


REPORT TO CABINET

9 December 2020

Subject:	Public Sector Decarbonisation Scheme
Presenting Cabinet Member:	Councillor Danny Millard – Cabinet Member for Inclusive Economic Growth
Director:	Interim Director-Regeneration and Growth-Tammy Stokes
Contribution towards Vision 2030:	
Key Decision:	Yes
Cabinet Member Approval and Date:	Cllr Danny Millard
Director Approval:	Tammy Stokes
Reason for Urgency:	To apply for grant funding prior to the deadline
Exempt Information Ref:	Exemption provisions do not apply
Ward Councillor (s) Consulted (if applicable):	Boroughwide
Scrutiny Consultation Considered?	Scrutiny has not been consulted
Contact Officer(s):	<p>Phil Kingston Urban Design & Building Services phil_kingston@sandwell.gov.uk</p> <p>Mark Drake Urban Design & Building Services Mark_Drake@sandwell.gov.uk</p>

DECISION RECOMMENDATIONS

That Cabinet:

1. Authorises the interim Director of Regeneration and Growth, in consultation with the Cabinet Member for Inclusive Economic Growth, to submit an application to the Public Sector Decarbonisation Scheme (PSDS) by the 11 January 2021 subject to (i) a satisfactory Strategic Investment Unit (SIU) assessment being achieved, and (ii) the interim Director of Regeneration and Growth and Director of Law and Governance & Monitoring Officer and Section 151 Officer being satisfied with regards to the proposed governance arrangements (including terms and conditions) governing the scheme prior to formal submission of the application.
2. Subject to (1) above, and in the event the application is successful, the Interim Director of Regeneration & Growth, S.151 Officer and Director of Law and Governance & Monitoring Officer, be authorised to enter into a financial agreement with the Public Sector Decarbonisation Scheme in accordance with the Council's contract and procurement rules and financial rules/regulations.
3. Subject to (1) and (2) above, to authorise Director of Law and Governance & Monitoring Officer to enter into or execute under seal any documentation in relation to the award of the contract and/or development/partnership agreement with the properly procured contractor from the CWM Repair and Maintenance framework, for the delivery of any works associated with and in accordance with the Public Sector Decarbonisation Scheme funding agreement, on terms to be agreed with the Interim Director of Regeneration and Growth.

1 PURPOSE OF THE REPORT

- 1.1 To inform Cabinet of the short timescales applicable to the PSDS roll out and explain why there is insufficient time for all the detail to be gathered that would enable the SIU team to complete a full review of the application and the terms of any funding award (to be determined) in advance of this initial cabinet approval.
- 1.2 To seek approval to submit a detailed application to the PSDS in advance of the 11th January 2021 deadline on the condition that the bid is first approved for submission by the SIU and Legal Teams and that their recommendations to mitigate any risk to the Council are fully implemented.

- 1.3 To seek approval for the Director or Regeneration and Growth and the Head of Finance to accept any grant offer should the bid be successful.
- 1.4 To seek approval for the legal team to produce a contract for the delivery of the works associated with any PSDS funding agreement to be (Subject to this being offered) using the CWM framework agreement, should the bid submission be successful and the terms of the PSDS funding be considered acceptable to the Council. It is expected that any such works will need to be programmed in advance of September 2021.
- 1.5 To inform Cabinet of the purpose of the PSDS scheme, highlight its benefits and risks, such that a decision on whether to apply and then subsequently accept and make use of the grant (subject to any risks being effectively identified and managed), can be made.

2 **IMPLICATION FOR VISION 2030**

- 2.1 ***Ambition 1*** - *Sandwell is a community where our families have high aspirations and where we pride ourselves on equality of opportunity and resilience.*
- 2.2 ***Ambition 2*** - *Sandwell is a place where we live healthy lives and live them for longer, and where those of us who are vulnerable feel respected and cared for.* The move to heat pumps for heating is essential if SMBC and the UK Government are to meet their net zero carbon targets and limit the impacts of climate change. The impacts of climate change on health and wellbeing disproportionately effect the most vulnerable.
- 2.3 ***Ambition 3*** – *Our workforce and young people are skilled and talented, geared up to respond to changing business needs and to win rewarding jobs in a growing economy.* Heat pumps reduce reliance on traditional gas fired boilers in line with central governments’ push to low carbon heating systems and the creation of ‘green jobs’. Use of heat pumps in our estate and schools will support their rollout to the wider community and help prepare the workforce for coming change.
- 2.4 ***Ambition 9*** – *Sandwell has become a location of choice for industries of the future where the local economy and high performing companies continue to grow.* Involvement with heat pumps will evidence Sandwell’s commitment to embracing new technologies and adapting to change and could attract companies that work in this sector.

