

GROWTH AND INFRASTRUCTURE SCRUTINY COMMITTEE

THURSDAY 17 FEBRUARY 2011

Update on OCC Renewable Energy Projects

Background

1. Installing solar panels on the roofs of Council-owned buildings has been identified as an income generating opportunity through the 2010/11 E&E Business Strategy that can contribute to efficiency savings through improved energy management. Solar panels are relatively simple to install and maintain, and many of the Council's properties are well suited to this technology. The Council is in a good position to take advantage of the business case outlined below and invest in this renewable energy technology.

Feed in Tariffs (FITs)

2. On 1st April 2010 the Government introduced the 'Feed-In Tariff' (FIT) scheme to encourage the uptake of renewable energy projects in the UK. The scheme pays solar panel generators a guaranteed price for the electricity they produce over a 25-year period. Return on investment of between 7% and 10% is expected for a typical small-scale system.
3. The financial benefits of the scheme are skewed to benefit early adopters. The Feed-In Tariff (FIT) for projects installed between April 2012 and March 2013 will be 9% lower than those installed between April 2011 and March 2012. The tariff will then be revised, or possibly removed, for projects installed after March 2013, depending on the uptake of solar panels at the time. Hence it is critical that the Council moves quickly to maximise its financial gains and energy benefits.
4. The Feed-In Tariff has stimulated the market, and the Council has a number of installation options available. A number of suppliers are offering to install the panels for free in exchange for the Feed-In Tariff income over a 25-year period. This model is not advantageous to the Council as valuable long-term revenue streams would be handed over to third parties.
5. The optimum model for the Council is to invest its own funding in solar panels to maximise the long term financial benefits, taking advantage of both the guaranteed future revenue streams and reduced energy bills. Similarly, schools will maximise their financial returns by either taking out a loan or using their own capital to pay for their systems.

Proposed Approach for Non-School Sites

6. Given this background a business case was submitted to the Capital Investment Board (CIB) in December 2010 recommending the approval of a £730,000 investment programme to install 200kW of solar panels on non-school property by March 2012. The CIB recommended these capital funds be released, and a final decision will be made in February at the full Council.
7. Below is a summary of the financial implications for the Council, for the installation of 20 x 10kW solar panel systems comparing 2 options of funding: 1. from existing

OCC capital resources; 2. taking out additional Prudential Borrowing. A number of assumptions were made that are available upon request.

Table 1: Financing options and return on investment

	<i>Option 1 No Borrowing</i>	<i>Option 2 Prudential Borrowing</i>
Capital Requirement	£730,000	£0
Present Value of Net Revenue Budget Savings over 25 years	£1,008,120	£267,100
Net Present Value of the Programme	£285,180	£267,100
Simple payback	12 years	12 years
Rate of Return	10%	7%

8. The Capital Investment Board has agreed to Option 1 which allows for revenue to be generated through the Feed-in Tariffs totalling approximately £25,000 per annum from 2012/13 onwards. All installations, maintenance and project management costs have been factored into the financial analysis.

Proposed Approach for School Sites

9. A scheme to assist schools with the installation of solar panels is currently being developed. This scheme will likely involve the following support mechanisms:
- The Council could offer the school *financial assistance* in the form of a loan, to allow the schools to fund the upfront costs of the systems. The schools are then able to accrue all of the financial benefits resulting from the Feed-In Tariff once the loan is paid off.
 - The Council could set up a *procurement framework* to assist schools with the process of procuring their systems, ensuring value for money.
10. The above support may only be made available to schools that are in the process of installing, or have already installed, energy efficient interventions.
11. A meeting has already been held with the finance leads in CYP&F. A paper, outlining the proposed scheme, will be submitted to the Schools Forum's Services and Contracts Subcommittee for approval at their next meeting in February.
- 12. The Growth & Infrastructure Scrutiny Committee is invited to note the report and make comments to the Cabinet member.**

Martin Tugwell, Deputy Director (Growth & Infrastructure)

Contact Officer: Susan Kent, Environment & Climate Change Manager,
(tel: 01865 815089)