



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Council

1 March 2021

Report of: Councillor Dr Peter Moseley

Cabinet Member for Commercial
and Operations



Public Sector Decarbonisation Scheme

The Council received a grant offer letter on the 11/2/21 to confirm that it had been successful in a grant application to the Public Sector Decarbonisation Scheme and has provisionally been allocated £950,370 to complete energy efficiency projects in four Council buildings. This report provides an overview of the key considerations and proposed approach. The delivery of the project is expected to achieve a significant decrease of at least 223 tonnes of carbon towards the Council's carbon reduction targets.

Report Author

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Corporate Priority:	Decision type:	Wards:
Growth	Budget and Policy Framework	All Wards

Reviewed by:	Ben Russell, Performance Lead	10 February 2021
Approved by:	Gary Smith, Strategic Director – Commercial & Operations	18 February 2021
Signed off by:	Councillor Dr Peter Moseley, Cabinet Member for Commercial and Operations	22 February 2021

Recommendation (s) to the decision maker (s)

1. Approve the addition of £950,370 to the 2020/21 budget to reflect external grant funding to be received from the Department for Business, Energy & Industrial Strategy and/or Salix for carbon reduction initiatives within Council buildings
2. Delegate authority to the s151 officer to accept the £950,370 section 31 grant and enter into an agreement with the Department for Business, Energy & Industrial Strategy and/or Salix for receipt of the grant.

- 3. Delegate authority to the Director for Commercial & Operations, in consultation with the Cabinet Member for Commercial & Operations, to commission the works, draw down from the grant funding and to undertake any other required action in order to meet the grant conditions.**

1 The Background to the Report

- 1.1 South Kesteven District Council made a formal declaration of ‘climate emergency’ on [26th September 2019](#) with cross party support, and confirmed the political ambition to reduce the organisation’s carbon footprint by at least 30% by 2030 and to endeavour to become net-zero carbon as soon as viable before 2050.
- 1.2 Subsequent work was conducted to establish the Council’s carbon footprint and identify projects to reduce carbon emissions in line with a reduction of at least 30% by 2030. This found that across operations the Council must reduce its own carbon footprint by at least 190 tonnes on average every year to 2030 to remain on target.
- 1.3 In late September 2020, the Department for Business, Energy and Industrial Strategy (BEIS) launched a £1bn Public Sector Decarbonisation Scheme (PSDS) as part of the Chancellor’s ‘Plan for Jobs’ commitment to support the UK’s economic recovery from COVID-19. This aims to support skilled jobs in the low carbon and energy efficiency sectors. The scheme provides grant funding for energy efficiency and heat decarbonisation (moving from gas heating) measures across the public sector, targeted at non-domestic buildings. This grant scheme is being delivered and administered by Salix, who work throughout the public sector to develop and finance energy efficiency projects. The grant scheme is unusual both in the amount of funding available to successful applicants and that it aims to provide 100% funding to successful applicants to complete their project. This type of fully funded support for energy efficiency is a very rare offer.
- 1.4 South Kesteven District Council submitted an application to the fund on the 23/11/20, covering the four below buildings. These buildings fit with the grant criteria and were identified through work completed with the Carbon Trust to establish the Council’s carbon footprint and identify the best buildings and types of technology for decarbonisation efforts:

	Heat pump installation	Solar panels	Upgrade lighting to LED	Cavity wall insulation	Loft insulation	Improved Building Energy Management System	Fan unit upgrades
St. Peter’s Hill	✓	✓	✓	✓	✓	✓	X
South Kesteven House	X	X	✓	X	X	X	✓
Guildhall Arts Centre	✓	✓	X	X	✓	✓	X
Bourne Corn Exchange	✓	✓	✓	X	✓	X	✓

- 1.5 Once complete, energy efficiency calculations (detailed at Appendix 1) suggest we can expect annual carbon savings of at least 223 tonnes of carbon, and cost savings of £16,526. The carbon reduction achieved is expected to have a significant contribution

towards the Council's carbon reduction targets outlined in paragraph 1.1. The cost savings we can expect are moderated somewhat by moving from gas fired to electrically powered heating systems, nevertheless this change of fuel source delivers a large carbon reduction. The energy savings calculations also are pessimistic and use a theoretical high cost of electricity for the next five years – if utility price rises are more moderate the Council would see a larger financial saving.

