

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	23 March 2021
Title	Award Of Contract – Chief Exec Delegated Authority		
Report of	Director for Communities and The Environment		
Purpose of the Report			
To seek approval from Cabinet to provide the Chief Executive with delegated authority to award the contract for the solar scheme, air source heat pumps and building upgrades at Salt Ayre Leisure centre following the completion of a number of compliant procurement exercises.			
Key Decision (Y/N)	Y	Date of Notice	01/02/21
		Exempt (Y/N)	N

Report Summary

In Jan 2019, the Council declared a climate change emergency. The Council's priorities include the theme of 'Taking action to meet the challenges of the climate emergency'. Specific actions include-

- Net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal.
- Increasing the amount of sustainable energy produced in the district and decreasing the district's energy use.

In September 2020, the Department for Business, Energy and Industrial Strategy (BEIS) launched the Public Sector Decarbonisation Scheme (PSDS). The scheme offered £1bn of grant funding to support the public sector to decarbonise and to deliver stimulus to the energy efficiency and low carbon heat sectors, supporting jobs.

In November 2020, officers submitted an expression of interest for up to £6.8M under the PSDS to install air source heat pumps (ASHP) to Salt Ayre Leisure Centre, along with retrofit glazing improvements to improve the thermal efficiency of the building. The bid also included an optimized solar farm on the disused landfill site adjacent to provide electricity to the leisure centre via a direct wire.

A project has now been developed which when delivered will reduce the Council's direct CO2 emissions by a net amount of 12%, which will make a significant contribution to this Council priority and take Salt Ayre off gas completely.

Furthermore, the capital costs of this project will be paid for by BEIS, which means the provision made in the Council's capital programme will not be needed for this project.

The timescales of the grant funding are very tight. The tendering stage for the procurement of the solar scheme has commenced and it is expected that all other associated elements related to the air source heat pumps, glazing and lighting will begin before the end of March 2021. Due to the value, a Key Decision has been submitted for each package of work.

Due to timescales and conditions attached to the grant funding, this report seeks approval from cabinet to provide the Chief Executive with delegated authority to award the contracts when a decision is made.

Decisions are expected to be made between mid-April to mid-May 2021 following a Public Contract Regulations 2015 compliant tender processes.

Officers have worked with the council's procurement manager to ensure processes are in line with the council's procurement strategy and confirm to the Contract Procedure Rules

Recommendations of Councillor Frea

- (1) That Cabinet support the request to provide delegated authority to the Chief Executive to award the associated contracts when a decision is ready to be made.
- (2) That Cabinet notes the latest financial information surrounding the proposal and endorses its position to delegate acceptance of the grant to Director of Communities & Environment and Section 151 Officer.

Relationship to Policy Framework

The project links to the following priorities and cross-cutting themes:

1. An inclusive and prosperous local economy. A proportion of the overall evaluation will include an element of social value, in line with the procurement strategy and contract procedure rules.
2. Climate Emergency – Net zero 2030 ambition. SALC is the council's single largest CO2 emitter within its property portfolio. This project is expected to reduce CO2 from SALC by up to 58% and generate a net reduction of 12% for the council.

Conclusion of Impact Assessment(s), where applicable

Climate- As set out in report

Wellbeing & Social Value

Digital

Health & Safety

Equality

Community Safety

Details of Consultation

Officers have been working with the council's Procurement Manager in relation to the work and development of tender documentation. S151 Officer and Director have approved the use of an appropriate framework for procurement of the solar scheme.

Legal Implications

Legal have been consulted and have approved the contractual documentation concerning the funding. External specialist legal advice has been taken and suitable contracts for the Council's use in this procurement process have been produced. Legal will continue to be consulted for approval/ amendment of any contracts and further external legal advice can be taken if appropriate.

Financial Implications

As part of the due diligence checks relating to the acceptance of PSDS funding and project delivery, it has been highlighted that the annual running costs post implementation are of a significant value. A number of scenarios are still being worked on and will form part of the decision which is currently delegated to the Director of Communities & Environment and the Section 151 Officer.

As highlighted in the report, the general fund revenue budget includes a recurring income amount of £130K which as a result of work done since the budget was set by Council on 24th February 2021 to date will not be achievable and therefore place a significant additional burden on future years budgets and the structural deficit. It should be noted that this is due to grid constraints and not specific to the new project so will need removing from the revenue budget at the next available opportunity.

