

DECISION-MAKER:	CABINET
SUBJECT:	BUDGET MATTERS – DECARBONISATION SCHEME
DATE OF DECISION:	15 NOVEMBER 2021
REPORT OF:	CABINET MEMBER FOR ENVIRONMENT/CABINET MEMBER FOR FINANCE AND CAPITAL ASSETS

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STATEMENT OF CONFIDENTIALITY
N/A

BRIEF SUMMARY		
<p>To achieve its ambition to be net zero carbon by 2030 Southampton City Council (SCC) will need to address the carbon emissions associated with its corporate assets. It is currently estimated this is responsible for 9,900 tonnes of CO2 Per year and is one of our most significant sources of emissions.</p> <p>A Clean Growth fund was proposed and adopted in 2020 to deliver a programme of energy efficiency and decarbonisation measures across this building portfolio. This was to be match funded by Salix Finance Ltd – an organisation that administers government money to deliver carbon reduction within the public sector.</p> <p>The Salix 50/50 match funding is no longer available and has been replaced with a grant focused on the decarbonisation of heat – Public Sector Decarbonisation Scheme (PSDS), which is applied for on a competitive basis. This grant will not need to be re-paid to Salix but may not cover all measures that support the council’s decarbonisation efforts.</p> <p>An assessment of the options available to SCC to continue the decarbonisation of corporate assets (including streetlighting) has been undertaken. The summary findings and recommendations are outlined in the paper and agreement sought to phase 1 of the work. This is an existing budget in the capital programme and the overall value of the budget is not changing but the funding is being updated based on the detail in the report.</p>		
RECOMMENDATIONS:		
<table border="1"> <tr> <td>(i)</td> <td>The council continues to deliver a carbon reduction and cost saving scheme under the Corporate Assets Decarbonisation Scheme (replacement of the</td> </tr> </table>	(i)	The council continues to deliver a carbon reduction and cost saving scheme under the Corporate Assets Decarbonisation Scheme (replacement of the
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		Clean Growth Fund) funded by Council Resources or grant funding where available.
	(ii)	To approve spend on Phase 1 of the Corporate Asset Decarbonisation Scheme (CADS) of £3.78M within the existing Growth capital programme spread over 2 years 2021/22 (£1.78M) and 2022/23 (£2.00M). This includes £0.78M for enhancements to existing buildings and £3.00M for streetlighting improvements. This is to be funded £3.58M by Council Resources and £0.20M by grant funding.
	(iii)	To approve the virement £0.20M grant funding from the Electric Vehicle Action Plan (EVAP) project to the Corporate Asset Decarbonisation Scheme.
	(iv)	To note that due to current market conditions costs may be subject to increase. If there are cost variations the business case will be reassessed to ensure value for money before any spend is committed. Any revision to costs included in the capital programme will follow the usual Financial Procedure Rules and delegations.

REASONS FOR REPORT RECOMMENDATIONS

1.	To continue a funded programme of works over 5 years to enable the council to work towards decarbonisation of its corporate assets by 2030 and reduce energy costs.
2.	To reduce the Council's impact on climate change.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.	Rely solely on grant funding – this was considered not feasible as grant funding cannot be guaranteed and when it is available it can have strict compliance criteria that could stifle the whole site approach to decarbonisation and energy cost saving. An example is the council would not be able to export solar PV generated power and earn an income.
4.	Do nothing approach - the council could decide to not take forward the proposed borrowing option for the energy efficiency and renewable energy measures. However, this would not meet the Climate Emergency and the related central government decarbonisation agenda. It would also put the council at significant risk associated with ongoing rises in energy costs, in addition to limiting the opportunity for the Council to grow green jobs and to grow the local economy.

