



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**

## Environment Overview and Scrutiny Committee

28 September 2021

**Report of:** Councillor Dr Peter Moseley

Cabinet Member for Commercial  
and Operations



# Public Sector Decarbonisation Scheme update

This report provides an update on the Council's work on the Public Sector Decarbonisation Scheme grant funding offer.

### Report Author

Serena Brown, Sustainability and Climate Change Officer



01476 406125



serena.brown@southkesteven.gov.uk

Corporate Priority:	Decision type:	Wards:
Clean and Sustainable Environment	Non-Key	All Wards

<b>Reviewed by:</b>	Gareth Dawkins	13 September 2021
<b>Approved by:</b>	Gary Smith, Director – Commercial & Operations	13 September 2021
<b>Signed off by:</b>	Councillor Dr Peter Moseley, Cabinet Member for Commercial and Operations	17 September 2021

### Recommendation (s) to the decision maker (s)

1. Note the closedown of the current project and the return of the outstanding grant funding to the Department for Business, Energy & Industrial Strategy and note the reasons why this is a prudent course of action on this occasion.
2. Support the Council's application to future grant funding opportunities to reduce the Council's carbon footprint.

# 1 Introduction

- 1.1 This report provides an update on the Council's Public Sector Decarbonisation Scheme (PSDS) project. It outlines the project issues and proposes the closedown of the project following the effective notification from the provider that they were withdrawing from the contract as they could no longer assure delivery within the required grant timescales. This was a result of the significant supply chain delivery delays (up to 26 weeks for air source heat pumps) and the availability of required sub-contractors. It is understood that a number of other public sector recipients of the same grant funding have also been challenged by the availability of key equipment for their proposals, as well as the effects of increasing costs which have made some projects unviable.
- 1.2 The project timescales were always challenging but this was compounded by the inevitable impact of the £1bn injection into the market at one time alongside various other related sizeable Government grant schemes. This had the effect of the relatively undeveloped heat decarbonisation market struggling to meet the upshoot in demand resulting in significant supply chain delays and contractor capacity issues. This was further exacerbated by Covid-19 operating restrictions and closures.

# 2 The Background to the Report

- 2.1 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.
- 2.2 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.
- 2.3 In late September 2020, the Department for Business, Energy and Industrial Strategy (BEIS) launched a £1bn PSDS grant scheme 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 Finance Ltd, who work throughout the public sector to develop and finance energy efficiency projects.
- 2.4 South Kesteven District Council submitted an application to the fund on the 23<sup>rd</sup> November 2020, covering four buildings, having completed further feasibility work to better understand which low carbon technologies could be viable. This feasibility work was funded through the Salix Low Carbon Skills Fund, a complementary stream of funding to the PSDS fund, which supported public bodies to develop high quality applications with the support of external expertise if needed.
- 2.5 The proposed upgrades and scope of the Council's corporate buildings are included in the table below:

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

- 2.6 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, in addition to the Low Carbon Skills Funding already received. This grant offer was received much later than expected, where decisions on applications were initially suggested by Salix to be made and communicated in mid-December. This delay in notification of award of grant funding had an effect on the Council's ability to mobilise the project and engage with contractors.
- 2.7 On [1 March 2021](#), Full Council made the decision to accept the grant funding offer, and to approve the addition of £950,370 into the 2020/21 budget, to enter into an agreement with BEIS and/or Salix for the funding and to delegate authority for the scheme to the Director for Commercial and Operations.
- 2.8 At the time, one of the major risks of the project was recognised to be the timescales for delivery of the project, which were set as the 30 September 2021 for the completion of all proposed elements as per the conditions of the grant.
- 2.9 Since that time, South Kesteven District Council has been working with Engie Regeneration Ltd to progress the project, who have a wealth of experience in delivering specific energy efficiency retrofit projects and are one of the top-ranked suppliers on the Fusion 21 framework's construction lot, which was identified as a compliant procurement route. They were briefed to develop a detailed design for each of the four sites for the proposed upgrades, building on work completed in October to propose the most appropriate energy efficiency upgrades for the buildings in question.
- 2.10 The Council worked with Engie to establish regular project meetings to develop needed site information in more detail and liaise with key stakeholders. Site specific information was reviewed to understand proposals in greater detail, and individual sub-contractors were engaged by Engie to review each proposed technology upgrade. A proposed programme of works and updated risk register were produced for the project.

