

**CABINET
30 NOVEMBER 2021**

PHASE 3 PUBLIC SECTOR DECARBONISATION BID AND DELEGATION OF AUTHORITY

Cabinet Member(s): Cllr Bob Evans, Deputy Leader and Cabinet Member for Housing and Property Services, Cllr Colin Slade Cabinet Member for the Environment and Climate Change

Responsible Officer: Andrew Busby, Corporate Manager Property, Leisure and Climate Change

Reason for Report: To outline the latest opportunity presented by the Public Sector Decarbonisation Scheme and the Council's ambition to seek substantial funding from Phase 3 of the scheme. The Council was successful in obtaining £348,821 under Phase 2 of the same scheme. Approval is being sought now, subject to a successful bid, to receive and expend circa £3m funding from Salix Finance, a Non-Departmental Public Body (NDPB). This project will undertake low carbon retrofit projects on Exe Valley (Evlc) and Lords Meadow (Lmlc) Leisure Centres. Grant Funding Awards will be announced during January 2022, with a delivery timeframe of 12 months.

Recommendation:

Recommendation to Council that:

- (i) The Deputy Chief Executive (S151) and the Deputy Leader and Cabinet Member for Housing and Property Services are delegated authority to take all necessary actions to accept the £3,079,032 Public Sector Decarbonisation Scheme (Phase 3) 2021, including any contract variations on the existing Energy Saving Performance Contract and approval of any necessary design changes.**
- (ii) The Deputy Chief Executive (S151) and the Deputy Leader and Cabinet Member for Housing and Property Services are delegated authority to award the necessary contract(s) for the delivery of the works for the Public Sector Decarbonisation Scheme (Phase 3) 2021 up to the value of £3m.**
- (iii) To approve the financial contribution required to meet the conditions of the grant of £276,602 as set out in para 5.5, reducing the grant to £2,802,430.**

Financial Implications: These are detailed within the report on Section 5.

Budget and Policy Framework: The cost for replacing end of life assets have been identified within the capital and revenue budgets within the 30-year maintenance programme for corporate property. This project is not 100% funded by Salix and a financial contribution from the Council is required that would be discounted at grant source.

Pursuant to section 31(4) of the Local Government Act 2003, the Minister of State determines that the grant will be paid subject to the conditions stated within the Salix agreements.

Legal Implications: The decarbonisation project will be carried out in accordance with the terms and conditions of the Grant agreement and its relevant schedules.

The baseline consumption data under the current Energy Saving Performance Contract (ESPC), which expires on 31 March 2025, and the energy baseline figure would formally need to be adjusted and agreed with AESL for both properties.

A procurement exercise would need to be conducted to comply with the Council's policy and legal obligations, specifically in compliance with the Council's Contract Procedure Rules and the Public Contracts Regulations 2015, and supported by relevant officers. All contracts will be reviewed by the Legal Service prior to the engagement of any contractor.

Risk Assessment: The risks in relation to the delivering the project within the allocated timeframe. Attached to this report as Annex B & C includes supporting documentation on the risks associated with this project and that Property Services would work through to address.

Equality Impact Assessment: This report does not specifically highlight any equality implications, however Officers will continue to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010.

Relationship to Corporate Plan: Environment, to encourage retrofitting of measures to reduce energy use in buildings.

Impact on Climate Change: The projects will deliver significant savings on carbon emissions. Successful delivery of the project not only signals the Council's commitment to its climate emergency declaration in action, this will also demonstrate to Salix and central government that the Council can continue to deliver projects to reduce carbon emissions within the District. The recommendations of the report are environmentally positive and will reduce the Council's carbon footprint by circa 572 carbon tonnes per annum.

1.0 Introduction

1.1 As part of the Summer Fiscal stimulus of 2020, Government announced an initial £1bn funding for the Public Sector Decarbonisation Scheme (PSDS). This funding was released as 100% grants, via Salix Finance, between October 2020 and January 2021. The Council was successful in obtaining £348,821, during Phase 2 of the scheme. Phase 3 has now been released for applications on the basis that a formal funding allocation will be announced in early 2022.

1.2 The PSDS fund aims to halve carbon emissions from the Public Estate by 2032, through the deployment of energy efficiency and heating measures, excluding gas powered boilers, Combined Heat, and Power. All buildings, where the end beneficiary is confirmed as being a public body, are eligible for

this scheme including Local Authority estate, including Leisure sites (if the savings can be recouped by the LA). Social housing is excluded from this scheme and will be addressed under a separate funding scheme.

