
Cabinet
Council

1st December 2020
8th December 2020

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration – Councillor J O’Boyle

Director Approving Submission of the report:

Director of Property Services and Development

Ward(s) affected:

All Wards

Title:

Public Sector Decarbonisation Scheme – CCC Public Building Energy Efficiency Retrofit

Is this a key decision?

Yes - the proposals have financial implications in excess of £1m per annum.

Executive Summary:

Approval is sought for acceptance of PSDS grant funding of c£6m to support the delivery of energy efficiency retrofit measures on public buildings owned and operated by Coventry City Council.

The Department for Business, Energy and Industrial Strategy (BEIS) has launched the Public Sector Decarbonisation Scheme (PSDS). The Grant Scheme will allocate £1bn of grant funding to encourage green investment aligning with the Government’s Net Zero and clean growth goals. The Grant Scheme is available for up to 100% of costs for capital energy efficiency and heat decarbonisation projects within public sector non-domestic buildings. The funding is available until 11th January 2021 with delivery of projects required by no later than 30th September 2021.

An initial pipeline of eligible projects, with a combined estimated pre-tender value of up to £6m, has been identified that could be delivered under this grant scheme. CCC has submitted this pipeline of projects to the PSDS for consideration in principle. If accepted, CCC would then move onto the next stage of obtaining firm costs for the projects. These would need to be submitted by the end of November with the final grant award expected in early December.

Within the project pipeline there are two major procurements proposed, one for Low Carbon Heating solutions and one for Battery Storage solutions. Both of these contracts would potentially be greater than £1m in value. The remaining projects could be delivered using existing internal services or term contractors.

Recommendations:

The Cabinet is asked to:

- 1) Approve the proposal for the implementation of the Energy Efficiency Building Retrofit Works with a value of £6m as set out in the report (“the Project”)
- 2) Approve the proposal to spend the grant award on the delivery of the Project as set out in the report.
- 3) Approve the conclusion of any necessary procurement exercises and following completion, to award such contracts to the preferred supplier.
- 4) Request that officers continue to pursue further funding opportunities that may be offered to support further decarbonisation of Coventry’s public buildings in consultation with the Cabinet Member for Jobs and Regeneration.

Cabinet is asked to recommend that Council:

- 5) Approve the proposal for the Council to act as Accountable Body and, if the Council’s grant bid is successful, the acceptance of the PSDS grant funding offer from Salix Finance Ltd to support delivery of the Project.
- 6) Delegate authority to the Director of Finance and the Director of Project Services and Development following consultation with Director of Law and Governance to finalise the terms and conditions of the PSDS grant and any other legal agreements required to facilitate delivery of the Project, and incorporate the awarded grant within the approved Capital Programme as necessary.

Council is requested to:

- 1) Approve the proposal for the Council to act as Accountable Body and, if the Council’s grant bid is successful, the acceptance of the PSDS grant funding offer from Salix Finance Ltd to support delivery of the Project.
- 2) Delegate authority to the Director of Finance and the Director of Property Services and Development following consultation with Director of Law and Governance to finalise the terms and conditions of the PSDS grant and any other legal agreements required to facilitate delivery of the Project and incorporate the awarded grant within the approved Capital Programme as necessary.

List of Appendices included:

None

Background papers:

None

Other useful documents

Public Sector Decarbonisation Scheme Guidance Notes

https://www.salixfinance.co.uk/sites/default/files/Public%20Sector%20Decarbonisation%20Scheme%20Guidance%20Note%20-%20September%202020%20V1.0_8.pdf

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 8th December 2020

Report title: Public Sector Decarbonisation Scheme – CCC Public Building Energy Efficiency Retrofit

