



WEST OXFORDSHIRE
DISTRICT COUNCIL

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Name and Date of Committee	EXECUTIVE – 17 APRIL 2024
Subject	FUNDING FOR DECARBONISATION OF CARTERTON LEISURE CENTRE
Wards Affected	Carterton North East
Accountable member	Councillor Andrew Prosser – Executive Member for Climate Change. Email: andrew.prosser@westoxon.gov.uk
Accountable Officer	Claire Locke – Assistant Director, Property and Regeneration. Email: claire.locke@publicagroup.uk
Report Author	Claire Locke – Assistant Director, Property and Regeneration. Email: claire.locke@publicagroup.uk
Purpose	To present the business case for the decarbonisation of Carterton Leisure Centre and agree a strategy for funding the scheme.
Annexes	Annex A – Business Case
Recommendation	That the Executive Resolves to: I. Agree to pause the current project to decarbonise Carterton Leisure centre, informing Salix that there will be no further expenditure of PSDS 3b funding, and to reapply for more PSDS funding in Autumn 2024 to enable the scheme to proceed.
Corporate Priorities	<ul style="list-style-type: none">• Responding to the Climate and Ecological Emergency
Key Decision	YES
Exempt	NO
Consultees/ Consultation	GLL – Leisure provider at Carterton Leisure Centre.

1. EXECUTIVE SUMMARY

- 1.1** The Council has been progressing the Public Sector Decarbonisation Scheme funded project to install Air Source Heat Pumps and Solar PV at Carterton Leisure Centre. Unfortunately the Investment Grade Proposal that has now been received indicates the Council would need to invest around £3.3M in capital funding and would not get a full return on this investment. The level of ongoing subsidy each year would be just under £130,000 and is not therefore an affordable long term commitment.
- 1.2** The Council is still committed to delivering the scheme and whilst it is uncertain whether sufficient additional funding can be secured, the Council should consider pausing the current project and reapplying for more funding in the Autumn round of PSDS funding.

2. BACKGROUND

- 2.1** In November 2022 Cabinet received a report which explained that the Council had been forced to withdraw from PSDS3a due to time delays associated with Scottish and Southern energy (SSE) installing a new sub-station. In order that the opportunity for PSDS funding was not lost the Council reapplied in October 2022, for the next round of funding.
- 2.2** To inform the decision to accept any grant funding, should it be offered, an option appraisal was commissioned to ensure the Council could consider whole life costs of any option selected.
- 2.3** In January 2023 Executive considered that option appraisal and agreed in principle to proceed with a scheme to install Air Source Heat Pumps and Solar Photovoltaic roof mounted panels. A Member-led Project Board was established to oversee delivery of the project.
- 2.4** In February 2023, via a Delegated Decision the Chief Executive agreed, in consultation with the Project Board, to proceed with commissioning an Investment Grade Proposal (IGP). Contractors Kier were appointed, via a Framework, on a 'Design and Build' basis to undertake the detailed design and costing that would form the IGP, with a view to entering into contract with them for the build phase, if the scheme is approved by Full Council. At that stage the feasibility study, set out a total capital cost estimated as £2.698M, with £1.607M grant funding and the remaining £1.091M needing to be funded by the Council. The Council's capital contribution was not agreed at that stage as the decision to proceed with any investment would be based on affordability of a fully designed and costed scheme.
- 2.5** Two key project decision points, known as Gateway Decisions, were identified. The project would only be able to proceed if the leisure contractor GLL agreed to the change in heating systems, and if the scheme was affordable to the Council once the scheme was fully costed as part of the IGP.
- 2.6** The funding received totalled £1.607M and was allocated over two years with £614,000 available in 2023/24 and just under £993,000 available in 2024/25. The funding is not transferable between these years. A clear project plan was therefore established to ensure the IGP was completed, agreement from GLL was secured, a Full Council decision could be taken to proceed and kit and equipment could be ordered ensuring the full funding allocation could be spent in 2023/24.

