

TITLE OF REPORT: Construction contracts for swimming pool energy projects

**REPORT OF: Anneliese Hutchinson – Interim Strategic Director Economy,
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Purpose of the Report

1. To request approval to award construction contracts up to a value of £3.736m to Equans Regenerations Ltd to complete installations of heat pumps and solar PV systems at Dunston and Blaydon leisure centres.

Background

2. The Council has committed to reducing its carbon emissions to net zero by 2030.
3. The Council had been successful in grant funding applications made to Sport England (£0.356m) and the Public Sector Decarbonisation Scheme Round3c (£4.164m) to support the installation of low carbon technology at various swimming pool sites in Gateshead.
4. Cabinet has previously agreed to the following, to progress decarbonisation projects at Dunston Leisure Centre, and Blaydon Leisure and Primary Care Centre.
 - a. Enter design stage contracts, up to £0.475m
 - b. Instruct further works / materials orders up to £1.300m
5. Progress has reduced risks further and confirmed costs of construction, to the point where it's proposed to enter construction contracts, to complete the works.

Proposal

6. It is proposed that the projects proceed to construction stage, noting the risks reduced to date, and outstanding risks still, as referenced in Appendix 1.
7. Construction contracts will be awarded to Equans Regeneration Ltd for the remaining works required, under the NEPO Retrofit and Decarbonisation Framework, at a value up to £3.736m (which includes £0.914m of equipment already ordered to date).

Recommendations

8. It is recommended that:

- (i) Cabinet note the progress to date, and the remaining risks and reasons, in taking this project forward to construction at this time
- (ii) Cabinet approve the award of construction contracts up to a value of £3.736m to Equans Regeneration Limited for heat pump and solar PV installations at Dunston Leisure Centre and Blaydon Leisure and Primary Care Centre

For the following reason(s):

- (i) To improve energy efficiency and reduce carbon emissions of the swimming pools in question
- (ii) To support the future viability of swimming pools in Gateshead
- (iii) To support the Council's Climate Emergency Action Plan to achieve net zero emissions by 2030

Policy Context

1. The proposals here continue to contribute to the delivery of many targets within the Corporate Plan, Thrive and the Council's Climate Emergency Action Plan. specifically:
 - Supporting the ongoing viability of leisure centres, under their new management arrangements, to ensure communities continue to receive health and activity benefits
 - The heat pumps will ensure these leisure centres – some of the Councils largest gas consumers – are on a path to have zero carbon emissions

Background / Progress update

2. In early 2024, the Council was successful in bidding for
 - a. £4.164m Public Sector Decarbonisation Scheme grant for a £4.75m scheme to install heat pumps at Dunston, Blaydon and Birtley Swimming Pools.
 - b. £0.356m Sport England grant (100% funding) towards Solar PV and LED Lighting for Dunston Leisure Centre
3. The new Birtley Aquatics group were not able to accept their element of the PSDS grant funding.
4. On 16 April 2024, Cabinet agreed to accept the grant funding and commence scheme design stage for Dunston and Blaydon sites, committing up to £0.475m and approving the appointment of Equans Ltd to progress design stages.
5. In September 2024, cabinet agreed to progress a further £1.300m of works and advance orders, to continue developing the project, in line with grant spending deadlines.
6. Progress since Sept 2024 has been as follows, for each site.
7. *Dunston Leisure Centre* – PSDS grants (heat pumps) and Solar PV / LED (Sport England)
 - a. LED lighting replacements (ca. £102k) were instructed to Construction Services, and will be complete by end December 2024
 - b. Solar PV - designs and costings for ground mounted solar PV array are complete – the target of 170kW has been achieved, at an installation cost of an estimated £0.293m

- c. Air source heat pumps designs completed, to provide 586kW of heat output
- d. Full scheme costs (RIBA Stage 4) received for contracting.
- e. Planning application for all items submitted and due for approval by mid Feb 2025
- f. Heat pump equipment order placed, at a cost of £0.395m, to maintain programme (as per Sept 2024 cabinet decision)
- g. Start on site required 1 Feb 2025, to maintain spend programme.