- 1.6 The Public Sector Decarbonisation Scheme has attracted a large number of bids, and we understand has attracted £2.3 billion of applications in value from those in the public sector. Grant submissions were originally expected to be determined and notified to those applying by early December 2020 but the scale of the applications and other factors delayed this process by two months.
- 1.7 We received a grant offer letter on the 11/2/21 which confirmed that, subject to some criteria, South Kesteven District Council's project is one of the shortlisted projects and has provisionally passed technical assessment and been allocated £950,370 to fund the entirety of the project.
- 1.8 Salix have also approached local authority applicants to discuss a new mechanism to directly provide grant funding in one amount before the end of 31 March 2021, rather than the previously suggested method of three tranches of funding released at different project milestones. By agreeing to receive funding via a Section 31 agreement of the Local Government Act 2003, the Council will receive upfront funding for the project in the 2020/21 financial year but must commit to start the funded project before the end of March 2021. As a result of receipt of the funding in 2020/21 approval is needed from Full Council to add the money to this year's capital budget.
- 1.9 As a condition of grant funding, the Council are expected to adhere to the following deadlines:
- **20 February 2021:** Confirm "in principle" consent for the funding to be received via a Section 31 grant. *This has been done.*
 - **28 February 2021:** Submit all signed documents relating to the grant and accept any terms and conditions. Due to the level of external capital funding of the project, the Council's financial regulations requires the necessary budget change to be approved (or otherwise) by Full Council. *Salix were informed straight away that the earliest opportunity for Full Council to consider this is on 1 March 2021.*
 - **31 March 2021:** The Council to receive grant payment from BEIS for £950,370.
 - **31 March 2021:** The Council must start the project before this date. Further advice is being sought from Salix; however, it is understood that finalising tender documentation would qualify here.
 - **1 April 2021:** Submit a draft project programme delivery plan to Salix and outlining expected timings of project elements.
 - **30 September 2021:** BEIS expects that funded projects will be completed on site no later than the end of September 2021.
 - **Monthly:** Submit monthly reports to Salix detailing progress, spend to date and any significant change in delivery timeframes.
- 1.10 In order to meet the above project deadlines, it will be necessary to make use of a procurement framework of which the Council is already a member to accelerate project

delivery as far as possible. Pre-project work is being pursued as far as possible to achieve the project deadlines.

- 1.11 A risk register was prepared as part of the supporting evidence of the main grant application – an updated version can be seen at Appendix 2. Some main risks and expected mitigation of the project to consider are set out below:
- **Timescales:** Timescales to meet milestones set out by Salix (in paragraph 1.9) are not met and the offer of funding is withdrawn or reclaimed as a result. In particular, to complete the entire project by the 30 September 2021 will be extremely challenging. It is expected that by proceeding with pre-project work as soon as possible and engaging an external Project Manager to oversee this will mitigate this risk and keep the project on track. In addition, discussions will continue with Salix and BEIS to seek further reassurances on the degree of flexibility around the timescales given the grant processing delays and the current Covid-19 pandemic operating context. Concerns around the timescales is a common issue across a number of other successful applicants.
 - **Costs:** Project cost increases at the tender stage outside of the allotted grant budget envelope. By using a framework agreement, it is expected that project costs will be competitive. If needed it may be possible to reprofile the project in consultation with Salix to remain within the allotted grant funding levels.
 - **Project scope:** An incomplete or poorly defined project scope can lead to procurement issues and delays in project delivery. Completing pre-project work to better define the scope of the project is expected to mitigate this.
- 1.12 A risk assessment has also been undertaken on the grant conditions. These are contained in a Memorandum of Understanding which is stated to be not legally binding so the risks of legally enforceable liability are low.
- 1.13 The conditions do contain circumstances in which grant may be reduced, withheld, suspended or clawed back. Many of these are in the control of the Council as they relate to compliance with the grant conditions. Two however are not in the Council's control. The first is where BEIS simply serve notice on the Council without cause. The second is where the giving of the grant is in breach of the government's subsidy control obligations (formerly State Aid).
- 1.14 These risks are also considered to be low. This is a significant national initiative and the reputational damage if the government were to unilaterally reduce or remove the funding without cause would be high. The same could be said for the grant being found to be contrary to subsidy control requirements and the public nature of the buildings at which the grant is aimed also reduces the subsidy control risk.

2 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 The Climate Change Action Task and Finish Group have discussed, considered and informed the Council's approach to climate change and carbon reduction. The progress of this group has been regularly reported to the Environment Overview and Scrutiny Committee.
- 2.2 This work culminated in the establishment of the Council's carbon footprint baseline and the identification of potential projects to reduce carbon emissions in line with a reduction of

at least 30% by 2030 which was discussed at [Environment Overview and Scrutiny Committee on 21 July 2020 \(item 61\)](#).