3. INVESTMENT GRADE PROPOSAL

- 3.1** An Investment Grade Proposal provides the detailed design for the installation of the Heat Pumps, Solar PV and related infrastructure as well as detailed tendered costs enabling a full assessment of the business case. The costs include the initial capital cost of the installation as well as an estimate of repair and maintenance costs over the life of the equipment. The revenue impact of the change in heating and power is also modelled. This is critical in a site like a leisure centre which uses a lot of energy to heat and power the building and incurs very significant utility bills. With the plan to switch from a gas boiler system to Heat Pumps, there would be no need for gas but an increase in electricity usage. This is quite challenging financially as gas is currently cheaper than electricity so this change in energy supply could increase operating costs.
- 3.2** The principle behind the proposed installation was that it would be part grant funded but the Council would also need to meet some capital costs. The business case for this investment would be based on a reduction in operating costs with this 'saving' effectively repaying the capital investment and cost of borrowing. As part of the leisure contract the leisure provider; GLL are responsible for paying the utility costs and their consent must be gained for a change in heating system which may affect their costs or the operation of the leisure centre.
- 3.3** To enable the Council to receive any return on its investment, there would therefore need to be a contract variation enabling the Council to cover the cost risk associated with utility bills increasing as a direct result of the heating system change. Equally GLL would have to pay the Council any savings realised as a result of the changes.
- 3.4** In the early stages of the IGP it was clear that a simple switch from gas boilers to electricity powered heat pumps would result in an increase in revenue costs due to an increased demand for expensive electricity from the National Grid. The Council therefore considered how on-site electricity generation could be maximised through Solar Photovoltaic installations both on the roof top of the leisure centre and on car ports which could also be installed with Solar PV. Whilst this would increase the capital cost of works to the building it would reduce the reliance on electricity from the Grid and therefore reduce ongoing revenue costs.
- 3.5** The IGP was due to be provided to the Council on 8th November 2023, however Kier experienced internal issues which led to a delay in them tendering the works to sub-contractors and ultimately a delay in the priced IGP. As a result the Council did not receive the IGP until 20th December 2023. This placed significant pressure on the project programme.
- 3.6** The IGP indicated a far higher capital investment cost than had originally been projected by consultants. This was challenged and the principal reason given by Kier for the significant increase in costs was market forces. There are very few companies producing heat pumps and the related infrastructure and demand is extremely high. There are programmes including the national PSDS scheme and a drive from the public sector in the decarbonisation of Prisons, hospitals etc. and from Housing Associations to install heat pumps in social housing. Added to this there are broader construction market pressures and high rates of inflation which have pushed prices of all construction materials, plant and labour up. The scope of the project also

widened from the original proposals set out in the feasibility study with the addition of additional roof mounted Solar PV and carports and Solar PV.

- 3.7** Even withstanding the high cost of the decarbonisation scheme SSEN responded to the connection application in December 2023 stating that they could not provide the 1500 KVA upgrade that was required until 2030, so the proposed scheme was not viable anyway. Grant funding has to be spent by March 2025.