DETAIL (Including consultation carried out)

5.	On the 16th March 2021, Salix stated that the councils match funding option to deliver the Clean Growth Fund recycling scheme would not be progressed. This was a national decision.
6.	This is as a result of the Department for Business, Energy & Industrial Strategy (BEIS) discontinuing all funding for Salix recycling and interest free loan schemes with immediate effect.
7.	Therefore, SCC can no longer utilise the Salix 50/50 match funded option for funding the Clean Growth Fund and the financial model presented within the cabinet paper on 15th December 2020 is no longer an option.
8.	The changes from a match funded focus to a grant fund by Salix (directed by central government) meant internal changes had to be made to the decarbonisation scheme within our corporate assets.
9.	As a result:

- A £1.6M Public Sector Decarbonisation Scheme (PSDS) grant has been secured that is delivering a programme of SCC corporate building based decarbonisation works within 2021-22.
- There are decarbonisation measures of £0.78M that were not supported by the PSDS grant to deliver building retrofit measures that are still beneficial to the authority.
- These measures were previously identified as part of the Clean Growth Fund and PSDS has effectively reduced the borrowing required to deliver Phase 1 CADS compared to the same measures via the Clean Growth Fund.
- The LED streetlighting project is also included in Phase 1 CADS with costs of £3.00M over 18 months, with an estimated completion in March 2023.
- Total CADS Phase 1 costs equate to £3.78M including buildings works and streetlighting.
- CADS offers clear co-benefits from decarbonisation including revenue savings over the lifetime of the measures being delivered, carbon emissions reduction to limit SCC's impact on climate change, whilst improving the assets value, performance, and operation.

RESOURCE IMPLICATIONS

Capital/Revenue

10. The Phase 1 related measures proposed with costs and savings are covered in Table 1 below.

Table 1 – Phase 1 measures costs and savings

Area	Measures	Cost £000	Estimated Annual Savings £000	Payback (Years)	Tonnes CO2 saved per year
Property	Solar, LED Lighting & Battery	709	71	9.9	119
Streetlighting	LED Upgrade	3,000	274	10.9	290
	Management Fee	71			
	Total Phase 1	3,780	345		409

11. Total annual savings presented in table 1 is based on the gross savings.

12. The total cost of the measures is estimated to be £3.78M – including a management fee 10% on the buildings works only.

13. It is proposed that this will be funded primarily by borrowing but also utilises Electric Vehicle Action Plan (EVAP) grant funding, which is in the existing capital programme see Table 2. Approval is sought for a virement for the grant funding between the projects within the Growth capital programme and notes that borrowing will need to be rephased from later years. This will incur additional revenue capital financing costs in 2021/22 and 2022/23, which can be accommodated within existing budgets.

The figures in Table 2 only include the expenditure where approval to spend is requested for Phase 1. Please see Appendix 1 for information showing the overall financial expenditure and benefits that includes the PSDS grant.

Table 2 – Phase 1 funding

Phase 1	2021/22 £000	2022/23 £000	Total £000	Source of funding
Capital expenditure	1,780	2,000	3,780	
Funded by:				
Council Resources	(1,580)	(2,000)	(3,580)	SCC PWLB borrowing
Grant	(200)		(200)	SCC grant funding from DEFRA (EVAP)
Total funding	(1,780)	(2,000)	(3,780)	

14. The revenue impact of the measures over the life of the assets is detailed in Table 3 below. Savings are forecast to be generated from 2022/23 and projected over the useful asset life of the measures. The financing costs are based on the annuity PWLB borrowing rate over 20 years for streetlighting and 25 years for the buildings which is currently at 2.11% and incorporates the annual Minimum Revenue Provision charge to the general fund associated with the borrowing. This shows that the net saving of the measures over the life of the assets is estimated to be around £2.50M after financing costs and repairs & maintenance have been considered, which is less than the initial outlay.

15. **Table 3 – Revenue impacts of Phase 1**

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	4 year total £000	30 year total £000
Savings CADS	-71	-345	-345	-345	-1,106	-7,032
Financing costs	91	215	215	215	736	4,455
Repairs & Maint.	0	4	4	4	12	77
Net saving	20	-126	-126	-126	-358	-2,500

NB figures are rounded

16. Combined net annual cost savings from the end of the first full year of Phase 1 would be £0.126M per annum until the first assets reach the end of their useful life. This savings figure does not include energy price inflation.

17. The current gross savings that will be delivered by the installation of the Phase 1 measures is £0.345M per annum.

18. Most of this estimated revenue saving is currently paid against the electricity bill of Marlands MSCP, OGS and streetlighting. Energy costs are predicted to double over the next 8 years resulting in revenue pressure on those sites' energy budgets would have to increase accordingly to cover the price rises. Therefore, the sooner savings can be made the smaller the impact of energy price rises will be at those sites.