- 1.3 The Phase 3 funding window opened on 6 October 2021 and closed again on 6 November 2021. This funding phase is very focused on energy used to produce heat and no longer provides 100% grant funding, requiring match equivalent to the replacement costs of a proposed 'like for like' heating systems.
- 1.4 A further financial contribution for works at Evlc of £100k is also required to meet the criteria of the scheme that considers the amount of carbon reduction versus expenditure. Within the 20/21, Capital programme there is £30k identified for control works to the existing boilers at Evlc and this expenditure would not be required, should the Council be successful and therefore reducing this element of the contribution to £70k.
- 1.5 The boilers at Phoenix House and Culm Valley Sports Centre are not end of life and were replaced during the last 6-7 years; therefore, these buildings were not eligible for Phase 3. The boilers at Evlc are the original boilers installed during 2003 and the boilers at Lmlc were installed as part of the swimming pool extension during 1996. There are two boilers at each site that are well maintained and do not have operational problems.

The woodchip Biomass boiler at Lmlc was installed during 2012, is currently planned to remain as part of the equipment to heat the hot water, and is part of the Renewable Heating Initiative scheme (RHI), where payments are received by Ofgem for generating heat under the ESPC. Upon that contract ending on 31st March 2025, those RHI payments of circa £20-25k per annum will be made to the Council rather than to the Energy Performance Contractor for a further 9-10 years.

- 1.6 Applicants have the option to apply for funding to complete projects over either 1 year or 3-year delivery periods. However, 85% of any awarded funding from BEIS to Salix will focus on delivery over the first 12 months of the programme.
- 1.7 The application process required completion of a Salix compliance toolkit, in-line with the current Salix Finance application routes, for each building. To complete the toolkit calculations, Officers/Contractors utilised knowledge gained from Phase 2 delivery, alongside whole building assessments and our Heat Decarbonisation Plan that was funded via Phase 2 of the scheme at £18k.
- 1.8 There will be service disruption to complete the change over from gas to electricity, the closure of both sites will be completed out of hours where possible and advertised well in advance with regular communication with the Centres, Members and the Public.
- 1.9 Both Evlc and Lmlc are included within the existing ESPC the Council has with AESSL, which is in year 9 and expires on 31 March 2025. The energy

baseline consumption data under the current contract for both properties would formally need to be adjusted and agreed with AESL.

2.0 Project Scope

- 2.1 The submitted bid was for heat decarbonisation works at two of our leisure centres at Exe Valley in Tiverton and Lords Meadow in Crediton. The bid for works at both sites consists of the introduction of large commercial heat pumps to be able to come off gas completely and onto a renewable energy source (electricity). The work also includes the installation of external low energy lighting, LED (light emitting diode) lighting, where this is not being installed as part of the Phase 2 work and an increased Solar PV provision and utilising carport framework within our car parks to house additional solar panels.
- 2.2 Should the Council be successful with their bid, the method of procurement will be considered in detail with the Council's experienced Employer's Agent
- 2.3 The delivery timetable means that decision-making is crucial to the project running to time. Cabinet are being asked to delegate authority to take all necessary actions to deliver the projects, including any contract variations.
- 2.4 The timeframe for delivery is 12 months.

3.0 Impact on Carbon Footprint

- 3.1 This project would reduce our carbon footprint by 572 tonnes per annum. The external oversight of Salix adds an independent audit that the project is cost effective in terms of both carbon emissions and expenditure, that is based on £325 for each carbon tonne saved over the life of the assets.
- 3.2 The funding will allow energy efficiency measures, including the installation of large air source heat pump for removing gas consumption, external LED lighting and additional solar PV panels located on carports within the car parks.

4.0 Procurement

- 4.1 The project work items for consultancy and the project support will be procured via the appropriate framework or a full tender process.
- 4.2 Once the relevant design work has been completed and an Invitation to Tender (ITT) produced, it will ask questions under a number of headings that will have either a pass/fail or a weighted score and sent to the interested contractors. The weighting for the evaluation process will be split 40% on cost and 60% on quality.
- 4.3 Levels of insurance will also required and contractors needed to confirm their ability to provide such levels of insurances.

4.4 The evaluation of returned submissions will be undertaken by the Corporate Projects Officer and an independent Employers Agent. The scores from the evaluators will then be averaged and reported to the delegated authority.

5.0 Financial Analysis- Annex A

5.1 Phase 3 does not provide 100% of the funding required to complete the works and requires the match equivalent for the replacement costs of a proposed 'like for like' heating systems. A financial contribution is also required for the works at EVLC of £100k to meet the criteria of the scheme. Within the 20/21 Capital programme there is a £30k project for works to the existing boilers at Evlc that would not be required should the Council be successful with the Phase 3 bid and therefore reducing this element of the contribution to £70k within the current financial year. The financial contribution is made at grant source that is based on the estimated cost for delivering the works.

5.2 Referring to Annex A, a provision of £2.25m for this carbon reduction work has been identified over the next five years with the Capital Medium Term Financial Plan, should the Council be successful with the bid, this grant would negate the requirement for that expenditure. This includes the project referred to in para 5.1.

