

From: Susan Carey, Cabinet Member for Environment
Stephanie Holt-Castle, Director, Growth and Communities

To: Environment and Transport Cabinet Committee – 29 June 2021

Decision No: N/A

Subject: Public Sector Decarbonisation Scheme – Section 31 Award

Classification: Unrestricted

Past Pathway of Paper: n/a

Future Pathway of Paper: n/a

Electoral Division: County-wide

Summary: This paper seeks to provide an update on the agreement with the Department of Business, Energy, and Industrial Strategy (BEIS) for a Section 31 grant of £20.6m to deliver a number of energy projects within the KCC estate and a further £1.2m for school site energy projects that was accepted in March 2021 and which will help KCC meet its target of achieving net-zero carbon emissions by 2030.

Recommendation(s):

The Cabinet Committee is asked to note the progress update including the current programme activity and associated risks, as outlined in section 6, of the Public Sector Decarbonisation Scheme Grant.

1. Introduction

1.1 In response to emerging evidence, the UK government revised the Climate Change Act 2008 in 2019. This introduced into law the UK target of net-zero carbon emissions by 2050. This Act requires local authorities to act to reduce emissions both from their own operations and their geographical area. In May 2019, KCC recognised the climate emergency, and in July 2020, Kent County Council set an accelerated target of net-zero emissions by 2030 for its corporate estate and traded companies.

1.2 Under the framework of the Kent Environment Strategy (KES) and the Energy and Low Emissions Strategy (ELES), the Sustainable Business and Communities Team has been leading KCC's response to achieving the net-zero target. There is a KCC Environment Board overseeing this work, chaired by the Corporate Director for Growth, Environment and Transport, and attended by senior officers across all four directorates.

1.3 In Autumn 2020, the Department of Business, Energy, and Industrial Strategy and Salix* announced £1bn of grant funding which aligned with the Department of Business, Energy, and Industrial Strategy's new mission and priorities

including tackling climate change. KCC applied for £20.6m of projects for its own estate, plus a further £1.2m for schools-based projects.

* (Salix are a non-departmental body owned wholly by the Government who provide funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills)

- 1.4 On 16 February 2021, KCC was informed by Salix that both funding applications were approved subject to KCC agreeing to the Grant conditions by 1 March 2021.
- 1.5 On 1st March 2021 a Key Decision (decision number 21/00034) was taken by Susan Carey – Cabinet Member for Environment to accept the Section 31 Grant of £20.6m for KCC energy projects and £1.2m for school sites energy projects as this could not reasonably be delayed until the next meeting of the Environment and Transport Cabinet Committee. Approval to accept the funds under a Section 151 agreement was issued by Zena Cooke, KCC's Corporate Director for Finance and Section 151 Officer.
- 1.6 On 18th March 2021, the Environment and Transport Cabinet Committee resolved that the decision to accept the Section 31 Grant be noted and the full Grant funds were subsequently received.

2. Financial Implications

- 2.1 Modelling by Laser Energy (a department of KCC's Commercial Services) estimates that investment in the region of £27m will be needed to enable KCC to meet the net-zero target for its own estate by 2030. The Grant awarded is for up to £20.6m and therefore represents a significant funding contribution to help meet this target. It is forecast that the projects will produce a substantial surplus to KCC over the next 30 years and modelling is underway to establish the forecast surplus considering maintenance and running costs. The projects will significantly reduce KCC's carbon footprint on its own estate and will also mitigate cost avoidance should the Government impose penalties for non-compliance with carbon reduction activity. Any surplus income generated from the projects will be complemented by the annual £1m contribution to the Climate Change Fund reserve which is being used to fund smaller initiatives both of which will help to deliver the accelerated Net Zero 2030 ambition
- 2.2 The key constraints of this funding at the time of the grant award were:
 - Projects should be completed, and funding spent by September 2021.
 - Funding was awarded within the Grant for specific energy projects as per the technical assessment that was provided prior to the grant award and were based on both carbon reduction figures and costs.
- 2.3 At the point that the grant award was accepted none of the projects under consideration had been included in the capital programme due to the timing and speed of the bid process and grant award. Individual projects needed to be developed and proposed to be added to the capital programme. Normally new or additional projects that are 100% grant funded (some of the Public Sector Decarbonisation Scheme projects are not 100% grant funded) are included for approval on to the KCC capital programme that is approved at County Council in February each year.

