



**Corporate Policy and
Resources Committee**

Thursday, 29 Sept 2022

Subject: Public Sector Decarbonisation Fund (3b): Funding bid

Report by:

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Purpose / Summary:

This report examines the suitability of Guildhall, Gainsborough Leisure Centre and Trinity Arts Centre for Public Sector Decarbonisation Scheme (PSDS3b) funding and informs Members of a high-level bid that is being submitted to an urgent deadline.

The report condenses the facts of the current PSDS bid application process, outlines some of the reasons to pursue this work and details next steps.

RECOMMENDATION(S):

- Members note the content of this report and support the submission of a high-level bid for PSDS3b funding for decarbonisation of the Guildhall heating system.
- Members approve the reprofiling of the Capital Programme to bring forward the replacement boiler funding from 2024/25 to 2022/23 to provide the match funding required if the bid is successful.
- Members support officers continuing to work with Midland Net Zero hub to develop a detailed business case. This will be brought to CP&R for consideration and final decision, if the grant application is successful - with notification expected by the end of January 2023.
- Members acknowledge that officers will continue to explore other funding sources to invest in measures to improve the energy efficiency measures for Gainsborough Leisure Centre & Trinity Arts Centre.

IMPLICATIONS

Legal: In May 2019, the UK Government declared a non-legally binding Climate Change Emergency declaration and the Committee on Climate Change recommended a new emissions target for the UK: net-zero greenhouse gases by 2050. This was made a statutory target in June through the Climate Change Act (2050 Target Amendment) Order 2019.

Though this is high level funding bid application, the scheme requires evidence of a commitment to match funding from the council. It does not require WLDC to enter into an agreement to accept grant funding, even if the bid is successful.

The Council will be required to enter into an agreement with Salix if a grant offer letter materializes at the end of 2022 to secure allocated funding. Due diligence should be undertaken to ensure that the terms are acceptable to the Council and that the project officers understand and operate within the conditions of the funding so as not to trigger any clawback clauses.

Financial: FIN REF FIN/88/23/CPR/JA

A replacement boiler for the Guildhall is listed for 24/25 in the current MTFP. This is listed as £60k but will likely need to be revised upwards to at least £90K in future years following recent estimates. There is an option to bring forward this £60k earmarked spend now to support WLDC's match funding requirement for the bid. A report will go to CP&R asking for permission to draw down upon the reserve if the funding bid is successful and WLDC chose to accept the PSDS grant offer and associated conditions

Any heat decarbonisation projects brought forward will be subject to fully costed and developed business cases with appropriate project governance and risk management regimes.

£500k is earmarked to support delivery of the Carbon Management Plan, (with a recognition that other funding solutions are needed to support this) The capital programme 2021-22 to 2025-26 also included for £260K of carbon reduction initiatives. This is available to support the bid if WLDC's match funding requirement is over £60K

Staffing: Staffing and skills requirements to deliver this work will be continually reviewed and monitored as the project progresses from high level assessment to investment grade proposal. A project management and governance approach will be required

Equality and Diversity including Human Rights: The Council's ambition is to ensure that neither the effects of climate change, nor the costs of reducing emissions, disproportionately affect any residents of the District.