5.3 Other relevant budget provisions taken from the 30-year corporate revenue maintenance forecast, for expenditure within the next five years for replacing end of life assets will save circa £209k.

5.4 The costs for these projects were to be funded from prudential borrowing and therefore reliant on the production of business cases demonstrating the affordability of the projects and a suitable return. There is a total of £2.45m saving on future carbon reduction projects, identified on the Capital Medium Term Financial Plan.

5.5 A summary of the Council contributions are shown below:

- The estimated cost of what it would be to replace the boilers at Evlc: £101,452
- The estimated cost of what it would be to replace the boilers at Lmlc: £75,150
- A financial contribution towards the Evlc project, at £100k

Total £276,602

5.6 The Net benefit of accepting the total grant value of £3,079,032 will be £2,802,430 once the above contributions have been accounted for. These figures exclude the forecast savings set out on Annex A. There will be service disruption to completing such a major change the infrastructure and therefore closures at both centres will be necessary at times during the project, this will be kept to a minimum and will be well communicated with all users of the buildings. It is estimated that the loss of revenue would be circa £22k for both leisure centres.

5.7 The design process would be investigated further following the Council

being awarded the funding, including the revised annual running cost for electricity at each property and the cost of woodchip for the Biomass boiler at Lmlc.

6.0 Opportunities/risks

6.1 The key opportunities include:

- The timescale for delivery of the commission, if the bid is successful, is short however, we believe the local supply chain has capacity to deliver based on lessons learnt from PSDS Phase 2
- Utilisation of existing OJEU procured frameworks to support mobilisation
- Opportunity to support and integrate local apprenticeships and employment initiatives
- The use of recent building data compiled over the last 12 months to identify project portfolios, including our Heat Decarbonisation Plan
- BEIS/Salix are likely to favour programmes that have shown a track record of impact and delivery at scale.
- For two of our leisure centre buildings to become Net Zero – we plan to have 100% of our electricity supplied via a renewable energy and there will be no gas consumption on either site post the works

6.2 The key risks that have also been received by an independent party (Annex B & C), which is required by Salix, include items below and Property Services have complete their own risk analysis, that include:

- Failure for Phase 3 to secure any significant funding as part of the Spending Review
- Funding allocation is so minimal the Phase 3 application process and competition become heavily oversubscribed
- Having sufficient capacity to manage and support deliverability of the scheme
- Increased running costs of electricity
- The Electricity District Network Operator (DNO) does not have the capacity on their network to support the works
- Failure to secure contractor(s) to complete the work
- Existing Biomass boiler at Lmlc interfacing with the new air source heat pumps and continues to provide enough heat for the RHI
- Implications on the existing ESPC

- Unable to secure planning permission for the car ports required to house the solar PV panels
- Works to make the change from Gas to Electricity result in closure during business hours longer than anticipated

7.0 Conclusion and Recommendations

- 7.1 To secure the funding opportunity for circa £3m of PSDS funding from Salix and subject to a successful bid, approve the receipt and agree defrayment of these funds via the delegated authority.
- 7.2 The equalities impact from this proposal will be managed utilising delivery companies with robust equality policies. The environmental outcome is to substantially reduce the carbon emissions from two Council buildings.
- 7.3 The decarbonisation projects will assist the Council with their aim to be Net Zero by 2030 by reducing our carbon footprint by up to 572 tonnes of carbon per annum. This project would result in two Council Buildings coming off gas. The Council are also planning to source their electricity from a renewable source the two leisure centre buildings will therefore become Net Zero.
- 7.4 The decarbonisation project will reduce the cost pressure on our capital and revenue budgets, for replacing end of life assets by £2.45 m over the next five years.

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Circulation of the Report: Deputy Leader and Cabinet Member for Housing and Property Services, Cabinet Member for the Environment and Climate Change and Leadership Team.

List of Background Papers:

Environment PDG 6 August 2019 – Update on Climate Emergency Declaration
https://democracy.middevon.gov.uk/documents/s14878/20190424-Climate_Change_Updatev2%20AB.pdf

Cabinet 19 December 2019 – Carbon Base-Line reporting (information on ESPC)
<https://democracy.middevon.gov.uk/documents/g1108/Public%20reports%20pack%2019th-Dec-2019%2018.00%20Cabinet.pdf?T=10>

Cabinet 4 March 2021 –Options for Procurement of Energy
<https://democracy.middevon.gov.uk/documents/s21285/Cabinet%20-%20Options%20for%20Procurement%20of%20Energy%20040321%20v2.pdf>

Cabinet 6 July 2021 –Contract Award for Decarbonisation Project (Phase 2)
<https://democracy.middevon.gov.uk/documents/s22162/Cabinet%20-Decarbonisation%20Contract%20Award%20060721%20v3.pdf>