- 2.3 The Public Sector Decarbonisation Scheme was discussed at the [Environment Overview and Scrutiny Committee on 15 December 2020 \(item 20\)](#) as part of an agenda item considering the Council's emerging carbon reduction plan.

3 Available Options Considered

- 3.1 Reject the offer of grant funding and do not deliver the project in the four buildings. Alternatively, consider the potential for the Council to fund upgrades in each of the buildings, dictated by its own project timeline. However, making use of the offer of grant funding avoids the need to identify SKDC funds to invest. In addition, it would enable the project to complete swiftly and deliver a reduction in the Council's carbon footprint.
- 3.2 Reduce the scope of the outlined project to tackle energy efficiency and building fabric elements, but not heating systems. This will significantly reduce capital spend and may make project delivery within outlined timeframes in paragraph 1.9 more straightforward. However, this decision would need to be discussed in detail with Salix as overseers of the grant, and the Council would reject the majority of the grant funding. Heating systems in the buildings will still be in need of upgrade in the short to medium term.
- 3.3 Proceed with the project using grant funding, but without using a Section 31 agreement. This would remove some immediate delivery deadlines, but the expectation would remain that the project would complete by 30 September 2021. Salix have also indicated that councils who decide not to take the Section 31 route are less likely to be successful. Any delays in the project programme could impact on Salix's decision to unlock tranches of funding. The administrative burden to comply with these programme and reporting deadlines would be increased.

4 Preferred Option

- 4.1 Proceed with outlined project addressing the four buildings, adhering as much as possible to the deadlines set out in paragraph 1.9. The offer of grant funding to cover all capital costs of the project is a rare opportunity, a significant reduction in carbon emissions is expected and a small financial saving will be realised. By accepting the terms of the Section 31 agreement outlined in paragraph 1.8, project deadlines may be under less pressure to meet interim targets and gives the Council more control over project timings.

5 Reasons for the Recommendation (s)

- 5.1 Once finished the project will see a significant improvement in energy efficiency of the buildings. Together the four buildings account for roughly 25% of the baseline energy used in the Council's buildings and streetlights, and efficiencies will deliver an immediate and long-term reduction in carbon footprint. The work will also help to insulate the Council against potential steep price increases of utilities.

6 Next Steps – Communication and Implementation of the Decision

- 6.1 If Council choose to accept the recommendations of this report, that will satisfy the grant terms and conditions and the decision will be communicated to Salix to administer the grant payment. The work would then be progressed at pace.

7 Financial Implications

- 7.1 The funding will be allocated to the Council by way of a Section 31 grant which will be fully utilised to deliver the requirements of the award. There are specific conditions attached to the grant in respect of delivery timelines, reporting requirements and permitted expenditure. It is therefore important to ensure the project is robustly managed in order to meet the grant requirements.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance

8 Legal and Governance Implications

- 8.1 The Council has the power to receive the funding and to spend it in the manner proposed. The Council's Financial Regulations require additions to the capital budget from external funding above £250,000 to be approved by full Council. The legal risks arising out of the grant conditions are addressed in the Report but are considered to be low and not such as to prevent the funding being accepted

Legal Implications reviewed by: David Coleman, Chief Legal Officer, Legal Services Lincolnshire

9 Equality and Safeguarding Implications

- 9.1 None expected.

10 Risk and Mitigation

- 10.1 The main project risks and mitigations are set out in paragraph 1.11 with a full risk register included at Appendix 2.

11 Community Safety Implications

- 11.1 None expected.

12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

- 12.1 This project will be instrumental in the Council's response to the climate emergency. Through completing the outlined project, it is expected that at least 223 tonnes of carbon annually will be avoided, contributing to the Council's target to reduce its own carbon footprint by 30% by 2030.

13 Background Papers

- 13.1 26 September 2019 (item 51):
<http://moderngovsvr:8080/ieListDocuments.aspx?CId=261&MID=3770#A123422>
- 13.2 21 July 2020 (item 61):
<http://moderngovsvr:8080/ieListDocuments.aspx?CId=630&MId=3910&Ver=4>
- 13.3 15 December 2020 (item 20):
<http://moderngovsvr:8080/documents/s28581/Emerging%20carbon%20reduction%20plan.pdf>

14 Appendices

- 14.1 Appendix 1: PSDS cost breakdown
- 14.2 Appendix 2: PSDS risk register

Report Timeline:	Date of Publication on Forward Plan (if required)	N/A
	Previously Considered by: Environment Overview and Scrutiny Committee	15 December 2020
	Final Decision date	1 March 2021