The latest financial appraisal has been estimated over a 10 year period and can be summarised as follows :-

GENERAL FUND REVENUE	Current 10 Year Cost £'000	Potential 10 Year Cost £'000	Difference £'000
SALC - Electricity	1,455	3,436	(1,981)
less : Solar Electricity Offset		(958)	958
SALC - Gas	753		753
MRP - Solar Farm	633		633
MRP - Boiler Replacement	108		108
MRP - SALC Asset Management Plan (part)	50		50
Annual Operational Costs		109	(109)
Business Rates		330	(330)
Contingency Allowance		102	(102)
Energy Savings	(1,405)		(1,405)
Solar Generation Income		(142)	142
BUDGETARY POSITION ¹	1,594	2,877	(1,283)
Reversal of Energy Savings above	1,405		1,405
BUDGETARY POSITION ²	2,999	2,877	122

¹ The first budgetary position includes income which is deemed unachievable as previously discussed and as such highlights an ominous financial position for the scheme.

² The second budgetary position includes the removal of this income amount and Members need to be mindful of this when scrutinizing the financial appraisal of this project. Once removed the ten year cost of the scheme reduces to a favourable saving of £122K.

As the above appraisal includes revenue savings attributable to minimum revenue provision (MRP), the amounts included in the general fund capital programme will need removing at the next available opportunity.

GENERAL FUND CAPITAL	21/22
Phase 1 1MW Solar Farm	1,350,000
SALC Boiler Replacement	300,000
SALC Asset Management Plan (part)	140,000
EXISTING CAPITAL BUDGETS	1,790,000

Procurement is being completed in line with the council’s procurement strategy.

As the project expenditure is covered wholly by external grant, the request to seek approval for the Chief Executive to have delegated authority to award the contract, subject to the accepted tender falling within the defined limits of the overall project cost.

Other Resource or Risk Implications

Project will be delivered in-house by the Business Improvement & Project Lead and Climate Change Project Manager. Support provided by finance and external consultants, including APSE Energy.

Section 151 Officer’s Comments

There are no issues or risks to inform Members of in relation to the recommendation to delegate the procurement decision to the CEX.

However, Members should note that current due diligence work has identified a significant problem surrounding the achievement of income via sales to the national grid plus potential internal energy savings included in the latest approved revenue budget. As highlighted in the report, this will need removing from future revenue projections contributing to further financial pressure to the structural deficit. Officers are working on several scenarios to reduce this impact and this forms part of the due diligence checks prior to the commencement of the scheme.

Following the removal of this amount, the revised scheme returns both financial and CO2 savings over the lifetime of the project.

Monitoring Officer’s Comments

Pursuant to Section 3 of the Council’s Contract Procedure Rules approval of tenders with a value of over £200k can be delegated to the Chief Executive

