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<b>REPORT TO:</b>	<b>Housing and Community Services Committee</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>24<sup>th</sup> November 2011</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>Mark Alflat – Director of Operations</b>	<b>OPEN PARAGRAPH NO:</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>Lee Carter Repairs and Improvement Manager Ext. 5957</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>Proposed withdrawal from Installation of Electrical Generating Photovoltaic Panels (PV) on Viable Council Housing Roofs</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: HCSO1</b>

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## **1. Recommendations**

- 1.1 That the Council is recommended not to enter into a contract with a supplier to install Photovoltaic Panels (PV) on Council Properties, as previously identified to this committee on 13<sup>th</sup> October, due to the significant and unexpected reduction in the Feed in Tariff (FIT).
- 1.2 That should the FIT be reviewed in the future, the Council revisits the proposal to check the latest financial benefits and a separate report is prepared for this committee at that time.

## **2. Purpose of Report**

- 2.1 To inform members of the significant reduction in the FIT and the financial affect this has had on the original proposal.

## **3. Detail**

- 3.1 Financially this project is geared towards a large capital outlay, (in our case in the order of £1m as agreed at the 13<sup>th</sup> October 2011 Committee) for an annual return on that investment now projected to be around 2%. This is significantly below that which was reported to the 13 October 2011 committee, when the FIT was unaffected by the recent changes.
- 3.2 On the 31 October 2011 the announcement came that the standard FIT is to be reduced on 12<sup>th</sup> December 2011 from 43.3p per kilowatt to 21p per kilowatt. The FIT was not scheduled to be reduced until 1 April 2012. Although this decision is subject to consultation (due to complete on the 23 December 2011; *after the 12 December 2011 reduction*), the industry is very much expecting the outcome to remain unchanged. At least one high profile court action against the decision is currently progressing; namely Friends of The Earth are requesting a judicial review into the decision.

- 3.3 The problem is further compounded on 'aggregated' installations i.e. a landlord installing multiple PV systems (as SDDC proposal), where the FIT will be reduced further to 16.8p per kilowatt.
- 3.4 This significant reduction and its unexpected announcement has knocked confidence in the solar industry and potential clients such as ourselves. Confidence is a big factor when considering committing a £1m investment.
- 3.5 FITs remain government backed and are in place to incentivise the installation of localised renewable energy generating technologies and are scheduled to run for 25 years. However, given the recent and completely unexpected announcement on the reduction, further consideration must be given to the proposal. The returns have now been cut by more than half in relation to our proposed project.
- 3.6 The Repairs and Improvement Manager has communicated with the South Derbyshire District Council Tenants' Forum (SDTF) via its Chairperson to explain the latest situation and that the PV project may now not be feasible. Whilst disappointed, the Chair understood exactly that the financial position had changed significantly and the risks associated with such a scheme had to be reassessed.

#### **4. Financial Implications**

- 4.1 The change in the FIT makes the projected return on investment somewhere in the region of 2% compared to a very favourable 10 to 14%, on the previous FIT of 43.3p per kilowatt.
- 4.2 The payback on this scheme is now likely to be over 20 years.
- 4.3 The tight finances in the Housing Revenue Account at the current time with the advent of the new self-financing regime make this a particularly difficult time to commit significant capital resources on a relatively unplanned project. Balancing this fact against the significantly reduced return it is proposed that the project as agreed at the 13<sup>th</sup> October Committee is not progressed at this time.
- 4.4 It may be that in future, PV installations become financially viable once more, as the capital cost of installation reduces and the FIT once more becomes more of an incentive to install.

#### **5. Corporate Implications**

- 5.1 Not undertaking this project may translate that the Council is unable to contribute to some of its corporate aims. However, this must be taken in the context that finances are tight and this project presents risks currently outweighing the potential benefits to the Council.

#### **6. Community Implications**

- 6.1 The Council will continue to review the situation and other green technologies that may benefit the tenants of South Derbyshire in the future.

#### **7. Background papers**

- 7.1 Report to Housing and Community Services Committee 13th October 2011