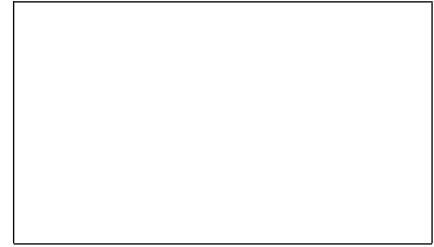


Calderdale MBC

Wards Affected: Town and Illingworth and Mixenden Ward

Cabinet 9 December 2023



PHASE 3C PUBLIC SECTOR DECARBONISATION SCHEME

Report of Director Regeneration & Strategy

1. Purpose of Report

- 1.1 The purpose of this report is to seek support for a bid submitted to Phase 3c of the Public Sector Decarbonisation Scheme (PSDS) for a grant of £1,610,236, which requires match funding of £420,392, as part of a total project cost of £2,030,628, to undertake decarbonisation schemes at Victoria Theatre, Halifax Borough Market and Beechwood Library.
- 1.2 On 17 January, 2022, when considering the corporate estate capital investment requirements, Cabinet recommended that separate business cases for carbon reduction schemes should be submitted for approval by Cabinet and Council when available.

2. Need for a Decision

- 2.1 The report has significant financial implications, which go beyond officers' delegated authority. Cabinet approval is required prior to spending the grant, should the bid be approved.

3. Recommendations

It is recommended that, subject to approval of the bid:

- 3.1 Cabinet endorses the replacement of the heating systems at Victoria Theatre, Halifax Borough Market and Beechwood Library with low carbon alternatives, as detailed in the report;
- 3.2 Cabinet recommends to Council that the sum of £2,030,628 is incorporated into the Council's Capital Programme to deliver the Public Sector Decarbonisation scheme;
- 3.3 Cabinet recommends to Council that the match funding of £420,392 to deliver the scheme is provided as part of the Budget Process for 2024/25; and

3.4 Cabinet delegates to the Director of Regeneration and Strategy, in consultation with the Head of Legal and Democratic Services, the authority to finalise and agree the terms of the grant.

3.5 In the event of the bid being unsuccessful the requirement for capital funding to progress the projects will form part of the request for capital funding in respect of the Corporate Estate

4. Background

4.1 A further opportunity has arisen that would directly support delivery of the Council's priority of tackling the climate emergency, by reducing carbon emissions from the Council's corporate estate, contributing towards the Council's target to be carbon neutral by 2038.

4.2 Successful bids have previously been made and projects delivered as outlined below:

Funding	Grant	Match Funding	Premises	Heat Pump
PSDS* Phase1	£2,851,932	£350,000	Bankfield Museum	Ground Source
			Spring Hall	Ground Source
			Brighouse Library and Art Gallery	Ground Source
			Halifax Town Hall (North Plant Room)	Air Source
			Manor Heath: Jungle Experience	Air Source
			Todmorden Market Hall	Air Source
PSDS* Phase 3a	£1,725,750	£350,000	Todmorden Sports Centre	Air Source / PV/ Microfiltration / New Sub Station
Total spend	£4,577,682	£700,000	£5,277,682	

*Public Sector Decarbonisation Scheme

4.3 A successful application was made in Quarter 4 2023, to the West Yorkshire Combined Authority Net Zero Accelerator Fund, which secured £70,000 to undertake feasibility reviews for Victoria Theatre, Halifax Borough Market and Heath Campus, to facilitate a bid to the next available PSDS funding opportunity. All the buildings have been identified as high energy users with gas heating systems that would meet the criteria for future PSDS funding, i.e. end of life.

