

Heat Decarbonisation: Baseline Capital Funding 22nd June 2022

Report of Cabinet

PURPOSE OF REPORT

To seek £300k capital growth in the 22/23 – 25/26 capital programme for sites where gas boilers are reaching end of life. Sites include, Palatine Hall, The Storey & Williamson Park.

Decarbonised heating solutions have been identified. Capital funding will be required to support future Public Sector Decarbonisation Scheme (PSDS) funding opportunities, should applications be successful.

RECOMMENDATIONS

- (1) That Council approve £300,000 capital growth and make the necessary adjustments to the Capital Programme to ensure the buildings remain fit for purpose and support the council's decarbonisation pathway.**
- (2) The Council's Capital Financing Requirement (CFR), Authorised Limit and operational boundary for external debt be increased by £300,000.**

1.0 Introduction

- 1.1 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%
- 1.2 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.
- 1.3 In March 2022, using £114,750 from Low Carbon Skills Fund, officers completed a Building Energy Decarbonisation Plan for the council's corporate estate.
- 1.4 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 (see background papers).
- 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: Palatine Hall, The Storey & Williamson Park.

1.6 Cabinet 7th June 2022 **Resolved unanimously** That Cabinet refers the capital growth requested to Council for approval to ensure the buildings remain fit for purpose and deliver on the projects listed within the Building Heat Decarbonisation Plan, should funding become available.

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 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 heat decarbonisation plan and equates to £295,665 over the next four years (Excl. £43,290 for HRA).

2.4 In order to support the council's decarbonisation agenda and take advantage of imminent funding opportunities, officers wish to establish a £300k capital budget to cover boiler replacements due in the 22/23 – 25/26 capital programme

2.5 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 £115,000 p/a over conventional gas boiler replacements.

3.0 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.

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Approve	Option 2: Reject
Advantages	<p>Eligible to apply for up to £3.5M of new PSDS funding and deliver on the council's BEDP</p> <p>Gas boilers at all three sites are reaching end of life. Replacement is required irrespective of the decarbonisation plans.</p> <p>If the full range of measures listed in the BEDP are implemented the council should expect to see a substantial reduction in operating costs</p>	None
Disadvantages		<p>Does not support the climate emergency ambitions.</p> <p>The council will not be eligible for PSDS funding without making a capital contribution</p>

	None	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 Revenue savings will not be realised.
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 & 3a Supply chains	As above

5.0 Officer Preferred Option (and comments)

5.1 Approve: Capital funding is now required for all future PSDS funding opportunities. Boiler replacements are necessary at these sites irrespective of the climate emergency. The capital growth request represents the boiler replacement costs.

Given the rising energy costs and savings that can be derived from decarbonisation, it makes financial sense to support the approach outlined in this report and provide the council with an opportunity to bid for up to £3.5M when the opportunities arise.

6.0 Conclusion

6.1 As above

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):

As set out in the report

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

Total funding available and technologies will depend on new grant criteria but, should the PSDS funding be secured, enabling a full range of measures to be delivered, it is estimated that revenue savings of up to £115k per annum before capital financing costs could be achieved as set out in the table below.

	Boiler Replacement Year	Capital Required (£)	Costs (£)		
			Projected Gas Costs p/a	Est. Post Project Elec Costs p/a	Savings
Palatine Hall	21/22	92,400	£42,761.20	£22,298.08	£20,463.12
Williamson Park	25/26	72,072	£84,463.11	£42,384.16	£42,078.95
The Storey	21/22	131,193	£62,038.73	£9,196.23	£52,842.50
	Total	295,665	£189,263.04	£73,878.47	115,384.57

The capital expenditure will create an additional MRP strain on the council's revenue budget of £11,200 in 22/23, rising to £14,800 by 25/26. The interest cost of borrowing an additional £300k based on a 50-year PWLB maturity loan at 3.35% would be £10,050 per annum.

If the full range of measures can be delivered the net revenue saving is estimated to be £90,550 per annum.

OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces

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

BACKGROUND PAPERS

- Building Energy Decarbonisation Plan. SharePoint Link: [Lancaster CC BEDP P05 \(No Appendices\).pdf](#)
- Cabinet Report 07/06/22

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