

Report to Cabinet

19 June 2024

Subject:	Public Sector Decarbonisation Scheme, Phase 3c
Cabinet Member:	Cabinet Member for Regeneration and Infrastructure - Councillor Peter Hughes
Director:	Executive Director for Place Alan Lunt
Key Decision:	Yes: an executive decision that is likely to result in the Council incurring expenditure, the making of savings or the generation of income amounting to £1million or more.
Contact Officer:	Assistant Director Borough Economy Contracts, Projects, Strategy & Policy, Ben Percival Ben_percival@sandwell.gov.uk Principal Lead Energy & Climate Change, Phil Kingston Phil_kingston@sandwell.gov.uk

1 Recommendations

- 1.1 That retrospective approval be given to accept the grant offer from Salix for the amount of £3,055,000 for the installation of air source heat pumps at Tipton Leisure Centre and Tipton Sports Academy;
- 1.2 That approval be given for the Council to provide match funding for the grant, to the total of £449,280 sourced through prudential borrowing, as profiled in the medium term financial plan;
- 1.3 That delegated approval be given to the Executive Director for Place, to appoint Leisure Energy via a direct award through the UK Leisure framework to design and install the heat pump project;



- 1.4 That delegated approval be given to the Executive Director for Place in consultation with the Executive Director of Finance and Transformation to determine whether the project continues to represent value for money once the design phase is concluded. If the value for money has substantially deteriorated, a further report will be brought to Cabinet.

2 Reasons for Recommendations

- 2.1 The Public Sector Decarbonisation Scheme (PSDS) provides funding for heat decarbonisation and energy efficiency projects to reduce carbon emissions from public sector buildings. The chief aim of the scheme is the upgrading of fossil fuel heating systems to low carbon alternatives, which can be cost-prohibitive as technologies such as heat pumps can have a much higher upfront cost than equivalent gas boilers.
- 2.2 An application to the PSDS Phase 3c was made on the 7th of November 2023 for a grant of £3,055,000. The grant requires a Council match funding contribution of 13% of total project costs, which amounts to £449,280 to give a total project cost of £3,504,280. The grant will fund the installation of heat pumps and associated works at two sites:
- Tipton Leisure Centre, and
 - Tipton Sports Academy.





These sites were selected following an energy audit of leisure centres in Sandwell and were identified as the most in need of works due to the age of their respective existing heating systems.

- 2.3 The value of the match funding is equivalent to the value of replacing the existing gas boilers with like for like systems at the end of their life.
- 2.4 SIU approval for the grant has been given and prudential borrowing for the match funding has been factored into the Mid Term Financial Plan but, due to the tight timescales involved and local elections, it was not possible to get Cabinet approval ahead of the application submission. The Authority has now been successful with its application and is seeking Cabinet approval to accept the award.



- 2.5 Salix grants operate on a fixed timescale and all works must be completed by the 31st of March 2026. A review of suitable frameworks has been undertaken and the most suitable framework is UK Leisure. This compliant framework allows for direct award and will allow the most expedient route to market.
- 2.6 Installation of heat pumps at both sites would lead to estimated carbon saving of 470 tonnes of CO₂ per year, or 3.9% of our corporate emissions¹. This will support meeting commitments in the Climate Change Strategy to become a carbon neutral organisation by 2030 and also in response to the declaration of a Climate Change Emergency.

3 How does this deliver objectives of the Corporate Plan?

	<p>The Best Start in Life for Children and Young People A sustainable leisure estate is essential to provide opportunities for children and young people to adopt healthy, active lifestyles.</p>
	<p>People Live Well and Age Well Leisure centres are essential resources for residents to live healthy, longer lives. Increased physical fitness results in lower incidences of ill-health and disease. Furthermore, the replacement of fossil fuel based heating systems will also contribute to Net Zero targets, reducing the potential health impacts of climate change and poor air quality that disproportionately affect the most vulnerable.</p>
	<p>Strong Resilient Communities Leisure centres are often a centre of communities, attracting people from all walks of life. The continued sustainability of these assets is essential in preserving them for future generations.</p>
	<p>A Strong and Inclusive Economy Large scale sustainability projects are essential to stimulate the local economy and to upskill staff and residents as the UK shifts towards low carbon technologies.</p>

¹ Based on 2022 emissions data and excluding schools



4 Context and Key Issues

- 4.1 PSDS Phase 3c is administered by Salix, a non-departmental public body administering funds on behalf of the Department for Energy Security and Net Zero.
- 4.2 The Council has been successful in previous rounds of PSDS funding to the value of £1.63m. Projects have included the installation of solar PV systems at eight sites, new heating systems in schools and the heat pumps at Sandwell Council House.
- 4.3 Leisure centres have been severely impacted by the sharp rises in energy costs in recent years. UKActive, (the not-for-profit body comprised of members and partners from across the UK active lifestyle sector), has indicated that 40% of authorities are considering facility closures and restrictions as a result of increased energy costs.
- 4.4 Energy assessments of Sandwell leisure facilities were commissioned from Leisure Energy at the end of 2022 and informed the recommendations in this report. The two sites chosen were the only ones both eligible for the PSDS grant and cost effective. The full report is provided in Appendix 1.
- 4.5 The value of the PSDS grant totals £3.055m, comprising:
- Tipton Leisure Centre £1,980,000
 - Tipton Sports Academy £1,524,280

The grant conditions stipulate that the recipient must contribute a minimum 12% match funding of the total project costs, or the equivalent like for like costs of replacing the existing fossil fuel heating system, whichever is greater. For this project, this totals £449,280 (12.8%), resulting in a total project cost of £3,504,280.