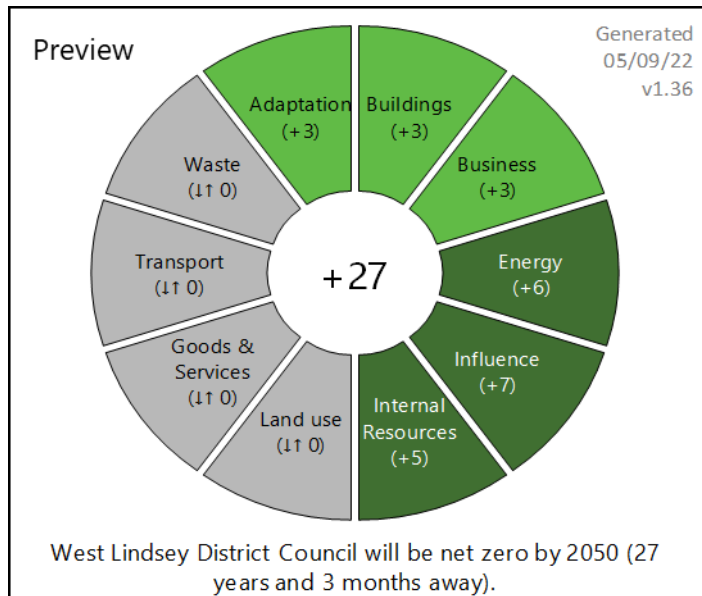
Decarbonisation has many co-benefits that have the potential to increase equality and community cohesion. These include improving health and wellbeing through more active travel, improving air quality with reduced vehicle use, increasing social inclusion through community activities and reducing fuel poverty by insulating homes and installing on-site renewable energy.

In practice the projects are too high-level and not developed enough yet to undertake a meaningful equality assessment. Equality assessments are undertaken as actions are developed as required by PSDS governance.

Data Protection Implications: None

Climate Related Risks and Opportunities: The Carbon Management Plan, Climate Strategy and Action Plan contain proposals aimed at reducing the Council's carbon emission to a net-zero position by 2050 and achieve the same across the District of West Lindsey within the same timescale.

A climate, environment and sustainability (CESIA impact) assessment is shown below.



The CESIA shows positive climate and environmental benefit from the project in a number of areas. Retrofitting the Guildhall with low carbon heating, microgeneration technologies and energy saving and climate control measures can help futureproof the building. Proceeding with the work scores highly because it represents a commitment to continued energy audit, analysis and improvement action and sends a positive message to internal and external stakeholders. It would show momentum in our actions to address climate change as well as partnership working and influencing benefits. Bringing in external funding would preserve scarce WLDC funds for other projects and initiatives in this area. Over 800 tonnes of CO₂ equivalent emissions would be saved by fitting the recommended technologies at the Guildhall over the project lifespan.

Climate related risks are inherent. The risk of not delivering the Carbon Management Plan and its aims and objectives could lead to the Council contributing to irreversible temperature rises and subsequent damage to the climate and natural environments. Additionally, sudden and unexpected changes in global temperatures which result in the forecasts of the IPCC, upon which our work is predicated, being no longer valid, would require an even more urgent response to climate challenges.

Section 17 Crime and Disorder Considerations: N/A

Health Implications: Health and wellbeing are strongly linked and interwoven into the aims of the climate, environment and sustainability strategy as co-benefits of taking positive action to address climate change

Title and Location of any Background Papers used in the preparation of this report :

[The Council's Carbon Management Plan and draft Sustainability, Climate and Environment Strategy and action plan](#)

Risk Assessment :

WLDC recognised the UK Govt's climate emergency and Members unanimously passed a strategy, action plan and carbon management plan in June 2021, following consultations with various stakeholders. The risks associated with this proposed programme of decarbonisation projects are threefold.

1. Risk of exacerbating the problems associated with increased levels of CO2
2. Risk of a damage to reputation. Having declared WLDC support for urgent action – there is a risk of inaction generating subsequent reputational harm, which could create a relationship breakdown (trust, credibility and confidence) between the authority and citizens.
3. Risk of not completing the programme within the allotted time laid out by Salix which would have further financial implications. This risk must be stated but the performance through PSDS1 and the timeframes given does give a high confidence factor that officers have sufficient time to deliver.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

x

Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

x

Executive Summary

1. Summary of Report

Public Sector Decarbonisation Scheme round 3b (PSDS3b) will open shortly for funding application bids to support further decarbonisation of public buildings. The precise date is not known. It is expected to be at the start of October, with an announcement delayed following the passing of HRH Queen Elizabeth II. It is imperative though, to submit a technically compliant, high level assessment (HLA) bid on the opening day if WLDC wish to be considered, as funds are allocated quickly on a first come first served basis. To this end, Officers have been working with Midlands Net Zero Hub (MNZH) in an iterative process to examine the suitability of The Guildhall, Gainsborough Leisure Centre and Trinity Arts Centre for PSDS3b funding and ensure readiness for any subsequent bid.

