

**Report of Chief Officer, Sustainable Energy & Air Quality**

**Report to Director of Resources & Housing**

**Date: 22<sup>nd</sup> October 2020**

**Subject: Decarbonisation of the Council's corporate estate**

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Has consultation been carried out?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Will the decision be open for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Summary**

**1. Main issues**

- This report provides a summary of proposals to apply to the Government's Public Sector Decarbonisation Scheme (PSDS) for grant funding to install renewable energy generation and other energy efficiency measures across a range of sites and buildings across the Council's corporate estate.
- The primary focus of the PSDS is on conversion to low carbon heating systems in buildings, but proposals involving this can also be combined with other energy efficiency measures to reduce electricity consumption such as solar generation and LED lighting. As well as ensuring significant carbon savings, the scheme will provide a stimulus to the energy efficiency and low carbon heat sectors, and represents a significant opportunity to create or safeguard local employment.
- The scheme is being managed by Salix Finance Ltd, and the window for applications opened on 30th September 2020, and runs until 11<sup>th</sup> January 2021, with approval on a rolling, 'first come, first served' basis. Therefore submission of early bids will maximise the chances of success. Timescales for delivery are challenging. Schemes which are successful in securing funding should be targeted for completion by 31<sup>st</sup> March 2021 where possible, or by no later than 30<sup>th</sup> September 2021 where this is not feasible.
- The project team has been working in conjunction with Asset Management, Leeds Building Services/Corporate Property Management (CPM), Children's Services and individual schools to identify the most deliverable and beneficial sites and projects. This has been with reference to the Council's programme to rationalise the corporate estate,

data on energy consumption for individual sites, and CPM's planned maintenance and replacement programme. Sites are expected to include a range of schools, civic buildings, leisure centres, offices, depots, homes for older people, children's centres, community hubs and other non-Council public sector buildings (connecting to the Leeds PIPES network).

- The internal provider will be used to deliver schemes, or elements of schemes, for which it has the necessary capacity and specialist expertise, with existing contracts and frameworks to be used for the remainder.

## **2. Best Council Plan implications** (see the [latest version of the Best Council Plan](#))

- The delivery of this programme will clearly contribute to the Council's vision to improve the resilience of the city's infrastructure whilst promoting a more competitive, less wasteful, more resource efficient, low carbon economy through reducing the council's carbon footprint and energy expenditure, and adapting more of the Council's estate to be sustainable, modern and climate resilient.

## **3. Resource implications**

- In terms of capital expenditure, it is exclusively grant funding being sought, and from this perspective there will be no capital cost implications for the Council.
- Actual values of individual schemes will be determined through the process of specifying and commissioning work from the relevant providers and will be injected into the capital programme according to the outcome of each application.
- Although there will be a requirement for ongoing maintenance of the assets which is not covered by the PSDS funding, the Council (or individual school) will realise savings in energy costs, a proportion of which will need to be ring-fenced in order to cover these costs.

## **Recommendations**

The Director of Resources & Housing is recommended to:

- a) Approve the submission of a series of funding applications to the Public Sector Decarbonisation Scheme, noting that individual authority to procure and contract award decisions will be taken in accordance with the Director's delegations/sub-delegation scheme, and with signature of grant agreements for schemes where funding applications are successful delegated to the Chief Officer (Sustainable Energy & Air Quality);
- b) Approve an injection into the capital programme and authority to spend to the value of up to £25m for the delivery of these renewable energy and energy efficiency schemes, with the precise values of individual schemes to be determined through the process of finalising Salix applications and incorporated into the capital programme accordingly where funding is successfully secured;
- c) Approve the above recommendations ahead of the expiry of the full 28 day forward notification period via the List of Forthcoming Decisions, noting that the decision report will still be published for 5 clear working days prior to the decision being taken (in accordance with General Exception rules). This is on the basis of how time critical engaging suppliers is in terms of the ability to deliver schemes within the required deadlines, and the risk that this represents to the Council securing funding;

d) Approve an exemption from call-in for the reasons stated in c) above.