4. DEVELOPING AN ALTERNATIVE OPTION

- 4.1** Given the implementation of the original proposal was not viable due to a lack of grid capacity, alternatives were considered which would require no more than the 1000 KVA upgrade that was available locally.
- 4.2** The original proposal removed all gas from the site, however it is this shift to a total reliance on electricity that resulted in the high grid capacity needed. Whilst the Council planned to install Solar PV to maximise on-site electricity generation, SSEN require that the grid capacity matches site demand without consideration of the on-site generation. This is because that solar PV could theoretically fail or be removed and the grid therefore has to be capable of supplying power to the whole site.
- 4.3** The sports hall and soft play areas of the site are relatively new having been added as Phase 2 of the leisure centre in 2019/20. Those areas are heated using radiant panels. These are ceiling mounted gas heaters which have their own igniters. This means gas comes into the building and splits, with some gas piped to the boilers and some piped to these radiant panels. The boilers can therefore be removed whilst retaining the radiant panels which operate independently.
- 4.4** The retention of these panels still enables the buildings gas boilers to be decommissioned, which is compliant with the grant funding and the panels are relatively new and therefore have a long life left in them, so a proposal was developed on this basis. The panels can then be replaced at a later date when there is sufficient grid capacity to support this.
- 4.5** The revised IGP therefore includes the installation of air source heat pumps and solar PV to both the roof and to car ports but retains these radiant gas panels. This reduces the capital cost of the programme and the disruption to the leisure centre. Certain works will require partial closure of the centre and compensation would be payable to GLL for loss of income during closure periods.
- 4.6** Planning consent was successfully obtained for the scheme on 23 November 2023. The application number 23/02420/FUL can be viewed on the Councils website.
- 4.7** The Council received a response to its revised DNO application at the end of February 2024 confirming that it could receive the 1000 KVA upgrade. The cost of which is £71,443 plus VAT and eligible for grant funding. The Council must accept that offer by 30 April 2024 if it wishes to proceed. If the Council does not proceed with this connection there is a significant risk that other users in the locality request additional supply and it will not then be available to the Council next year when, subject to further PSDS funding, the Council can proceed. The Council consulted Salix to see if they would agree to the Council accepting the offer from the DNO to proceed with this connection, funded from the current grant allocation. Salix

agreed the offer could be accepted and funded by 31st March 2024 to use existing 2023/24 grant funds, despite the Council not taking a decision on whether to proceed until 17th April 2024.

5. GATEWAY DECISIONS

- 5.1** In order to proceed with the capital investment and commence works the Council needs an affordable scheme and agreement from GLL.
- 5.2** The Council have been keeping GLL informed throughout this IGP process. GLL have been very supportive and are fully engaged in the decarbonisation of leisure centres they manage for the Council, having carried out a number of smaller works themselves. The principle of a contract variation to enable the council to claim any savings generated as a result of its investment in decarbonisation has been discussed with GLL. However, due to the business case and affordability concerns, these discussions have not progressed.
- 5.3** The business case is set out in annex A. The high capital cost of £4.6M for the scheme means that the Council would have to fund in excess of £3.3M and would not fully recover its investment in the scheme through a reduction in utility costs. The modelled revenue reduction would be £142,000/year. However, the annual capital finance costs would be £271,803. This means the net loss to the Council from its capital investment and the cost of borrowing equates to £129,356 every year.
- 5.4** The Council therefore needs to consider whether this investment is affordable. If it is not, then the scheme would need to be paused and a new application for PSDS funding would need to be submitted in Autumn 2024 seeking a higher level of grant funding to reflect the actual scheme costs.
- 5.5** The Council has invested significant time and effort in progressing the scheme and is fully committed to its delivery. The costs incurred to-date total £290,000 as at end February 2024 and have been funded through the Salix grant scheme. If the Council does not progress within the current grant funded programme, the costs incurred to-date do not need to be repaid. However, it should be viewed that this initial investment would support the delivery of a decarbonisation project in the future rather than this being abortive investment.
- 5.6** Due to the initial time delays in the receipt of the IGP and the need to then work through a new option as the original proposal was unviable there is insufficient time to seek a Full Council decision, enter into contract with Kier for the 'Build' element and place orders for kit and equipment before the end of March 2024. This means the unspent grant funding for 2023/24 will be lost. This reduction in overall grant funding is included in the business case in Annex A.

6. ALTERNATIVE OPTIONS

- 6.1** The Council can either proceed with the scheme now, accepting the significant investment it will be required to make with only a partial return or it can pause the project and reapply for more funding.

6.2 Alternatively the Council could cease this project and consider smaller scale carbon saving measures such as PV only. This would not be eligible for PSDS grant funding but is likely to have a reasonable return on investment as a stand-alone item. However, the Council has already demonstrated its commitment to the broader decarbonisation and remains committed to a move away from gas.

