

To: Cabinet
Date: 10 February 2021
Report of: Transition Director
Title of Report: Programme Approval and Allocation for Public Sector Decarbonisation Funding

Summary and recommendations	
Purpose of report:	To seek programme approval and delegations to enable capital grant spend of Public Sector Decarbonisation Funding for provision of heat pumps, thermal storage and battery storage at Oxford City Council sites and development of renewable energy to power to reduce council carbon emissions. To delegate officers to enter into funding and other necessary agreement for the purpose of delivery of decarbonisation projects through this programme.
Key decision:	Yes
Cabinet Member:	Councillor Hayes, Deputy Leader and Cabinet Member for Green Transport and Zero Carbon Oxford
Corporate Priority:	Zero Carbon Oxford
Policy Framework:	Council Strategy 2020-24
Recommendations: That Cabinet resolves to:	
<ol style="list-style-type: none"> 1. Give programme approval to the development of the decarbonisation proposals, to accept and ratify funding agreements to further reduce the Council's carbon emissions; and any other necessary agreements or contract, as set out in this report for prospective sites at Hinksey Pool, Town Hall, Ice Rink, Leys Leisure Centre, Barton Leisure Centre and Rose Hill Community Centre; 2. Delegate authority to the Transition Director, in consultation with the Cabinet Member for Zero Carbon Oxford; the Head of Financial Services/Section 151 Officer; and the Councils Monitoring Officer, to commence expenditure to carry out the work to develop proposals for funding and subject to their satisfactory conclusion, enter into funding and other necessary agreements, including construction contracts, for the purpose of development and delivery of decarbonisation projects across Oxford City Council estate; 3. Recommend to Council the allocation of a capital budget of £10.923 million; 	

4. **Note:** the programme management arrangements as set out in the report and the workload prioritisation implications for the Carbon Reduction Team; and
5. **Note** that a further report on the arrangements for securing the local renewable energy source and the developed proposals will follow in due course.

Appendices

Appendix 1	Programme Risk Register
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Introduction and background

1. Oxford City Council declared a climate emergency in January 2019. Following Oxford's Citizens' Assembly on Climate Change, the Council set out its commitment to become net zero, while developing detailed plans "for further projects to accelerate the reduction in the Council's underlying emissions to achieve a Zero Carbon Council by 2030 or sooner".¹ Zero carbon will require a reduction in the City Council's underlying emissions, in particular through the electrification of heat. Electrification of heat can be achieved by replacement of existing gas boilers with heat pumps.
2. In the City Council's new and fourth internal carbon management plan, set to run from 21/22 to 29/30, the Council commits to becoming net zero carbon in 2021 for its direct activities_(i.e. where it pays the energy bills), delivered through purchase of renewable energy and offsetting) and Zero Carbon by 2030 or sooner to reduce the Council's underlying emissions. In the plan, a £2.2m investment gap is identified per year to 2029/30 to meet zero carbon by 2030. The two grants have the potential to fill around a third of the funding gap needed to achieve a Zero Carbon Council in 2030.
3. In response to a request for bids to the government's public sector de-carbonisation fund the city council submitted two proposals, The first centred on Hinksey outdoor pool where a proposal for a heat network has been in development for a number of years and the second being at the major gas consuming operational building of the council. Both sets of proposals were approved as they met the bench mark of pounds per tonne of carbon reduction set by the fund. The total amount of funding available is £10.9m. This is made up of £1,636,736.00 for a Hinksey Pool Project (using adjacent lake for water source heat network and £9,286,813.17 for conversion to heat pumps powered by locally generated renewable energy for council operational buildings.

