

Public Sector Decarbonisation Scheme

Report of the Finance and Resources Portfolio Holder

Recommended:

1. That the submission of an application for funding through Phase 3b of the Public Sector Decarbonisation Scheme for Bourne House, Romsey be endorsed.

And, if the application is successful:

2. That the Council contribution up to £217,800 towards the cost of project delivery, as set out in paragraph 8.1 and 8.3 of the report, be approved.
3. That delegated authority be given to the Head of Property & Asset Management in consultation with the Finance & Resources Portfolio Holder, the Head of Legal & Democratic Services and the Head of Finance & Revenues to enter into the necessary agreements to enable the delivery of the project outlined.
4. That the estimated cost of the works, contingency provision and external funding contribution be added to the Capital Programme.

SUMMARY:

- The report outlines the proposed project at Bourne House, submitted as part of an application for funding through Phase 3b of the Public Sector Decarbonisation Scheme.
- The report also recommends the approval of the Council's financial contribution to the project to enable its delivery, should the application be successful.

1 Introduction

- 1.1 The purpose of this report is to seek endorsement for the submission of an application to the Public Sector Decarbonisation Scheme for a project at Bourne House, which would contribute to the implementation of the Council's Climate Emergency Action Plan.
- 1.2 Additionally, if the application is successful, approval is sought for the allocation of the required funds to implement the project, as well as delegation to deliver the project in line with the relevant agreements as part of this scheme.

2 Background

The Public Sector Decarbonisation Scheme (PSDS)

- 2.1 PSDS provides grants for public sector bodies towards the funding of heat decarbonisation and energy efficiency measures. The fund was initiated by the Government Department for Business, Energy and Industrial Strategy (BEIS).

This scheme is administered by Salix¹ and was first launched in 2020. There have been alterations to the focus and criteria for applications to the PSDS through the different phases that have been completed.

- 2.2 The portal for applications through Phase 3b opened on 12 October having been announced in the summer. This phase will allocate up to £635million to public sector organisations to be spent in the financial years 2023/24 and 2024/25, operating on a first come, first served basis. This funding is also being split between different sectors, including education, health and other public sector categories.
- 2.3 The scheme has a range of eligibility criteria around the organisations that can apply and the type of works that can be applied for. A ‘whole building’ approach is taken whereby energy efficiency works to reduce the heat or electrical demand of the building can be included but there is a cap for the proportion of the grant value that this can represent.
- 2.4 As set out below, based on the requirements of the PSDS, an opportunity was identified to bring forward a project for Bourne House in Romsey. This site provides the base for the Council’s Environmental Services in the south of the Borough, whilst also providing some space for hot-desking.
- 2.5 Due to the first come, first served nature of the funding allocation, officers submitted a bid to the PSDS for Bourne House on 12 October. The submission was made subject to Council endorsement of the project and approval of the Council’s element of the total project cost. The submission of the bid does not commit the Council to continuing if the bid is not supported by Council.

Proposed Bourne House Scheme

- 2.6 The PSDS Phase 3b guidance set out a number of criteria that would need to be satisfied by any proposal, including that each building includes a fossil-fuelled heating system that should be coming to the end of its useful life. Applications also need to be accompanied by significant information on the proposed projects to be funded (although not requiring detailed design for the application), with works needing to be complete within set timescales. Such factors, therefore, were a key consideration in identifying assets that may be appropriate for applications for funding.
- 2.7 The Council identified a small number sites that could be considered including Bourne House and the Walworth Enterprise Centre. Energy audits had recently been completed for both of these sites, which provided a basis for identifying potential works. In light of the limited time to bring an application together, as well as the ability to implement any proposals, Bourne House was considered to be the best asset to be the subject to an application.

¹ Salix is a non-departmental public body that is owned wholly by the Government.

- 2.8 A consultant was commissioned to support the Council in bringing the necessary information together for an application and to aid in verifying an appropriate mix of proposals for the project. This was intended to build on the existing energy audit while having regard to the specific requirements of the PSDS.
- 2.9 In order to decarbonise the heating system, it is proposed that the gas system is replaced by air source heat pumps. To reduce the demand for heating, supporting works were recommended to improve the insulation of the building. While an air source heat pump would remove the use of gas at the site, it would increase the use of electricity. As such, further proposals were identified to reduce the electricity consumption, including installing additional LED lighting and solar photovoltaic (PV) panels on the roof². Additionally, it is recommended that a Building Management System is installed to enable smarter operation of the heating system, for example to switch the heating off in the workshop when the doors are open. It is anticipated that an air handling unit would be needed within the workshop as part of the scheme. It should be noted that all aspects of the project would need to be reviewed as part of a detailed design stage that would be undertaken if the application for funding is successful.