## **1. Purpose of this report**

- 1.1 This report provides a summary of proposals to apply to the Government's Public Sector Decarbonisation Scheme for grant funding to install renewable energy generation and other energy efficiency measures across a proportion of the Council's corporate estate. The report also seeks approval from the Director of Resources and Housing for an injection into the capital programme and authority to spend to the value of up to £25m on these measures.

## **2. Background information**

- 2.1 The Government has committed to achieving carbon neutrality by 2050. In support of this ambition it has launched the Public Sector Decarbonisation Scheme (PSDS), which will disburse grant funding to public sector organisations to deliver decarbonisation of heat schemes and energy efficiency measures across their estates.
- 2.2 The Council has a substantial portfolio of sites and buildings, and therefore a substantial level of energy consumption. In January 2020, and further to Full Council's declaration of a climate emergency for the City in March 2019, the Executive Board committed to a rationalisation and energy efficiency programme to reduce carbon emissions from Council buildings by 40% by 2025 in support of achieving the overall carbon target for Leeds of net zero by 2030.
- 2.3 The Council has already implemented solar photo-voltaic (PV) energy generation and a range of other energy efficiency measures across a range of its sites over recent years, and is working to expand these measures across the whole portfolio wherever practicable.
- 2.4 The Department of Business, Energy & Industrial Strategy (BEIS) has now publicised a £1 billion fund for the decarbonisation of heat from non-domestic public sector buildings, offering to meet up to 100% of the costs of capital projects that meet the scheme criteria. There is no minimum or maximum grant value per public sector body, although high value schemes will be subject to greater scrutiny of their deliverability, and there will be some regard to an equitable distribution of the available funding.
- 2.5 Whilst the primary focus is therefore on conversion to low carbon heating systems in buildings, proposals involving this can also be combined with other energy efficiency measures to reduce electricity consumption such as solar generation and LED lighting.
- 2.6 As well as ensuring carbon savings, the scheme will provide a stimulus to the energy efficiency and low carbon heat sectors, and represents a significant opportunity to create or safeguard local employment.
- 2.7 The window for applications opened on 30th September 2020, and runs until 11<sup>th</sup> January 2021, with approval on a rolling, 'first come, first served' basis. Therefore submission of early bids will maximise the chances of success. Timescales for delivery are challenging. Schemes which are successful in securing funding should be targeted for completion by 31<sup>st</sup> March 2021 where possible, or by no later than 30<sup>th</sup> September 2021 where this is not feasible.
- 2.8 In anticipation of this funding opportunity, the Sustainable Energy & Air Quality team, Leeds Building Services (LBS), Asset Management and a range of other internal and external partners have been working together since early summer 2020

to carry out technical feasibility assessments and identify a range of viable schemes to submit to BEIS.

- 2.9 In accordance with the PSDS scheme, it is expected that the Council will submit bids on a rolling basis as and when the necessary feasibility and design work for the various technologies for each site has been completed. There is flexibility to either submit on a site-by-site basis, or on a technology type basis for multiple sites.
- 2.10 The scheme is being administered by Salix Finance Ltd, the BEIS sponsored body for managing public sector funding to improve energy efficiency. Salix has published a series of fortnightly application deadlines up until the 11<sup>th</sup> January 2021 closing date, with applications received by each deadline to be processed in less than three weeks. Projects with an early completion date will be prioritised in terms of assessment and approval.

