

Leisure Facility Decarbonisation Programme – Request for Approval of Revision to Funding Arrangements (Urgent Item)

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| Executive Portfolio Holders: | Cllr Sarah Dyke, Environment, Cllr Mike Best, Health and Wellbeing, Cllr Peter Seib, Finance, Legal and Democratic Services |
| Strategic Directors: | Kirsty Larkins, Director, Service Delivery, Nicola Hix, Director Strategy and Support Services |
| Service Manager: | Sharon Jones, Assistant Director, Service Delivery Brendan Downes, Lead Specialist, Procurement, Performance and Change |
| Lead Officers: | Lynda Pincombe, Procurement Specialist, Strategy and Commissioning Karen Watling, Chief Finance Officer |
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Purpose of the Report

1. To update members on Public Sector Decarbonisation Scheme (PSDS) programme and the new financial implications arising.
2. To seek approval to vire up to £1,276,245 from the Decarbonisation Programme Phase 2 capital project (approved by Council 28/2/22) in order to fund the leisure Public Sector Decarbonisation works that will now complete after June 2022 and therefore not be eligible to be funded by the Department for Business, Energy and Industrial Strategy Public Sector Decarbonisation grant for works.
3. This report is brought forward under Part 4 of the Council's Constitution: Access to Information Procedure Rules, Point 15: General Exception, and Point 16: Special Urgency. A request for inclusion of an urgent item was submitted and agreed by the Chair of Council and also the Scrutiny Committee Chair.

Public Interest

4. The contract for the operation of the Council's indoor leisure facilities in Yeovil and Wincanton and Chard was awarded to Wealden Leisure Limited (Trading as Freedom Leisure) for 15 years from 1st April 2021 until 31st March 2036.
5. As part of the contract award, the Council approved the use of capital and grant funding to enable Freedom Leisure to manage facility improvements at the Yeovil and Wincanton sites. Improvements including the reduction of carbon emissions are in line with the Council's Environment Strategy and Council Plan objectives.
6. This report seeks approval to amend the approved funding arrangements, due to Public Sector Decarbonisation Scheme programme slippage.

Recommendations

7. That Council:-
 - a) Agrees a virement of £1,276,245 from the approved Decarbonisation Programme Phase 2 Capital budget to the Public Sector Decarbonisation Scheme (PSDS) project budget to cover the risk of the council having to use more of its own funding resources instead of Public Sector Decarbonisation grant.
 - b) Agrees an increase of £1,276,245 to the PSDS budget bring the new budget total to £9,217,713 (this includes the leisure capital sum of £4,160,495 as detailed in the report to District Executive on 12/5/22).
 - c) Agrees a decrease of £1,276,245 to the Decarbonisation phase 2 budget to bring the new budget total to £1,483,755.
 - d) Notes that any of the £1,276,245 amount not needed be returned to the decarbonisation phase 2 capital budget.
 - e) Notes that these proposals are neutral to the council's overall budget totals i.e. does not increase the overall capital budget total nor incur any increase in the revenue budget (from resulting financing charges).

Background

Public Sector Decarbonisation Scheme

8. District Executive Committee considered and approved additional funding for the delivery of capital and Public Sector Decarbonisation improvement works at the Council's leisure sites on 12th May 2022.
9. The overall Public sector grant paid and available to the Council is £3,993,000. To date, costs of £1,665,000 excluding VAT have been incurred and committed costs stand at approximately £2.1m excluding VAT. At District Executive in May, it was projected that £3,430,997 of public sector decarbonisation works would be spent by 30th June 2022 and therefore covered by the grant.
10. The Public Sector Decarbonisation Scheme grant paid to the Council has an expenditure deadline of 30th June 2022. Officers have previously been advised by Salix Finance (who administer the scheme on behalf of the Government) that this deadline is unlikely to be extended. Salix Finance do not have the authority to grant an extension.
11. Every effort is being made by the project team to persuade the Department for Business, Energy and Industrial Strategy to allow a small additional extension until the end of September 2022 (or vary the terms and conditions to allow payments in advance); although to date, a direct response is yet to be received. An extension would allow the Authority to utilise most of the grant funding already awarded without having to consider



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setting aside more of its own-capital resources (which would affect the Council's ability to deliver other local priorities).

12. It should therefore be assumed that works completed after 30th June will have to be self-funded and unused grant Public Sector Decarbonisation grant returned.
13. If fully delivered, the Public Sector Decarbonisation works at the leisure sites are expected to reduce carbon emissions by 435 tonnes per annum. This equates to taking 229 cars off the road.
14. An enormous effort has been made by officers and the external project management team to complete the project within the grant funding deadlines. However, the prevailing market conditions and constrained timescale for delivery means the deadline will be missed by a few weeks although all works and commissioning is expected to be complete by end September 2022.
15. An urgent decision is now required to determine whether work on this element should continue, and if so, how the increased funding risk to the authority should be addressed.