- 2.11 Issues were encountered initially with the proposed terms of contract and wider detail proposed by Engie to design in detail and deliver the project to completion. The terms of the agreement were not favourable and represented significant risk in several areas, and the legal advice received suggested significant pushback in a number of areas. Compromises on key elements were eventually offered to the Council, nevertheless the process of negotiation cost the project valuable time.
- 2.12 Monthly updates were provided to Salix throughout the project to update on progress and issues. The delivery deadline of 30 September 2021 was reviewed, on the understanding that completing the full project by that date would be exceptionally difficult. Salix provided a letter of support, indicating that the project could be completed as soon as possible before 31 March 2022 at the very latest.
- 2.13 As the project progressed, it also became necessary to alter the original scope of the proposals and buildings included. This reduced the allocated grant funding for the project, and further discussions were required with both Salix and the contractor to detail and agree the change of scope. An additional building was subsequently identified for upgrades, to make greater use of the original grant funding allocation.
- 2.14 Some issues that the project encountered included:
- It was necessary to appoint a third-party technical assurance role due to lack of in-house expertise and capacity
  - Deadlines imposed by the need to seek Planning permission for buildings which are listed or in conservation areas
  - Significant pressure on supply of key equipment including air source heat pumps and solar PV panels, and pressure on availability of suitably qualified contractors
- 2.15 One of the outcomes of the technical assurance appointment was a note on the suitability of the proposed air source heat pump heating system for several the buildings, due to the age and condition of the building fabric and the mechanical and electrical equipment in question. It was advised that sensitivity needs to be taken in the design of upgraded heating systems, due in particular to structure and age of the pipework systems which distribute heat around the buildings. It also noted a risk of the project going over budget, due to the need for remedial works to the buildings to optimise the heating systems. This was noted as a risk, as this remedial work may be outside the scope of the allocated PSDS funding.
- 2.16 The supply chain pressures on some equipment as well as availability of experienced and qualified contractors to complete the work proved a significant difficulty for the project. Engie conveyed, as the project developed, the increasing lead times for equipment, particularly noting delays for orders of air source heat pumps and solar PV panels. These updates were shared with Salix in regular monthly reports as a key anticipated risk. These lead times escalated to delays reported by Engie in early August of up to 26 weeks for some air source heat pump units, and 20 weeks for some solar PV panels. Additionally, the availability and capacity of suppliers able to complete the work drastically decreased, as one of the impacts of the PSDS funding on the market alongside schemes targeting domestic energy efficiency running at the same time.
- 2.17 At this point, the ability to deliver the project before March 2022 given the supply chain delays was significantly at risk. The Council discussed options in detail with Salix and reviewed the potential to reduce the scope of proposals to exclude the planned upgrade of

building heating systems. However, the PSDS scheme has a core focus on the decarbonisation of heat, and the eligibility of the scheme and allowed technologies are built around that. This meant that an upgrade of buildings covering installation of solar PV panels, LED lighting, and additional insulation was not eligible under grant terms and conditions without the measures to decarbonise the heating. Salix were also not able to offer any further extension of a deadline beyond 31 March 2022.

- 2.18 The combination of each of the above factors, particularly the availability of specific key equipment, frustrated original delivery timescales set out in the grant application, which expected project delivery by the end of September. The pressure from the supply chain availability of certain equipment in the end led to unachievable delivery timescales by the end of March 2022. As a result, Engie gave notice to withdraw from the contract in August 2021 as completion of the project could no longer be assured by the necessary final date.
- 2.19 The Council continued to review remaining options, including the potential to engage another contractor or contractors to complete each proposed element of the project. Nevertheless, this market engagement has found that contractors are engaged with work with other clients at this time, as well as stating some of the lead time delays for key equipment reported by Engie. Therefore, it is understood that entering into a new agreement with a contractor to complete the work by 31 March 2022 is high risk and comes with the risk that the Council may be responsible for any cost incurred after the end of March 2022, or the risk of an aborted project.
- 2.20 At the time of writing this report, the project costs incurred so far are detailed as below. On discussion with Salix, the expectation is that these costs will be claimed from the grant funding allocation by the Council:

Scope of work	Supplier	Total (£)
Pre-project work to review detailed site information	Engie Regeneration Ltd.	10,000
Technical assurance and review of proposed design	Rolton Group	1,890 (to date)
Legal and procurement advice received	Legal Services Lincolnshire	5,001 (to date)
<b>TOTAL</b>		<b>16,891</b>

### **3 Conclusion**

- 3.1 The project encountered a sequence of challenges from the outset in seeking to remain within tight delivery timescales specified by Salix. The PSDS grant funding and other grant schemes targeting domestic energy efficiency and heat decarbonisation have contributed to an extremely busy market for contractors who are able to fulfil the works to a good standard and within the time specified by the grant funding terms and conditions.
- 3.2 The major influence has been the increasing lead times for availability of some technologies, which eventually meant that delivery by March 2022 could no longer be assured. These supply chain issues for equipment have also been exacerbated by wider impacts such as Brexit and industry supply chain issues.

- 3.3 At this time, to continue the project with the aim to complete before the end of March 2022 is extremely high risk. There are significant and expanding delays within the air source heat pump market, as well as reported delays to the solar PV supply chain.

