

TITLE OF REPORT: Public Sector Decarbonisation Scheme – Grant 1

REPORT OF: Peter Udall, Strategic Director, Economy, Innovation and Growth

Purpose of the report

1. To seek approval to accept a £7.27m grant from the Public Sector Decarbonisation Scheme
2. To seek approval to procure suppliers to install the heat and power connections required.

Background

3. The Council declared a Climate Emergency in May 2019 and has committed to making Council operations Zero Carbon by 2030. The Council has been reducing carbon emissions since 2010 and has reduced the carbon emissions of Council operations by 55% in the past decade.
4. On 30 Sept 2020, the government released details of the Public Sector Decarbonisation Scheme (PSDS), a £1bn fund to help public buildings reduce carbon emissions.
5. The Council submitted a bid for £7.27m to Round 1 of the PSDS on 12th October 2020, which has been approved, and a grant offer has been received for the Council to consider accepting.
6. The Council is in the process of preparing further bids to fund works in other Council buildings and schools, which will be brought forward if successful.

Proposal

7. A £7.27m grant offer has been received from the PSDS grant scheme, to fund Project 1, which includes the following projects to reduce the Council's carbon emissions:
 - i. Connecting 4 Council buildings to the Gateshead District Energy Heat network;
 - ii. Connecting 2 Council buildings to the private wire network of the same network;
 - iii. Construction of a 2MW solar farm on Baltic Quarter, and a 1MW solar farm on vacant land adjacent to Gateshead Stadium; and
 - iv. Installation of a 225kW carpark canopy solar PV system, in Gateshead Civic Centre car park
8. The funding will provide 97% of the total scheme cost of £7.5m, with the remaining £0.23m provided from existing budget in the capital programme,

allocated for solar PV programmes.

9. The key criteria of the funding award are as follows:
 - i. Funding must be spent on decarbonising public buildings, where the Council is the bill payer;
 - ii. Schemes cannot be for commercial gain, beyond the savings arising from reduced energy consumption; and
 - iii. Funding needs to be spent by 30 Sept 2021.

10. To deliver these major works in this very short timeframe, the Council proposes to procure contractors as follows:
 - i. For heat and power network connections, the Council continues to explore routes to procure these works in line with Public Contract Regulations, and to meet the timescales of grant conditions; and
 - ii. For solar PV systems, the Council will issue tenders via the Dynamic Purchasing System, to select a contractor. Cabinet has already approved this procurement route in October 2020, as part of the Solar PV Programme that was considered and approved.

11. In terms of outputs, the project will
 - i. Deliver savings of £250k/yr to Council energy costs;
 - ii. Reduce carbon emissions by 630 tonnes CO₂ per year; and
 - iii. Provide surplus renewable power to GEC, conditional on GEC using that to reduce power generation from fossil fuels, and increase renewable heat output from the minewater heat pump.

12. In addition, a second project is outlined to connect 5 schools to heat networks and install on site efficiency measures. A £2.5m bid was submitted in early November to Round 3 of the PSDS and the outcome will be known by end November. To aid delivery timescales, delegated approval is requested for that grant, should it be successful.

Recommendations

13. Cabinet is recommended to:
 - i. Accept the £7.27m grant from the Public Sector Decarbonisation Scheme.
 - ii. To delegate to the Strategic Director, Economy, Innovation and Growth, in consultation with the Strategic Director, Corporate Services and Governance (or his delegate), the approval of the compliant procurement route for the heat and power connections.
 - iii. To delegate to the Strategic Director, Economy, Innovation and Growth, in consultation with the Strategic Director, Corporate Services and Governance (or his delegate), the approval to accept a potential £2.5m grant for works and heat connections to 5 schools under Round 3 of PSDS as set out in paragraph 12 above.
 - iv. To receive further reports on other bids to the Public Sector Decarbonisation Scheme as they develop.