This PSDS round is different to previous rounds in that there is a requirement for the council to match fund for certain components. This report condenses the facts of the current PSDS3b bid application and outlines some of the reasons to pursue this work.

High level appraisals of all sites have been completed, with the Guildhall seen as the outstanding technical candidate for PSDS3b. It offers fewest constraints and an opportunity to replace fossil fuel heating plant and associated equipment that may be coming towards the end of its viable life with a modern, low carbon alternative. This is not to underestimate the technical challenges to this work, but a successful HLA bid allows work to continue to a more detailed investment grade proposal (IGP) stage, that will look at detailed design and tease out any problems or technical issues before a final and formal grant offer may be accepted by WLDC at the start of 2023. This should give assurance, and there are various break points for WLDC even if funding is accepted.

Work continues in gathering quotes and refining the project. A vital point to note in section 5.3 is that all PSDS3b applicants are required to contribute the like-for-like costs of a fossil fuel replacement boiler in addition to any PSDS grant funding provided. At the Guildhall, current estimates put this figure at anywhere between £60k - £90k for a modern replacement. A genuine like-for-like replacement (not in line with WLDC's decarbonization ambitions) has been quoted at circa £60k. Refining this figure and ensuring that it includes all ancillary works to meet the bid criteria is important as it will form WLDC's match funding requirement for PSDS.

With escalating fuel costs as well as our commitment to respond to the UK Govt's climate emergency as well as our own net zero carbon commitment, refitting these sites now, with low-carbon heating alternatives may be seen as the right thing to do, and it delivers against the action in the Sustainability, Climate Change and Environment Action Plan to upgrade heating systems across council buildings. After adjustment for contingency, the cost of doing this at the Guildhall with air source heat pumps and more solar PV, can be estimated at circa £332k total project costs. More definitive manufacturer quotes will come within the next week, but a £60k WLDC contribution, as per the MTFP budget reserve would potentially allow for PSDS funded works of up to £500K if required, opening the possibility of further energy saving technology such as battery storage.

Revenue savings for the various options need further work – with calculations heavily skewed by the assumptions made for rising energy prices, and the amount of solar PV used for self-generation. These will be refined in conjunction with MNZH and WLDC Finance Officers and presented to CP&R prior to any decision to accept grant funding. An average annual CO2 saving of 42.54 tCO2e is modelled for the currently favoured GH investment option - more than 850 tCO2e saving over the twenty year projected lifecycle. Regarding both revenue costs and carbon emissions, it is likely the proposed investment will, in reality, continue to deliver savings beyond that twenty-year threshold.

2. INTRODUCTION

- 2.1 The Council has committed to be carbon neutral by 2050 at the latest. To contribute to achieving this target, the Council must undertake decarbonisation works to its own buildings.
- 2.2 WLDC has begun the process of decarbonisation works already and there is a track record in this area of delivering commitments against a Carbon Management Plan. The Council achieved a 35% reduction in Carbon Dioxide emissions from baseline year 2008/9 by 2021. However there is a general feeling that many of the 'easy win' projects – those that pay back in financial terms as well as CO2 reductions such as energy efficiency improvements – have already been undertaken. And in 21/22 the councils CO2 emissions have risen to 1585 tonnes Co2e. This is up from 1355 Co2et the previous year, partly as a result of new WLDC buildings entering the emissions ledger together with the easing of Covid restrictions.
- 2.3 WLDC has previously applied for funding from the Governments Public Sector Decarbonisation Scheme (PSDS) with success. In March 2021 the Council was awarded £68k of PSDS money in Round 1(PSDS1), following a bid the previous year. This helped fund solar PV and battery storage at the Caenby Corner depot. The works have now been built out and are delivering energy savings and financial savings for the council that would not otherwise have been achieved.
- 2.4 The PSDS fund is about to open again and aims to halve carbon emissions from the Public Estate by 2032, through the deployment of energy efficiency and low carbon heating measures. Eligible bodies must either own the building that the funding is being used to upgrade or have a long- term lease arrangement where the tenancy agreement places the responsibility for operation and maintenance of the building services on the eligible body.

