

**EXECUTIVE
COMMITTEE**

15th November 2011

SOLAR PANELS – GOVERNMENT CONSULTATION

Relevant Portfolio Holder	Cllr Brandon Clayton, Portfolio Holder for Housing, Local Environment & Health
Portfolio Holder Consulted	Yes
Relevant Head of Service	Kevin Dicks, Chief Executive
Wards Affected	All
Ward Councillors Consulted	Not Applicable
Key Decision	

1. SUMMARY OF PROPOSALS

1.1 The Government is consulting on fast-tracking changes to the current solar photo voltaic (PV) feed-in tariff scheme – essentially reducing the tariff Officers were expecting by 50% therefore doubling the payback time. The proposed new tariff is 21 pence per kWh generated to be paid from 11th December 2011. Permission for the proposed solar PV scheme was based on a tariff sum of 34.1 pence per kWh generated.

1.2 The Government is also planning to introduce a new multi-installation tariff rate (for which Redditch Borough Council would qualify) from April 2012, further increasing the urgency of installing the schemes before 31st March 2012. Depending on the site, the relevant tariff ranges between 16.8 pence/kWh – 12.2p/kWh. In addition, from April 2012, any building applying for the feed in tariff will have to be energy efficiency rated C or above. The Town Hall is E; the Palace Theatre is B, we do not currently measure the Crematorium but it would not perform well based on the EPC system There would be further cost implications to bring the buildings up to a C rating.

Table 1: Summary of tariff (pence per kWh generated) possibilities per site

Site	Likely system size* (maximum)	Old tariff (actual index linked figure)	Proposed reduced tariff (from 12th December 2011?)	Proposed aggregated tariff (April 2012?)
Town Hall	<49kWp	31.4 (32.9)	15.2	12.2
Palace Theatre	<10kWp	31.4 (37.8)	16.8	13.4
Crematorium	<10kWp	31.4 (37.8)	16.8	13.4
Various Housing Schemes**	Mainly <10kWp	31.4 (37.8)	16.8	13.4
Various Housing Schemes**	some potential for <4kWp	41.3 (43.3)	21	16.8

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** Officers cannot estimate income for the housing sites as this depends on which sites are chosen.

2. RECOMMENDATIONS

The Committee is asked to RESOLVE that

- 1) authority be delegated to the Climate Change Manager, in consultation with the Portfolio Holder for Health and Housing, to respond to the consultation based on the Committee's comments; and,**
taking into account the revised financial projections as detailed in Appendices 1- 3 to the report,
- 2) the Council proceed in accordance with existing approvals for the installation of solar panels at the three main sites identified (Town Hall, Palace Theatre and Crematorium);**
- 3) the Council proceed in accordance with the existing approvals for social housing projects, although acknowledging that further delay may result in fewer sites being completed by 31st March 2012; and**
- 4) Officers be instructed to continue to prioritise installation of solar panels at the four main sheltered schemes.**

3. KEY ISSUES

Financial Implications

- 3.1 The Council pulled out of the original agreement to procure solar panels through the original intended route.
- 3.2 Officers then asked for expressions of interest from nineteen companies listed on the Yorkshire Procurement Group, but only received one positive response. However this is probably due to the uncertainty in the market (the closing date was the same as when the Government announced their proposed changes).
- 3.3 Officers can also try again with Birmingham Energysavers purchasing framework, although uncertainty within the industry and market is likely to remain a big problem for the Council as providing quotes when the future is uncertain and problematic, and some companies may not be sustainable now.

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- 3.4 Market testing based on the original procurement exercise has allowed more clarification on the financial projections.
- 3.5 However, because demand has rapidly increased following the announcements, contractors' prices started to rise and it is impossible to predict what will happen to the market moving forward, these figures will be based on the initial procurement exercise, although should be considered with some caution.

Legal Implications

- 3.6 The feed-in tariff is a statutory Scheme but this does not preclude the Government from amending its provisions, which is what it proposes to do.
- 3.7 The consultation closes on 23rd December and a final response should be available in mid-late January 2012. Despite this, the proposed reference date (implementation date) for changes is 12th December 2011.
- 3.8 The Government's decision could be challenged by an application to the High Court for a Judicial Review. However, there is no indication that any of the stakeholders is considering launching a legal challenge to the decision.

