



DECISION TITLE: Installation of Solar Photovoltaic (PV) Panels to Schools and Corporate Buildings - Renewable Energy and Energy Efficiency Scheme and Energy Performance Contract
ENTER NAME OF CABINET MEMBER EXERCISING DELEGATED POWERS – Councillor Seaton, Cabinet Member for Resources
ENTER MONTH IN WHICH DECISION IS BEING TAKEN – October 2014
Deadline date: October 2014

Cabinet portfolio holder: Responsible Director:	Councillor Seaton, Cabinet Member for Resources John Harrison, Executive Director, Resources
Is this a Key Decision?	YES If yes has it been included on the Forward Plan : Yes Unique Key decision Reference from Forward Plan : KEY/ 25AUG14/01
Is this decision eligible for call-in?	YES
Does this Public report have any annex that contains exempt information?	YES The attached annex is exempt and NOT FOR PUBLICATION by reason of paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 in that it contains information relating to financial or business affairs namely the commercial approach details. The public interest test has been applied to the information contained within the exempt annex and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it because to do so could compromise the Council's position in any future procurement activity for similar works.
Is this a project and if so has it been registered on Verto?	YES / NO Verto number:

RECOMMENDATIONS

Authority is sought from the Cabinet Member to:

1. Award a contract to Mears Limited to carry out the installation of Solar Photovoltaic (PV) Panels to corporate buildings via the existing Solar Photovoltaic Framework Agreement which was approved by cabinet member decision notice JAN12/CMDN/002 dated 6 January 2012. The cost of the works of £3,657,750 will be paid from the Invest to Save capital budget on the basis that this phase of works meets the set of principles which were outlined in the Medium Term Financial Strategy to 2021/22. The project will result in net income of £6,621,753 over a 20 year period as set out in section 4.14 of this report.
2. Delegate authority to the Executive Director, Resources to enter into Access Agreements and Power Purchase Agreements with tenants of the corporate buildings referred to at 4.2 of this report.
3. Award a contract to Honeywell Building Solutions, a trading name of Honeywell Control Systems Limited for the installation, performance monitoring and maintenance of Solar Photovoltaic (PV) Panels on school buildings via the existing Energy Performance (EnPC) Framework which was approved by Cabinet member decision notice JUN13/CMDN/054. The cost of the works of £491,899 will be paid from the Invest to Save capital budget on the basis that this phase of works meets the set of principles which were outlined in the Medium Term Financial Strategy to 2021/22. The costs of performance monitoring and maintenance of £462,355 over 20 years will be funded from income generated. Overall the project will result in net income of £199,784 over a 20 year period as set out in section 4.14 of this report.
4. Award a contract Mears Limited to carry out the installation of Solar Photovoltaic (PV) Panels on school buildings via the existing Solar Photovoltaic Framework Agreement which was approved by cabinet member decision notice JAN12/CMDN/002 dated 6 January 2012. The cost of the works of £2,876,250 will be paid from the Invest to Save capital budget on the basis that this phase of works meets the set of principles which were outlined in the Medium Term Financial Strategy (MTFS) to 2021/22. The project will result in net income of £2,200,470 over a 20 year period as set out in section 4.14 of this report.
5. Delegate authority to the Executive Director, Resources to enter into Access Agreements and Power Purchase Agreements with individual schools for the installation of solar panels and for the sale of electricity produced to those schools respectively.

1. SUMMARY OF MAIN ISSUES

- 1.1 This report is submitted to the Cabinet Member for Resources to approve the installation of PV roof installations to PCC properties by using both the Energy Performance (EnPC) Framework and the Solar Photovoltaic Framework. Both framework partners' schemes include the costs for design, supply, install, operate and maintenance of the solar photovoltaic solutions.
- 1.2 Honeywell Building Solutions will undertake the operational maintenance and performance monitoring for the schools where they supply and fit the Solar PV at a cost of £462,355 over 20 years. The operational maintenance and performance monitoring of the corporate buildings and schools supplied by Mears at an indicative cost of £254,651 over 20 years will be subject to a tendering process in accordance with the Council's contract rules and public procurement regulations.

- 1.3 An estimate of contract monitoring and advisor costs have been included in the financial models. The amount of costs allocated to the overall project is contingent on the number of schools and leased corporate buildings agreeing to participate in the scheme.