8. *Blaydon Leisure and Primary Care Centre* – PSDS grants (heat pumps)

- a. Heat pump designs completed, for a hybrid system of
 - i. 550kW minewater heat pump
 - ii. 260kW Air Source Heat Pump
 - iii. Extra 29kW of solar PV on plant room roof
 - iv. This design should see 85 – 90% of all heat supplied from minewater, supported by air source heat pumps
- b. LED lighting scheme (£109k) designed and instruction through Construction Services – to complete by end Jan 2025.
- c. 60m minewater borehole successfully drilled, finding minewater with the required flow rate and temperature. Chemistry of minewater has higher iron content than expected, but this should reduce through pumping, and project can mitigate this further, using a natural reedbed to lower levels, prior to discharge to Shibdon Pond (subject to approvals still). is adequate.
- d. With successful drilling results, heat pump equipment orders were placed at a cost of £0.52m, to maintain programme (as per Sept 2024 cabinet decision).
- e. Planning applications for air source heat pumps were submitted early December, for likely approval end Feb 2025. Minewater heat pump applications are less time critical, and will be submitted Jan 2025.
- f. Full consultation with NHS Primary Care centre who give in principle agreement to project, and will contribute ca. £0.041m to the match funding requirements.
- g. Permits and licences required from the Environment Agency and Mine Remediation Authority (the new name for the Coal Authority) and in

process, first for more pumping tests in Spring 2025, following by operating permits from Summer 2025.

- h. Stage 3 costs received, with Stage 4 costs forecast based on Dunston. Start on site required no later than 1 March 2025, to maintain spend programme.

9. It's also noted that Cabinet recently approved the award of contracts to a new leisure centre operator, from April 2025, which removes a large risk around having a viable future operator. The new operator has full knowledge of the above works in progress, and how responsibility will work when completed.

Financials update

10. The current cost plan, and funding plan, assumes the following with grants

- a. Sport England Grant – will fund works completed before 31 March 2025, which includes Dunston LED, and solar PV design, fees, equipment orders, plus any works completed before the deadline
- b. Installation costs of solar PV to be funded from 2025/26 balance of PSDS grant
- c. This has been confirmed as acceptable by Sport England.
- d. Scope changes to PSDS grants have now been submitted (minewater, Blaydon LEDs, addition of solar PV) is subject to formal change request, however funder is aware of our planned scope changes. Approval is expected end Jan 2025.

11. The current cost and funding plan for the PSDS funded project is as follows.

<u>Item</u>	<u>Dunston</u>	<u>Blaydon</u>	<u>Total</u>
LEDs	£102,214	£108,793	£211,007
Equans contracts			
Design Stage	£239,281	£433,714	£672,995
Construction Stage			
LOI	£395,000	£518,914	£913,914
Remaining contract value	£1,368,294	£1,281,128	£2,649,422
Contingencies	£35,388	£137,628	£173,016
Equans construction value	£1,798,682	£1,937,670	£3,736,352
Fees / substations			£369,952
Grand Total	£2,140,176	£2,480,178	£4,990,306
Funding			Totals
Sport England			£271,960
PSDS grant			£4,152,145
NHS contribution			£41,031

Council match			£525,171
Total			£4,990,306

12. The scheme capital costs have increased since those reported in April 2024, which also changes the revenue impact. The additional cost increases have been mitigated in several ways:

- a. Spare grant funding has covered 88% of capital cost increases, using the headroom in PSDS grant
- b. Council match funding requirements has increased from £0.395m to £0.525m, however increased energy measures have increased revenue savings to offset some of the increase.

13. The updated revenue impact is as follows. Revenue savings have reduced by ca. £0.01m per annum (comparing current vs. April 2024 position). Under current tariffs, the scheme would cost £0.018m more to operate per annum, but including the impact of rebalanced tariffs (which remain a government policy, specifically to support uptake of heat pump technologies), the scheme could make savings of £0.03m per annum. A midway position of the two would indicate no impact on revenue costs.