## **4 Future opportunities**

- 4.1 Salix has made the Council aware that the third round of the Public Sector Decarbonisation Scheme is due to open for applications later this autumn and suggested the Council's outlined buildings remain good candidates for proposed works. Further future rounds of funding which target the decarbonisation of heat can be expected given the strategic need to improve energy efficiency of buildings across the public estate.
- 4.2 This third round of funding maintains a focus on the decarbonisation of heat, which will mean upgrading heating systems where viable will be the key focus, with energy efficiency upgrades to support.
- 4.3 The feasibility and work completed to date will be of continued use for shaping applications for future funding. The proposals are developed to a high level for each of the buildings included in the original scope.
- 4.4 The budget from central government for the third round of PSDS funding is yet to be agreed, and the process is again expected to be extremely competitive with other public sector organisations also submitting grant applications. Nevertheless, it remains a strong opportunity for the Council to pursue as part of necessary decarbonisation works to meet declared carbon reduction targets.
- 4.5 Wider grant schemes may be available to support or deliver decarbonisation works in the Council's corporate buildings, which remains another opportunity to review.
- 4.6 The Council maintains the option to develop a business case to deliver some or all of the works proposed using its own reserves. Some of the proposed upgrades stand on their own merit and have good financial payback periods, as well as delivering an energy and carbon reduction.
- 4.7 The majority of the Council's electricity and gas use sits outside of its corporate (non-domestic) buildings, as outlined in the carbon footprint report discussed on [21 July 2020](#). Further opportunities exist to focus on these domestic buildings, using Council reserves or grant funding schemes including the Social Housing Decarbonisation Fund.

## **5 Consultation and Feedback Received, Including Overview and Scrutiny**

- 5.1 PSDS updates have been given to numerous Environment Overview and Scrutiny Committees.

## **6 Available Options Considered**

- 6.1 Continue market engagement and look to appoint contractors to complete the work by the stated deadline of 31 March 2022. While this has the potential to utilise the grant funding allocation, this option is understood to represent a significant risk that the project will not be delivered by the end date and additionally risk the Council needing to use its own financial reserves to complete the project. There is also a risk that if the project fails to complete on time the grant funding could be reclaimed from the Council.
- 6.2 Scale back the proposals to exclude upgrades to heating systems and bypass the issues of availability and lead times for air source heat pump equipment. While there may be technical capacity to complete the energy efficiency works exclusive of upgrades to

heating systems, this is not eligible for PSDS funding according to Salix criteria. Any formal extension to the project past 30 September 2021 must be granted by Salix in addition.

## **7 Preferred Option**

- 7.1 Closedown the PSDS project and return the allocated grant funding to Salix, minus project costs incurred so far.

## **8 Reasons for the Recommendation (s)**

- 8.1 There are significant delivery risks to complete before the Salix deadline. The Council can continue to review future opportunities to complete the work to corporate and wider buildings, using other grant funding where possible.

## **9 Next Steps – Communication and Implementation of the Decision**

- 9.1 Formally close the PSDS project, complete a lessons learned review and repay unspent grant funding.

## **10 Financial Implications**

- 10.1 The grant was paid to the Council direct from BEIS by way of a Section 31 payment in the 2020/21 financial year. The 2021/22 accounts will properly record the repayment of the outstanding grant funding. Although the Council will not benefit from this grant funding, there has been no additional financial cost to the Council for this project and the costs incurred will be reclaimed. The Council will be open to apply for other grant funding opportunities in the future.

**Financial Implications reviewed by: Financial Implications reviewed by: Richard Wyles, Assistant Director of Finance and s151 Officer**

## **11 Legal and Governance Implications**

- 11.1 It was noted at the time of the Full Council decision that the legal risks arose from the grant conditions and it was important to ensure these were observed and met, this included specific completion deadlines. Given the delivery timescales cannot be met, the closing of this project and repayment of the outstanding grant protects the Council from breaching the grant conditions and the risk of the grant funding being reclaimed in full.
- 11.2 Legal Services Lincolnshire have supported officers throughout this project, specifically the legal review of the grant conditions and the terms and conditions associated with the contract to deliver the work.

**Legal Implications reviewed by: Legal Implications reviewed by: Graham Watts, Head of Democratic Services and Deputy Monitoring Officer**

## **12 Equality and Safeguarding Implications**

- 12.1 No significant issues identified.

## **13 Risk and Mitigation**

- 13.1 This project close down removes the risk of the project implementation not meeting the grant condition completion deadlines and the danger that the Council is required to repay the grant funding in full.

## **14 Community Safety Implications**

14.1 No significant issues identified.

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

15.1 The original proposed scheme was expected to reduce the Council's annual carbon emissions by approximately 230 tonnes a year, which represents a significant step towards the target of a reduction of carbon emissions of at least 30% by 2030. Whilst there are significant reported reductions from the 2020/21 carbon footprint, the Council should continue to look for opportunities to reduce electricity and in particular gas use in buildings.

## **16 Other Implications (where significant)**

16.1 None.

## **17 Background Papers**

17.1 21 July 2020 [item 61]:

[http://moderngov.southkesteven.gov.uk/documents/s26564/CarbonFootprintReportEnvOSC\\_Final.pdf](http://moderngov.southkesteven.gov.uk/documents/s26564/CarbonFootprintReportEnvOSC_Final.pdf)

17.2 1 March 2021 [item 77]:

<http://moderngov.southkesteven.gov.uk/documents/s29268/PSDS%20Council%20Report.pdf>

17.3 8 June 2021 [item 10]:

<http://moderngov.southkesteven.gov.uk/documents/s29881/Climate%20Change%20Update.pdf>