- 4.4 Salix has launched Phase 3c of the PSDS, which provides further funding for capital heat decarbonisation projects taking a 'whole building approach', including the replacement of a fossil fuel boiler reaching the end of its life, and can include energy saving elements that amount to less than 58% of the total cost. All projects must be completed by March 2026 and not exceed the Carbon Cost Threshold (CCT) of £325/tCO₂e. (For every £325 of grant, the project must achieve savings of one tonne of Carbon Dioxide equivalent (tCO₂e) over the lifetime of the assets funded through the project.)
- 4.5 The Salix portal opened for applications on 10 October, 2022, and funding is allocated on a first-come first-served basis. The value of funding allocated to the Scheme 3c is £230m in 2024/25. It is proposed that there will be further funding in 2025/26, although the amount available is yet to be confirmed.
- 4.6 Applicants are required to contribute as a minimum, either the like-for-like costs of replacing the fossil fuel system or 12% of the total project cost. The match funding required in this case is 21% of the project cost. The 21% is required as the Salix funding criteria of funding costs up to £325 / tCO₂e has not changed from Phase 3a, 2 years ago. There has been significant inflation since then, which has increased project costs. In addition, the project costs include provision for changing the heat emitters in the Victoria Theatre and Halifax Borough Market (plaque heaters), which will be needed to provide sufficient heating in both premises. Previous projects were heated via large radiators and pipework that could be used.
- 4.7 Following consideration of the criteria for eligibility for Phase 3c, the Head of Legal and Democratic Services has confirmed that Heath Campus is not eligible for consideration as it is owned by the Heath Trust. CAFM will continue to work with the Heath Trustees to try and identify alternative funding opportunities.
- 4.8 Cabinet approval was not required at the point of grant application. Owing to the challenging timescales, delegated authority was obtained to submit the bid, pending a future Cabinet report, as there is no legal commitment to proceed until a formal offer is made and an agreement signed. It is expected that successful applicants will be notified in early 2024.

5. Calderdale Council Grant Submission / Proposal

- 5.1 Based on the feasibility work undertaken by the Council and consultants, a grant application was submitted on the 10 October, 2022. This was despite significant technical issues with the application portal, which was experienced by all applicants.
- 5.2 Due to the portal technical issues, Salix announced on 20 October, 2023, that all applicants who managed to submit an application would be required to re-submit their applications between 2.00pm on 7 November, 2023, and 2.00pm on 10 November, 2023, again on a first-come first-served basis. In the event of a further technical failure

with the portal, all applications will be determined by a ballot system i.e. applications would be randomly selected. The Council's grant application was re-submitted at 2.00pm on 7 November, 2023.

5.3 The Council's bid includes Victoria Theatre, Halifax Borough Market and Beechwood Library. Beechwood Library also meets the grant criteria, but an external feasibility was not required. Owing to the size of the system, the required assessments were undertaken in-house, by the Council's CAFM Technical Team.

5.4 The proposed works include:

Premises	Halifax Borough Market	Victoria Theatre	Beechwood Library
Air Source Heat Pump	✓	✓	✓
PV (solar panels)			✓
New Sub Station	✓		
Increased capacity to Sub Station		✓	
Installation of LED Stage Lighting		✓	

5.5 The project would deliver a saving of 247 tonnes CO₂ per year, supporting progress towards the Council's target of net zero carbon emissions by 2038.

5.6 The technologies proposed would meet the requirements for funding by the Scheme. However, to meet the criterion of no more than £325 per tonne of carbon saved and to pay for the like-for-like (end of life boilers and Combined Heat Pump) replacement, a total grant of £1.610m (79% of the total cost) would be available for the proposed Scheme. This would mean that additional capital funds of £420,392 would be required from the Council to make the project viable.

6. Impact of Project on Fuel Prices

6.1 The technologies proposed would mean that existing gas fuel would be replaced with electricity to operate the heat pumps. Heat pump energy efficiency is significantly higher than that of existing gas boilers and therefore less energy is required to deliver the same level of heat (for every 1 unit of electricity used, circa 3 units of heat are produced). In addition, electricity has significantly lower carbon dioxide emissions associated with it, and this is expected to reduce further as the national electricity grid decarbonises.