¹ Cabinet Paper 2019

Programme outcomes

The total £10.9m outline grant award is based on a suite of proposals that now need to be refined in consultation with Salix Bank. The total suite of proposals would deliver the following:-

- a) Hinksey Pool – a local heat network consisting water source heat pumps and battery/thermal storage, powered by renewable energy
- b) Heat Pumps to most suitable sites – installation of heat pumps (replacing gas boilers) across up to five of the Council’s big carbon emitting sites, where the buildings are most suited to the use of heat pumps.²: The provisional list is
 - Leys Pools & Leisure Centre – *air source heat pump, with a horizontal ground loop*
 - Oxford Ice Rink – *water source heat pump using waste heat from the chiller plant that maintains the ice.*
 - Oxford Town Hall – *feasibility for air source heat pump*
 - Barton Leisure Centre – *air source heat pump*
 - Rose Hill Community Centre

These sites were chosen due to the scale of gas consumption on site, their suitability for heat pump and optimising load requirements with the output of available pumps.

The outline programme scope also provides for:

- c) Energy Storage – installation of thermal and battery energy storage to maximise the effectiveness of the heat pump and solar energy approach.
- d) Electrical Upgrade - electrical system infrastructure upgrade for the sites to cope with higher electrical demands associated with heat pumps.
- e) Off-site solar – Provide the funding for investment in a large portion of a local solar farm which will meet a significant part of the increased electrical demand arising from the shift away from burning gas for heating. Through this contracting arrangement green electricity will be provided to our sites from remote, but local renewable energy.

The bids for this work programme are large and innovative. Outline approval for the proposals has been granted. As there was no scope for feasibility funding to test the ambition of this programme in the grant bidding timetable this will now follow at pace during the next phase which requires the release of initial funding.

² The installation of the heat pumps at the five different sites will vary and be dependent on the space available. All sites have been assessed for air source heat pumps, but costed in this bid for the higher up front cost of ground source heat pumps.

4. The bids for the work programme will be developed in further detail and there is likely to be changes to scope and cost to meet the ambitious timetable demanded by government.
5. The grant offer does not in any way override the usual planning processes and, where necessary, planning and environmental approvals will be sought. This report seeks approval to start spending money to work out the details of what will be delivered and how, with continued engagement with elected members.
6. The schedule for delivering this programme of work is ambitious. The deadline set by the funders, Salix Finance, is September 2021. This risk will be mitigated by
 - Detailed work to refine the proposals
 - Comprehensive additional project management resource
 - Appointing a supplier who will demonstrate their ability to deliver the programme by the deadline and have the resources available to achieve this as well as robust project management.
 - Continued dialogue with Salix Bank about Oxford's programme.
7. Following the closure of leisure and community spaces because of the pandemic, the Council is mindful of the public desire to return to these spaces when permitted. The development of proposals will take this into account in order that the programme of work minimises disruption to service users.
8. Members will be aware of the heavy workload across the organisation in terms of project delivery and that the strengthened project management methodology is yet to be fully embedded. This was discussed by the Corporate Management Team who came to the view that as de-carbonisation was a priority for the council combined with up to £10m 100% grant funding that a means must be found to support delivery. In terms of the Carbon Reduction Team this would have to become the focus of this team for the whole of 2021/22.
9. The project management proposals have been developed collaboratively by the service and the Project Management Office. The programme management for the outcomes and enabling work will be achieved through the appointment of dedicated resources both within the Environmental Services team to steer the delivery of the grant conditions in terms of carbon gains alongside a construction professional, within the Project Management Office who will lead the construction delivery. In addition we will seek to appoint a consultancy firm with the necessary range of construction, engineering and low carbon skills and experience to deliver at pace. The bids for funding were put together with an external consultant who will also advise the programme.
10. It is intended that, where appropriate, that Oxford City Council's wholly owned company, Oxford Direct Services, may be able to provide assistance with pre construction services. Carbon Alternatives Ltd, who assisted in the preparation of the bids, will provide an outline technical specification and background information for the Hinksey Pool Project and will be retained by the Council to review proposals for this site.
11. This programme of work will be delivered to CIBSE commissioning codes and practice. The Council is seeking not only to achieve a reduction in its carbon footprint through the use of renewables but to make energy and cost savings from

the installations. The Council is also seeking to ensure the installations are successful and provide an exemplar and model for further such work by this and other Councils, and will be used as a capacity building exercise as knowledge is transferred and acquired in delivering the projects.