14. For the following reasons:
 - i. To support the Thrive Agenda, as outlined in Appendix 1.
 - ii. To support the Council's Climate Emergency, and targets of net zero emissions by 2030

- iii. To continue to generate income and savings for the Council to support Council finances

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Policy Context

1. On a local level, the scheme will directly deliver many objectives within the Thrive agenda, as follows
 - a. *Invest in our economy.* Investing in major energy infrastructure, which increases external grant spend in Gateshead, to then increase local generation and sale of energy, which can be reinvested in Gateshead.
 - b. *Opportunities for employment, innovation and growth.* To further support business case and attractiveness of new development in Gateshead Urban Core with a low carbon energy offer.
2. In addition, the scheme will contribute to other key priority areas for the Council, as follows:
 - i. Climate Emergency – the proposals seek to reduce the carbon emissions of the Gateshead District Energy Scheme, supporting the Council's ambition to work toward net zero emissions by 2030; and
 - ii. Air quality – the proposals seek to reduce reliance of Gateshead Energy Centre's combustion of natural gas, which will reduce emissions of air pollutants in Gateshead town centre.

Background

3. On 30 Sept 2020, the government released details of the Public Sector Decarbonisation Scheme (PSDS), a £1bn fund to help public buildings reduce carbon emissions.
4. Key features of the fund are as follows:
 - a. Offers up to 100% grant funding for works in public buildings and schools;
 - b. Focus primarily is on funding low carbon heating systems, e.g. heat pumps or heat network connections;
 - c. If low carbon heating systems are delivered, the project can also fund other energy efficiency works and renewable energy;
 - d. Project ideally will be completed by 31 March 2021, and no later than 30 September 2021;
 - e. Grant payments will be made in instalments, to follow project spend profiles, with monies available ca. 5 days prior to the Council needing to pay contractors;
 - f. Final grant payment made on production of completion certificate;
 - g. Any monies unspent would need to be returned to SALIX. Overspends cannot be claimed for;
 - h. Guidance suggests should delivery dates exceed the final Sept 2021 deadline, the managing body can be approached to seek extension;
 - i. Procurement of contractors must still be compliant with Public Contract Regulations;
 - j. 5 rounds of funding are planned, from 12 October to 11 Jan 2021 – decisions will be made within 2-3 weeks;
 - k. There is no minimum or maximum grant request;
 - l. A £20m skills fund is included, to fund feasibility work into heat decarbonisation; and

- m. Fund is administered by SALIX finance. The Council has operated a SALIX invest to save scheme for 10 years, and is one of the top 5 performing funds in the UK.
5. Reflecting on the fund criteria, and works that are possible to be delivered before Sept 2021, the Council is proposing the following strategy to maximise bidding to this fund:
- a. Phase 1 – prepare 2 bids for buildings that can connect to a heat network now, e.g. adjacent to existing heat networks.
 - i. Bid 1 – connections to the Gateshead District Energy Scheme, supported by solar PV installations
 - ii. Bid 2 – connecting 5 schools to the Gateshead District Energy Scheme and the Council-owned Leisure Centre heat network.
 - b. Phase 2 – assess planned capital investment in schools and Council buildings, through strategic maintenance and capital programme. This will identify potential sites that could still benefit, but requires further work and assessment
6. Whilst the grant offers up to 100% funding, and primarily where we can install a low carbon heating system first, we still need to consider the impact on site operating costs.
- a. Heat network connections will either match or reduce existing heating costs, and so do not present a problem.
 - b. However, for sites not near a heat network, the main option is to switch from gas boilers to a heat pump. However, this has the potential to increase annual heating costs by 25 – 30%. To ensure any heat pumps installation do not increase operating costs, they would need to be accompanied by energy efficiency works or on-site generations (e.g. solar PV).
7. Planning for Phase 2 schemes will include an assessment of any net change to operating costs, to ensure site energy costs do not increase.

Phase 1, bid 1 - Gateshead District Energy Network – Council building connections

8. Previously, the Council proposed extending the town centre heat network to Gateshead Stadium, and had secured HNIP funding to do so. Recently, due to viability issues, and uncertainty around the future of Council sites on that route (e.g. Park Rd and Shearlegs Rd depot), these works have been proposed to be removed from that scheme.
9. The prospect of securing 100% funding for heat network connections, would de-risk these works and allow them to proceed. Whilst the future of those sites is still under review:
- a. Long term energy supply agreements will not be needed to ensure investment is recovered – sites can connect with short term contracts only;
 - b. Should sites such as Park Rd / Shearlegs Rd be altered or disposed, the network infrastructure would exist to supply future developments;
 - c. Uncertainty around future of Gateshead Stadium / Academy of Sport was less, and network can now benefit those sites;

- d. It allows us to consider a short 0.3km extension, to allow connection to two nearby schools (St Wilfrids, Bede Primary) in a second bid; and
- e. It brings the heat network into Council Housing estates (e.g. Old Fold), which will make extension into those areas more viable in future.