### 3. Main issues

#### Project Criteria

- 3.1 The purpose of this grant scheme is to help make eligible buildings more energy efficient and install low carbon heating measures.
- 3.2 A key criterion for eligibility is that the cost to save a tonne of carbon (CO<sub>2</sub>e) over the lifetime of the project must be no more than £500.
- 3.3 Eligible technologies under the scheme are split into 4 different categories:
- **Category 1** - Technologies that directly contribute to the heat decarbonisation of a building by installation of a low carbon heating technology. For example, heat pumps and connections to low carbon heat networks;
  - **Category 2** - Technologies that do not directly contribute to the heat decarbonisation of a building but reduce overall energy demand and so will support future heat decarbonisation. For example, insulation, glazing, ventilation;
  - **Category 3** - Technologies that do not reduce carbon emissions but enable future heat decarbonisation projects to take place. For example, metering, electrical infrastructure, battery storage;
  - **Category 4** - Technologies that are only permitted if: (a) they are used to replace coal-fuelled heating systems or oil-fuelled heating systems, AND (b) if, in Salix's reasonable opinion, it has been demonstrated that it is not viable for a low carbon heating system to be installed within the building as a replacement for the coal-fuelled heating or oil-fuelled heating system. For example, gas-fired CHP and gas boiler replacement projects would fit into this Category provided they meet the above conditions.
- 3.4 In order to be eligible, projects that fall into Categories 2 and 3 above must either: be combined with Category 1 measures; be for buildings that already use low carbon heating for all their heating requirements, or; be accompanied by a written commitment to the future heat decarbonisation for the relevant building(s).
- 3.5 Schemes must also provide genuine additionality, and so schemes which, for example, already have alternative funding or have already started will not be eligible unless additionality can be demonstrated above the original scope of the scheme.
- 3.6 More detailed information on project criteria is set out at Appendix 1 to this report, with full details of the scheme at <https://www.Salixfinance.co.uk/PSDS>.

### Identifying sites

- 3.7 Although work to determine the specific schemes to be included within applications to the PSDS fund is still in progress, and the individual schemes will be the subject of separate decision reports, the project team has considered the following in seeking to identify the most deliverable and beneficial projects:
- The backlog and planned maintenance programme for schools and the corporate estate has been assessed to identify works that may be eligible for inclusion;
  - Corporate Property Management's planned lifecycle for gas boilers within buildings has been used to identify sites at which boilers are nearing end of life, and therefore logically should be prioritised for low carbon heat solutions such as heat pumps;
  - Energy bills and consumption have been taken into account to target sites at which the greatest savings can be made in terms of both cost and carbon;
  - Asset Management have been engaged to ensure that sites included in the bid have not currently been identified for disposal and are likely to be retained as part of the asset rationalisation programme underway in light of the impacts of COVID-19;
  - Sites for which external technical feasibility work has already been completed and recommendations produced, through either desktop assessments or detailed energy audits, are also being prioritised;
  - Sites which are included in phases 2 and 3 of the Leeds PIPES scheme will also be included in the bid, as building connections to district heating networks are eligible for this grant funding. Costs for the PIPES scheme are high and successfully bidding for grant funding will allow the Council to connect further customers to the network, thus also providing ongoing revenue benefits to the Council.
- 3.8 The range of sites or buildings expected to be included within applications by the Council cover the following:
- Schools;
  - Civic buildings;
  - Leisure centres;
  - Offices;
  - Depots;
  - Homes for older people;
  - Children's centres;
  - Community hubs.
- 3.9 The Council will also be supporting other non Council public sector organisations to apply directly for connections to the Leeds PIPES network.
- 3.10 Although the measures to be included for specific buildings will vary according to their suitability or existing infrastructure, the technologies or measures expected to be covered across all applications include (though not exhaustively) the following:
- Air source heat pumps;
  - Ground source heat pumps;
  - Connection to existing district heating network;

- Electric heating;
- Building energy management systems;
- Radiator upgrades;
- Insulation;
- Glazing;
- LED lighting;
- Solar PV;
- Variable speed drives;
- Solar thermal;
- Battery storage;
- Metering;
- Boiler replacement.