1. Context (or background)

- 1.1 The UK Government has committed to provide financial support to help stimulate the economy following the economic downturn caused by the Coronavirus pandemic. They have established a number of funding schemes aimed at supporting the wider agenda of “Building Back Better” through supporting green job growth.
- 1.2 The Department for Business, Energy and Industrial Strategy (BEIS) has launched the Public Sector Decarbonisation Scheme. The Grant Scheme will be delivered by Salix Finance and will allocate £1bn of grant funding which strongly aligns with BEIS’ mission and priorities: fighting coronavirus, backing business, unleashing innovation and tackling climate change. The scheme will encourage green investment aligning with the Government’s Net Zero and clean growth goals.
- 1.3 The Grant Scheme will be available for capital energy efficiency and heat decarbonisation projects within public sector non-domestic buildings including central government departments and arm’s length bodies in England.
- 1.4 Eligible projects fall into 4 categories:
 - Category 1 – Low Carbon Heating
 - Category 2 – Energy Efficiency Projects
 - Category 3 – Enabling Technologies
 - Category 4 – Oil & Coal Replacement Projects
- 1.5 The PSDS funding is open for applications from 1st October to 11th January with projects required to be delivered no later than 30th September 2021. Priority will be given to projects that support the decarbonisation of building heating that are otherwise difficult to finance (for example those that have a long financial payback)
- 1.6 The UK has a 2050 net zero target and the public sector will be required to make a major contribution to enabling the UK to reach this target. Coventry City Council is part of the wider West Midlands Combined Authority (WMCA) area who have recently pledged for the region to achieve a more ambitious target of reaching net zero by 2041. To do this will require significant investment in retrofitting existing buildings to improve energy efficiency and support the transition away for fossil-fuel use.
- 1.7 Significant progress has been made to date with emissions reductions exceeding all previous targets, however without further interventions Coventry City Council is likely to fall behind the requirements of Net Zero in the next couple of years. Our buildings currently contribute towards approximately 1/3 of Coventry City Council’s overall direct energy related carbon emissions however these emissions will need to further reduce by approximately 10-13% year on year to meet the requirements of the regions targets and future Climate Change Strategies that are in development.
- 1.8 Due to significant improvements in the carbon intensity of the UK’s grid electricity, CCC has seen its use of gas heating becoming an increasingly significant proportion of our emissions. Tackling these hard to transition emissions will be a priority over the next decade.

2. Options considered and recommended proposal

2.1 Options considered in relation to the retrofit of low carbon measures to public buildings.

2.1.1 Option 1 – Do Nothing and rely on UK grid improvement (Not Recommended)

2.1.1.1 This option would not enable Coventry City Council to meet the national or regional ambitions in relation to Climate Change action.

2.1.1.2 Whilst the UK electrical grid has seen significant improvement in its carbon intensity over the past 5 years and is expected to continue to fall into the future, the impact of “green” gas into the national supply has shown very little impact to date.

2.1.1.3 Currently there are pilots being undertaken in relation to the blending of hydrogen into the gas supply however this approach is limited in terms of the maximum decarbonisation it can offer before existing natural gas appliances would have to be changed.

2.1.2 Option 2 – Undertake Fabric/Efficiency Only Measures (Not Recommended)

2.1.2.1 The PSDS scheme allows for Category 2 & 3 measures to be funded independently as long as they meet the required grant eligibility criteria and a written commitment to undertake further actions, in the form of a Decarbonisation Plan, is submitted for the buildings receiving the measures.

2.1.2.2 The measures identified from these Categories include:

- Loft and Wall Insulation
- Heating Control Improvements
- Glazing Improvements
- Draught Proofing
- Lighting Improvements
- Monitoring Improvements
- Battery Storage Installation to Supplement ERDF Solar PV Systems

2.1.2.3 These are all solutions that would deliver energy efficiency improvements and result in both cost and carbon emissions reductions.

2.1.2.4 The 126 identified Category 2&3 projects focused across a core 15 properties are projected to require an investment of £3.7m to deliver annual emissions reductions in the order of 350 tCO₂. This equates to ~8% of the building emissions.

2.1.2.5 Whilst this project would be eligible for the PSDS grant, the exclusion of any category 1 projects would present a risk for our application not being viewed favourably against other applications that include Category 1 measures.

2.1.2.6 To enable these projects to be funded independently the Council would need to prepare a significant number of Decarbonisation Plans which would not be required if Category 1 works are included.

2.1.2.7 There would also be a requirement for the Council to deliver associated Category 1 works at a later date, potentially without the support of similar funding assistance. These works are often the higher cost projects and would require additional capital to be secured to deliver these projects.

2.1.3 Option 3 – Undertake combined Low Carbon Heating and Fabric /Efficiency Measures (Recommended Option)

2.1.3.1 The PSDS appraisal process favours the use of “Whole Building Approaches”. This will prioritise projects that look to not only improve the efficiency of the building but also incorporate the transition away from fossil fuel heating systems.

2.1.3.2 The inclusion of Category 1 projects in the application would therefore strengthen the grant bid. These can include: Air Source Heat Pump, Ground Source Heat Pumps, District Heating Connections and Other Electrical Based Heating. The provisional breakdown of the grant expenditure is shown below.