3 Corporate Objectives and Priorities

- 3.1 The Council declared a climate emergency in 2019 and committed to investigating options to become a carbon neutral organisation. The Council's Climate Emergency Action Plan was approved in 2020. This includes actions on delivering measures to improve energy efficiency and reduce our energy consumption.

4 Consultations/Communications

- 4.1 As the proposal relates to alterations to Bourne House in relation to thermal performance, heating systems, lighting and the installation of solar panels on the roof of the building, no external consultation has been undertaken in relation to submitting an application for funding. Internal engagement has been undertaken with Environmental Services and other services that have the potential to be affected by the proposals.

5 Options

- 5.1 The options considered in this report are:
- Whether to endorse the principles of the application to the PSDS for the works at Bourne House, or not.
 - If the principles of the application are endorsed, whether to approve the budget contribution required by the Council, or not.
- 5.2 If either the principles of the bid or funding are not approved, officers will contact Salix to confirm the decision to withdraw.

² While a 70kWp solar PV proposal was put forward, the actual proposal may need to be of a smaller scale when accounting for the ability of the roof structure to support this.

6 Option Appraisal

Consideration of the submission

- 6.1 The PSDS provides an opportunity to access grant funding to deliver the decarbonisation of heat and energy in publicly owned buildings, along with supporting measures. At present, there remains a significant capital cost difference between conventional fossil-fuel based boilers and alternatives such as air source heat pumps that in effect means that these projects generally do not payback financially within a reasonable timeframe. Therefore, accessing funding such as the PSDS can support the Council in its aspirations to decarbonise where proposals could have significant capital outlays.
- 6.2 For the above reasons it is recommended that the principles of the PSDS submission for Bourne House are endorsed.

Consideration of the budget requirement

- 6.3 Whilst this project does require a significant capital outlay to implement, there is a business case to support it.
- 6.4 If this project does not proceed, the Council will need to invest in the order of £55,000 to replace the existing heating infrastructure within the next 1 to 2 years. This effectively reduces the medium term additional funding requirement to £162,800. Taking into account the forecast savings in gas and electricity budgets over the medium term achieved by the project (including inflation projections for 2023/24), there is a payback period of 9 years, together with the benefit of a reduced carbon footprint.
- 6.5 For these reasons it is recommended that the budget for the project is approved.

7 Risk Management

- 7.1 A full risk assessment will be completed as part of any project implementation.
- 7.2 In order to ensure that any grant award can be spent within the timescale, it is recommended that speculative design works are carried out before confirmation of the award is received. This could include, for example, detailed designs for the solar array and contact with the electricity network operators. Any costs associated with this can be accommodated within the Property & Asset Management Service budget. We have been advised that there may be scope to draw down funding for the delivery of the project from the date any grant offer letter is signed if before 1 April 2023, which is when the funds would otherwise be available from.

- 7.3 If the project proposals are not completed in accordance with the time requirements of the scheme (i.e. all spending complete by 31 March 2024) there is a risk that the Council may not be able to recoup all of the eligible grant costs or face some other penalty that would be set out in the funding agreement. The extent of this risk may be dependent on the progress made towards delivery by the scheme end date. The appointment of contractors will seek to include penalties for non-performance but the inclusion of such clauses may further increase costs.
- 7.4 Given high degree of potential for project costs to increase during design or delivery phases (although some initial contingency has been built in) with current inflation predictions it is recommended that a further contingency is included (see section 8) but accepting that further design development may be required, which could change the package of proposed measures, if inflation increases more than these contingencies.
- 7.5 Given that there will be external modifications to the building, planning permission will be required. Engagement will take place with planning officers as part of the next stage of design to mitigate this risk.
- 7.6 It will be necessary to check electrical capacity of the site in order to manage the increased usage and this could mean discussions with the local supplier to assess works that may be required.
- 7.7 It will be necessary for the design considerations to take into account potential changes to the waste collection service so that any modifications do not negatively impact the running of core services from the site. This would also extend to the phasing of the works to ensure operation of the waste service will continue effectively during any project implementation.
- 7.8 There is a risk that future changes in the energy costs will alter the savings set out within this report.

8 Resource Implications

- 8.1 Based on the analysis undertaken to inform the application, the total project cost is £410,800 (plus allowing for contingency costs of around £28,900). Based on the provisions of the PSDS, up to £221,871 would be eligible for grant funding, resulting in the remaining £217,800 falling to the Council to cover together with any additional inflation contingency set out in 8.6. The specific costs (and potential savings) would need to be reviewed following the detailed design of the scheme.
- 8.2 It is intended that the Council's contribution to the delivery of the project would be funded from a combination of the Special Projects Reserve (£177,000) and the Asset Management Plan (£40,800).
- 8.3 The below table provides a summary of the costs included within the application based on desktop analysis, a site visit, and professional advice and experience of the consultant supporting the application process. This includes provision for design, project delivery and contingency costs.

