

 COTSWOLD DISTRICT COUNCIL	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET - 13 MAY 2021
Report Number	AGENDA ITEM 11
Subject	FUNDING & CONTRACT CHANGES TO SUPPORT BEIS PUBLIC SECTOR DECARBONISATION SCHEME
Wards affected	ALL
Accountable Member	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
Summary/Purpose	To seek contingency and revenue funding to support the installation of carbon reduction measures in the Council's buildings as part of the BEIS decarbonisation scheme and to seek delegated authority to award contracts for project management and works and to negotiate a contract variation with the Council's leisure provider, SLM, to ensure requirements of grant funding are met.
Annexes	None
Recommendation/s	<p>That Cabinet;</p> <ul style="list-style-type: none"> a) Notes the potential revenue implications for repair and maintenance of specialist technology installed through BEIS decarbonisation funding. b) Notes that the revenue implications of a) will be managed in 2021/22 through the Council's budget monitoring process and through application of Financial Rules if necessary, c) Notes that the revenue implication of a) with effect from 2022/23 onwards will be considered as part of the Council's update to its Medium Term Financial Strategy and budget setting process. d) Delegates authority to the Deputy Chief Executive/Chief Finance Officer to appoint consultants, funded by the BEIS grant, to carry out all stages of delivery support including project management, procurement and on-site delivery, via a Procurement Framework. e) Delegates authority to the Deputy Chief Executive/Chief Finance Officer in consultation with the Cabinet Member for Finance to award contracts to contractors, suppliers and installers to complete

	<p>the grant funded carbon reduction works, via a Procurement Framework.</p> <p>f) Delegates authority to negotiate a contract variation with SLM to the Chief Executive in consultation with the Deputy Chief Executive/Chief Finance Officer and the Cabinet Member for Finance.</p> <p>Recommends to Council that;</p> <p>g) The Council proceeds with the planned decarbonisation installation noting the financial risks surrounding withdrawal of funding should delivery fail to meet the grant funding completion deadline.</p> <p>h) Allocates a contingency sum of £120,000 (12.5% of works capital costs) to support delivery and avoid unnecessary delays if costs exceed initial estimates and grant funding provided. Any expenditure of this contingency to be agreed by the Deputy Chief Executive/Chief Finance Officer in consultation with the Cabinet Member for Finance.</p> <p>i) That £120,000 is reallocated in the Capital Programme from the £980,000 available for “Acquisition of a Strategic site at Moreton-in-the-Marsh” to the contingency for the decarbonisation scheme.</p> <p>j) Notes that a variation to the SLM leisure services contract is necessary to enable utility costs to be paid by the Council and agrees that management fees payable to the Council are adjusted accordingly,</p>
Corporate priorities	Respond to the climate crisis; Support health and wellbeing
Key Decision	YES
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 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.
- 1.2. On March 1st Cabinet noted that the Council's bid for funding had been successful and agreed to progress with the installation of carbon reduction measures in Cirencester and Bourton on the Water leisure centres together with the Moreton Area Centre.
- 1.3. The grant offer of £1.237m requires a number of criteria to be satisfied including;
- Completion of works by 30th September 2021
 - Financial benefits from any measures installed to be received by the Council.

2. Project delivery

- 2.1. The timeline is extremely challenging particularly as contractors need to be procured and some specialist equipment has a substantial lead time from placement of orders to delivery which may impact on the Council's ability to meet completion deadlines.
- 2.2. The Council filed its first monthly return to Salix, the grant administering body, in April highlighting a commitment to work towards completion by the end of September but highlighting concerns regarding potential delays which may be beyond the Council's control.
- 2.3. In order to complete this project, the works identified initially through the feasibility study need to be checked to ensure they are technically viable, particularly in light of building structures and the desire to provide the best carbon option. Contractors then need to be appointed and orders placed for specialist plant and equipment. Installations then need to take place. Regard needs to be given to disruption of leisure centre services i.e. pool hall closure, to facilitate installations and therefore avoidance of peak times i.e. swimming lessons or school summer holiday activities. There is no scope within the tight project timescales to carry out an open tender process for the appointment of contractors and therefore despite the relatively high value of works (approx. £1M), appointment will need to be done via a Framework which is not an unusual approach. Initially the detailed technical feasibility and building works stages would have been tendered separately but a Framework has now been identified which enables both elements to be completed by one contractor. This streamlines the process and should reduce time taken and cost but it has brought forward the timeline for appointing a works contractor which needs a Cabinet decision.
- 2.4. The grant of £1.237M includes an allowance of 15 - 18% for project management or other related consultant costs required to deliver the project. A delegation is sought to allow award of all elements of required project management and the allocation of grant funding to pay for these services. Perfect Circle were appointed to commence project management support in March via a framework with appointment confirmed via a waiver. Perfect Circle is a consultancy consortium and their consultants Pick Everard are supporting the Council on this project. They would continue to manage the process through to completion.