7. CONCLUSIONS

7.1 The Council is firmly committed to the decarbonisation of its buildings and its currently focussed on a programme of decarbonisation of its leisure centres. Significant officer and member resources have been spent in developing and progressing this project, however, the business case shows the Councils investment would not be repaid in full. This means there would be a large ongoing subsidy required over the 25 year life of the scheme. With Councils under increasing financial pressure, this financial commitment is not affordable.

7.2 The Council does now have a designed and costed decarbonisation scheme. It is considered highly likely that the leisure provider GLL will agree to the proposals. Therefore, the only notable barrier is the cost of implementation. If additional grant funding can be secured which sufficiently reduces the Councils capital investment the scheme should be able to proceed. However, securing sufficient funding is not guaranteed and the Council will still need to consider ways in which costs can be reduced.

7.3 It is therefore recommended that the current PSDS 3b funded project pauses, and the Council reapplies for additional capital funding in the Autumn 2024 round of funding.

8. FINANCIAL IMPLICATIONS

8.1 The financial implications are a Gateway Decision and are therefore covered in Section 5 above. The business case set out in Annex A shows that with capital costs of £4.6M, the Council would have to fund more than £3.3M. The modelled revenue reduction is £142,000/year but with annual capital finance costs of £271,803, the net loss to the Council would be £129,356 every year over the 25 year life of this scheme.

9. The current PSDS grant scheme is capped at around £1.8M of grant funding. With industry wide cost pressures and inflation it is hoped this cap will be raised for the future scheme. Grant funding from other sources will also be explored to reduce the capital contribution the Council needs to make.

10. LEGAL IMPLICATIONS

10.1 The Council is in contract with GLL for the provision of leisure management and services. Any changes affecting that contract, such as a change in heating system must be agreed by GLL. Contractual changes would usually be set out and agreed formally via a contract variation.

10.2 The Council has ensured that it adheres to the terms of the Salix administered PSDS funding. Therefore, costs incurred to-date are grant eligible and do not need to be repaid.

11. RISK ASSESSMENT

- 11.1** The capital costs in the business case have been tendered however there remains a risk that costs increase as work progresses particularly if unforeseen works arise. There is some contingency costs built in to cover this.
- 11.2** The revenue savings resulting from the change in heating system and addition of Solar PV are modelled. This means they cannot be guaranteed and could be subject to significant change. It is very difficult to model now, how the energy markets may perform longer term. Ultimately, there will be a risk that the savings generated are lower than those modelled and therefore the cost to the Council is higher. Conversely, if gas prices rise, savings may be greater than currently modelled.
- 11.3** In pausing this project and reapplying for the next round of PSDS funding there is a risk that the funding bid is not successful. PSDS funding rounds are usually over subscribed and a new prioritisation mechanism is being introduced by Salix this year, replacing the first come first served basis with value for money criteria that are yet to be disclosed. It is not yet known how the new criteria will affect the likely success of the bid. However, it is hoped that the work that has been completed so far, the funding that has already been committed and the Councils continued determination to deliver this project will be viewed favourably.
- 11.4** There is a risk that even if a further bid for PSDS funding is successful, insufficient grant funding can be secured to render the scheme affordable. The PSDS grant funding is currently capped but it is not yet known what the funding limits will be for the Autumn 2024 funding round. Opportunities to reduce capital costs will also be explored considering the way in which work packages are tendered and seeking other grant funding opportunities.

12. EQUALITIES IMPACT

- 12.1** There are no equalities impacts resulting from this report.

13. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

- 13.1** The proposed decarbonisation scheme would save an estimated 61 tCO₂e/year, which is a reduction of 15%. This reduction will continue to increase as the electricity grid decarbonises. It would move away from a total reliance on gas to heat the building and limit gas consumption to the radiant panels in some spaces. The use of on-site solar PV electricity generation which would be stored in a battery and used on site further reduces the environmental impact of the leisure centre.
- 13.2** The decarbonisation of the leisure centre is on the carbon neutral pathway and therefore is critical in the Council achieving carbon neutrality by 2030, as stated in the Council's Carbon Action Plan 2024-2030.

14. BACKGROUND PAPERS

None

(END)