- 6.2 However, the cost per unit of electricity is currently much higher than it is for gas, and the proposed Scheme would increase overall heating costs compared to gas at current prices. Site energy costs would therefore be likely to increase by circa £70k per year (Based on projected utility costs for 2024/25), for which no additional funding has been identified. To mitigate this to some degree, it is proposed to install Solar PV on the roof of Beechwood Library and LED stage lighting in Victoria Theatre, which will reduce the grid electricity demand for the sites. Maintenance costs would be reduced and longer term, it is expected that gas unit costs and Government taxes on gas use will increase significantly compared to electricity, as the Government progresses its policy towards zero carbon heating.
- 6.3 There is insufficient electrical capacity at Halifax Borough Market to move away from fossil fuel heating without considerable investment in electrical infrastructure. An additional sub-station is therefore required to facilitate this project.
- 6.4 There is a requirement to increase the capacity in Victoria Theatre, but this can be achieved in the existing substation on site and the reduction in demand achieved by installing LED Stage Lighting.
- 6.5 The increase in capacity will improve the resilience and future-proof the sites for expected gas price increases in the future. The estimated cost of £160k for the works has been provided for within the bid.

7. Project Management / Delivery

- 7.1 Project management tasks would include managing feasibility work up to RIBA Stage 4 designs and timely completion of site investigations and surveys. The CAFM Technical Team, including an in-house project manager, will be required to manage site works and budgets and ensure that site works are completed to programme and RIBA Stage 7 by 31 March, 2025.
- 7.2 Although it is anticipated that the programme is deliverable to the timescales required, there are risks that are beyond the control of the Council, such as potential delays due to supply chains and the DNO (Northern PowerGrid) timescales for a new, increased capacity electrical substation. The PSDS has stated that the project grant must be spent by the proposed timescale of 31 March, 2025. If the project is not completed by this date, then the match funding can be utilised after this date. The grant would be at risk if the Council did not claim the grant funding within the required timescales.
- 7.3 Calderdale Council has significant experience of Salix supported energy projects. Members of the project team have previously delivered the projects outlined in 4.2 and a successful £3m programme of energy improvement measures across its buildings under the Re:fit Programme.
- 7.4 Progress would be reported to Salix on a monthly basis and there would be continuous liaison between the Council and Salix throughout the project. This would ensure that

Salix could evidence the Council responding to issues and could be assured of satisfactory progress.

- 7.5 The project capital spend will be front-loaded due to the requirement to purchase the necessary mechanical and electrical equipment at an early stage in the construction project, with a view to using the match funding at the end of the project to reduce the risk. This approach has been used successfully in previous projects.

8. Procurement

- 8.1 The main contractors will be procured via an Open Tender route using the YORtender portal in the same way as the PSDS Phase 1/3a Schemes. Staff in the project team are experienced in procuring large capital projects and can move quickly to tight timeframes. This route would provide the Council with best value and access to a larger selection of contractors from which to select, and would give greater control over the procurement documents, terms, and conditions.
- 8.2 The Council's Directorate Framework for Consultancy Services could be accessed for any further consultancy as required.

9. Risks

- 9.1 There are risks associated with this scheme:
- If the grant is not claimed by 31 March, 2025, any further costs may not be funded by grant. There are several upfront costs that will be claimed at an early stage in the project e.g. equipment costs and payment to Northern PowerGrid re sub stations.
 - If the costs exceeded those set out in this report, then any additional cost would have to be funded by the Council.
- 9.2 In order to mitigate risks to the project, the risk register and learning from previous phases have been used to develop a full risk register as part of the grant application, which would be kept under review throughout implementation of the Scheme.

10. Options Considered

Support the bid – Recommended.

- 10.1 Pursue external grant of £1.61m to deliver a scheme that would support the Council's priority of tackling the climate emergency through reducing its carbon emissions. This would require funding of £420,392 (i.e., 21% of the costs of the Scheme). This option is recommended as it would potentially lever in significant external investment and accelerate progress towards the net zero carbon emission target, while insulating the Council from anticipated gas price escalation.

