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| Council name | COTSWOLD DISTRICT COUNCIL |
| Name and date of Committee | CABINET - 1 MARCH 2021 |
| Report Number | AGENDA ITEM 15 |
| Subject | OFFER OF GRANT FROM BEIS PUBLIC SECTOR DECARBONISATION SCHEME |
| Wards affected | ALL |
| Accountable member | Cllr Coxcoon - Cabinet Member for Climate Change and Forward Planning Email: rachel.coxcoon@cotswold.gov.uk |
| Accountable officer | Chris Crookall-Fallon, Head of Climate Action Email: chris.crookall-fallon@publicagroup.uk |
| Summary/Purpose | To inform Cabinet of the offer of a Government capital grant to carry out substantial carbon and energy reduction works on three Cotswold District Council buildings, and to seek delegation to the Deputy Chief Executive to accept the grant (with a tight deadline) if offered. |
| Annexes | None |
| Recommendation/s | <i>a) To note the report;</i> <i>b) For the Cabinet to approve receipt of a capital grant of 1.237m, subject to assessment by officers of risks and issues. A report will be considered at a future Council meeting to consider including the project in the Council's Capital Programme;</i> <i>c) Delegated authority is given to the Deputy Chief Executive, in consultation with the Deputy Leader and Cabinet Member for Finance and the Cabinet Member for Climate Change and Forward Planning to accept the offer of grant, and to bind the Authority with the conditions of grant.</i> |
| Corporate priorities | Respond to the climate crisis; Support health and wellbeing |
| Key Decision | NO |
| Exempt | NO |
| Consultees/ Consultation | No public consultees, but analysis of the energy and carbon saving opportunity, and capex of the recommended measures, was estimated by an independent expert consultant. |

I. BACKGROUND

- 1.1. The Public Sector Decarbonisation Scheme (PSDS) is a £1bn (initial allocation) capital investment scheme operated through the Government Department for Business, Energy and Industrial Strategy (BEIS). The scheme was open for applications from all public sector bodies, with a final deadline for applications of 11 January 2021.
- 1.2. The aim of the scheme is to invest (as grant) in the public sector estate to substantially reduce energy use and carbon emissions, reduce running costs, and contribute to the growth in capacity and skills for installation of carbon reduction measures across the economy.
- 1.3. The Council submitted an application to the scheme on 10 January 2021, based on the results of a survey and review of the energy systems of four Cotswold District Council operational buildings – Cirencester and Bourton on the Water leisure centres, the Moreton Area Centre, and the Trinity Road offices, carried out by an expert independent building energy consultant.
- 1.4. The timeline and key milestones for the scheme are attached at **Annex A**.

2. MAIN POINTS

- 2.1. **Grant offer.** An offer of a PSDS grant of £1.237m was received on 18 February, being the full value of the grant application, subject to conditions. In order to receive the grant offer, the Council was required to confirm to the scheme administrator, Salix Finance, the Council's *in principle* agreement to accept the award, and nominating the Council's deputy CEO as the authorising officer.
- 2.2. **Degree of uncertainty on estimate of capital cost of carbon reduction measures.** The consultant's brief was to establish an estimate of capital costs and associated revenue cost, energy and carbon savings, sufficient for the purposes of the grant application. It should be noted that the capital costs at this stage are estimated, and have to be tested through procurement.
- 2.3. **Exclusion of Trinity Rd.** Of the four buildings reviewed, Trinity Road was shown not to be suitable for this capital funding round, due to the difficulty of retrofitting zero carbon technology into an intrinsically inefficient building fabric, coupled with the uncertainty over the future use of the building, with the expectation of the Council reducing the amount of office space it requires.
- 2.4. **Capital cost estimate for grant application.** For Moreton Area Centre and the two leisure centres, significant capital investment opportunities were identified, comprising 22 individual measures with an estimated total value of £1.237m. The measures include relatively minor works such as motor controls, LED lighting and loft insulation, through to much more substantive measures such as the installation of air source heat pump pool heating and rooftop solar PV.
- 2.5. **Potential carbon, energy and cost savings.** If implemented as proposed, the interventions could save the Council up to (very approximately) 1.4 million kWh of gas and electricity annually, deliver energy bill savings of up to £43,000/year, and carbon savings of 242tCO₂e/year and 8,370tCO₂e over the lifetime of the measures. For reference, the Council's annual emissions are currently (year 19/20) estimated at 2,740tCO₂e. The carbon savings projected here are therefore approximately 10% of the Council's annual total.