10. By funding heat network connection, this opens up the possibility to access funding for the solar PV installations being proposed at or near those sites as well. Also, the prospect of bidding for 100% funding towards solar PV installation is better than other funding sources that have been explored to date.

11. As a result, the following is proposed:

| Works to install | Sites covered | Cost |
|---------------------------|---|---------------|
| Heat network connection | Park Rd, Shearlegs Rd, Gateshead Stadium, Academy of Sport, | £4.0m |
| Solar PV systems | Baltic Quarter solar farm (2MW), Stadium solar farm (1MW), Civic Centre car port (0.23MW) | £2.98m |
| Private Wire Connections | Gateshead Stadium, Academy of Sport, | £0.53m |
| Total Capital cost | | £7.51m |
| Grant Request | 100% of all items, except Civic Centre car port at 50%, due to project exceeding criteria cost limits | £7.27m |
| Balance to fund | 50% of Civic Centre car port | £0.24m |

12. The balance to fund from the capital programme can be met from the existing £3.15m allocated to solar PV programme.

Delivery

13. In terms of procurement, both the works to connect the sites to the energy network, and the ongoing heat and power supply contracts need to be compliant with the Public Contract Regulations. In addition, they need to support delivery of the scheme by Sept 2021.

14. Due to the short time to develop proposals, these options are still under review, and are requested to be delegated to Strategic Directors for final approval. Two options are being considered for the energy network extensions:

- a. If it can be demonstrated that Gateshead Energy Company is the sole supplier of the energy supply and connection works, the Council may be able to contract with GEC directly via a negotiated tender. GEC would issue energy supply agreements, with connection charges, which on agreement, would allow GEC to construct the connections to these sites. However, this approach has risks, both from challenge to the

procurement, and grant clawback if audited and not found to be compliant; and

- b. Alternatively, the Council could run an accelerated procurement, using its Dynamic Purchasing System. This greatly reduces any procurement risk, but could potentially take 3-6 months longer, leading the Council to default on the grant conditions (we note 50% of the grant is paid on completion).

15. For Solar PV installations, here the Council will continue to procure the solar PV farms, through an OJEU compliant process, that has already been proposed in the solar programme Cabinet report.

Outputs

16. The heat connections will provide low carbon heat to the 4 buildings. Its expected that due to the connections being fully funded, the Council can agree significant discount on heat supply cost from GEC.

17. Regarding the solar PV generation, the PSDS rules state that works should not be delivered for commercial gain, beyond that to offset the cost of energy at the sites proposed. As the Council has 11 buildings connected to the private wire network, the funders will allow the solar electricity exported from the solar farms to offset power consumption at those sites. 90% of solar power generated can be consumed by these Council buildings, providing a saving of £250k/yr to Council energy costs.

18. In addition, GEC will benefit from receiving 10% of the exported power. The Council will provide this at nil cost, so as not to gain commercially, conditional on GEC using the power to reduce gas generation of CHP plant, and to increase use of renewable heat pumps.

Phase 1, bid 2 - School heat network connections

19. With Project 1 above proceeding, the main heat network is close enough to two further schools – St Wilfrids and Bede Primary – to make connections cost effective with grant funding.

20. In addition, the Council owns and operates the 1.5km heat network from Gateshead Civic Centre to the cluster of buildings around Gateshead Leisure Centre. Expansion opportunities exist to take the network through residential areas to a number of primary schools:

- a. South Street Primary School
- b. Caedmon Primary School
- c. St Josephs Primary School

21. As well as providing heat to those sites, this will place infrastructure closer to both social and private housing areas, which will allow the Council to consider other grant funding schemes to provide heat network connections to those areas. This will support and prove an emerging Zero Carbon Heat strategy for homes, by demonstrating viability and practicality of heat network connection to low-rise housing, both private and social.