- 3.11 Elements of the work which can be undertaken by the internal service provider will be managed and/or delivered by LBS according to their capacity. This is expected to be primarily LED lighting schemes and radiator replacement/valve upgrades.
- 3.12 Given the challenging deadlines for completion, it is proposed that existing contracts and frameworks be used to deliver the remaining works. Individual authority to procure reports by technology type will be prepared and agreed, setting out the relevant procurement and contractual route for each. Separate award reports will then be prepared once detailed specifications, design and pricing is established. The Council will endeavour to maximise local employment wherever practicable.
- 3.13 In addition to this, work will commence shortly to procure maintenance contracts to ensure that assets are performing at their intended levels, with these ongoing revenue costs to be funded from savings in energy costs resulting from the proposed energy efficiency measures or renewables income.

## **4. Corporate considerations**

### **4.1 Consultation and engagement**

- 4.1.1 Although consultation with key stakeholders will be carried out in relation to specific individual schemes as these are defined and brought forward, the Head of Asset Management, LBS/Corporate Property Management, Children's Services, individual schools and Procurement & Commercial Services have already been engaged in or consulted on the proposals.
- 4.1.2 The Executive Member for Resources and the Executive Member for Climate Change, Transport and Sustainable Development have been consulted on these proposals.

### **4.2 Equality and diversity / cohesion and integration**

- 4.2.1 There are no significant equality, diversity, cohesion and integration impacts associated with these overarching proposals. A screening assessment has been completed in relation to this proposed programme.

### **4.3 Council policies and the Best Council Plan**

- 4.3.1 Sustainable Infrastructure sits as one of the Council's key priorities in its Best Council Plan. The Council's vision is to improve the resilience of the city's infrastructure whilst promoting a more competitive, less wasteful, more resource efficient, low carbon economy.
- 4.3.2 The delivery of this programme of renewable energy and energy efficiency measures across the corporate estate will contribute to all of these priorities, reducing the council's carbon footprint and energy expenditure, and adapting more of the Council's buildings so as to be sustainable, modern and climate resilient.

#### Climate Emergency

- 4.3.3 As noted, this programme of work is in support of the Executive Board commitment to a rationalisation and energy efficiency programme to reduce carbon emissions from Council buildings by 40% by 2025. Anticipated carbon savings need to be identified within individual funding applications and will be included within the decision report for each project or group of schemes.

### **4.4 Resources, procurement and value for money**

- 4.4.1 In terms of capital expenditure, it is exclusively grant funding being sought, with no match funding requirements, and from this perspective there will be no capital cost implications for the Council.
- 4.4.2 Consultancy, management, internal staffing and reasonable enabling and ancillary works costs can also be included within applications.
- 4.4.3 Actual values of individual schemes will be determined through the process of specifying and commissioning work from the relevant providers and will be injected into the capital programme according to the outcome of each application.
- 4.4.4 Although there will be a requirement for ongoing maintenance of the assets which is not covered by the PSDS funding, the Council (or individual school) will retain the expected savings in energy costs, a proportion of which will need to be ring-fenced in order to cover these costs. To do otherwise would only mean that energy savings or renewables income (as well as carbon savings) would be lost as a result of not maintaining the assets appropriately.
- 4.4.5 The proposed procurement strategy is outlined in section 3.11, whereby the internal provider will be used to deliver schemes, or elements of schemes, for which it has the necessary capacity and expertise, with existing contracts and frameworks to be used for the remainder. Procurement and Commercial Services are engaged in advising on the use of these contracts and frameworks to ensure compliance with Public Contracts Regulations and internal Contract Procedure Rules.

