

To: Cabinet
Date: 15 September 2021
Report of: Head of Corporate Strategy
Title of Report: Decarbonisation Programme update

Summary and recommendations	
Purpose of report:	To provide an update on the decarbonisation programme and seek approval for the de-scoping of the programme to remain within budget and issue contracts for construction works.
Key decision:	Yes
Cabinet Member:	Councillor Tom 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. Approve the de-scoping of the Decarbonisation Programme through the removal of the Ice Rink and Rose Hill Community Centre; 2. Note that the full costs of decarbonisation works will utilise 100% of the Salix grant funding available, so there will no longer be any grant contribution available towards the enabling works, contrary to the earlier report to Cabinet; 3. Note that the Head of Corporate Strategy will shortly execute the contract for both enabling and decarbonisation construction work on behalf of the Council, as previously delegated by Cabinet; and 4. Note the update provided on the Decarbonisation Programme and solar farm investment. 	

Appendices	
Appendix 1	EXEMPT – Confidential appendix

Introduction and background

1. Oxford City Council declared a climate emergency in January 2019. Following the Oxford's Citizens' Assembly on Climate Change, the Council set out its commitment to become net zero and its 4th Carbon Management Plan (CMP) commits the City Council to zero carbon by 2030.
2. Zero Carbon by 2030 represents a significant step-change in the Council's ambition. It requires a doubling of the previous 5% year on year reduction, which would only get the Council about half of the way to zero carbon by 2030.
3. The majority of Oxford City Council's emissions originate from buildings (73%), with leisure buildings being a major contributor. Four leisure centres, including Leys Pools & Leisure Centre; Hinksey Outdoor Pool; the Oxford Ice Rink; and Ferry Leisure Centre are ranked among the Council's top five highest emitting buildings, with Barton Leisure Centre coming in sixth, behind the Town Hall. Tackling building emissions, particularly from the Council's leisure centres, is therefore a priority for achieving the Council's 2030 target.
4. The CMP also highlights the important role of increased renewable energy generation, including investments in local large scale solar farms, in order to achieve the 2030 zero carbon target.
5. The Council has identified a £2.2m investment gap per year to 2029/30 to achieve its zero carbon target and recognises the important role of external funding in achieving it.
6. In February 2021, Oxford City Council was awarded up to £10.923 million in grant funding under the Public Sector Decarbonisation Scheme (PSDS) by Salix Finance Ltd (a government funded public sector financing body – funded by the Department for Business, Energy and Industry Strategy - BEIS) for the decarbonisation of some of the Council's highest emitting sites. This includes two schemes:
 - a. **Scheme 1:** £1,636,736 for the installation of water sourced heat pump at Hinksey outdoor pool.
 - b. **Scheme 2:** £9,286,813 for the installation of Heat pumps at 5 Council centres (Ferry Leisure Centre, Blackbird Leys Pool & Leisure Centre, Barton Leisure Centre, Rosehill Community Centre, and the Oxford Ice Rink) and a loan to the Low Carbon Hub (LCH) for a remote solar farm development at Ray Valley, paid for out of this Scheme 2 Salix grant funding pot.
7. The Council has submitted to Salix, the Government funding agency, the application to extend the delivery date for the Programme from 30 September 2021 to 31 March 2022. Formal confirmation of the extension is expected shortly, which Salix has already supported in a letter to the Council.
8. To comply with the grant funding conditions, the Programme must comply with Salix's ceiling that the cost of carbon emissions saved should not exceed £500 per tonne over the project lifetime. The grant funding is eligible for covering the installation of decarbonisation technologies like heat pumps and renewable energy measures that contribute to carbon emission reductions directly. Under the grant conditions, Salix funding cannot cover any costs above the £500 per tonne of carbon ceiling. Any additional costs beyond this metric would have to be covered by the City Council. The grant can also be used for three classes of non-directly carbon reducing measures: improved energy metering, electrical infrastructure costs (eg

electrical network upgrades due to increased electrical loads from heat pumps) and battery storage technology.