Service / Operational Implications

- 3.9 Installation and generation of power is not possible before 12th December 2011.
- 3.10 If the Council continues along its proposed path with urgency, although the timescale is increasingly tight, it should be possible to install the schemes by 31st March 2012 as planned, subject to no procurement barriers arising.
- 3.11 Any further delay at this stage puts the scheme at severe risk of non-completion.
- 3.12 Even if the tariff is reduced by 50%, the arguments originally put forward for the original decision to invest in solar PV both to reduce carbon emissions and to reduce our vulnerability to rising electricity costs remain.

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Customer / Equalities and Diversity Implications

- 3.13 There has been significant publicity about this scheme and the Council may risk reputational damage if it pulls out now, especially on the social housing scheme. However, there is no way that the Council could have anticipated this happening.

4. RISK MANAGEMENT

- 4.1 In such a fast changing policy environment and consequent unpredictability of how the market will respond, the Council can only respond reactively.
- 4.2 It is unclear how the consultation will conclude – there is significant opposition from both the public and private sector as to the severity of a 6 week timescale to complete planned projects and the Government may decide that the original date for significantly reducing the tariff should remain fixed at 1st April 2012.

5. APPENDICES

Appendix 1 – Original scheme finance details*

Appendix 2 – Scheme finance details if the 12th December date is agreed*

Appendix 3 – Scheme finance details if installations are not completed before 31st March 2012*

6. BACKGROUND PAPERS

Government Consultation Document (Department for Energy and Climate Change)

Previous published Council reports and minutes.

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Appendix 1 – Original scheme finance details / expected income*

Site	Likely system size* (maximum)	Expected annual generation yield (kWh)	Annual income from tariff (31.4p)	Fuel bill savings per year (assume 70% used)	Total income and savings per year	Payback time (years)	Total profit after 25 yrs once paid back capital
Town Hall	<49kWp	43,000	13,502	2,709	16,211	6.97	292,284
Palace Theatre	<10kWp	8,000	2,512	504	3,016	9.61	46,416
Crematorium	<10kWp	8,000	2,512	504	3,016	9.28	47,411
Total	c. 70 kWp	59,000	18,526	3,717	22,243	Av. 8.62	£386,111

This provides a rate of return on the investment of 12%.

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**Appendix 2 – Scheme finance details if the 12th December date is
agreed and installation is completed before 31st March
2012**

Site	Likely system size* (maximum)	Expected annual generation yield (kWh)	Annual income from tariff	Fuel bill savings per year	Total income and savings per year	Payback time (years)	Total profit after 25 yrs once capital paid back
Town Hall	<49kWp	43,000	(15.2p) 6,536	2,709	9,245	12.2	118,336
Palace Theatre	<10kWp	8,000	(16.8p) 1,344	504	1,848	15.69	17,204
Crematorium	<10kWp	8,000	(16.8p) 1,344	504	1,848	15.15	18,202
Total	c. 70 kWp	59,000	9,244	3,717	12,941	Av.14.34	£153,742

This provides a rate of return on the investment of 6%.

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Appendix 3 – Scheme finance details if Installations are not completed before 31st March 2012* (aggregation)

Site	Likely system size* (maximum)	Expected annual generation yield (kWh)	Annual income from tariff	Fuel bill savings per year	Total income and savings per year	Payback time (years)	Total profit after 25 years once capital paid back
Town Hall	<49kWp	43,000	(12.2) 5,246	2,709	7,955	14.20	85,914
Palace Theatre	<10kWp	8,000	(13.4) 1,072	504	1,576	18.40	10,401
Crematorium	<10kWp	8,000	(13.4) 1,072	504	1,576	17.76	11,410
Total	c. 70 kWp	59,000	7,390	3,717	11,107	Av.16.78	£107,725

This provides a rate of return on the investment of 4%.

Assumptions

Fuel bill savings are based on our current cost of 9p/kWh bought.

For simplicity, factors that work in our favour and will reduce payback times and slightly increase income (the fact that the tariff is index linked, potential increases in fuel inflation costs and any energy exported back to the grid at 3p/kWh) have been ignored for the purpose of these calculations.

For simplicity, factors that may offset this such as interest paid on the loan, and small maintenance budgets have also been ignored.

Assumes 70% of energy is used on site (Monday-Friday).

These figures are based on this pricing split:

Town Hall - £113,000

Palace Theatre – £29,000

Crematorium - £28,000

*As per the previous report on this scheme, the final system size and location is subject to detailed survey by the winning contractor and therefore these figures are only indicative.