Summary - original	Business as usual (stop CHP plant)	PSDS3c scheme - Apr2024	PSDS scheme - Dec24
Capital investment, £	£0	£395,460	£525,171
Finance cost (10yrs)		£57,342	£75,625
<i>Current tariffs</i>			
Operating cost change, £/yr	£14,674	-£35,215	-£43,384
Net Cost, £/yr	£14,674	£22,127	£32,766
<i>Rebalanced tariffs</i>			
Operating cost change, £/yr	-£430	-£99,162	-£107,594
Net Cost, £/yr	-£430	-£41,820	-£31,444
Carbon savings, tonnes/yr	-62	-749	-720

14. These revenue impacts should be considered in the context of the significant carbon reductions to be achieved – these sites represent the two largest remaining gas users across the whole Council property portfolio, and through this project, the Council is able to fully decarbonise both site these two sites, with almost no revenue cost impact.

Proposal

15. The project has removed many of the key risks prior to entering construction contracts
- a. Minewater successfully located at Blaydon
 - b. NHS in principle agreement to the scheme
 - c. New leisure operator appointed.
 - d. Designs completed, and costings finalised, with headroom for contingencies remaining
 - e. Planning applications developed, to target start on site in line with grant deadlines
 - f. Contract terms on target for agreement, not to delay construction contracts.
16. Considering the balance of remaining risks (outlined below), it's recommended the project proceed to construction stage, noting the risk items below.
17. For construction, the Council is proposing to award contracts to Equans Regeneration Ltd for the remaining works required, under the NEPO Retrofit and Decarbonisation Framework, which is compliant under the Framework and Public Contract Regulations (2015).
18. The value of the construction contract required is broken down as follows:
- a. Letters of intent issued to date - £0.914m
 - b. Remaining contract value (including contingencies) - £2.822m
 - c. Total Contract Value - £3.736m
19. The contract award will be staged, to first instruct Dunston, followed by variations to include Blaydon, to manage the varying start on site dates required. Works will commence February 2025, and aim to complete by Autumn 2025.

Alternative Options

- 27. To delay entering construction contracts until all risks are closed out:**
While this is the lowest risk option technically, it would not allow grant drawdown deadlines to be met and would mean the scheme had to be aborted now, with risk of clawback on all grant monies spent to date.

Consultation

28. The Culture, Sport and Leisure Portfolio, as well as Environment and Transport portfolio has been consulted on these proposals and supported recommendation to Cabinet.

Implications of Recommended Option

29. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms that the Capital Programme can make provision for the increased capital contribution (£0.525m) and that costs are largely recoverable from scheme revenue savings.
- b) **Human Resources Implications** – the construction scheme will be managed by Energy and Design Service, and its outputs will support the ongoing viability of leisure centres to protect those sites and personnel.
- c) **Property Implications** - The scheme will provide low carbon heating systems for the 2 largest gas consuming sites in the Council portfolio of buildings, supporting their ongoing viability and handover to the new operators for these sites from April 2025.

30. Risk Management Implication – There remain some risks in committing to construction now, as follows:

- **Grant deadlines:** remains the greatest risk, as delays can lead to grant drawdowns not being met. Decision to construct now mitigates this risk, but any further delay could still impact scheme
- **Planning permissions.** Planning applications are submitted, and approvals within statutory timescales will achieve the start on site dates, but any delays to this process could impact programme
- **Cost increases.** Project retains a 2.5% (Dunston) and 7.5% (Blaydon) contingency going into construction
- **Discharge permits.** Permits to discharge minewater into Shibdon Pond will not be agreed until Summer 2025, but we are proceeding based on the knowledge / consultation to date from our advisers (Coal Authority) and regulators (Environment Agency)
- **Change requests.** The revised scope remain in line with funding criteria, but its only now we can submit formal change requests. Funder is aware, and approval likely, but this will take to end Jan 2025

31. Equality and Diversity Implications – None

32. Crime and Disorder Implications – None

33. **Health Implications** - supporting the viability of leisure centres, to continue providing health benefits to the communities and residents
34. **Climate Emergency and Sustainability Implications** - The project will reduce Council gas consumption and emissions by 10% from these 2 sites, which are the largest gas users across all Council buildings
35. **Human Rights Implications** - None
36. **Ward Implications** - the schemes are in Blaydon and Dunston / Teams Wards.

Background Information

37. None