2. PURPOSE OF THIS REPORT

- 2.1 This report is for Cabinet Member for Resources to consider exercising delegated authority under paragraph 3.3.7 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph 3.9(b)
- 2.2 The attached report/background information is NOT FOR PUBLICATION in accordance with paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972 in that it contains information relating to financial or business affairs namely the commercial approach details. The public interest test has been applied to the information contained within the exempt annex and it is considered that the need to retain the information as exempt outweighs the public interest in disclosing it as to do so could compromise the Council’s position in any future procurement activity for similar works

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	
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4. DETAILS OF DECISION REQUIRED

- 4.1 On 6 January 2012 a cabinet member decision notice was approved which awarded the contract for the Solar Photovoltaic Framework Agreement to Mears Ltd. In addition the Energy Performance (EnPC) Framework was approved by Cabinet members decision notice JUN13/CMDN/054 and awarded to Honeywell Building Solutions (a trading name of Honeywell Control Systems Ltd) on 21/06/2013 for the purposes of carrying out energy conservation measures (including the installation of Solar Photovoltaic panels) at PCC properties.

Corporate Buildings

- 4.2 A desktop analysis showing the benefits achievable in fitting Solar PV to roofs has been completed by Mears for three corporate buildings – Alfric Square, Saville Road and Westcombe Industries. Prior to the Solar PV build out all three buildings will require roofing works (funded from approved capital budgets), unrelated to Solar PV, which are necessary for the upkeep of the buildings. It is expected all works will be completed prior to the change in Feed in Tariff rates in March 2015 referred to in paragraph 4.6 below. Should the works be delayed for any reason there is a risk that the FIT rates may reduce further. Although this will impact on the overall net benefits the scale of the benefits forecast will be sufficient to absorb this reduction.

For the corporate buildings where PCC may choose to sell the electricity produced to the tenants or to grid each building will require a separate Access Agreement and Power Purchase Agreement (PPA) signing before installation can commence.

- 4.3 The installations on Alfric Square and Saville Road are subject to obtaining the landlords’ consent as these buildings are not in council ownership and are rented under long term leases. Once consent has been obtained the Executive Director, Resources, will award the contract under delegated powers as per the report’s recommendation.

4.4 Schools

Peterborough schools account for half of the Council's total carbon emissions. Therefore, Peterborough City Council has developed a long term, sustainable, energy efficiency scheme to support schools seeking to reduce their energy consumption which will result in mitigating increased energy costs for the school as well as helping to reduce the Council's contribution to the causes of climate change. In connection with the Council's drive to reduce energy costs for schools, additional energy conservation measures have been carried out at 9 schools during the summer holiday by Honeywell under the Energy Performance (EnPC) Framework.

Honeywell has also carried out a Solar PV desk top analysis on eight schools which show a return on investment. Mears has also carried out Solar PV desk top analysis on a further 37 schools which also show a return on investment.

Prior to PV build out each school will need to sign up to an Access Agreement and PPA to purchase the solar power produced. Negotiations are currently underway with each individual school to sign a PPA committing that school to buying the power which is produced from the panels. The PPAs and Access Agreements will be signed once the Cabinet Member has given approval to proceed with this scheme with a separate contract award for each school.

Process

The process leading to completion of the programme for schools follows three distinct stages set out below;

- The Cabinet Member approves the award of contracts to Mears and Honeywell
- The Cabinet member delegated authority to the Executive Director, Resources
- The Executive Director, Resources, obtains signed PPA's and Access Agreements with individual schools and the tenants of corporate properties

The contracting arrangements for delivering the PV programme to schools is set out below.

Honeywell Schools PV

This CMDN proposes that where Honeywell is carrying out additional energy conservation measures at certain of PCC's schools it will also carry out the installation of PV to those buildings' roofs where appropriate. Familiarity with these buildings will result in lower costs and increased efficiency in these cases.

Mears Schools PV

Where Honeywell is not carrying out any energy conservation measures then Mears will undertake the works to ensure the works can be installed in the quickest time possible thus providing the Council with the best opportunity to obtain the maximum feed in tariff rate before the next drop in tariff on the 1st January 2015.

Overview

- 4.5 Installation of solar PV will enable PCC to take advantage of the Feed-in Tariffs (FiTs) scheme. The FiTs scheme provides for a minimum payment to the Council for all electricity generated by the system in addition to the payments made by schools for the energy which they consume.
- 4.6 The Department for Energy and Climate Change (DECC) has confirmed that the level of FiTs payments will decrease over time, with the next reduction coming into force on the 1st

January 2015 and the 31st March 2015. DECC has also announced further reviews of the FiT and is likely to recommend reductions in the rate over time.