2.4 Due to the tight timescale for acceptance of the Public Sector Decarbonisation Scheme, individual decisions to proceed with projects and inclusion in the capital programme was agreed in accordance with the Scheme of Delegation and Financial Regulations. These decisions have identified financial implications and risks where projects may not be completed in accordance with the September 2021 deadline and other grant conditions.

2.5 With programme and internal constraints identified, the programme team have sought flexibilities from Salix to enable project delivery to be achieved and to mitigate the key constraints outlined in 2.2. Flexibility in timescales, project allocation and budget have been confirmed in principle, pending the establishment of a formal project change process through Salix. Flexibilities will be applied for and agreed on a case-by-case basis. The current programme also highlights the risk in some projects not being taken forward and decarbonisation funding refunded back to the Department of Business, Energy, and Industrial Strategy and this is confirmed in more detail in section 5.

3. Policy Framework

3.1 The environment is one of the five main Challenges set out in the Interim Strategic Plan that KCC is facing over the next 18 months. Tackling the climate emergency is identified as an urgent priority.

3.2 In response to the UK Climate Emergency, KCC has committed to reducing carbon emissions to net-zero from its own estate and traded companies (excluding schools) by 2030.

3.3 The projects which will be supported by the grant will help deliver against this challenge and underline KCC's leadership role in tackling climate change.

4. Funding Allocation Details

4.1 KCC has received Section 31 funding of £20.6m for energy projects within the KCC estate plus a further £1.2m for school site energy projects from BEIS Public Decarbonisation Scheme which is being administered by Salix.

4.3 Cumulatively, it is anticipated that the projects will reduce carbon emissions from KCC's estate by 40%, some 7,097 tonnes of CO₂ (based on the current LASER Energy figure of 17,660 tonnes to September 2020), and enable delivery towards its net-zero carbon emissions target.

4.4 Alongside delivery of the net-zero target, the proposed projects will reduce KCC's energy costs by £225,948 and provide an income to KCC from two solar parks; stimulate the low carbon economy in Kent and create jobs as well as set up key development infrastructure to meet future energy challenges such as security of supply.

4.5 Each project will have its own governance including where applicable specific key decisions to take projects forward to be taken by the Cabinet Member for Environment. The Major Energy Projects Board will have formal oversight of the grant's application across all projects.

4.6 BEIS have confirmed the project level funding that has been allocated and this has been organised into 11 workstreams by the programme team as shown in Table 1 below:

Table 1: Workstream, Project Detail and Associated Funding Allocations for the BEIS Public Sector Decarbonisation Section 31 Grants

Workstream	Workstream Value	Project	Project Value
1: West End Solar Park (Thanet)	£14million	Construction of a 22MW solar farm	£14million
2: Kings Hill Solar Park	£2.58million	Construction of a 3MW solar farm	£2.58million
3: Connection to the Maidstone District Heat Network	£1.3million	Connection of Invicta House, Sessions House and the Kent History and Library Centre	£800k
		Installation of an additional water source heat pump	£500k
4: Digital Autopsy Building	£157.5k	Installation of an air source heat pump to the DA building	£120k
		Installation of solar PV to the DA building	£37.5k
5: Turner Contemporary	£104.5k	LED lighting (Phase 1)	£104.5k
6: Paddock Wood Community Centre	£97.5k	Installation of an air source heat pump	£65.5k
		Installation of solar PV	£30.7k
7: Oakwood House	£1.49million	Ground source heat pump	£235.5k
		Energy upgrade works	£35k
		Building management system	£202.5k
		Hot water distribution improvements	£125k
		Pipe insulation	£78k
		Purchase of ventilation fans	£135k
		Ventilation distribution system	£333k
		Electricity supply upgrade	£250k
LED lighting	£96k		
8: LED Lighting in KCC buildings	£89k	Brook House (Whitstable)	£43.5k
		Ashford Highways Depot (Phase 1)	£45.5k
9: Installation of Heat Pumps on KCC buildings	£415.5k	Air source heat pump at Ashford Highways Depot	£260k
		Ground source heat pump at the Swattenden Outdoor Centre (Tunbridge Wells)	£155k
10: Installation of Solar PV on 5 KCC buildings	£407.5k	Brook House (Whitstable), Ashford MASH, Swanley Link, The Sunrise Centre (Tunbridge Wells) and Kent Scientific Services	£407.5k
11. Schools Programme	£1.2million	Cobham Primary ground source heat pump	£105k
		Southborough Primary oil to gas heating	£169.5k
		Palace Wood Primary (Maidstone) oil to gas heating	£140k
		Wickhambreaux Primary double glazing	£50k
		The Archbishops School (Canterbury) double glazing	£250k
		St Anthony's School (Margate) double glazing	£250k
		West Kingsdown Primary insulation and double glazing	£75k
		Kemsing Primary insulation and double glazing	£35k
		Herne Bay High solar PV	£125k
Briar Primary (Herne Bay) solar PV	£18k		