Leisure Contract variation

- 2.5 It is proposed that a variation is agreed with SLM which transfers responsibility for payment of utility bills to the Council and that as a result of this an adjustment is made to the management fee. The ambition of this contract variation is that the BEIS funding requirements are met but that the financial position remains neutral, so that SLM neither incur additional cost nor profit, as a result of the change. The original feasibility study indicated that if all measures were installed an annual revenue saving of £43,200 could be achieved, however this will be dependent on utility provider costs, which is highlighted in the risk section.
- 2.6 The current Leisure contract will either be extended (option for extension of up to three years subject to conditions and agreement) or a new contract put in place in July 2023, following a tender process, which provides the opportunity to review and make changes to how utility costs are managed within the contract.

3. FINANCIAL IMPLICATIONS

- 3.1. The funding bid was based on a feasibility study commissioned from Inspired Efficiency however further consideration of the viability of certain measures particularly in light of structural and design constraints mean that there will be some alteration to the works agreed, in consultation with Salix. There is a risk that due to redesign, alternative measures or market prices tendered costs for the installations exceed the grant funding allocated. A contingency sum of 7.5% was included in the bid for design and engineering costs, project management and capital works. Due to the delivery timeframes involved there will not be time to report back to Cabinet/Council once actual costs are known to seek approval at that stage if contingencies required exceed 7.5%. The Capital works to install plant and equipment provide the biggest unknown until tenders are received. Therefore agreement is sought for a contingency sum which equates to 12.5% of capital works (calculated as £118,670), providing a total of 20%. It is hoped that the project will still be delivered within the grant budget allocated.
- 3.2 The funding covers capital costs of installation and project management support only. There is no provision for ongoing revenue costs. There will be some ongoing revenue costs associated with the repair and maintenance of specialist plant and equipment such as solar panels, pool hall air handling units and air/ground source heat pumps. Costs for these services will be obtained but a commitment to meeting these annual costs is needed before the Council carries out the installations.

4. LEGAL IMPLICATIONS

- 4.1. The Memorandum of Understanding (MoU) and the Grant 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. From the point at which the Council appointed consultants to support this project costs were incurred. There is a risk that this project reaches an advanced stage including full installation but breaches grant conditions and therefore the grant is reclaimed. This risk is mitigated by early stage project planning to map out the delivery timelines for the project and dialogue with Salix on this matter. It appears it may not be possible to get agreement in advance to delays however it seems unlikely that BEIS would seek to reclaim funding if good progress can be demonstrated. Until any delays are agreed there will remain a financial risk to the Council of full project costs. This should be considered against the reduction in carbon emissions that will be achieved and the potential revenue return from reduced utility costs (see sections 6.1, 2.5 and 5.2).
- 5.2 The terms of the current Leisure Contract between the Council and SLM provide for utility bills to be paid by SLM and a fixed Management fee to be paid to the Council. Once decarbonisation measures are installed they should reduce the demand for gas and electricity and therefore reduce costs. SLM currently have a favourable contract for utility costs as part of their national leisure services provision, so if the Council takes responsibility for utilities back there is a risk that the Council cannot negotiate services from a utility provider that match the tariffs SLM have and as a result utility costs actually increase. Every effort will be made to manage this risk however this decarbonisation work is primarily driven by the Climate Emergency priority, not achieving cost savings.
- 5.3 There is a risk linked to risk 5.2 above that SLM fails to manage utility usage effectively in leisure centres if minimising usage is not financially driven, however SLM have a strong commitment to the Climate Agenda and the Council is therefore confident they will continue to drive down utility usage.
- 5.4 Failure to effectively maintain and repair plant and equipment could result in breakdowns or systems such as solar PV not operating at an optimum. Funding does therefore need to be allocated to ensure suitably qualified and experienced specialist engineers can carry out routine maintenance and reactive repairs. This will be considered as part of the 2022/23 budget setting process along with savings from reduced energy consumption.
- 5.5 There is a risk due to design, engineering or structural constraints that not all works included in the initial feasibility study are viable. If this is the case suitable alternatives will be explored but there remains a risk that some elements need to be removed from the project.

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. The Council could decide not to proceed with installations based on the risks outlined however this will impact on the Council's ability to deliver its Climate Emergency priority.

8. BACKGROUND PAPERS

- 8.1. None

(END)

