and a ward by ward programme is agreed for the Home Insulation scheme.

5.0 Legal And Resource Implications

- 5.1 Utilising the PV income to finance Prudential Borrowing would commit the Council to a level of further borrowing as detailed in Exempt Appendix 1.

- 5.2 However, there will still be a funding shortfall for the Home Insulation scheme. Please see Exempt Appendix 1 for further details.

6.0 Conclusions

- 6.1 A commitment from the Council to ring-fence income received from the PV initiative for the Home Insulation scheme and other energy efficiency/carbon saving projects would make a positive contribution to the ongoing negotiations with CES/ECM regarding the utilisation of PV income.

- 6.2 Utilising the PV income to finance Prudential Borrowing maximises its impact by funding significant capital investment in home insulation over the next 3-4 years that can be repaid over the life of the PV income stream.

- 6.3 Levels of fuel poverty are disproportionately higher amongst solid-walled, 'hard to treat' properties. Although these properties will not be insulated via this scheme, households will be assisted via benefit checks and referrals to other schemes. The collection of data on these properties will also ensure the Council is well placed to direct action towards these households via the Green Deal, Renewable Heat Incentive and Energy Company Obligations, once it is clear how these schemes will work.

7.0 Recommendations

- 7.1 That Executive Board agree to ring-fence income generated from the Solar PV Initiative to finance Prudential Borrowing for the Home Insulation scheme and/or energy efficiency/carbon reduction works to the HRA stock as set out in Exempt Appendix 1.

- 7.2 That Executive Board give delegated authority to the Director of Environment and Neighbourhoods to conclude negotiations with CES/ECM, secure Prudential Borrowing against the Solar PV Initiative income and secure delivery partners for the Home Insulation scheme.

8.0 Background Papers

- 8.1 Executive Board Report on Solar PV Initiative – 15 December 2010.