5. Risks

- 5.1 The timescale for delivery of projects is still ambitious. Even with flexibility to extend funding deadlines past the original September 2021 deadline the funding has to be spent by 31st March 2022 and some of the larger or more complex projects are on very tight timelines in order for this to be met and there is very little slack if events, such as significant winter weather, impact on construction.
- 5.2 The market for specialist equipment, such as solar panels and specialist contractors to install the technology, has been saturated nationally by local authorities all with Salix funding to spend within the same timescales and this may potentially cause costs to rise or there to be long lead times for materials or equipment that may impact on the timelines for delivery. If there are significant cost increases as a result of this there is no additional Salix funding available in addition to the already approved grant award and it will therefore fall to KCC to fund any difference.
- 5.3 There are currently no approved contractors on the KCC framework that can deliver ground source heat pump construction and procurement frameworks are required to enable speedy contract awards. Project teams are working with colleagues in strategic commissioning, legal and finance to overcome these issues and whilst confident that frameworks will be developed this has added to the delivery timescale risk on some projects. Collaborative support of the issues created by the short delivery timescales on this grant award is required from all parties to ensure they are delivered at pace.
- 5.4 The main Maidstone Heat Network project currently has a significant funding gap. Whilst the Public Sector Decarbonisation funded elements are deliverable within the grant conditions the dependency on the scheme as a whole being delivered is obvious and if the main scheme stalls it may not be possible to retain the £1.3m funding currently allocated to this project.
- 5.5 A suite of potential underspend projects with varying lead times is being developed so that identified underspend can be utilised with additional projects being brought online, subject to the relevant approval from Salix. However, these underspend projects are impacted by the same lead time and procurement issues as those in the main scheme and therefore the ability to deliver largescale or complex underspend projects within the funding deadline still remains a risk. If underspend is realised too late to enable additional projects to be brought online and delivered within the timescales, then the underspend may have to be returned to the Department of Business, Energy, and Industrial Strategy.
- 5.6 Governance oversight of projects will be undertaken by the Major Energy Projects Board; however, this meets every two months and decisions may be required with shorter timescales to allow the projects to deliver at pace. This risk has been mitigated by utilising the KCC Capital Officers Group as a regular monitoring and oversight function in addition to the main Project Board.

6. Equality and data protection implications

6.1 EqlAs and DPIAs will be undertaken for the projects that have been identified against the grant award and updated as required throughout.

7. Legal Implications

7.1 Legal Agreements for specific individual projects will be needed and will be subject to the review and agreement as part of the project management governance arrangements. Legal work has been actioned for projects with known legal implications.

8. Conclusion

8.1 KCC has received Section 31 funding of £20.6m for energy projects within the KCC estate plus a further £1.2m for school site energy projects from BEIS Public Decarbonisation Scheme. This funding will provide a significant investment in tackling climate change and reducing carbon emissions across KCC's estate as well as providing additional benefits to the economy by creating new jobs and infrastructure.

8.2 The project and programme teams are working at pace to ensure these schemes are delivered within the grant conditions specified and have negotiated agreement in principle for some flexibilities to be applied to support this.

8.3 Formal change requests are still to be processed that will provide absolute clarity on the delivery conditions that must be met by each project and will enable the programme team to provide a comprehensive delivery timeline.

9. Recommendation(s)

The Cabinet Committee is asked to note the progress update including the current programme activity and associated risks, as outlined in section 6, of the Public Sector Decarbonisation Scheme Grant.

10. Contact details

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