

## Lancaster City Council | Report Cover Sheet

<b>Meeting</b>	Cabinet	<b>Date</b>	7 <sup>th</sup> June 2022		
<b>Title</b>	Heat Decarbonisation Programme: Baseline Capital Funding				
<b>Report of</b>	Chief Executive				
<b>Purpose of the Report</b>					
<p>To seek approval for £300k capital growth in the 22/23 – 25/26 capital programme to cover essential gas boiler replacements at The Storey, Palatine Hall and Williamson Park and refer to the matter to full council for approval and to make the necessary budget adjustments.</p> <p>Capital contributions will be needed to support future Public Sector Decarbonisation Scheme (PSDS) funding opportunities, should applications be successful.</p>					
<b>Key Decision (Y/N)</b>	<b>Y</b>	<b>Date of Notice</b>	<b>03/05/22</b>	<b>Exempt (Y/N)</b>	<b>N</b>

### 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 2019/20 the council's natural gas emissions (heating) accounted for 59.6% of direct (Scope 1) emissions. The remainder of which came from the vehicle fleet.

Since then, the council has approved a comprehensive fleet electrification programme and with £6.8M Public Sector Decarbonisation Scheme (PSDS) funding delivered a project to decarbonise Salt Ayre Leisure Centre, reducing natural gas emissions by as much as 35%.

The decarbonisation of heating systems remains one of the key challenges in reaching net zero by 2030. Significant funding from central government is being channelled in this direction.

The council has been fortunate to receive funds from PSDS, Low Carbon Skills Fund (LCSF) and the BEIS Heat Network Delivery Unit (HNDU) to deliver, explore and create a strategy for heat decarbonisation. The council's Building Energy Decarbonisation Plan (BEDP) was completed in March 2022.

Officers expect further PSDS schemes to be announced over the coming months and intend to apply for funding to deliver two sites (Palatine & The Storey) in 22/23, should the opportunity arise.

The BEDP suggests the boilers at Williamson Park should be replaced in 25/26 however should the opportunity of external funding arrive and plans to redevelop the buildings on site reach an advanced stage, this could be brought forward by 12 – 24 months.

Since the initial £1b of funding through 'Phase 1 PSDS' was made available to local authorities there have been two more rounds of funding – PSDS 2 & PSDS 3. The funding criteria in each has changed.

For all new PSDS opportunities Local Authorities now have to make a funding contribution, equivalent to the replacement gas boiler costs. Only sites with boilers reaching end of life are eligible and it is expected that LA's will have capital funding available to contribute. This is expected to come from existing budgets.

The expected costs for replacement gas boilers has been included in the council's Building Energy Decarbonisation Plan and equates to £295,665 over the next four years (Excl. £43,290 for HRA).

In order to support the council's priorities around the climate emergency and take advantage of imminent funding opportunities, officers seek to establish a £300k capital budget to cover boiler replacements between 22/23 – 25/26. Should PSDS funding be successful, the capital funding would be used as contributions.

Across the three sites, up to £3.5M of decarbonisation measures have been identified, much of which has the potential to be funded from future Public Sector Decarbonisation Schemes, should future applications be successful.

It is expected that the full range of decarbonisation measures listed in the report would reduce energy consumption and generate modest revenue savings. See 'financial implications' for further details.

**N.B.** Total funding available and technologies will depend on new grant criteria.

### **Recommendations of Councillor Kevin Frea**

- (1) That Cabinet refer the capital growth requested to Council for approval in order to ensure the buildings remain fit for purpose and deliver on the projects listed within the Building Heat Decarbonisation Plan, should funding become available.

### **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.

### **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**

The Climate Emergency Projects team have been working in collaboration with Property Services on the development and completion of the council's Building Energy Decarbonisation Plan.

### **Legal Implications**

Legal Services have been consulted and have no comment to make at this stage. Legal Services will be able to assist in respect of any contracts or legal agreements relating to any funding in respect of these projects in the future

### **Financial Implications**

The table below illustrates the suggested years for boiler replacement over the next four years, taken from the council's Building Energy Decarbonisation Plan

Site	Boiler Replacement Year	Boiler Costs (£)	Potential PSDS Funds (£)	Annual Revenue Savings (£)
Palatine Hall	22/23	92,400	940,750	8,931.73
The Storey	22/23	131,193	1,726,573	26.52
Williamson Park	25/26	72,072	864,085	17.25
	<b>Total</b>	<b>295,665</b>	<b>3,531,409</b>	<b>8,975.50</b>

The table highlights the potential funding available from PSDS (subject to criteria) for each site and the annual revenue savings anticipated from the decarbonisation measures. This uses the assumed energy prices from April 2022. Pricing TBC at the time of writing the report but assumes 50% increase for electricity & 62% gas.

Based on the lifespan of commercial gas boilers, the capex required to replace with conventional boilers would create an additional MRP strain of £11,200 in 22/23, rising to £14,800 by 25/26.