- 10.2 As detailed in the report there is an urgent need to replace the heating systems at all of the premises that are in scope, as the systems have reached or are reaching the end of their useful life, and the scheme detailed in this report would support the delivery of the Council's Climate Change Policy.
- 10.3 Removing the gas plaque heaters from Halifax Borough Market would also address long standing health and safety concerns over having open flame heaters throughout the Market Hall.
- 10.4 Replacement of the equipment would mean that the new equipment would be more reliable and only need annual servicing with minimal remedial repairs. A high-level assessment indicates that repair and maintenance cyclical costs may reduce by around £17k per annum.
- 10.5 For the purposes of comparison and based on the current costs attached to the proposed Scheme, if the Council implemented the Scheme without the assistance of grant funding, then the additional capital cost of £1.610m funded by prudential borrowing would require revenue funding in the region of £118k per annum for the duration of the borrowing period.
- 10.6 The estimated cost of replacing the heating system on a like-for-like fossil fuel basis would be around £172k (only for boilers). The prudential borrowing costs associated with this would be around £13k per annum. There would be no additional energy costs in the short term (other than inflationary pressures), although this would change over time if gas prices increased at a greater rate than electricity prices.

Do not support the bid – Not recommended.

- 10.7 Do not pursue the external grant of £1.61m. This option has been discounted as it would lock the Council into using fossil fuel (gas) for a further 20 years at each site. This option does not support the Council's climate emergency priorities, it does not align with the Emissions Reduction Pathway and recommended policies to achieve net zero by 2038, and the Council would not benefit from the available external funding to decarbonise the sites.
- 10.8 Previous low carbon capital projects have focused on cost-effective opportunities that reduce or decarbonise electrical demand, such as Re:fit II and upgrading Public Lighting to LED. These schemes delivered carbon reduction at a cost of £340 and £296 per tonne of CO₂e respectively. To achieve these values, investment of £1m and £5m respectively was required. There is limited opportunity to deliver similar projects across the Council's estate now that cost effective measures have been implemented and most of the public lighting has been refurbished.
- 10.9 Phase 1 PSDS focused on replacing end of life boilers with ground and air source heat pumps, which are expected to deliver a carbon reduction of 392tCO₂e. The cost

per tonne was in the region of £500, with the average capital investment in the region of £600k per site.

- 10.10 The monitoring data collected for Phase 1 is indicating first year carbon emission savings of around 300 tCO₂e over the 6 sites compared to an original prediction of annual savings of 388 tCO₂e. The achieved savings are approximately 77% of the savings predicted at the time of the funding application. The main reasons for the reduced savings are as a result of two incidents over the winter period, which resulted in: the heat pump system at Manor Heath being out of action for several weeks due to a mechanical fault; and the heat pump system at Halifax Town Hall being out of action for a period during March, which required re-setting by the original installer. Both systems have operated without issue since the original faults were rectified.
- 10.11 Some other issues relating to the existing heat distribution systems were also identified during the year, and additional works to improve water circulation at Spring Hall and Bankfield Museum have been carried out to improve system performance and efficiency.
- 10.12 Future decarbonisation schemes will have to tackle the more financially challenging heat decarbonisation of buildings.

11. Financial Implications

Capital Cost

- 11.1 Approval is sought to incorporate a scheme for £2.030m into the Capital Programme, to allow the progress of the PSDS Phase 3c Project to incorporate the works outlined in paragraph 5.3 to Victoria Theatre, Halifax Borough Market and Beechwood Library.
- 11.2 Based on the feasibility work undertaken by the consultant appointed by the Council it is anticipated that a capital budget of £2.030m would be required to deliver the scheme as set out below:

Victoria Theatre	£826,089
Halifax Borough Market	£1,110,065
Beechwood Library	£94,473

Project Item	Cost Estimate	%
Design and engineering costs	£17,900	1%
Main equipment capital costs	£1,273,751	63%
Installation and commissioning	£243,914	12%
Project delivery costs	£11,200	1%
Contingency	£184,603	9%

Enabling works e.g. substations, building works	£291,260	14%
Other project costs	£8,000	
Total project cost	£2,030,628	100%