3. Public Sector Decarbonisation Scheme Round 3b

The Government announced PSDS as part of a tranche of funding in a fiscal stimulus programme that began in autumn 2020. Funds have tended to open with short notice and

narrow application windows. This additional round of PSDS funding, round 3b (PSDS3b), formally announced on 2nd August 2022. The application portal is now expected to open at the start of October (delayed following the passing of HRH Queen Elizabeth II.) The major change from PSDS1, which were 100% grants, is that PSDS3b is being released with requirement for match capital funding.

The grant again looks to provide funding to either remove completely or significantly reduce dependency on gas fired (fossil fuel) heating systems in our buildings. The grant also provides additional matched capital funding for the installation of other measures including solar PV, insulation, led lighting, double/triple glazing and smart heating controls.

3.1 The match funding requirement is based on two criteria;

1. That costs which can be attributed to work which is beyond a given threshold of £325/tonne of CO₂ – are covered by the Local Authority.
2. Additionally, any like-for-like replacement costs for plant nearing the end of its useful life must also be met by the Local Authority.

It is competitive funding and the expectation is that funding will be fully allocated to compliant schemes extremely quickly when the application portal opens in October. Therefore, any WLDC application will need to be prepared and approved in advance of this date so that it is ready to go. This necessitates this urgent report to CP&R committee to approve the process and recommendations including the submission of a High-Level Assessment (HLA) Bid. Members should be assured though that they can subsequently choose whether or not to accept any grant and associated conditions - such as those for required match funding - when the more detailed, investment grade bid has been prepared.

4 Midlands Net Zero Hub (MNZH) Support

To assist and enable WLDC to be in a position to bid for PSDS3b, WLDC made a successful application to receive the Public Sector Decarbonisation Support being developed by the Midlands Net Zero Hub.

The [Midlands Net Zero Hub](#) is funded by the Department for Business, Energy and Industrial Strategy (BEIS) as part of the government's clean growth strategy and is hosted by Nottingham City Council. MNZH, like other net zero hubs across the country, aims to facilitate investment into energy projects, increasing the number, quality and scale of those being delivered across the regions. MNZH have been working with WLDC to support feasibility studies into possible new technologies and efficiency savings at the highest energy consuming sites in WLDC's portfolio, with the aim of helping WLDC prepare an investment ready and credibly deliverable scheme in time for PSDS3b applications.

Work has been taking place to understand the key buildings in WLDC's portfolio that would benefit most from decarbonisation measures, to assist with determining which support offering is most appropriate.

The buildings that have been assessed are

- Guildhall
- Trinity Arts Centre
- Gainsborough Leisure Centre

Using energy consumption data and site information supplied by WLDC Officers in Property Services, a series of desktop feasibility assessments have been undertaken to understand the potential of deploying a range of onsite renewable energy generation and storage technologies by producing "high quality assessments" to support a business case. Potential energy cost and carbon savings appraisals have been undertaken for each of the sites and summary and full reports produced for all three. Full reports contain the site profile, calculations breakdown, and assumptions, while summaries cover the relevant metrics and constraints only.

A senior bid writer from NMZH has been assigned to the work to help support full business case development as well as ensuring the initial HLA bid is developed and prepared to all meet all PSDS3b criteria, to optimise the chances of a successful bid.

5 The Assessments

The rationale for which buildings we submitted to MNZH for assessment for possible inclusion in a PSDS3b bid started with a baseline assessment of our portfolio, taking account of the work that was already underway in relation to the strategic asset review and those buildings that were very likely to remain as a part of the portfolio in the medium term. Once this long list had been assessed a shorter list was taken forward for further review and more technical assessment to judge value in relation to submission as part of our bid and the required carbon reduction compliance criteria for the fund. The MNZH assessments focused on the types of measures that could be potentially installed at each building and the feasibility of installing the measures. Full detail is in the MNZH reports and only brief commentary is provided here.