Environmental Implications

12. The Zero Carbon Council plan outlines how the Council will become a Zero Carbon Council, one of the Council's key corporate priorities under 'Pursue a zero carbon Oxford'. The plan provides a framework for the Council to deliver progress towards the zero carbon goal by 2030, contribute towards minimizing the Council's environmental footprint, and demonstrating leadership across the city. Delivery of this programme will be central to the Zero Carbon Council plan. This programme is mentioned only briefly in the plan because this proposed funding came at the end of the period for the drafting of the plan. Modelling suggests a reduction in carbon footprint across the programme of circa 1574tCO₂e/year.

13. In order to reach zero as a Council by 2030 there is a need to reduce emissions by 5261 tCO₂e/y in total (at an average rate of 526tCO₂e/y per year). So this programme can deliver progress equivalent to 3 years of the average annual reduction in CO₂e/y needed to reach zero carbon.

Financial implications

14. The Council's target to be zero carbon by 2030 requires a significant injection of funds to allow the required average of c.526 tCO₂e/year of carbon reduction – every year until 2030 - to be achieved (assuming the council's estate and operations remains broadly the same). The estimated payback on this funding is circa 20 years in simple payback, however, this does not take into account other non-financial benefits that arise from decarbonisation. From the council's perspective it should be remembered that the works are externally funded so have an extremely high rate of return for the council.

15. The main mechanisms for funding low carbon technology fixes across the estate in the period to the end of 2029/30 will be the continued use of the existing Salix £1m revolving loan fund (yielding approximately £100k to £160k available to spend per year) and any available from the Salix-Plus fund (or alternative enabling funds) subject to recent budget bids. This is not sufficient to deliver the aspiration for Oxford City Council to become a zero carbon Council by 2030.

16. These outline projects identified within this report are at outline phase and expected to be fully funded by grant received from Salix of up to £10.9 million. It is estimated that on successful installation of the programme that annual savings will be delivered, this is yet to be robustly quantified. Savings assumptions are from switching from gas to electricity heat sources along with development of solar as a source to use at sites with capital provided by the grant. These will be quantified in the next phase.

17. In respect of the leisure facilities the council pays the utility bills and is then reimbursed retrospectively by the operator. The contract was set up in this way so that the benefit of energy savings achieved through capital expenditure by the council could be captured. The contract sets out such arrangements which require

that the operator signs off on the business case. We propose to utilise that approach again as we have done with numerous Salix projects for the past 9 years.

18. Implementing zero carbon projects could present significant business opportunities for Oxford Direct Services Ltd to deliver and build expertise in this potential high growth area. Developing a local green economy can also present a significant opportunity to help lead economic recovery post-COVID as being driven and supported by central government at the moment.
19. The funding has some flexibility in negotiation with Salix Finance, thus high level figures only are shown in summary below:

Public Sector Decarbonisation programme financial summary

Area of delivery	Outline budget	%
Design and engineering	£336,600.00	3
Main capital	£1,247,589.00	12
Equipment	£5,073,009.00	46
Project delivery and other costs	£2,802,147.00	26
Contingency fund	£1,464,202.00	13
TOTAL	£10,923,547.00	100

Renewable Energy Source

20. The grant provides for capital investment in a local source of not for profit renewable energy. Officers are exploring the best vehicle to achieve this with potential suppliers that is consistent with the grant, provides value for money for the council and public purse, is state aid compliant and fits with our existing energy procurement arrangements through Laser public sector energy contracting.
21. A further report will be made on the proposed arrangements in due course.

Legal issues

22. The proposed grant offers are from Salix Finance Ltd with funds provided by the Department of Business, Energy and Industrial Strategy (BEIS). It is anticipated that our standard form of arrangements will be applied to what is essentially electrical engineering works. The investment in renewable energy is likely to be novel and will require specialist legal advice. The support from the legal service for the programme overall is significant.
23. Proposals to extend existing contracts or to award new contracts for the supply of goods, services and or works should be undertaken in accordance with the council's Contract Procedure Rules and the requirements of the Public Contracts Regulations 2015.
24. The council should note that the grant funding agreements are often provided on a "take it or leave it" basis, which means that the council does not have the right to negotiate the terms of contract. Accordingly, officers should ensure that if they draw monies down pursuant to these agreements, that they comply with the terms of the agreement and note any risks that the council may be exposed to in the event of non-compliance. Legal advice should be obtained if needed.