Match funding	£420,392	21%
Grant	£1,610,236	79%

- 11.3 The overall funding to deliver the scheme would not include grant to meet the Council's internal costs, and although the scheme would be supported by staff in the CAFM Service, and the Environmental Management Team, these costs would continue to be met by the Council.
- 11.4 As detailed in the report, grant funding would not be made available to cover the 'like-for-like' costs attached to the replacement of the existing fossil fuel heating systems, currently estimated at £172k (only for boilers), or the £248k in top up funding to enable the scheme to meet the £/tCO₂e threshold. It is therefore anticipated that approval of the Scheme would result in a grant of £1.610m and require a contribution from the Council of £420,392.

Capital Funding

- 11.5 The Council has previously incorporated two schemes into the overall Capital Programme as detailed in paragraph 4.2 of the report. The Council's contribution towards these schemes was previously met from the £1million in capital funding approved at a previous Budget Council to deliver schemes designed to lower CO₂ emissions and support the Council's objectives in relation to climate change.
- 11.6 The funding has now been fully utilised and there is no earmarked capital funding available to meet the Council's anticipated contribution towards the Scheme. Subject to approval of the Council's bid, additional capital funding of £420,392 would be required to deliver the scheme.
- 11.7 There are a number of options available to fund the capital scheme, including pooled resources (capital receipts from the sale of assets) and prudential borrowing. Based on current interest rates and the relevant borrowing period, the prudential borrowing cost attached to the scheme would be in the region of £31k per annum for the duration of the borrowing period.

Impact of the scheme on the CAFM Service revenue budget

- 11.8 The work undertaken by officers at this stage indicates that the implementation of the Scheme would increase heating costs by £70k per annum (Based on projected utility costs for 2024/25). This would be partially offset by the anticipated reduction in repair and maintenance cyclical costs of £17k.

12. Legal Implications

- 12.1 There are no direct legal implications arising from the content of this report, but legal input will be required into the terms of the grant, if given, and detailed advice provided to ensure its terms are acceptable.

13. Human Resources and Organisation Development Implications

- 14.1 There are no HR implications arising directly from this report.

14. Consultation

- 14.1 The following services have been consulted in the preparation of this report:

- Corporate Assets and Facilities Management
- Finance
- Legal and Democratic Services
- Human Resources and Organisational Development
- Housing and Green Economy
- Development Management and Building Conservation

15. Environment, Health and Economic Implications

- 15.1 To qualify for PSDS funding the fossil fuel boilers must be at the end of life; all three buildings meet this criterion. Halifax Borough Market and Victoria Theatre are also in the top 10 highest carbon emitters in the corporate estate.
- 15.2 The proposal would accelerate progress towards the net zero emissions target and demonstrate leadership in the borough, whilst insulating the Council from anticipated gas price escalation.
- 15.3 In 2019, the Committee on Climate Change estimated that the total costs of getting the UK to net zero required investment of £50bn per year, less than 1% of projected GDP over that period. On a pro rata basis of Gross Value Added this would indicate an investment of £130m per year is required across Calderdale. In the context of figures of this magnitude, it is clear that the potential investment of £2.030m represents a relatively small investment. The council will need to continue to maintain a focus on funding for net zero carbon work over the next 16 years and ensure that further support is forthcoming from local and national government.

16. Equality and Diversity

17.1 There are no equality and diversity implications arising directly from this report.

17. Summary

17.1 Cabinet is asked to support a grant application for £1.610m for energy improvement works at Victoria Theatre, Halifax Borough Market and Beechwood Library. Should the application be successful, the Council would need to provide £420k to match the funding.

17.2 The project would deliver a saving of 247 tonnes CO₂e per year facilitating progress towards the Council's target of net zero by 2038.

17.3 Cabinet approval is required prior to the acceptance of the funding and signing the grant agreement.

For further information on this report, contact:

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The documents used in the preparation of this report are:

Government bidding guidance

The documents are available for inspection at:

N/A