- 4.6 Repayment of £449,280 using prudential borrowing would be £44,137/yr over 15 years or £36,943/yr over 20 years. The estimated annual savings from the heat pumps is £65,000 so the scheme would provide a net saving.
- 4.7 All works must be completed by the 31st of March 2026, beyond which the Council will no longer be able to draw down funding. The grant will



provide £1,496,429 in year 1 and £1,558,571 in year 2. The grant cannot be carried between funding years.

- 4.8 Initial work to provide detailed design will be 100% funded by the PSDS grant. If the final design shows installation or running costs impact the prudential borrowing such that it no longer presented value for the Council, the projects could be halted without any clawback of the grant spent on design.
- 4.9 Heat pumps are powered by electricity and work by taking low grade heat from the air outside a building and converting it into useful heat at higher temperatures, which is then used to meet the buildings demands for space and water heating. The proposed scheme will use heat pumps with a coefficient of performance of around 4, meaning 1kWh of electrical energy provides the same heat as 4kWh from a gas boiler and this improved efficiency leads to significant carbon savings.
- 4.10 The principal financial benefit to the Council is actually cost-avoidance in terms of lifecycle replacements. Under the lease with Sandwell Leisure Trust (SLT), the Council as landlord retains responsibility for the repair and replacement of large items of plant and machinery. These projects will replace infrastructure – specifically gas boilers – that are approaching the end of their economic life with brand new electric heating systems. An assessment of the lifecycle costs / liabilities for the leisure estate is underway however at this stage it is not possible to assess the lifecycle saving from the PSDS proposal. Furthermore, the Property Maintenance Account (PMA) is not structured to show per-service funding, as such it is not possible to identify cash-able savings.
- 4.11 As this requirement is of a specialised nature and due to the project timescales involved, it was decided to examine existing framework providers to ascertain the which would offer the most expedient procurement route. In addition, frameworks offer a fully EU compliant route to market with the additional benefit that all contractors have undergone a stringent selection process. Price, quality, health & safety, financial stability and social value factors have already been evaluated which significantly reduces both time and risk factors on a project of this size.
- 4.12 Working in conjunction with Procurement Services, two suitable frameworks were identified – UK Leisure and Everything FM. Both



frameworks were evaluated to evaluate delivery model in terms of contractor rates, call-off process and access fees. Following evaluation, it was determined that the UK Leisure framework was the best route to market. The Everything FM is due to expire in August and there is no certainty in may be renewed in its current format. The UK Leisure framework runs until 2026 and offers a managed service through their delivery partner Alliance Leisure.

- 4.13 Alliance Leisure, through the UK Leisure Framework are currently working with the Council on the Haden Hill Leisure centre refurbishment project. As this is a framework that the Council has previously approved for a major capital project it is felt that there is a greater level of assurance in respect of project support during the period of this commission.
- 4.14 Leisure Energy are a leading provider of heat pumps in UK Leisure Centres and are currently installing similar systems in Darlaston Leisure Centre, Walsall; Dronfield Leisure Centre in Derbyshire and Biddulph Leisure Centre in Staffordshire Moorlands.

5 Alternative Options

- 5.1 The Council may choose to decline the PSDS grant offer and continue to utilise fossil fuel heating systems at Tipton Leisure Centre and Tipton Sports Academy. Further phases of PSDS funding have been announced, but the grant terms are not yet clear, and may require a larger percentage of Council match funding in future funding opportunities.

6 Implications

Resources:	A loan from PWLB would be serviced via the estimated £65k revenue savings from the heat pumps over either a 20 year period (£37k a year) or 15 years (£44k a year) period Project management and grant compliance will be provided using existing staff resource.
Legal and Governance:	Following approval, all contracts will be awarded in accordance with the council’s Procurement and Contract Procedure Rules and the Public Contracts Regulations.



Risk:	<p>A risk register has been compiled prior to SIU assessment and will be reviewed and updated on a regular basis should grant funding be accepted. UDDBS are experienced at delivering this type of projects and arrangements are in place to effectively manage and mitigate the risks identified. Major risks are identified below:</p> <ul style="list-style-type: none"> – Project costs and running costs may vary from the cost estimates provided for the purposes of the bid as the designs are further developed. – The spending profile changes from the one given in the application
Equality:	None
Health and Wellbeing:	A sustainable leisure centre estate is fundamental to providing opportunities for children, young people and adults to adopt healthy and active lifestyles. Reducing carbon emissions to limit the negative health related impacts of climate change.
Social Value:	Upskilling of the local workforce from the installation and maintenance of the heat pumps systems.
Climate Change:	<p>This project will substantially reduce carbon emissions from the Council's leisure estate and in particular some of the older, less-efficient facilities and help support delivery against the councils 2030 net zero commitments.</p> <p>Removal of gas fired boilers at the site will lead to significant carbon savings of 470 tonnes per year and will have a sizeable impact on our reported corporate emissions.</p>
Corporate Parenting:	N/A

7. Appendices

1. Leisure Energy Report
2. SIU report

8. Background Papers

None