Should the capital funding act as a contribution towards PSDS funding and the full range of measures be delivered, the revenue strain would reduce to £5,800 due to energy efficiency measures which are anticipated to be worth £9k p/a.

### **Other Resource or Risk Implications**

All decarbonisation projects will be delivered by the Climate Emergency team in collaboration with the operational teams, property services and external consultants where appropriate.

### **Section 151 Officer's Comments**

This project currently sits outside of the Council's approved Capital Programme and Treasury Management Strategy and so will require approval by Council in order to bring it within the Budget & Policy Framework. If approved by Council, Cabinet would then be responsible for approving any external funding bid that is above the Key Decision threshold.

Should any bid not be successful any further requests for funding would be subject to the normal capital budget cycle.

### **Monitoring Officer's Comments**

The Monitoring Officer has been consulted. The Constitution allows for In-Year Budget Changes. Full Council is responsible for approving any proposed budget change that falls outside of the Budget and Policy Framework, normally on referral from Cabinet.

<b>Contact Officer</b>	Elliott Grimshaw
<b>Tel</b>	01524 582833
<b>Email</b>	egrimshaw@lancaster.gov.uk

### **Links to Background Papers**

SharePoint link to: [Building Energy Heat Decarbonisation Plan](#)

## **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) are split between gas (heating) and road diesel. In 19/20 natural gas accounted for 59.6%

1.3 In February 2021, the council received £6.8M of PSDS funding to decarbonise Salt Ayre Leisure Centre, reducing natural gas emissions by 35%. The project was completed in March 2022.

1.4 In March 2022, using £114,750 from LCSF, officers completed a Building Energy Decarbonisation Plan (BEDP) for the council's corporate estate.

The plan, which was completed by specialist consultants Buro Happold, outlined all the viable options for decarbonisation and provided a fully costed roadmap to 2030, primarily built around when the current gas boilers are due for replacement.

1.5 The Decarbonisation Plan outlines the capital cost to reach net zero across the corporate estate by 2030 to be in the region of £15m and over the next four years up to £3.5m would be needed across three general fund sites.

## **2.0 Proposal Details**

- 2.1 Officers expect further PSDS schemes to be announced over the coming months and intend to apply for funding to deliver two sites (Palatine & The Storey) in 22/23, should the opportunity arise.
- 2.2 Since the initial £1b of funding through 'Phase 1 PSDS' was made available to local authorities there have been two more rounds of funding. The funding criteria in each has changed.
- For all new PSDS opportunities Local Authorities now have to make a funding contribution, equivalent to the replacement gas boiler costs. Only sites with boilers reaching end of life are considered eligible and it is expected that LA's will have capital funding available to contribute (boiler replacement budgets).
- 2.3 The expected costs for replacement gas boilers has been estimated in the BEDP and equates to £295,665 over the next four years (Excl. £43,290 for HRA). Details can be found on p12 of the report.
- 2.4 In order to support the council's decarbonisation agenda and take advantage of imminent funding opportunities, officers are seeking to establish a £300k capital budget to cover boiler replacements due in the 22/23 – 25/26 capital programme.
- 2.5 As the capital growth sits outside the budget and policy framework, if approved, cabinet will need to refer to full council in order to approve and make the necessary budget adjustments.
- 2.6 Should PSDS funding be successful, capital funds would be used as funding contributions.
- 2.7 Should the full range of energy improvements be delivered as part of the scheme it is expected that this would reduce energy costs across all three sites by up to £9,000 p/a over conventional gas boiler replacements.

### 3.0 Options and Options Analysis (including risk assessment)

<b>Option 1: Approve Proposal for Capital Growth</b>
<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Enables officers to apply for new PSDS funding in line with the known criteria from phases 2 &amp; 3 and deliver on the council's Building Energy Decarbonisation Plan.</li> <li>• Gas boilers at all three sites are reaching end of life. Replacement is required irrespective of the decarbonisation plans. The capital funds for boiler replacements are needed to keep the buildings operational.</li> </ul>
<p><b>Disadvantages:</b></p> <p>None</p>

**Risks:**

- Further due diligence on capital costs in light of market volatility
- PSDS criteria for next round of funding is unknown at this stage, although unlikely to differ from those in phases 2 & 3.
- Supply chains

**Option 2: Reject Proposal****Advantages:**

- None.

**Disadvantages:**

- Does not support the climate emergency ambition.
- The council will not be eligible for PSDS funding without making a capital contribution
- Gas boilers are reaching end of life at three of the council's key buildings. Should action not be taken this could pose operational and financial risks.

**Risks:** As above**4. Officer Preferred Option (and comments)****Option 1: Approve Proposal**

That Cabinet support the proposal for capital growth and refer to the matter to full council for approval and to make the necessary budget adjustments. This will provide officers with an opportunity to submit funding applications to decarbonise the sites in line with the approved Heat Decarbonisation Plans, should funding opportunities arise.