19.	There will be a requirement to update the capital programme to reflect the changes in funding for the full CADS programme. This will be included in the capital programme budget setting to be presented to Cabinet and Council in February 2022.
20.	As the Salix partnership model is not going ahead the funding of the scheme needs to be updated to remove the Salix contributions. Approval to spend will be sought on a phase by phase basis on the completion of a financially viable business case. Future phases of the CADS will also seek additional grant funding from relevant Government schemes as and when they are announced.
21.	Its proposed the council deliver Phase 1 buildings work via an existing Npower decarbonisation design and build contract, which is being used to deliver the current grant funded decarbonisation project, and via the councils internal services.
22.	The aim is to complete Phase 1 property works by March 31 st , 2022.
23.	The Phase 1 streetlighting works will be delivered via the existing Streetlighting Contract partner SSE.
24.	Current timeline for completion of the Phase 1 streetlighting works is by March 31 st , 2023, which is subject to review upon on site commencement of the works.
<u>Property/Other</u>	
25.	Government is now providing full grants to the public sector via the Salix Public Sector Decarbonisation Scheme (PSDS). It is proposed that the council utilise current and upcoming phases of the PSDS grant funding to deliver heat decarbonisation measures under the CADS and continue to borrow against those decarbonisation measures that do not meet the grant compliance requirements. As PSDS is applied for competitively with all other public sector bodies there is risk that the grant will be oversubscribed. SCC has already secured £1.6 million from PSDS in February 2021 to deliver works across 7 sites, with completion date of 31 st January 2022.
26.	Examples of measures that are unlikely to meet future PSDS grant compliance include LED lighting, solar photovoltaics (PV) or other projects that do not directly play a role in providing gas fired heating and hot water services to a building. The next round of PSDS grant funding applications opened 6 th October 2021; however, as staff have been focused on implementing the existing PSDS works, we will not have sufficient details to submit an application until the new year. We anticipate a further opportunity to submit in April and / or next autumn next year so this will not ultimately affect the pace of delivery or impact on external funding support. Central government have suggested this will be a rolling programme that we can structure a plan around.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
27.	S1. Localism Act 2011 permits the Council to enter into the arrangements set out in the report, subject to complying with all relevant financial procedure rules.
<u>Other Legal Implications:</u>	
28.	The implementation of Phase 1 schemes will be subject to all necessary regulatory consents and EISA completion to meet the requirements of the Equalities Act 2010 and s.149 Public Sector Equality Duty as each proposal moves forward.
RISK MANAGEMENT IMPLICATIONS	

29.	The key project risks have been identified as part of developing the phase 1 business case. Risks are being managed under the Councils project management process and be presented at a monthly Decarbonisation Board as part of the governance process.
30.	It is recognised that there has been some recent volatility in costs across the construction sector. The current proposals are based on costs that may be subject to change. Delivery will be subject to maintaining the same outcomes and costs assigned to the business case outlined in this paper. No costs will be incurred on the property based works until the Decarbonisation Board sign off detailed costing and delivery plan once final prices have been received.

POLICY FRAMEWORK IMPLICATIONS

30.	<p>CADS is an invest to save fund that will support and deliver council outcomes in the following policies:</p> <ul style="list-style-type: none"> • Southampton City Strategy 2015- 2025: delivering whole place thinking and innovation • Corporate plan 2020 -2025: Green City and Wellbeing (improving the energy efficiency of buildings) • Green City Plan 2030 - to ensure the council corporate assets and streetlighting become zero carbon by 2030. The corporate assets cover all non-domestic buildings including SCC schools and streetlighting. • Clean Air Strategy 2019 – 2025: promoting sustainability
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KEY DECISION?	Yes
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Appendix 1 – Current Phase 1 Buildings Decarbonisation Scheme - Example of grant funding and borrowing model
2.	Appendix 2 – Background – Why the Change from Clean Growth Fund to CADS
3.	Appendix 3 Phase 1 Public Sector Decarbonisation Scheme (PSDS) Grant Funded Works
4.	Appendix 4 - Electric Vehicle Action Plan (EVAP) Funding

Documents In Members' Rooms

1.	
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No

Other Background Documents

Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	
2.	