Measure	Capital Expenditure
Insulation – workshop	27,000
Insulation - office	12,400
Building management system	18,000
LED lighting	47,200
Solar PV panels	81,800
Air source heat pumps	224,400
Recommended additional contingency	28,900
Total capital expenditure	439,700
Less: external funding contribution	221,900
Total budget recommended	217,800

- 8.4 As indicated above, the total cost of the Council’s investment in the project is estimated to be £217,800. After allowing for the saved Asset Management Plan costs in replacing the existing boiler on a like-for-like basis, the additional net cost is approximately £162,800.
- 8.5 Following implementation, it is anticipated that they will deliver an annual saving on energy bills in the order of £18,000. This would result in a payback period in the order of 9 years. However, it should be noted that both the capital costs and savings may alter at the detailed design stage.
- 8.6 It should be noted that the boiler at Bourne House will need to be replaced in the short term irrespective of whether this application is successful or not. It is approximately 13 years old and requires frequent repairs. As part of the PSDS criteria, the cost of a like for like replacement falls beyond the scope of the grant funding³. As noted above, the estimated £55,000 for a boiler replacement in the short-term should also be considered when assessing the overall budget implications of the project as this will be a future cost that can be avoided if the project is completed and is the reason that the Asset Management Plan reserve is recommended as a source of funding for this project. Air source heat pumps have a longer life expectancy than gas boilers, estimating to last between 20 -25 years and unlike a gas boiler they will not require an annual service. An electrical inspection will be required every couple of years. This will also help to reduce ongoing maintenance charges.

9 Legal Implications and Statutory Authority

- 9.1 If the Council’s bid is successful, it will need to enter into a funding agreement with Salix. This agreement will set out the terms and conditions of the grant, including the start and end date for spending and schedules relating to monitoring⁴ and reporting during the grant period. Any funds awarded as a result of a successful bid would need to be spent in accordance with the bid and the funding agreement, unless otherwise agreed in advance with Salix.

³ As part of the application process, a like for like boiler replacement cost of £55,000 was assumed – this accounts for removal of existing equipment, as well as installation & commissioning.

⁴ For information, this is likely to include a commitment to provide monitoring data for three years post-installation to help understand whether the measures achieve the anticipated outcomes. This would be through annual monitoring reports.

10 Equality Issues

- 10.1 There are no equality issues related to this proposal as the consultant's brief will provide that any designs do not impact upon access or changes to routes for the visually impaired.

11 Sustainability and Addressing a Changing Climate

- 11.1 A key focus of the Public Sector Decarbonisation Scheme is to help upgrade the heating systems in public sector buildings to reduce the use of fossil fuels. The project put forward for Bourne House would switch the heating system from gas to an air source heat pump (which requires electrical input), as well as deliver supporting measures intended to reduce the operational energy needs to heat and power the building. Based on the desktop assessment for the application, this could result in a direct carbon saving of about 31 tonnes per annum, with the potential of smaller indirect carbon savings.
- 11.2 The scheme, while requiring significant expenditure by the Council, will demonstrate commitment towards delivering the Council's Climate Emergency Action Plan through a scheme of more sustainable heating and energy reduction.

12 Other Issues

- 12.1 Community Safety – not applicable.
- 12.2 Environmental Health Issues – no specific issues identified at this stage. Should the project proceed, such matters would be further considered at the detailed design stage.
- 12.3 Property Issues – if successful, the project would enable a number of upgrades to Bourne House as described above.
- 12.4 Wards/Communities Affected – Bourne House is located within Romsey Cupernham Ward.

13 Conclusion and reasons for recommendation

- 13.1 This report seeks the endorsement of an application to the Public Sector Decarbonisation Scheme Phase 3b for a project at Bourne House in Romsey. If this application is successful, it also seeks to approval for the allocation of funds and delegated powers to support the delivery of this project.
- 13.2 The project would support the implementation of the Council's Climate Emergency Action Plan through moving away from a fossil fuel powered heating system and installing other measures to improve the energy and thermal performance of this asset.

Background Papers (Local Government Act 1972 Section 100D)

[Climate Emergency Action Plan \(2020\)](#)

[Public Sector Decarbonisation Scheme Phase 3b Guidance Notes](#)

Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:

None

File Ref:

N/A

(Portfolio: Finance and Resources) Councillor M Flood

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Report to:

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Date:

16 November 2022