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Links to Background Papers

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1.0 Introduction

- 1.1 In Jan 2019 the declared a climate change emergency. The Council's priorities include the theme of 'Taking action to meet the challenges of the climate emergency'. Specific actions include-
- Net zero carbon by 2030 while supporting other individuals, businesses and organisations across the district to reach the same goal.
 - Increasing the amount of sustainable energy produced in the district and decreasing the district's energy use.
- 1.2 The Council's CO2 emissions from its direct activities (scope 1 and 2) are split between 48% from gas (heating), 29% from road diesel and 23% from electricity.
- 1.3 Salt Ayre Leisure Centre (SALC) produces 30% of the council's overall CO2 emissions and is the highest single emitter across the council's property portfolio. 75% of the emissions produced from SALC are generated from gas (heating) which presents a particular challenge. Currently the leisure centre produces 642 tonnes of CO2 p/a from gas boilers.
- 1.4 Work had already been taking place to develop a project that will provide solar energy to SALC. This project is included in the Council's capital programme.
- 1.5 In July 2020, officers commissioned a heating and thermal efficiency review of SALC which was completed in September 2020. The focus of the work was to consider how to reduce gas consumption through building fabric upgrades and review alternative/decarbonised heating solutions.
- 1.6 Whilst providing for a significant reduction in our net CO2 emissions the capital cost of the alternative heating solutions is much higher than traditional gas fuelled boilers.
- 1.7 In November 2020, officers submitted a £6.8M bid under the Public Sector Decarbonisation Scheme to install air source heat pumps (ASHP) at SALC as recommended by the earlier report, along with retrofit glazing upgrades to improve the thermal efficiency of the building. The bid also included a 3MW solar farm with battery on the adjacent disused landfill site to provide electricity to the leisure centre via a direct wire. Such a scheme would generate significant CO2 reductions.
- 1.8 The proposed ASHP system uses electricity rather than gas. An optimum solar array to supply the leisure centre and ASHPs would be around 3 megawatts (MW). This would allow the council to sell excess energy in the summer months to offset the cost of electricity drawn from the grid over winter, when the solar isn't producing as much electricity.
- 1.9 Due to grid constraints at Heysham, the grid provider (Electricity North West Limited) has informed officers that it will only permit installations of up to 999KVA (0.99MW) (at the inverters) and will limit the export back into the grid to 500KVA (0.5MW).
- 1.10 Due to grid restrictions and limited export, the preferred scheme was resized. This means that, with the addition of the ASHPs, approximately one third of Salt Ayre's total electricity requirements would be met by the solar array (or 70% of the ASHPs).

The rest will be drawn from the grid, predominantly during the winter months. Despite the solar array being smaller, the scheme will be futureproofed to facilitate an extension of up to the original 3MW once the grid has been upgraded. It is expected that this will be done by 2026.

- 1.11 The main driver for the project is to allow the Council to meet the challenge of the 2030 net zero target. The net reduction in scope 1 and 2 carbon emissions of this one project is estimated to be 12%, which represents a significant step towards that target.
- 1.12 On 9th February 2021 Cabinet provided delegated authority to S151 Officer and a Director to accept the funding, should an offer be forthcoming, subject to all necessary due diligence. A formal offer was made to the council on 11th February 2021. Because of the need to scale down the solar array, the capital amount required will be less. Officers will be resubmitting figures to Salix for the revised scheme, which is expected to be up to £6.1M.
- 1.13 Due diligence continues to be carried out on the project. The budgetary implications of the project are based on a comparison of its impact compared to previously stated departmental budget forecasts. The financial implications are set out in the report. Further work is taking place to integrate the overall costs and benefits of the scheme into Council reporting.
- 1.14 The project delivers substantial CO2 savings which, at this stage, have not had a benefits value assigned beyond their direct impact on energy costs. It is widely recognised that decarbonising heat is one of the most significant challenges in achieving carbon neutrality in the UK context, and this project makes a significant contribution to both shifting away from the direct use of fossil fuels (gas) and generating local, renewable energy.
- 1.15 Procurement of the solar farm has commenced and it is expected that all other associated elements related to the air source heat pumps, glazing and lighting will begin before the end of March 2021. Due to the value, a Key Decision has been submitted for each package of work.
- 1.16 Conditions attached to the funding require the project to be delivered by the end of September 2021. Officers need to work at pace and in an agile manner to deliver the scheme within the required timeframe.

1 Proposal Details

- 1.16 That Cabinet support the request to provide delegated authority to the Chief Executive to award the contracts following completion of a compliant procurement process.

6.0 Options and Options Analysis (including risk assessment)

Option 1: Provide Delegated Authority to CEX
Advantages:

- Enables officers to continue working at pace and deliver the project within the required timeframes in line with the PSDS funding set out by the department for Business, Energy and Industrial Strategy (BEIS)

Disadvantages:

None

Risks:

None – Procurement in line with the council’s procurement strategy.

Option 2: Reject Delegated Authority Request

Advantages:

- None.

Disadvantages:

- Decision to award contract will require a cabinet decision. Cabinet has meetings scheduled on 13th April and 8th June 2021. The meetings do not align with the programme of work needed to achieve a delivery deadline of September 2021. This puts the overall scheme at some risk.

Risks: As above

4. Officer Preferred Option (and comments)

Option 1: Award of Contract – Delegated Decision to Chief Executive

That Cabinet support the request to provide delegated authority to the Chief Executive to award the associated contracts when a decision is ready to be made in order to support and enable officers to meet the required delivery deadline.