### **4.5 Legal implications, access to information, and call-in**

- 4.5.1 There is no confidential or exempt information included within this report, and it is subject to call-in.
- 4.5.2 Forward notification of this key decision was published on the List of Forthcoming Decisions on 8<sup>th</sup> October 2020. However, given how time critical engaging suppliers is in terms of the ability to deliver schemes within the required deadlines, and the risk that this represents to this unique opportunity to secure a substantial level of



grant funding, it is recommended that the decision to proceed be taken ahead of the expiry of the full 28 day forward notification period, but with this report still being published for 5 clear working days prior to the decision being taken (in accordance with General Exception rules). For the same reason, it is also recommended that the decision be exempted from call-in.

- 4.5.3 As noted, individual contract awards will be made through subsequent significant operational decisions.

## **4.6 Risk management**

- 4.6.1 Risk registers will be developed for each scheme or technology type, and in any event are a requirement of the Salix application process.
- 4.6.2 A key risk is the ability to deliver schemes within the deadlines set by BEIS/Salix. This will need to be carefully monitored through effective programme management.
- 4.6.3 The project team also started work some months ago in anticipation of this funding opportunity, and so will be in a position to submit applications early within the bidding window so as to allow maximum time to deliver schemes before the March or September 2021 deadlines.
- 4.6.4 Moving quickly in this way will also help to ensure that capacity within the supply chain to deliver these schemes has not become over-stretched.

## **5. Conclusions**

- 5.1 The Public Sector Decarbonisation Scheme represents an excellent opportunity to achieve significant reductions in carbon emissions and energy costs from the corporate estate, and it is therefore recommended that, where renewable energy and energy efficiency measures can be delivered within the required timescales for suitable buildings, these should be included within applications to BEIS/Salix.
- 5.2 Subject to approval from the Director of Resources & Housing, it is therefore proposed that the project team undertake the necessary feasibility, market engagement, governance, procurement and programme management work required to maximise this opportunity.

## **6. Recommendations**

- 6.1 The Director of Resources & Housing is recommended to:
  - 6.1.1 Approve the submission of a series of funding applications to the Public Sector Decarbonisation Scheme, noting that individual authority to procure and contract award decisions will be taken in accordance with the Director's delegations/sub-delegation scheme, and with signature of grant agreements for schemes where funding applications are successful delegated to the Chief Officer (Sustainable Energy & Air);
  - 6.1.2 Approve an injection into the capital programme and authority to spend to the value of up to £25m for the delivery of these renewable energy and energy efficiency schemes, with the precise values of individual schemes to be determined through the process of finalising Salix applications and incorporated into the capital programme accordingly where funding is successfully secured.
  - 6.1.3 Approve the above recommendations ahead of the expiry of the full 28 day forward notification period via the List of Forthcoming Decisions, noting that the decision

report will still be published for 5 clear working days prior to the decision being taken (in accordance with General Exception rules). This is on the basis of how time critical engaging suppliers is in terms of the ability to deliver schemes within the required deadlines, and the risk that this represents to the Council securing funding;

6.1.4 Approve an exemption from call-in for the reasons stated in c) above.

## **7. Background documents<sup>1</sup>**

7.1 Report to Executive Board – 7<sup>th</sup> January 2020 – Climate Emergency Update.

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<sup>1</sup> The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## PUBLIC SECTOR DECARBONISATION SCHEME SALIX GUIDANCE (EXTRACT)

### Project Criteria

The purpose of this Grant Scheme is to help make eligible buildings more energy efficient and install low carbon heating measures, for example insulation, glazing, heating controls, and heat pumps.

Eligible bodies can apply for up to 100% grant funding for projects which meet the compliance criteria below:

- The projects are taking place in buildings for which the Applicant pays the energy bills and will benefit from any resulting savings. Eligible bodies which do not own the building but have a long-term lease arrangement can apply, provided the contract allows for any savings to be passed to the eligible body;
- The cost to save a tonne of carbon (CO<sub>2</sub>e) over the lifetime of the project must be no more than £500, which is automatically calculated by the Support Tool in the Grant Application Form. Please note that projects within Category 3 are exempt from this criterion.
- The Grant Scheme is primarily for capital works, however external consultancy and management fees may be included. Existing employee costs or any costs previously incurred may not be included. Further enabling costs not eligible for the Grant Scheme may be eligible for the separate Public Sector Low Carbon Skills Fund where they are related to support to deliver the project.
- Reasonable enabling and ancillary works may be included in the Application, provided they are directly linked to the core technologies being installed, and these will be reviewed for value for money.