Category	Project Type	Number of Projects	Project Cost (£)	Annual Carbon Saving (tCO2)
1	Electric Heating	1	£ 11,357	6
1	Heat Pump	8	£ 2,184,000	194
2	Double Glazing	2	£ 119,003	3
2	Draught Proofing	14	£ 69,492	61
2	Hand Dryers	6	£ 15,921	2
2	Heating Controls	14	£ 203,241	44
2	Lighting Controls	2	£ 13,200	2
2	Lighting Replacement	17	£ 277,087	93
2	Loft Insulation	5	£ 54,307	25
2	Pipework Improvement	13	£ 19,230	45
2	Pipework Insulation	10	£ 23,650	4
2	Secondary Glazing	4	£ 515,736	17
2	Solar PV	4	£ 129,037	22
2	Wall Insulation	2	£ 203,944	35
3	Battery Storage	17	£ 1,599,625	
3	Battery Storage (with PV)	2	£ 158,750	
3	Heat Metering	2	£ 243,640	
3	Thermal Comfort Monitoring	12	£ 111,361	
Totals		135	£ 5,952,580	553

2.1.3.3 Salix Finance Ltd have provided upfront funding to enable Coventry City Council to have a number of priority buildings assessed for suitability of deploying Low Carbon Heating solutions to enable them to be incorporated in the grant application.

2.1.3.4 There are 9 properties that have currently been identified and have been provisionally included in the project pipeline. The estimated value of these projects is £2.2m and would deliver an additional annual carbon saving of up to 200 tCO2. These schemes will be assessed in detail concurrently to the application assessment process. The

final inclusion of projects in the confirmed pipeline would be dependent on favourable outcomes of these assessments.

2.1.3.5 These projects are in most cases unable to meet the eligibility criteria of the funding independently nor would they be technically feasible without the supporting efficiency measures, therefore they must be delivered in combination with the Category 2 and 3 projects presented above.

2.1.3.6 The combined Category 1, 2 & 3 measures in the project pipeline present a set of deliverable whole building retrofit solutions that would reduce the need for supplementary Decarbonisation Plans. The c£6m grant would overall deliver annual carbon emissions reductions equating to ~14% of our current building emissions. This would be subject to final confirmation following technical assessment and the subsequent procurement and approval processes.

2.1.3.7 There are 4 buildings that have been identified that would significantly benefit from Category 2&3 measures that are either technically not feasible or do not make economic sense to deliver low carbon heating within the permitted timeframes but also have easily defined routes to decarbonisation that can be incorporated into a Decarbonisation Plan.

2.1.3.8 Inclusion of a selection of varied Low Carbon Heating projects at this time would enable the Council to also accelerate the upskilling of the workforce. This would put the Council in a good position to support the ongoing transition of further buildings and give an indication to the challenges that this will present both financially and operationally.

2.1.3.9 All of the proposed Category 1 & 2 projects would need to be delivered within the next 10-15 years to meet the regions targets. The award of the grant means that significant one-off costs associated with the transition to low carbon heating can be avoided.

2.1.3.10 Undertaking a range of Category 1 heating projects now will help to build on existing experience of decarbonisation retrofit applications and enable the Council to develop plans for the future adaptation of remaining buildings and support upskilling the local workforce and supply chains ahead of the requirements for achieving Net Zero.

2.2 Options considered in relation to the acceptance of the 100% grant for deployment of the Retrofit Measures.

2.2.1 Option 1 - Do Not Accept the Grant (Not Recommended)

2.2.1.1 This option would mean not accepting the grant offer along with the associated terms and conditions of PSDS grants from Salix Finance Ltd.

2.2.1.2 This would represent a failed opportunity to secure additional contribution to the cost of our climate change actions. The projects identified in the proposed pipeline for the grant will all need to be done at some point to achieve Net Zero and additional funding sources would need to be found.

2.2.1.3 Many of the projects proposed fall outside of the eligibility requirements for the existing public sector financing routes (eg. Salix Loans) therefore they would likely need to be financed directly by the Council.

2.2.2 Option 2 – Accept the Grant (Recommended)

2.2.2.1 Acceptance of the grant would provide the financial investment required for the project up to £6m. It would also show that Coventry City Council is clear in its ambitions to decarbonise and would support other funding bids to deliver similar package of measures to other stakeholders in the City.

2.2.2.2 The risks associated with the PSDS grant is lower compared to many other grant schemes. There are monitoring requirements for the 3 years following installation however these are in line with general energy management practices already undertaken following such projects.

2.2.2.3 This option is fully in line with the council's core aim of leveraging additional funding through grants and bids.

3. Results of consultation undertaken

3.1 Consultation with the Head of Facilities Management was undertaken in relation to potential changes to the property estate. This was to ensure the risk of property disposal or redevelopment was understood and included during the evaluation of which schemes could be brought forward.

4. Timetable for implementing this decision

4.1 The final deadline for applying for funding through the scheme is 11th January 2021 however the funding is allocated on a first come first served basis. The delivery window is also to be no later than the 30th September 2021. To maximise the likelihood of a successful grant award and having sufficient time to deploy the projects a submission was required before the end of October 2020.