- 2.6. **Commitments already provided in principle.** The Council has already committed *in principle* to the scheme administrator, subject to Cabinet approving the recommendations in this report, that the Council:
- 2.6.1. is able to accept the grant if offered;
 - 2.6.2. is able to commence works by the end of March this year (that is, project management and procurement, not installation); and
 - 2.6.3. will commit to complete the works by 30 September this year.
- 2.6.4. There is furthermore a requirement to produce and submit to Salix, a Heat Decarbonisation Plan by 30th September 2021. It is not yet clear what the cost requirements are for the development of this Plan.
- 2.7. **Commitments now required in order to access the grant.** In order to take up the grant offer, the Council is required to confirm in writing that it will provide:
- 2.7.1. A project programme including contingency plan;
 - 2.7.2. a risk register to include Covid risk;
 - 2.7.3. data sheets for technology once the contractor is on board;
 - 2.7.4. firm price quotations from contractors;
 - 2.7.5. confirmed energy saving calculations;
 - 2.7.6. the contractor's experience and governance process;
 - 2.7.7. the final cost of carbon; an energy and carbon monitoring plan.
- 2.8. **Oversight and control from BEIS.** The Council is required to consent to submitting information to BEIS before, during and after installation of the measures, and for BEIS representatives to check that the measures have been installed as planned.
- 2.9. **Clawback of financial savings from SLM.** A condition of the grant is that the Council must benefit directly from any energy cost savings. Under the current contract with SLM for leisure services management, this is not the case, as SLM pays for utilities as part of the contract cost. The Council will therefore need to agree a mechanism to claw back the cost savings created by these measures from SLM. This claw back could be in the form of an agreed protocol for measuring energy saved, linked to a variation either in the management fee SLM pays to the Council, or making the Council responsible for energy costs at leisure sites.

3. FINANCIAL IMPLICATIONS

- 3.1. The grant must be spent by 30 September 2021. No funding is required from the Council (unless cost overruns are incurred) – this is a 100% capex grant.
- 3.2. No separate business case has yet been developed for these capital works. Further details will be provided in a report to Council to seek inclusion of the capital project in the Council's Capital Programme for 2021/22.
- 3.3. The grant of £1.237M includes an allowance of 15 - 18% for project management or other related consultant costs required to deliver the project. It is therefore anticipated that all these revenue costs will be capitalised through the project and will not require any additional funding from the Council.

4. LEGAL IMPLICATIONS

- 4.1. The draft Memorandum of Understanding (MoU) states that the MoU and the Agreement are not legally binding and no legal obligations or rights shall arise between the Secretary of State, Salix, and the Recipient from the provisions of either the MoU or the Agreement. The parties entering into the MoU and the Agreement should however intend to honour all of their obligations.
- 4.2. Failure to adhere to the conditions does give the Secretary of State the right to withhold, reduce or reclaim the grant.
- 4.3. The Council cannot publish (for promotional purposes) any material referring to the Project without the prior written agreement of the Secretary of State or Salix, and the funding body must be fully acknowledged in any such communications.

5. RISK ASSESSMENT

- 5.1. **Regarding uncertainty over terms of agreement.** Final terms of the grant have not been received by the Council at the time of distributing this report. There is a general risk around how acceptable the terms of the grant agreement will be and the individual risks that these terms may create, such as financial liability if the scheme does not meet deadlines. The risks associated with the final terms will be closely examined and legal officers will be consulted to ensure the balance of risk and benefit is achieved. There is likely to be some inherent risk in proceeding however as long as that risk is deemed acceptable in light of the potential funding received and carbon, energy and cost benefits that will be achieved the Council will proceed.
- 5.2. **Regarding project management.** The timeline for implementation of the measures is extremely tight. Works must commence within 6 weeks of the project start date (which will be specified in the Grant Offer letter) and be completed by the end of September 2021. This will require close liaison with tenants, SLM and the Council's own services operating from Moreton area centre. Some works will be disruptive and may affect operations and services which could result in additional costs, such as reductions in rent or compensation for lost earnings which may not be covered by the grant. Every effort will be made to minimise disruption in careful phasing of work and consultation with affected parties.
- 5.3. **Regarding officer time and resources.** Project management will require officer resources to ensure that the installations are completed by 30 September 2021, and the prioritisation of this time-critical project will mean some other project delivery will have to be delayed. It is not yet clear what the financial risk is if works are not completed by the due date, and this will need to be clarified before the Council enters into the agreement. A project mandate has been prepared and professional project management services will need to be procured. It must be noted that since a detailed project plan has not yet been developed, the Council has not confirmed that all elements of the scheme can be installed by the September deadline.
- 5.4. **Regarding scheme costs.** The application for the grant is based on an estimate of capital cost (inclusive of installation and project management). If this estimate is inaccurate, the Council will either have to allocate more capital to make up the shortfall, scale back the measures installed (with the agreement of the scheme administrator) or else return unspent funds to BEIS. This risk will be properly assessed once project management is in place and once the supply and installation contract has been through a procurement process.

- 5.5. **Regarding overspend.** If the Council overspends in its delivery of the Project, it will have to bear the cost of the overspend unless the Secretary of State agrees to increase the Grant by an amount equal to the overspend, or Salix agrees to adjust the Project Programme and/or reduce the Measures so that the remaining Grant is sufficient to meet the remaining costs required for delivery of the Project.
- 5.6. **Regarding procurement.** It is not yet known whether the works specified in the application are covered by a convenient procurement framework, or whether direct procurement will need to take place, or if there will be a split of the works between a framework and direct procurement. Since procurement has not commenced, we have no certainty over the availability of suitably qualified firms to undertake the work within the required timeframe.

6. CLIMATE CHANGE IMPLICATIONS

- 6.1. Carrying out these works will save around 10% of the Council's annual CO2 emissions, and provide a very visible public-facing story for evidencing the Council's progress on tackling the climate emergency, in line with the Climate Emergency Strategy adopted in September 2020..

7. ALTERNATIVE OPTIONS

- 7.1. No alternatives considered, other than directly procuring the installation of some or all of these works, without the benefit of grant support.

8. BACKGROUND PAPERS

- 8.1. None

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