9. The February 2021 Cabinet paper (“Programme Approval and Allocation for Public Sector Decarbonisation Funding”) granted programme approval regarding 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 contracts across the prospective sites.
10. Delegated authority was granted to the Transition Director (which has now passed to the Head of Corporate Strategy following an internal restructure), in consultation with the Cabinet Member for Green Transport and Zero Carbon Oxford; the Cabinet Member for Culture, Leisure and Tourism; the Head of Financial Services/Section 151 Officer; and the Council’s Monitoring Officer, to commence expenditure of the £10.923 million grant money. This was to carry out the work to develop proposals for funding and subject to their satisfactory conclusion, enter into funding and other necessary agreements, including pre-construction and construction contracts, for the purpose of development and delivery of decarbonisation projects across the Oxford City Council estate.
11. In July, Council granted approval of a loan to Low Carbon Hub (LCH) of up to £3,385,200 together with the associated capital budget for investment in the Ray Valley Solar (RVS) local renewable energy project, over a 22.5 year period. The investment is part of the Decarbonisation programme and will be fully funded by the Public Sector Decarbonisation Scheme grant awarded to the Council by Salix. The purpose of the investment is to ensure that, as the installation of heat pumps at the Council’s leisure facilities represent a shift from a gas-powered to an electricity-powered form of heating, all of the electricity required in future would be backed by renewable generation from the solar farm.
12. In July 2021, the Council’s Chief Executive took an urgent decision to instruct consultants and contractors to undertake the enabling works required to facilitate the decarbonisation project; and to allocate a capital budget in the Council’s capital programme of £3.066 million financed by budgeted capital resources set aside to finance works arising from the stock condition surveys, in the February 2021 refresh of the Medium Term Financial Plan project. This was linked to an expectation that a contribution of around £650,000 could be available from underspend within the Decarbonisation grant pot towards the cost of enabling works, which is no longer available.

Programme update

13. Works have been progressing on design and construction plans for the heat pump installations at pace. The Programme is on track for completion by 31 March 2022, though timelines are challenging and some works and equipment (including Air Source Heat Pumps for installation at all sites other than Hinksey) have had to be pre-ordered and are awaiting delivery. At Hinksey Pool, a Water Source Heat Pump is to be installed in the adjacent lake. A planning application for these works will be submitted shortly.
14. In order to stay on the critical path timeframe for accessing all of the decarbonisation grant money, the contractor needs to be under contract as soon as

possible following the 15 September Cabinet decision for the construction works to commence on site in line with the agreed schedule. The Head of Corporate Strategy will shortly execute the contract with Willmott Dixon for both enabling and decarbonisation construction work on behalf of the Council, as previously delegated by Cabinet.

15. The Council's consultants Faithfull & Gould (F&G) and contractors Willmott Dixon have now completed the detailed design both for the installation of decarbonisation measures across the six sites, and the required enabling works to allow the new equipment to be linked to existing plant. In addition, the internal costs incurred by the Council that are chargeable to the grant from Salix have been established.
16. Detailed technical site surveys have established that significant enabling works are required in order to bring the facilities up to date to enable heat pumps to be integrated effectively into the buildings. A budget of £3.066million has previously been agreed for these enabling works drawn from Council funds. Some of the enabling works are to replace near-redundant plant that would anyway require upgrading in the short to medium term.
17. However, now the final costs the programme are available, totalling £17.691 million, including the contractor's and consultant's fees plus contingency, the solar farm investment, the capitalisable internal fees, and the cost of asbestos removal from the plant room at Ferry Leisure Centre, a funding gap of £3.702 million has been identified against the approved funds of £13.989 million (£10.923 million + £3.066 million).

Recommended next steps

18. The Council's external consultant F&G has already undertaken an initial value engineering exercise to test all areas of expenditure and costings. It is clear the budget gap cannot be bridged without de-scoping some areas of the programme. Officers have held discussions with Salix, which has confirmed projects could be removed from the programme or swapped among the two schemes without a clawback in the grant awarded, subject to compliance with the ceiling of £500 per tonne of carbon saved over the project lifetime, and other conditions of the grant awards.
19. Officers have worked with the external consultants and contractors to identify the optimal approach to de-scoping elements of the programme costs to bring costs down to approved budget levels, while also maximising use of the available Salix grant money and achieving the greatest carbon emission reductions.

20. As a result, it is recommended that the Ice Rink and Rose Hill Community Centre are de-scoped from the Programme. Doing this would reduce the programme costs by around £3.860 million bringing it back within budget. This option is recommended for the following reasons:

- a. Rose Hill and the Ice Rink are projected to deliver the lowest carbon emission reduction of the programme (c192tCO₂ or 14.2% of a total of 1,356tCO₂ across all 6 sites within the full programme). Their removal would therefore have the least impact on progress toward meeting the Council's 2030 zero carbon target.
- b. The cost per kg of carbon saved is high for both the Ice Rink and Rose Hill Community Centre. When compared to other viable options, their omission would have the most favourable impact on the overall Salix metric of £500 per tonne of CO₂ saved, thereby allowing the Council to utilise all of the grant money available up to that ceiling.
- c. Rose Hill is a new installation which will benefit the least from upgrades delivered from the programme.