5.1 Gainsborough Leisure Centre

By far the largest consumer in terms of the electricity and gas use, and seemingly a favourable assessment in terms of carbon saving and financial payback. However, the CHP boiler was installed in 2018 and this rules the building out of the current round of PSDH funding which is targeted at replacing end of life units on technical grounds. Full results of a stock condition survey are also being awaited at this time which might affect the longevity of the facility and hence the lifespan and payback opportunity of any new technology installed. Work continues with MNZH Property Services and the contract operators in relation to opportunities around the Leisure Centre. The current funding structure of NMZH aims to support public sector organisations to build business cases ready to be financed and / or to access the UK government funding streams and so it is suggested that WLDC continue to work with them. The intention is to take up their offer of free in-person assessments of the energy used by our buildings and processes to identify other cost-effective energy saving measures. Further detailed EPC surveys are recommended in preparation for possible future project opportunities in the WLDC Climate, Environment and Sustainability Action Plan and it is thought that this will meet our immediate needs.

5.2 Trinity Arts Centre

The building has the smallest energy use and CO2 emissions of those considered. Taking this into account, the works identified would come in over the qualification threshold of £325/tonne of CO2 for all technologies looked at in the first pass assessment. There are also some questions around how the space will be utilized in the future with redesign work being considered. For these reasons it is suggested that further assessment work continues in a similar fashion to the leisure centre above and a PSDS3b bid isn't now being pursued at this juncture.

5.3 Guildhall

MNZH modelling suggests that a 128KWh air source heat pump (ASHP) combined with further 16KW/hp solar PV installation represents the optimum solution of those modelled. This would provide an average CO2e saving of circa 42 tonnes per annum.

West Lindsey							Scenario 1					
Technology	Unit size (kW;kWp)	Technology Lifetime	CaPex	PBP (years)	tCO2e/year	CCT (GBP/tCO2eLT)	CaPex-Direct carbon measures	EMM* from DEC/EPC reports/- Techs with indirect carbon savings	EMM cost	Cap by Salix (58%) for EMM	Project Cost	
ASHP	128 Kw	20	£98,133	20+	41	105.31	ASHP	£98,133	EMM	0	£411,707.48	£332,059
ASHP + PV	128 kW; 15.1 kWp	20	£115,096	20+	42.46	119.27	Pipework and heat emitters upgrade	£150,000	Solar PV-Additional array (152 m2)	£16,963		
							DNO connection	£50,000	Solar PV- Upgrade of current PV array	£16,963		

The report from Midlands Net Zero Hub, examined various scenarios for decarbonization of the Guildhall, and the table above shows a selected snapshot of the modelling being undertaken.

Whilst work is proceeding at pace, the areas highlighted in yellow represent high level estimates which will be refined in the coming weeks as Officers work on site with a mechanical and electrical engineering consultant. Current figures are supplied with a generous contingency to ensure they are within budgets. Under the terms of PSDS3b heat decarbonization technologies such as the ASHP must make up at least 42% of the total project costs. Energy Efficiency Measures (EMM) or enabling measures refers to any other measure that does not decarbonise directly such as, solar pv, battery storage, insulation, glazing, battery storage, modifications to radiators etc.

The match funding element is WLDC's minimum contribution to the total project, calculated at 12%. However, this is assuming that the like-for-like heating system replacement (new boilers) are lower than the 12% of the total cost. Current estimates in the Property Services Strategic Asset Management Plan put the cost for this replacement at circa £60k which is much higher than the calculated 12%. PSDS3b guidance says this:

"As a minimum, all Applicants are required to contribute the like-for-like costs of the project themselves **in addition** to any PSDS grant funding provided. The like-for-like cost is defined as all the costs incurred should the existing heating system be replaced with a typical fossil fuel heating system of the required type and size."

Therefore, the match funding for this round would be the actual cost of like-for-like replacement and associated works - £60K unless a cheaper quotation can be found.