- 4.7 As PCC already has more than 25 solar installations all new installations will only be eligible for 90% of the FiT tariff. A lower FiT tariff, set at 90% of the standard tariff, will be applied where the FiT generator or nominated FiT recipient has aggregated 25 or more solar PV installations
- 4.8 Mears Ltd & Honeywell Building Solutions have the capacity to build and install solar PV panels to approximately 45 properties each prior to the anticipated January 2015 reduction in the feed in tariff. This will help to ensure maximum revenue from the FiT scheme during this period as the Council will receive the tariff at the higher rate. The contracts will require completion of the works and accreditation by the end of December 2014. For corporate buildings the timeline is March 2015 and the financial implications of a reduction in the FIT rate from January 2015 of 3.5% are reflected in the financial summary.
- 4.9 The proposed installations will generate electricity and the Council will claim the FiT payment to pay back the initial investment costs. The Council will be responsible for the maintenance of the panels, whilst the school and corporate buildings will receive the electricity generated at a fixed price per kWh linked to RPI over 25 years. Electricity prices are forecast to increase significantly in the future, importantly at a rate above the Retail Price Index (RPI). This scheme will secure the price for electricity generated via the solar PV panels, increasing at the rate of RPI for 25 years, thus reducing PCC's exposure to energy market volatility.

Implications of schools not meeting the January 2015 FIT Deadline

- 4.10 While contractors are not contractually obliged to complete the works prior to January 2015 they will use their best endeavours to do so. The implications of not meeting the FIT deadline of January 2015 are a likely reduction in the FIT rate of 3.5%. Based on the assumption that FIT income represents 60% of the total income showing in the financial models (the remaining 40% being paid by energy users) this reduction in the rate would reduce the overall saving by £178,840.
- 4.11 Although it's almost certain that there will be further FIT rate reductions post January 2015 the scale of those reductions is uncertain. Currently the income levels showing in the financial models demonstrate that they have the capacity to absorb reductions in FIT rates up to, on average, 49% of current rate levels before they would breach the break-even point.

Accessing Invest to Save capital budget to fund this phase of works

- 4.12 The capital programme includes a budget of £94m to support Invest to Save schemes. This budget is included on the basis that any projects will deliver savings to the Council, and hence in the current MTFs there is no impact on the bottom line from its inclusion.
- 4.13 Following recommendations at the Scrutiny meeting on 30th January 2012, which were subsequently agreed within the Budget 2012/13 and the setting of the Medium Term Financial Strategy, a set of principles were approved which outlined how the Invest to Save budget should be spent. The following table shows how this project meets the criteria for Invest to Save funding:

Principles outlining how Invest to Save Budget should be spent:	Does this project meet the principles?
Each project would need to complete the Council's standard full business case. This would include the required officer evaluation and approval as for all business cases	Each project will receive approval prior to proceeding through PCC internal governance process.
Schemes should deliver savings that improve the financial position of the Council presented in this MTFS	Every solar scheme undertaken will make a surplus. A summary is provided in the Exempt Annex. The surplus income generated will contribute to the renewable energy efficiency targets set out in the Council's Medium Term Financial Strategy.
Schemes will be also be considered that maintain the MTFS position (i.e. neither improve or worsen the position), but that contribute towards delivering service improvements or towards achievement of Council priorities	N/A
The MTFS assumes that payback from schemes starts in the same year that the project starts. If this is not the case, proposals will need the following additional analysis in the business case: <ol style="list-style-type: none"> 1. A full net present value analysis 2. An outline of how the finances will be covered across financial years if schemes are not cost neutral within each financial year 	Installations will be completed in an agreed timeframe and the financial models have a positive NPV overall. There will be a small amount of investment interest costs in 2014-15 whereas project income will mainly come on stream from 2015-16. This timing difference will be covered by the Council's overall capital financing budgets.
Proposals will need to be subject to the Council's decision making requirements e.g. any schemes above £500k will be subject to a Cabinet Member Decision Notice approved by the Cabinet Member for Resources and the relevant portfolio holder	This phase of works is above £500k and therefore this CMDN has been produced in accordance with Council governance requirements as well as meeting the criteria for Invest to Save budget.
An update on schemes should be included in future financial reports to Cabinet during the year	Future reports will be provided to Cabinet as part of the normal budgetary control reports

4.14 The table below sets out the current proposals received and gives an indication of both capital costs and returns assuming the January 2015 FIT deadline is achieved for schools and the corporate buildings are completed by March 2015.