4.2 It is expected that an initial decision on the application would be made by the 27th November 2020. Following notification of a Reservation of Grant, Coventry City Council would need to confirm final project costs by the 11th December 2020 to enable the grant to be formally awarded and accepted by the 18th December 2020.

4.3 The proposed timeline for the project is as follows:

30th October 2020 – Apply for Grant
November 2020 – Commencement of Procurement
27th November 2020 – Notice of Grant Reservation
1st December 2020 – Cabinet Approval
8th December 2020 – Council Approval
9th December 2010 – Completion of Procurement
11th December 2020 – Final Cost Confirmation to Salix
18th December 2020 – Grant Award & Acceptance
January 2021 to September 2021 – Project Delivery

5. Comments from Director of Finance and Director of Law and Governance

5.1 Financial implications

5.1.1 The recommendations request the approval of c£6m of grant funding from BEIS for a Public Sector Decarbonisation scheme (PSDS). The PSDS grant scheme does not require any capital match funding to be provided locally by the City Council, but all investments must be achieved by September 2021.

- 5.1.2 Based on the initial technical assessment of each investment, many of the projects summarised in section 2.1.3.2 contribute to decarbonisation, but due to their high cost and/or long pay back, would not otherwise be considered for investment.
- 5.1.3 Once the full technical review of each measure has taken place, each project will be assessed (including both up front and lifecycle capital costs) prior to any commitment, such that only those investments with net lifetime financial benefits would proceed to implementation.
- 5.1.4 It is proposed that the decision on each individual measure to proceed to implementation, is delegated to the Director of Finance and Director of Property (or appointed proxy's) after the feasibility results have been carried out.
- 5.1.5 Due to the long pay back nature of many of the schemes, it is expected that only marginal net annual financial savings will be achieved. Savings will however be monitored and captured for the benefit of the Medium Term Financial Strategy

5.2 Legal implications

- 5.2.1 The approval of the Council acting as the Accountable Body as outlined in this report will be achieved through a contractual relationship and signature of a grant funding agreement.
- 5.2.2 Legal colleagues are available to advise on and support the completion and signature of the grant funding agreement and to also ensure that risk to the Council is fully understood and mitigated through appropriate governance. Furthermore, support will be made available in ensuring the delivery of the project as and when required by the anticipated project team.
- 5.2.3 Any procurement exercise will be conducted so as to comply with the Council's policy and legal obligations, specifically in compliance with the Council's Contract Procedure Rules and the Public Contracts Regulations 2015, and supported by relevant officers.
- 5.2.4 The delegations sought are consistent with a proposal of this nature.

6. Other implications

6.1 How will this contribute to the Council Plan (www.coventry.gov.uk/councilplan/)?

This project directly meets two of the objectives of the Council Plan. It will directly reduce the operating cost and carbon emissions of Council activities and it will also lever up to £6m of external finance to deliver the schemes.

6.2 How is risk being managed?

The main risk is in relation to the delivering the project within the allocated timeframes. The proposal is to use existing contracts and in-house labour where possible to minimise the need for additional procurement. This is in line with the grant scheme terms. Additional procurement will be undertaken via further competitions from existing frameworks to minimise the risk of procurement delays.

There is a risk that projects will be determined to not be suitable during the detailed technical and financial appraisal process. There is opportunity to adjust the scope and size of grant requested at the point of final grant acceptance. Final confirmation of the project pipeline will be made once full financial impact of each measure has been confirmed. The

funding also operates on a defrayal model meaning that if any projects that have to be removed from scope for unforeseen reasons after formal grant award can do so as it is possible for the council to return any unspent funding to Salix as a last resort.

6.3 What is the impact on the organisation?

The proposed project includes providing funding to support the increase in staffing to support the delivery of the project. This will improve the in-house capability of the council in relation to projects of this type. The proposed project will improve our corporate property and deliver financial and environmental benefits

6.4 Equality Impact Assessment

This project does not have any impact on the Council's equality responsibilities as there is not expected to be any impact on broader service delivery.

6.5 Implications for (or impact on) climate change and the environment

The project proposed is in line with the Council's existing Climate Change Strategy and will help to demonstrate leadership to wider city stakeholders as the Council embarks on developing the next Climate Change Strategy for the City.

The proposal will make a significant, measurable and demonstrable contribution towards improving Coventry City Council's transition to a low carbon future. The project will reduce the direct emissions relating to the council's activities by reducing our dependence on natural gas and improving our building efficiency.

6.6 Implications for partner organisations?

None

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