- 2.5 ***Ambition 10*** – Sandwell now has a reputation for getting things done, where all local partners are focussed on what really matters in people’s lives and communities. Use of the PSDS will demonstrate Sandwell as a dynamic and forward-thinking authority that can act quickly and is committed to reducing our climate change impact.

3 **BACKGROUND AND MAIN CONSIDERATIONS**

- 3.1 The Public Sector Decarbonisation Scheme (PSDS) was recently announced by government on the 1st October 2020 and is a £1billion scheme providing grants for public sector bodies to fund energy efficiency and heat decarbonisation measures. The deadline for applications is the 11th January 2021. Projects should aim for a completion date of the 31st March 2021 if possible, or the 31st September 2021 if the earlier date cannot be achieved.
- 3.2 The UK Government is driving a change from gas to electric heating to help meet its target to be Carbon Neutral by 2050 but without government incentives, currently the installation of low carbon heating is typically more expensive than gas or oil fired heating systems.
- 3.3 The PSDS is part of the UK Governments ‘green recovery’ and Plan for Jobs 2020 and supports its net zero carbon and clean growth goals.
- 3.4 The scheme is being administered by Salix, a non-departmental, Government owned public body, who also provide interest free loans. SMBC already have considerable experience of successful past applications to Salix.
- 3.5 Heat decarbonisation is typically provided via heat networks or heat pumps along with fabric improvements such as insulation or glazing. The PSDS provides funding to connect to existing heat networks. These are not currently available in SMBC and are being looked at in a separate project. This application will therefore focus on heat pump solutions.
- 3.6 Heat pumps use a technology similar to a fridge freezer but operating in reverse, with the heat being transferred into a space instead of being removed. The solutions proposed will include buffer vessels which will store the hot water until it is needed, allowing the heat pumps to run at lower temperatures and so increase the efficiency of the system.

- 3.7 Heat pumps are a low carbon alternative to gas and oil fired heating systems and will play a significant role if we are to meet targets set out in the Climate Change Strategy. Heating currently accounts for approximately 46% of carbon emissions from the council's buildings and schools.
- 3.8 Heat pumps reduce carbon as one unit of electricity would typically produce between two and three units of heat. The carbon emitted when heating a building would be around half of the carbon from a gas fired boiler and a third of that from an oil fired boiler. As the electricity grid becomes less carbon intensive the carbon reduction benefits of heat pumps will increase.
- 3.9 The use of the PSDS fund will allow the council to further develop its experience with heat pump technologies, building resilience against tighter environmental legislation whilst benefitting from reduced carbon emissions and lower installation costs.
- 3.10 Should a successful application be developed, use of the fund would support targets set out in the Climate Change Strategy and reduce pressure on the PMA and school Life Cycle budgets.
- 3.11 Following site assessments and discussions between M&E Engineers, Strategic Leads for Assets and Design, the Senior Energy Officer, M&E contractors and Design Engineers, six sites have been selected as being the most suitable for being awarded a grant and upgrading the heating systems to a low carbon solution.
- 3.12 With the exception of Sandwell CH, all five sites have heating systems that are in need of upgrade or replacement and are a potential risk on the PMA and school life cycle budgets should they fail.
- 3.13 The sites selected to proceed to design stage are Sandwell Council House, West Brom Town Hall, the Primrose Centre, Sandwell Community School West Bromwich Campus, Springfield Primary School and Rood End Primary School. Sandwell Council House and West Brom TH both use large amounts of gas and the remaining sites all use oil fired boilers.
- 3.14 Retrofitting heat pumps onto existing heating systems will require a new design of the heating system and associated plant. The installations are likely to require an upgrade to the electrical supply in addition to the installation of a new gas supply where oil fired boilers are being replaced, neither of which can be completed until the designs are produced and requirements are known.