25. The standard form of agreement allows for the variation of proposals to meet the scheme criteria. We are currently in the stage of working up detailed proposals for agreement with Salix Bank.

Levels of Risk

26. Continuing progress in the area of energy and carbon reduction is key to meeting international and national legislative requirements e.g. Climate Change Act 2008, Housing and Planning Act 2016, Heat Networks (Metering and Billing) 2014, UK requirements under the Energy Performance of Buildings Directive (Energy Performance Certificates, Display Energy Certificates), and Government Greenhouse Gas Reporting requirements.

27. There are a number of risks associated with this programme:

- a) **Budget:** the budget for this programme is in outline only. The timescale for the bid process was very short and did not allow for detailed feasibility. Cost alongside feasibility will be examined in the early part of this programme to ensure agreed deliverables with Salix Finance.
- b) **Schedule:** the schedule for delivering these projects is extremely tight. . Where feasible this risk will be avoided through joint work with the Programme Manager and successful supplier, who will demonstrate their ability to deliver the project by the deadline and have the resources available to achieve this. Dialogue with Salix Finance will also be used to seek extension to programme timescales where required.
- c) **Planning and Regulatory Risk:** elements of the proposals may require planning and other regulatory approvals that may or may not be forthcoming. This will be resolved for the detailed proposals. Contingency plans will be prepared by the Programme Manager and any successful supplier, including technical and innovative alternatives where this is possible.
- d) **Connection to the distribution network cost/ permission:** the costs of connection to the distribution network could be high and connection might not be possible. Contingency plans will be prepared by the Programme Manager and successful supplier, who will liaise with the Distribution Network Operator (DNO) and scope technical and innovative alternatives where appropriate.
- e) **Disruption to users at each site:** work on the sites could cause disruption to users. This risk will be avoided by the Programme Manager and successful supplier, who will develop a plan to reduce the impact on the use of the sites – including Hinksey Pool - and select an installer informed by this plan, while ensuring close liaison with the relevant colleagues within the Council to manage the relationship with stakeholders (e.g. Fusion).
- f) **Heat pump availability:** The Renewable Heat Incentive (RHI) is coming to an end and this, combined with further increased demand as a result of the decarbonisation fund is creating pressure on the heat pump industry, meaning that there is a risk heat pumps will not be available for this project in the timescales that we need. This risk will be avoided by the successful supplier, who will prepare a tender for procurement as soon as practicable.
- g) **Procurement timelines:** procurement processes may not be compatible with project timelines, causing a delay to the timeline. This will be avoided by the successful supplier, who will prepare a tender for procurement as soon as practicable.
- h) **PV availability:** The global supply for solar PV is under strain and could be impacted by Brexit, meaning that there is a risk the PV we need will not be

available for this project in the timescales that we need. This will be avoided by the Programme Manager and successful supplier, who will prepare a tender for procurement as soon as practicable.

- i) **Liaison with Salix Bank:** close liaison will be maintained with Salix Bank who are managing the fund on behalf of BEIS. We have a strong working relationship with Salix based on many years of successful delivery. We will ensure that they are kept apprised of the above risks and mitigations.
- j) **Brexit** we are becoming aware of Brexit related delays and additional costs in respect of such schemes particularly where they involve supply and fit services from EU companies. This risk will need to be addressed.

28. A risk register is attached (see Appendix 1), outlining the potential known risks.

Equalities impact

29. The clear mandate from Oxford’s citizens from the climate change assembly has included representatives from a broad cross-section of groups and ages across the city. There are no adverse impacts on any part of the community; however Oxford City Council is mindful of the important leadership role it plays across its communities. The Council will be mindful of communicating clear messages on the purpose of this programme of carbon emissions reduction.

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Background Papers: None