Report Detail

16. There are two key elements to the Public Sector Decarbonisation works, the installation of solar panels and the installation of air source heat pumps (ASHP). The delivery of ASHP's has the biggest impact on carbon emission reduction.
17. Work is well underway to deliver the solar element of the scheme. Delivery is expected by the June grant deadline resulting in a carbon reduction of 21 tonnes per annum. This is equivalent of taking 11 cars off the road.
18. The contractors due to install the air source heat pumps started on site this week (week commencing 13th June 2022); they are currently proceeding at risk of abandonment.
19. The costs of this element of the scheme have slipped by around 2 weeks due to design delays and confirmation that the Distribution Network Operator ¹costs relating to supply upgrades at Wincanton Sports Centres and Goldenstones will not be known until mid-July. Attempts have been made to expedite a response prior to the end of June, but this is looking increasingly unlikely. The programme slip has a number of knock on impacts, resulting in more works being completed beyond the grant funding deadline than previously forecast.
20. If the Council proceeds with the Air Source Heat Pump Installation, members will need to agree in principle to use more of its own capital resources to cover costs previously expected to be met by the Public Sector Decarbonisation Scheme grant held by the authority.

¹ Distribution Network Operator (DNO) is the company that owns and operates the power lines and infrastructure that connects the national grid to properties. The DNO for the South Somerset area is Scottish and Southern Electricity Networks.



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21. While it is clear that Salix Finance wants to support the Council to maximise use of grant to decarbonise, they cannot approve an extension to the grant deadline or alter terms and conditions without Government approval.
22. At present, the risk of SSDC needing to use more of its own funds to finance costs incurred beyond the end of June 2022 is estimated to be between £275,000 (best case) and £1,276,245 (worst case): these are above the figures presented to District Executive in May.
23. In order to avoid further reports to members, our costs consultants have provided a best case and worst case scenario in terms of impact on SSDC funding. The main areas of financial risk are as follows:
 - a. Distribution Network Operator (DNO) costs for Wincanton and Goldenstones electrical connections - £200k –quotes expected by mid July.
 - b. Contingency – to cover higher than expected DNO costs - £100k
 - c. Contingency – for civils works at Wincanton Sports Centre - currently a provisional sum included - £100k
 - d. Mechanical and electrical equipment purchases if a pro-forma invoice is not accepted by the grant administrator as being compliant with terms and conditions - £400k
 - e. Labour costs incurred beyond June to complete public sector decarbonisation works.

Options Considered

24. **Option 1** – Abandon the Air Source Heat Pump (ASHP) installation at Wincanton Sports Centre, Goldenstones and Westlands Sport and Fitness Centres and sell the ASHP's already purchased.
25. In abandoning the scheme at this point, we expect to incur abandonment costs in the region of £450k and would still need to consider further decarbonisation measures at these sites in the future to meet Environmental Strategy objectives. Abandonment costs would incorporate anything that had not been invoiced for at the point at decision to abandon was taken. The abandonment costs would be a cost to the revenue budget as accounting rules do not allow for us to capitalise these types of cost if the scheme is not to proceed.
26. There may be future funding rounds to support decarbonisation schemes, but there is no guarantee that delivery will be any easier or cheaper given the current market conditions. Design work already completed and paid for would need to be repeated.
27. Importantly, the remaining capital works designed at the leisure sites are also now based on the public sector decarbonisation works going ahead as the mechanical and electrical works are intrinsically linked. Therefore, there would be additional redesign costs and the delay to the leisure capital works potentially seeing the price increase, as well as possible reductions in the management fee income paid to the council from Freedom Leisure (the Council's Leisure Operator). It is not possible to quantify these costs and the lost fee income at the time of writing this report, but the costs are likely to be significant