- 3.15 A grant of £157,227 has been received by SMBC to produce designs and help develop an application to the PSDS.
- 3.16 The lead times to assess sites, apply for development funding, develop designs and cost a project means the timescales to submit a bid are extremely tight. Meeting the deadlines for project completion will also be challenging, especially if SMBC looks to maximise potential funding from the scheme via multiple projects.
- 3.17 The lead times to provide sufficient information for an application to the PSDS mean it would not have been possible to develop the bid sufficiently for it to be assessed by SIU before the cabinet meeting on the 9th December.
- 3.18 The grant funding available is based on the carbon savings of the low carbon heating solutions installed. Exact figures cannot be provided at this stage, but initial assessments show that if an application is made for all six sites, the grant application would be in the order of £1.70million. This could vary following further design work or if sites are ruled out.
- 3.19 High level estimates put the installation costs at circa £2.24million. These costs would need to be met by the council should the low carbon heating systems be introduced to these sites in the future, leaving a contribution from the council estimated at £0.54m.
- 3.20 Should the council not be successful in its application to the PSDS the costs to repair/replace the heating systems with gas fired boilers would be an estimated £0.89m.
- 3.21 On the above estimates, use of the PSDS would provide a net benefit to the council of £0.45m and provide low carbon heating at six sites as opposed to more carbon intensive gas fired heating systems.
- 3.22 Carbon savings across the projects can be grouped together. This will mean that if the available grant is greater than the costs of the project for one site, then the additional funding can be used to support a shortfall on another site.
- 3.23 The PSDS award that would follow a successful bid is a 100% grant and it has been clarified that no match funding is required by SMBC. The grant can be used to cover all project management, installation and electrical infrastructure upgrade costs.

- 3.24 With the grant based on the amount of carbon that is saved, it may not cover all costs incurred for the proposed low carbon heating or additional measures in all instances. Additional funding to bridge the gap would need to be provided from alternative budgets. Confirmation that any such shortfall can be met would be required by SIU prior to any grant offer being accepted and can be further investigated as the design work progresses before any specific delivery related funding is accepted and before any work commences.
- 3.25 If approval is given by Cabinet, due diligence assessments (as detailed in the recommendations) will be undertaken in relation to the application and the supporting design proposals before it is submitted on the 11th January. This would allow for further design and development work to be completed in the interim, increasing the chance of successfully securing a grant for all six sites.
- 3.26 The final application for grant to fund the delivery of works would only be submitted if it is approved for submission following the due diligence assessments.
- 3.27 Approval by the Interim Director of Regeneration & Growth and the Head of Finance for submission of the bid prior to the 11 Jan will also facilitate the council being in a position to meet the deadlines for project delivery.
- 3.28 The CWM framework has been awarded in line with procurement regulations and enables us to commission the works in a timely manner. As the incumbent provider, the procedures to adhere to procurement requirements such as delivering value for money are already in place.

4 THE CURRENT POSITION

- 4.1 A successful expression of interest and initial funding application was submitted to Salix to provide the Council with £157,227 of advanced funding to support the development of the detailed bid to the PSDS. Utilising this risk free advance funding work is currently under way to develop designs for the sites such that more accurate costs for the installation of plant, electrical and gas infrastructure can be provided to support the detailed bid.
- 4.2 Five of the sites are currently represent a pressure to the PMA and School Lifecycle budgets as they have boilers that need repair/replacement as a priority. This level of risk amounts to an estimated £890,000 if gas fired boilers are favoured in respect of undertaking a like for like replacement.

4.3 If the council were to replace these five sites (excluding Sandwell CH) with low carbon alternatives, without the use of the PSDS this cost is estimated at £1.62m. Clearly this would place an additional pressure on budgets which are already fully committed.

4.4 Sandwell Council House has recently installed new boilers which can be used as back up and to provide 'top up' heating to any new low carbon heat pumps that would be installed.

5 **CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)**

5.1 Internal: council officers from SIU, Urban Design and Building Services, legal and education have contributed to the award of the £157k development grant and have differing levels of involvement in the full grant application at this stage
External: Contractors and design consultants are developing designs. Salix Finance are supporting development of the application.

6 **ALTERNATIVE OPTIONS**

6.1 The Council could decide not to proceed any further with the bid to PSDS and replace systems as required with more carbon intensive gas fired systems at an estimated cost of £890,000.

6.2 The PSDS application could be made for less than six sites but this would not take full advantage of the full extent of match free grant that is provisionally available.

7 **STRATEGIC RESOURCE IMPLICATIONS**

7.1 Short timescales mean officers will need to provide related information and to work up detailed designs as a priority if deadlines are to be met.

7.2 Additional funding may be required to deliver the projects. Officers will need to confirm funding is available and be satisfied that if additional funding is committed it is delivering good value.