Summary	Mears Corporate	Honeywell Schools	Mears Schools	Total
Capital Value	£ 3,657,750	£ 491,899	£ 2,876,250	£ 7,025,899
PCC internal costs	£ 5,400	£ 16,000	£ 66,600	£ 88,000
O&M costs	£ 24,658	£ 462,355	£ 229,993	£ 717,006
Insurance	£ 304,813		£ 239,688	£ 544,501
interest repayment	£ 920,883	£ 244,899	£ 1,488,242	£ 2,654,024
Total costs	£ 4,913,504	£ 1,215,153	£ 4,900,773	£ 11,029,430
Guaranteed Energy Saving	£ 11,535,257	£ 1,414,937	£ 7,101,243	£ 20,298,874
Net Benefit to PCC	£ 6,621,753	£ 199,784	£ 2,200,470	£ 9,269,444
Annual Impact	£ 331,088	£ 9,989	£ 110,024	£ 463,472
CO2 Tonnes Savings per annum	953	488	177	1,618

NB: Should the January 2015 FIT deadline not be achieved by schools and the rate is reduced by 3.5% then the overall net benefit to PCC would be reduced by £178,840 to £9,090,604

- 4.15 Given that commissioning of Schools PV works is subject to schools signing up for the installations there is a risk that the December 2014 FiT deadline may not be met. However, by giving authority to the Executive Director, Resources to approve these projects as soon as individual schools sign up this will quicken the process for works to be carried out and assist with achieving the Feed in Tariff at the highest rate available at the time and before further changes are implemented by DECC.
- 4.16 The exempt annex of this report outlines the schools to be approached for solar installations as well as a summary 20 year financial model for each site.

5. CONSULTATION

- 5.1 Consultations have taken place across departments in relation to all PCC assets including schools in order to assess and identify the viability of PV installations at various sites across Peterborough

6. ANTICIPATED OUTCOMES

- 6.1 The Council will be in a position to move further forward with plans to implement more sustainable energy sources and thereby reduce the impact of climate change to the environment. In addition, the generation of new income streams will assist the Council in addressing savings targets linked to renewable energy contained in the Medium Term Financial Strategy.

7. REASONS FOR RECOMMENDATIONS & ANY RELEVANT BACKGROUND INFORMATION

- 7.1 Assists with the Council's ambition and vision for the future of Peterborough to meet the diverse needs of our communities as set out in the Sustainable Community Strategy

- 7.2 Supports the Council's aspirations to be the UK's Environment Capital by using sustainable energy sources.
- 7.3 Enables the Council to support schools further with energy efficiency improvements which will ensure the electricity generated or that which is purchased is not wasted. Improvement will reduce overall energy demand thereby helping to reduce energy bills, exposure to price increases and improve schools' energy performance rating
- 7.4 Generates a surplus income which will contribute to the Renewable Energy Savings targets in the MTFs.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 Procuring each of the works as standalone single contracts through individual contractors: following the traditional tender process for each individual contract would significantly increase the risk of securing the works in time to maximise the income from the FiTs Scheme and potentially increase costs. This would also increase the risk of extending the programme of works which would jeopardise the Council's aspirations to be the UK's Environment Capital.
- 8.2 Do nothing: This would result in a lost opportunity for Peterborough City Council to install the panels at the higher feed in tariff and hence reduce a long term income stream to the Council to offset future budget reductions.

9. IMPLICATIONS

- 9.1 The Council will use both Mears Limited and Honeywell Building Controls through existing procured frameworks to design, supply and install solar photovoltaic panels to ensure the maximum build out in a shortest time possible.
- 9.2 Financial - The Council will enter into an agreement with each school for the purchase of power produced. The works will all be funded from the Invest to Save capital budget and the invest to save criteria will be met for each project. This included the development of a business case, with sensitivity analysis undertaken against key assumptions. This process would be repeated for the further phases.
- 9.3 Legal – The Council's internal governance requirements have been complied with and the solar PV works will be carried out under the terms of framework agreements procured as a result of legally compliant procurement processes. Additional legal agreements will be entered into with the schools which will support the Council's energy strategy.
- 9.4 Environmental – The Council is committed to using sustainable energy sources and will invest in, demonstrate and promote the benefits of energy efficiency and renewable generation. In doing so, the Council will help to reduce the impact of climate change and its own contribution to the causes of climate change. The Climate Change Team are informed of any changes to energy consumption in order to assess the impact on carbon emission levels.

10. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED

None.

11. BACKGROUND DOCUMENTS

Cabinet Member Decision Notice, reference JAN12/CMDN/002 & Cabinet Member Decision Notice, reference JUN13/CMDN/05