Eligible technologies under the scheme are split into 4 different categories, and applications must be for projects that fit into one or more of these categories:

Category Definitions	
Category 1	Technologies that directly contribute to the heat decarbonisation of a building by installation of a low carbon heating technology. For example, heat pumps and connections to low carbon heat networks.
Category 2	Technologies that do not directly contribute to the heat decarbonisation of a building but reduce overall energy demand and so will support future heat decarbonisation. For example, insulation, glazing, ventilation.*
Category 3	Technologies that do not reduce carbon emissions but enable future heat decarbonisation projects to take place – these technologies are exempt from the requirement to meet the £500/tCO <sub>2</sub> lifetime criteria. For example, metering, electrical infrastructure, battery storage.*
Category 4	Technologies that are only permitted if: (a) they are used to replace coal-fuelled heating systems or oil-fuelled heating systems, AND (b) if, in Salix's reasonable opinion, it has been demonstrated that it is not viable for a low carbon heating system to be installed within the building as a replacement for the coal-fuelled heating or oil-fuelled heating system. For example, gas-fired CHP and gas boiler replacement projects would fit into this Category provided they meet the above conditions.

\*Projects that fall into Category 2 and Category 3 must meet either one of criteria A, B or C as outlined below. Supporting commentary and evidence is needed to demonstrate how each Category 2 and 3 project meets any one of the criteria:

- **Criterion A:** Category 2 and 3 measures are combined with measures in Category 1.
- **Criterion B:** Category 2 and 3 measures are for buildings that already use low carbon heating for all their heating requirements.
- **Criterion C:** A written commitment is made to future heat decarbonisation for the buildings in which measures are installed, which includes all of the following:
  - i. A commitment to produce and submit to Salix a Heat Decarbonisation Plan by 30 September 2021.
  - ii. An explanation within the Heat Decarbonisation Plan setting out how the building(s)' fossil fuel heating systems will be replaced by low carbon heating when the fossil fuel system(s) reaches the end of their natural lifetime. It is important to consider what will happen when your current heating plant has reached the end of its life and suitable upgrades have not been made to your building to manage this. The type or types of low carbon heating systems, and the likely timescale for this, must be identified. A template for this Heat Decarbonisation Plan is provided if there is not an existing document, and this can be used to help create this plan if support is needed.
  - iii. The Heat Decarbonisation Plan must include details of how it has been approved by their public body, how this plan is going to be implemented, and that there is a commitment to apply for and utilise funding where available to deliver the Heat Decarbonisation Plan.

The Heat Decarbonisation Plan will enable public bodies to plan their approach to decarbonisation and their contribution to meeting the 2050 net zero target.

Exclusions: Street lighting is not eligible for this Grant Scheme, but can still apply for the Salix Energy Efficiency Loan Scheme. Boiler upgrades without certain conditions explained in Category 4 below are also not eligible for the Grant Scheme, but can apply for the Salix Energy Efficiency Loan Scheme.

### **Additionality criteria**

Projects are also required to meet the criteria of being “additional”. The criteria that are used to assess whether a project is “additional” are listed below:

- The measures concerned are not required to be installed by law (including building or health and safety legislation); Note: For measures that go above and beyond what is required by law, grant funding can be sought for the increased cost, for example, in a new build project;
- The measures are not being installed with a view to commercial gain (other than the reduction of costs through increased energy efficiency);
- Installation of the measures concerned have not begun;
- Funding for the project has not been agreed via another source;
- In Salix’s reasonable opinion, the project would not take place without the grant.