7.3 All sites, with the exception of Sandwell CH, are expected to require a significant investment within the next few years if the works are not accelerated to take advantage of the grant available.

7.4 We do not anticipate the need for any additional staffing resources to deliver the installations

8 LEGAL AND GOVERNANCE CONSIDERATIONS

8.1 The tendering process for the CWM Framework has been fully supported by colleagues within Procurement

8.2 Following approval, all contracts will be awarded in accordance with the council's Procurement and Contract Procedure Rules and the Public Contracts Regulations 2015.

9 EQUALITY IMPACT ASSESSMENT

9.1 An Equality Impact Assessment was not undertaken as this is a renewal of an existing contractual arrangement. The contract will be monitored to ensure compliance

10 DATA PROTECTION IMPACT ASSESSMENT

10.1 This report does not relate to the collection of personal information and therefore a privacy impact assessment is not required.

11 CRIME AND DISORDER AND RISK ASSESSMENT

11.1 There are no crime and disorder issues relating to this project.

11.2 A risk register will be compiled prior to SIU assessment and will be reviewed and updated on a regular basis should grant funding be awarded. UDDBS are experienced at delivering this type of projects and arrangements are in place to effectively manage and mitigate the risks identified. Major risks are identified below:

- Inability to collect required information and obtain internal approval for all sites by the application deadline.
- Unable to deliver all projects by the long stop date of 31st September 2021.
- Procurement - Inability to engage suitable external contractors in time if CWM framework is not used.
- Project costs may vary from the high level cost estimates currently provided for the purposes of the bid as the designs are further developed.

12 SUSTAINABILITY OF PROPOSALS

12.1 The proposals contained in this report are entirely commensurate with the Council's climate change priorities and will help to support:

- Reduced carbon and greenhouse gas emissions
- Inclusive economic growth

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 Should a grant be awarded this would have the following community benefits:

- Reduction in greenhouse gas emissions.
- Upskilling of the local workforce from the installation and maintenance of the heating systems.

13.2 In support of the council's social value charter the tender sets out the following question which forms part of the overall scoring process.

13.3 The full range of outputs will be monitored throughout the delivery of the contract in accordance with the commitments made when the Council procured the suite of framework contracts to ensure that the commitments made are honoured and further development is encouraged in line with community wealth building principles.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 At this stage, there are no anticipated impacts on the Council's asset management plan or any land or property in Council ownership, other than to improve the sustainability and lengthen the economic life of the buildings identified for the heating improvement works.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

- 15.1 Whilst heat pumps are a well established technology their use as a retrofit in commercial heating systems has been limited. This is primarily due to higher installation costs and because until recently they were more carbon intensive than gas fired systems. The PSDS offers a 100% grant with no match funding and is part of the Governments' plan to support recovery from Covid 19 and meet its' clean growth goals.
- 15.2 Based on current estimates, an application to the PSDS for heat pumps at all six sites would be for £1.7m. This could change as designs are developed.
- 15.3 Based on current estimates, installation of heat pumps at all six sites would cost an estimated £2.24m leaving a net contribution from the council estimated at £0.54 with the shortfall to be met from PMA and school life cycle budgets.
- 15.4 All sites, except Sandwell CH, are considered a priority for upgrading their heating systems. Based on current estimates this would cost the PMA and school life cycle budgets £0.89m.
- 15.5 Based on estimated figures to date, use of the PSDS will provide a financial benefit to the council of £0.45m as plant replacement is expected to be needed in all sites but Sandwell CH within the next few years.
- 15.6 As more design and cost information becomes available, an application for less than six sites could be made if deemed better value.
- 15.7 Timescales from the launch of this fund have been extremely tight and if SMBC are to take advantage of this funding we will need to act quickly.
- 15.8 Acceptance of the proposals contained within this report will promote the Council's reputation as being serious about climate change and the move towards a carbon-neutral economy.
- 15.9 Use of this fund will upskill employees in the design, use and maintenance of technologies that will be required if we are to meet our carbon reduction targets.
- 15.10 The use of low carbon technologies such as heat pumps is a growth area and as such offers scope for training opportunities and the creation of jobs.

16 BACKGROUND PAPERS

16.1 Public Sector Decarbonisation Scheme Guidance notes

16.2 Public Sector Decarbonisation Scheme T&Cs

17 **APPENDICES:**

17.1 None.