21. However, the following points should be noted:

- a. The Ice Rink is a significant consumer of electricity and so its removal from the programme, alongside Rose Hill Community Centre, will reduce the amount of renewable electricity required from the Ray Valley solar farm to 'back to back' the programme with green energy. The impact of this is to reduce the size of the grant to be claimed from Salix for the loan to LCH from c£3.1 million to c£2 million. This would result in a reduction of investment of and a loss in long term revenue to the Council of c£696,000 calculated on an NPV basis.
- b. The work to date on the decarbonisation project designs at Rosehill Community Centre and the Ice Rink has cost a total of c£50,000 and can be spread across the remaining programme, claimable under the Salix grant. The designs that have been produced could be used for implementation at a later date supported by a subsequent funding bid.
- c. The unutilised Air Source Heat Pumps can either be stored for use at a later date, or sold.

22. Other options for de-scoping from the programme, for example the removal of Ferry Leisure Centre, failed to reduce costs sufficiently due to the impact of the Salix compliance requirement that grant funding is only available up to a level of £500 per tonne of CO₂ saved. This is because the decarbonisation works at Ferry have a significant impact on carbon reduction, as do those at Hinksey Outdoor Pool, Leys Pool and Leisure Centre, and Barton Leisure Centre. Removal of Ferry reduces the amount of available Salix grant that can be used by up to around £1.9 million.

23. However, the following points should be noted. Due to the condition of the plant room at Ferry, a significant sum will be required for the enabling work (c£768,000). This is on top of the £250,000 already spent on removing asbestos from its plant room.

Impact of works on operation of sites

24. Our contractors have worked with Fusion Lifestyle, which operates the Council's leisure centres, to identify ways to minimise the closure of sites while enabling and decarbonisation works are undertaken. Subject to final confirmation expected by the time of the Cabinet meeting, workarounds have been identified for the Leys Pool and Leisure Centre and Barton Leisure Centre; and feasibility is being undertaken over whether the Ferry Leisure Centre 'wet side' (swimming pool) could also be kept open while works are ongoing. If the closure of Ferry pool is required, then this is planned from 11 October 2021 to 30 March 2022. The Ferry 'dry side' (gym and sports halls) will remain open. Hinksey Outdoor Pool is anyway due to close through the winter. Works there will take place between 3 October and 18 March.

Ray Valley solar farm

25. Following the July Council approval, the Council has invested £2.3m in the Ray Valley solar farm using a revolving loan facility as an interim measure, while a suitable loan agreement with LCH is drawn up, which allows the use of the Salix grant funding and the annual returns back to the council. LCH is aware that the size of the long-term loan funded by Salix grant is linked to the nature of investment made in decarbonisation measures the Council deploys at its sites. LCH has indicated it will seek other sources of finance if there is a shortfall in the funding the Council is able to make available.

Carbon and environmental considerations

26. The removal of sites from the decarbonisation programme will reduce the annual carbon emissions decrease achievable. Those sites de-scoped will continue to emit damaging CO₂ emissions from site operations for longer and therefore the Council will make slower progress in meeting its zero carbon emissions by 2030 goal. However, the removal of the Ice Rink and Rosehill Community Centre from the programme constitutes the least impact in carbon emission reductions lost (c92tCO₂/year or c9%) compared to the estimated 1056tCO₂/year of total direct site carbon emissions reduced through the programme.

Financial implications

27. Latest cost estimates for all aspects of works detailed in paragraph 6 above is £14.329 million including enabling works. The original loan to Low Carbon Hub in respect of Ray Valley Solar Farm based on the reduction of carbon emissions from the other installations is estimated at £3.096 million. Project management costs incurred by the Council are estimated at £266k. Therefore the total cost of the project is estimated at £17.691 million.

28. Salix loan finance has been secured from the Department for Business, Energy and Industrial Strategy (BEIS) in the order of £10.923 million and a capital budget for the estimated cost of enabling works of £3.066 million was agreed under Chief Executives urgent decision powers. Resources therefore total £13.989 million.

29. Overall the latest cost estimates for the project indicate a shortfall of £3.702 million. It should be noted that in securing budget approval for the £3.066m members were advised that up to £650k of this could be financed by the Salix loan so in essence the current estimated project overspend could be revised to £4.352 million.