22. In addition to heat network connection, a budget will then be allowed for to fund energy efficiency and solar PV installations on those 5 primary school sites.

| Works to install | Sites covered | Cost estimate |
|------------------------------|--|------------------------------------|
| Heat network connection | St Josephs, Caedmon Primary, South Street Primary, Bede Primary, St Wilfrids | £1.3m |
| Energy efficiency works | As above, where required, assume £40k budget per site | £1.0m (estimate of £0.2m per site) |
| Solar PV systems | Assume 30kW to each site | £0.2m |
| Total capital cost and grant | Assume request for 100% grant | £2.5m |

Delivery

23. In terms of procurement the following is proposed.

- a. **Main heat network connections.** The route would follow the preferred option arising from Project 1 for the connections to Bede Primary and St Wilfrids.
- b. **Leisure Centre Heat network connections.** The Council as network operator, will need to procure the works. Its proposed that the Council reviews the Dynamic Purchasing Systems for potential suppliers, and invites additional supplier to join, if required. The DPS can then be used to procure:
 - i. Heat network design / construction
 - ii. Customer heating plant installation / commissioning (typical Mechanical / electrical contractor)
- c. **Solar PV installations.** Here the Council will continue to procure the solar PV farms, through an OJEU compliant process, that has already been proposed in the solar programme report, e.g. use of Framework or the EDF energy contract
- d. **Energy Efficiency works.** These elements will be delivered as the current SALIX programme is delivered, through internal Minor Works process, using external contractors where resource dictates, procured through the Council's Dynamic Purchasing System (DPS).

Outputs

24. For these schemes, the schools will be supplied with low carbon heat at a significant discount to market rates, to reduce heating costs at the school. In addition, the onsite improvements in energy efficiency and solar PV will further reduce school energy costs

Next steps

25. Subject to grant acceptance of Project 1, the Council will commence the preferred procurement route for energy network extensions and continue the procurement of the solar PV systems.
26. Subject to successful outcome of Project 2, details will be communicated to Environment and Transport portfolio.
27. The Council is also developing a £200k bid for 100% grant to fund feasibility studies from the related Low Carbon Skills Fund, to survey and assess all Council buildings and schools for options to transition to zero carbon heating systems

Consultation

28. Cabinet members for Environment & Transport and Ward Members have been consulted

Alternative Options

29. The other options considered, and discounted, are as follows

- Do nothing. Under this option, the grant funding opportunities would be lost, and the Council will not proceed to secure the benefits listed.

Implications of Recommended Option

30. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms that the grant can cover 97% of capital costs, and that the Capital Programme has £3.15m allocated to support solar PV installations, which can support the £0.23m match funding required.
- b) **Human Resources Implications** – projects to be managed by existing Council staff.
- c) **Property Implications** – as described, council land and buildings will benefit from the infrastructure installed. Should sites be disposed of in future, the infrastructure would support energy supply to those sites under different ownership or use

31. **Risk Management Implications** – As with many major infrastructure schemes there are a number of significant key risks as follows:

- b. Procurement – as outline above, both procurement approaches have risks, either of challenge to the process, or not achieving works in the timescales required.
- c. Cost overrun – grants will fund 97% of costs, and these include contingencies for overrun. In the event that costs exceed the budget, the savings generated would justify additional match from the Council on invest to save basis.

- d. Planning – in particular the urban solar farm, and car park canopies will require planning approval. The solar farm has some key constraints to address, including ground conditions and ecology
- e. Site / building longevity – see reference to the Asset Review above
- f. Programme delays - these could see works continue past Sept 2021. At present, grant guidance doesn't stipulate clawback, but that the funder can be contacted to explain any delays, to seek extension to completion dates

32. Equality and Diversity Implications – none.

33. Crime and Disorder Implications - the installations, in particular low level PV systems, may increase the risk of vandalism and theft of equipment / power cables. Sites will be “secure by design” and include security systems / surveillance where appropriate to reduce these risks.

34. Climate Emergency and Sustainability Implications – the scheme directly supports the Council and GEC in achieving its objectives from the Climate Emergency, to move Council operations towards becoming Zero Carbon by 2030.

35. Human Rights Implications - There are no human rights implications

36. Ward Implications - The proposals are located in Bridges and Felling Ward

Background Information. None