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28. Abandoning at this stage would result in new capital and revenue implications, which cannot be quantified at this stage, and the Council's corporate objective of achieving significant carbon reductions would not be realised.
29. **Option 2** – Continue with ASHP delivery and agree to fund all works not complete by the end of June from the Council's Capital Contingency fund.
30. Council agreed a corporate capital budget at its February 2022 meeting of £4m. District Executive has already allocated £1,015,495 to this PSDS programme at its May meeting. If District Executive were to allocate a further £1,276,245 to this programme, this would mean that 57% (or £2,291,740) of the contingency amount will be allocated to this one programme. This potentially affects the Council's ability to fully implement other priority projects already in the Capital Programme.
31. **Option 3** – Continue with ASHP delivery and fund the increased capital risk from the capital budget already approved for the Decarbonisation Programme Phase 2 - assuming there is no further flexibility available in respect of the grant funding held.
32. SSDC approved a £2,760,000 capital budget in February 2022 for energy and decarbonisation initiatives at Brympton Way, Westlands Entertainment Complex and the Jon O'Donnell Pavilion along with a LED lighting replacement programme at a number of SSDC sites. There are some essential lifecycle replacement projects likely to account for approximately £1million of the approved budget, although firm prices for these works are yet to be received, as the tender process has not commenced. Therefore, there is potential to use some of this funding already approved to complete the PSDS works at the leisure sites. There is however a risk that the full scope of this programme may not be achieved as there would be insufficient budget left.
33. The decarbonisation impacts of these phase 2 works have yet to be calculated as the scheme is still at design stage. However, the decarbonisation impacts are likely to be considerably lower than the leisure decarbonisation scheme.
34. Option 3 is considered the most prudent way to proceed at present in order to avoid having to use more than half of the corporate capital contingency budget at this stage of the financial year- As stated above, efforts will continue to secure permission to use grant funding, already held, to cover decarbonisation scheme costs slipping beyond 30th June 2022 given that delivery is so close to being achieved.
35. The Chief Finance Officer will bring a capital programme update report to District Executive at its July meeting to show likely/possible future calls on the corporate capital contingency budget, so that some Members can express their views on the prioritisation of using the contingency budget that may be needed.

Financial Implications

Capital Budget

36. The current approved capital budget for the PSDS programme is £7,941,468. Agreement of the recommendations would mean that this budget is increased by £1,276,245 to a new total of £9,217,713.



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37. The budget increase proposed reflects the worst case risk as assessed by our cost consultants and the assumption that the grant deadline will not be extended. In the event that these two assumptions are ameliorated, then any unused budget would be returned to the decarbonisation phase 2 programme.
38. Agreement of these proposals would mean that the decarbonisation phase 2 approved budget would reduce by £1,276,245 from £2,760,000 to £1,483,755.

Funding of the Capital Budget

39. The approved decarbonisation phase 2 capital budget is funded by prudential borrowing and is already included in the Council's overall capital funding plan approved by Council in February 2022.
40. The virement of capital budget of £1,276,245 from decarbonisation phase 2 to the PSDS budget will therefore not incur any increased costs both in terms of the overall capital budget total nor the revenue budget, in terms of financing charges. Given this, the proposal complies with the section 24 direction.

Legal implications and details of Statutory Powers

41. No new legal implications.

Council Plan Implications

42. The effective management of the Council's leisure centres contributes to Council Plan aim to "improve health and reduce health inequalities" and to help the Council "to build healthy, self-reliant, active communities" by "Helping people to live well by enabling quality cultural, leisure, play, sport & healthy lifestyle facilities & activities".
43. The current Council Plan demonstrates the council's commitment to keep South Somerset green, clean and attractive and respond to the climate and ecological emergency. The first area of focus under this theme is to continue the delivery of the Environment Strategy action plan reducing our carbon emissions by 10% every year, to reach carbon neutrality by 2030.

Carbon Emissions and Climate Change Implications

44. The investment proposals put forward by Freedom Leisure as part of their contract tender expected to reduce emissions by 269 tonnes per annum. The increased scope of decarbonisation works utilising PSDS funding, is expected to reduce carbon emissions by 435 tonnes per annum in total across the Council's three leisure sites.

Equality and Diversity Implications



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| An Equality Impact Relevance Check Form has been completed in respect of the Proposal? | Yes |
| The Impact Relevance Check indicated that a full EIA was required? | Yes |
| If an EIA was not required please attach the Impact Relevance Check Form as an Appendix to this report and provide a brief summary of its findings in the comments box below. | |
| If an EIA was required please attach the completed EIA form as an Appendix to this report and provide a brief summary of the result of your Equality Impact Assessment in the comment box below. | |
| Additional Comments | |
| The EIA was appended to the District Executive Report on 12 May 2022 – Leisure Facility Capital and Decarbonisation Programmes – Consideration of Additional Funding | |

Privacy Impact Assessment

45. No new implications.

Background Papers

- District Executive – 12 May 2022 - *Leisure Facility Capital and Decarbonisation Programmes – Consideration of Additional Funding*
<https://modgov.southsomerset.gov.uk/documents/s41014/8%20PSDS%20and%20Leisure%20Capital%20update%20May%202022%20v0.12.pdf>
- South Somerset District Council – 28th February 2022 – Decarbonisation Phase 2 Proposals
<https://modgov.southsomerset.gov.uk/documents/s39494/9%20Decarbonisation%20buildings%20FC%20report%20Feb22.pdf>
- South Somerset District Council – 25th February 2021 – 2021/22 Revenue & Capital Budgets and Medium Term Financial Plan
- South Somerset District Council – 15th April 2021 – Appointed Leisure Facilities Provider
- SSDC Environmental Strategy
- South Somerset District Council – 28th February 2022, Decarbonisation Programme Phase 2