30. The following points are worthy of note

- Contingency for the enabling and decarbonisation works is estimated at £980k i.e at 8.0% for all 6 projects, is being maintained at the same level for the reduced programme over 4 sites, therefore this increases to 10.4%
- Capitalised internal costs relating to project management are assumed to be equal regardless of de-scoping programme elements, although in reality this may vary to some degree.
- Removing the installation for Ferry would reduce the grant available from Salix by up to around £1.9 million due to the carbon compliance ceiling of £500/tonne of carbon saved. While, in the case of removing the Ice Rink and Rose Hill Community Centre all of the £10.923m grant can be utilised.
- The loan to the Low Carbon Hub (LCH) in respect of the Ray Valley Solar Farm is linked to carbon emission savings and removal of the ice rink, given the emission savings generated would reduce the loan to LCH from £3.1 million to an estimated £2.053 million. Paragraphs 25 above identifies that we have currently advanced LCH £2.3 million from the Council's 'Revolving Loan Fund' as an interim measure pending finalisation of the Salix Loan backed agreement. It should also be noted that the original premise was that the principal of the £3.1 loan would be repayable to the Council over 22.5 years with interest, with subsequently unfettered future usage by the Council. A reduction of the loan of £1.1 million would result in a loss of interest at 1.45% and a loss of principal to the Council.

Legal issues

31. Cabinet is being asked to agree to the de-scoping of the de-carbonisation programme through the removal of the Ice Rink and Rose Hill in order to remain within the approved budget and maximise use of the Salix grant money and associated carbon emission reductions.

32. The previous Cabinet report, dated 10th February 2021 which sought initial approval for the programme set out the legal issues summarised as follows:

- 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 external legal advice.
- 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 Constitution, Contract Procedure Rules and the requirements of the Public Contracts Regulations 2015.
- The Council is unlikely to have much, or any, ability to negotiate the terms of the grant funding agreement. Officers must ensure that if they draw monies down pursuant to these funding 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.

33. The de-scoping of the programme to remove the Ice Rink and Rose Hill does not change the primary legal implications to be considered. However it should be noted that the removal of a site, or sites, from the programme would be a variation/modification of the programme and the grant funding agreement and that the agreement provides that no significant changes may be made to the project programme without Salix's prior written agreement. Officers will therefore need to seek the written agreement from Salix to vary the programme by removing sites. If such prior written consent is obtained to vary the programme, then the removal of the sites should not trigger Salix's ability to withhold or suspend payment of the grant money provided the Council complies with all obligations in the grant funding agreement.
34. The report outlines the fact that work is ongoing to draft and negotiate a suitable loan agreement between the Council and LCH in respect of the proposal to use Salix grant funding money to loan to LCH for investment in the Ray Valley Solar Farm. External legal providers have been instructed as this is a specialist area of law. It is important that the Council considers its obligations in respect of the Salix grant funding agreement and its ability to pass on those obligations to LCH, or secure an indemnity, to ensure the actions of LCH could not result in unforeseen liability for the Council in respect of the Salix funding. The Council also needs to be satisfied that it has appropriate security for any loan facility granted, which protects the Council's position whilst allowing LCH the flexibility it requires.

Level of risk

35. The programme Risk Register is attached as an appendix.
36. The main purpose of the proposals in this document are to reduce the financial risks within the programme, which is currently expected to go significantly over the approved budget. This is the expected outcome if the de-scoping recommendations are not approved. As referenced in paragraph 14, if the contractor is not appointed by mid-September this will create a programme risk of not completing by 31st March 2022. This would require the Council to seek additional funding to complete the works.
37. There some provisional sums representing the enabling works that are still at stage 2, therefore, not fully designed. Officers are currently in discussions over the costs of transferring this risk to the contractor, by way of buying this risk.

Equalities impact

38. Whilst there are limited equalities impacts to the decisions proposed within this paper, the decarbonisation programme will extend and secure the future operational life of the Council's leisure facilities. They provide a relatively low cost resource for public benefit for those in particular for example on lower incomes or with disabilities and benefitting from discounted charges, compared to facilities operated by independent commercial providers.

Conclusion

39. The nature of the funding criteria by Salix and the number of variables associated with the decarbonisation works, enabling works, solar farm loan, means the optimal approach to de-scoping the Programme to reduce costs is not straightforward. However, the recommendation of officers and the Council's external consultants

and contractors is to remove both the Ice Rink and Rose Hill from the programme, thereby maximising the use of available grant to pay for both decarbonisation measures and enabling works across the other four sites, and delivering the largest future carbon saving.

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Background Papers: None

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