WLDC's M&E consultant has advised that a number of upgrades to the heating infrastructure of the GH would be needed to move to ASHP. His view is that this won't be simple and will require significant works.

MNZH have responded to these concerns. Cost estimates are "*provided by a mix of installers, manufacturers, sales companies and researchers, updated on a 6-monthly basis following the market closely.*" To increase confidence in the cost estimate manufacturer quotes, are being obtained following an on the ground, internal assessment that has been undertaken. This will feed into the final HLA bid.

For now, highlighted in yellow in the table above, officers have raised the contingency levels for the decarbonisation tech and EMM with the currently favoured option of 128KWH air source heat pump and 16KWh solar PV. This would allow circa £332k total project costs and would not affect the WLDC match funding or the carbon saving threshold qualification. Indeed, an even higher figure can be allowed without affecting these parameters if cost estimates come back higher.

6 PSDS Application Process

Work continues in collaboration with Property Services, Finance and MNZH who feed into a WLDC project team that is now set up. Further reviews and more technical assessments will take place prior to the PSDS3b application portal opening. The work would not stop there however as more detailed analysis focusing on the types of balanced technology measures that could be potentially installed in the building and the feasibility of installing the measures will continue after the initial bid submission. A Salix project advisor would be appointed to work with the council and satisfy themselves of deliverability criteria and project governance if a bid was successful in principle.

The PSDS3b application process entails a good deal of preparation and form filling, but it can be summarised as below:

- Council sets time frames for completion (multi-year projects are possible in PSDS3b) and submits a compliant bid through the PSDS portal (from October,) prior to closing.
- Applications considered by Salix and funds provisionally allocated within financial years
- The Council is responsible for obtaining quotes and following own procurement regulations
- Salix works with councils to consider the schemes of work and quotes to ensure they are compliant and deliverable

- Salix confirm reserved funding with grant offer letter and conditions
- Council considers grant offer and decides whether to accept it.
- Projects commence

It is expected that the delivery of designs and subsequent installation of measures can be undertaken via the Councils existing procurement procedures, but an Officer has been incorporated into the project team to advise. These arrangements have predefined contractual obligations concerning provision of value for money and obtaining social value etc. They are also likely to be compliant in regards to necessary procurement and spend obligations and other contractual issues such as insurances /indemnities and warranties for work carried out. These arrangements must be firmed up and spelled out in any PSDS3b bid as they are a key part of the eligibility. Any project within the PSDS programme needs to have a defined project plan and governance arrangements, which must be submitted at the time of application. As with PSDS1, it is suggested that a stakeholder project steering group will oversee the entire scheme of works.

PSDS3b offers an opportunity to bid for funding that would produce a step change in the way we heat our buildings and demonstrate our commitment to WLDC's Carbon Management Plan and net zero carbon reduction targets. It also provides a potential opportunity to improve our buildings and will provide planned replacements of plant that would have required total funding via scarce Council resources in the future (boiler replacement is currently scheduled for 24/25).

It is unlikely that we will see a marked reduction in revenue costs to run the building, as whilst gas will no longer be required, an air source heat pump will require more electricity to run. New solar PV arrays can generate power and provide an off-set to the electricity, however it is anticipated at this stage that building running costs will remain.

7 Match Funding

The match funding requirement is a change to the terms of the PSDS scheme set-up. It is unknown if future schemes will continue to require higher percentages of contributions from authorities. The current contribution calculated on the basis of a like for like equivalent to the costs of replacing WLDC's current gas fired boiler system with a conventional boiler at around £60K including auxiliary works. This leaves room for significant spend on the upgrades to radiators and cooling systems etc that may otherwise have had to be funded from maintenance budgets. It should be stated that this estimate may be refined following receipt of supplier quotes.

Possible budgets for any additional matched funding deemed necessary following receipt of updated estimates, include £500k earmarked to support delivery of the Carbon Management Plan, (with a recognition that other funding solutions are needed to support this) The capital programme 2021-22 to 2025-26 also included for £260K of carbon reduction initiatives.