

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: LEISURE INVESTMENTS AND DECARBONISATION PROJECT

REPORT OF: THE SERVICE DIRECTOR - PLACE

EXECUTIVE MEMBER: ENVIRONMENT & LEISURE: CLLR MICK DEBENHAM

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update to Cabinet on Phase 3c of the Public Sector Decarbonisation Scheme (PSDS) project for the Council's three leisure centres and seeks approval to take the next steps to deliver the project. The report also asks Cabinet to consider the business case for the construction of a learner pool at Royston Leisure Centre. It also seeks an increase in the capital allocation for the fitness extension at Royston Leisure Centre.

2. RECOMMENDATIONS

That Cabinet takes into account the matters set out in the Part 2 report when reaching the following decisions:

- 2.1 That Cabinet agree in principle to terminate the Combined Heat and Power Centrica contracts at North Herts Leisure Centre (NHLC) and Hitchin Swimming and Fitness Centre (HSFC) at the appropriate time during the PSDS project and recommend to Council as per 2.6 below regarding the termination fee.
- 2.2 That Cabinet expresses its profound disappointment at the position taken by Centrica over the cost of the CHP contract termination, given the company's stated position as "Energising a greener, fairer future" and requests that the Council continues to raise, and seek solutions to, the issue of long-term inflexible agreements for gas CHPs with Salix and Government, which will inevitably prevent many public sector organisations from achieving their net zero ambitions.
- 2.3 That Cabinet does not approve the business case for Royston Leisure Centre Learner Pool and the capital budget is removed from the capital programme, due to the matters identified in the Part 2 report.

That Cabinet recommends to Council:

- 2.4 an increase in capital expenditure of £2.4m into the capital programme for the decarbonisation work to the three leisure centres. The overall budget will be profiled across 2024/25 and 2025/26.

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| 2.5 | an increase in the capital budget of £250k for the Royston Leisure Centre (RLC) gym extension, to ensure the extension is built to net zero carbon standards. |
| 2.6 | approval of revenue expenditure of up to £757k for termination and removal fees of the gas CHPs at North Herts Leisure Centre and Hitchin Fitness and Swimming Centre. This would be funded from General Fund reserves. |

3. REASONS FOR RECOMMENDATIONS

- 3.1 North Herts Council passed a climate emergency motion in May 2019. This declaration asserted the council's commitment toward climate action beyond current government targets and international agreements. This is currently pursued through the North Herts Climate Change Strategy 2022-2027 which sets out what the council will aim to do to reduce its own carbon emissions to achieve Carbon Neutrality for the Council's own operations by 2030 and a Net Zero Carbon district by 2040.
- 3.2 Gas use from our leisure centres is a significant contributor towards the Council's own emissions. In 2022-23, gas use across the three leisure centres accounted for 1,428 tonnes CO₂e. This equates to 45% of the Council's Scope 1-3 emissions. Taking action to replace gas heating for our leisure centres with low carbon alternatives is the single most effective action we can take towards meeting our target of being carbon neutral by 2030.
- 3.3 There is currently a capital allocation in the 2024/25 budget to build a gym extension and learner pool (subject to business case) at Royston Leisure Centre.
- 3.4 During the procurement for the leisure and active communities contract, the Council committed to deliver the gym extension project which is incorporated in to the contractual management fee. The initial tender stage returns showed that extension would generate additional income of at least £150k per year, and subject to inflationary increases. The latest estimate is that the capital costs will be £1.25m. This is an increase from the initial estimate of £1m and includes making the extension net-zero. The income generated will still exceed the revenue cost of capital (at around £90k per year), but in line with the financial regulation the increased capital spend needs to be approved by Cabinet.
- 3.5 The business case for the learner pool has not yet been agreed and is included in the Part 2 report.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Not proceed with the decarbonisation project. This option is not recommended as the Council will not be able to meet its 2030 carbon reduction targets. The council will also need to commit its own capital expenditure to install the proposed technology (or similar) at a later date. The gas boilers at the leisure centres are at the end of their life and are in need of replacement. If the PSDS project does not proceed, they will have to be replaced, meaning the council will not be eligible for further rounds of funding. There is an option that the council could complete scaled back energy efficiency works and install solar PV and not change the heating source from gas, however this would also not be recommended as the council will not meet its decarbonisation objectives.

- 4.2 Proceed with a scaled back version of the decarbonisation project (i.e. only progressing with decarbonisation at one or two of the centres), to lower the Council's capital contribution to the overall project. However, this would mean a significant reduction in the grant value allocated to the council and would mean the Council would also be ineligible for future rounds of funding for the other sites, due to the need to replace the gas boilers at the sites, which are end of life. There is also a significant risk that Salix would not accept such a large change to the original application. This option would also mean that the council would not make as significant progress towards meeting 2030 net zero carbon targets.
- 4.3 Approve the business case for the learner pool at Royston due to the community benefits of enhanced swimming provision on site. This is not recommended due to the financial position.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. A project board has been established for consultation on the leisure decarbonisation project and RLC options. The project board includes senior officers and the Executive Member for Environment and Leisure, Cllr Debenham and Cllr Ian Albert, Executive Member for Finance and IT. The Service Director – Place is Project Executive and a representative from SIAS (Shared Internal Audit Service) is also included to ensure good project management governance.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on 5 January 2024.

7. BACKGROUND

- 7.1 In November 2023 the Council submitted an application for Phase 3c of the PSDS. The application included details of existing buildings and heating systems and high-level proposals to enable substantial decarbonisation of the three major leisure centres.
- 7.2 In February 2024, the Council was advised its application was successful, securing £7.74m to assist in replacing end of life gas boilers with Air Source heat pumps and on-site generation of electricity through installing Solar PV panels. Other measures such as new air handling units and external and internal insulation also form part of the project at the three leisure centres; North Herts Leisure Centre (NHLC), Hitchin Swimming and Fitness Centre (HSFC) and Royston Leisure Centre (RLC).

The following table details the total project value and the total grant value.

Total Project Value	£8,799,119.00
Total Grant Value	£7,743,224.00

- 7.3 During development of the PSDS application, costs were developed based on the findings of Heat Decarbonisation Plans which had been produced. At this stage, very early design stages were submitted. Additional costs incurred during the delivery of a project, such as preliminary costs are not incorporated into the application. A value for money metric is also applied by Salix during their review process, costs supplied were

therefore reflective of market prices at the time of submission. Further capital was therefore secured to cover these additional costs, plus the Council's own match funding contribution required as part of the grant award criteria. The total capital allocation for 2024/25 is £10,803,000 (including the grant). In the capital programme (agreed in February 2024) this was made up of the following items:

Capital Programme item	Amount (£000)
HSC Boiler replacement	200
HSC PV panels	142
NHLC Boiler replacement	200
NHLC PV panels	338
RLC Boiler replacement	100
RLC Solar Thermal	67
RLC PV panels	241
PSDS Top-up	9,515
TOTAL	10,803

7.4 The 2024/25 Revenue Budget assumed a decrease in energy costs equal to the revenue costs of capital from undertaking the decarbonisation works. That was based on the element that wasn't covered by the PSDS grant and a cost of capital at 7.5%.

7.5 Royston Leisure Centre Developments

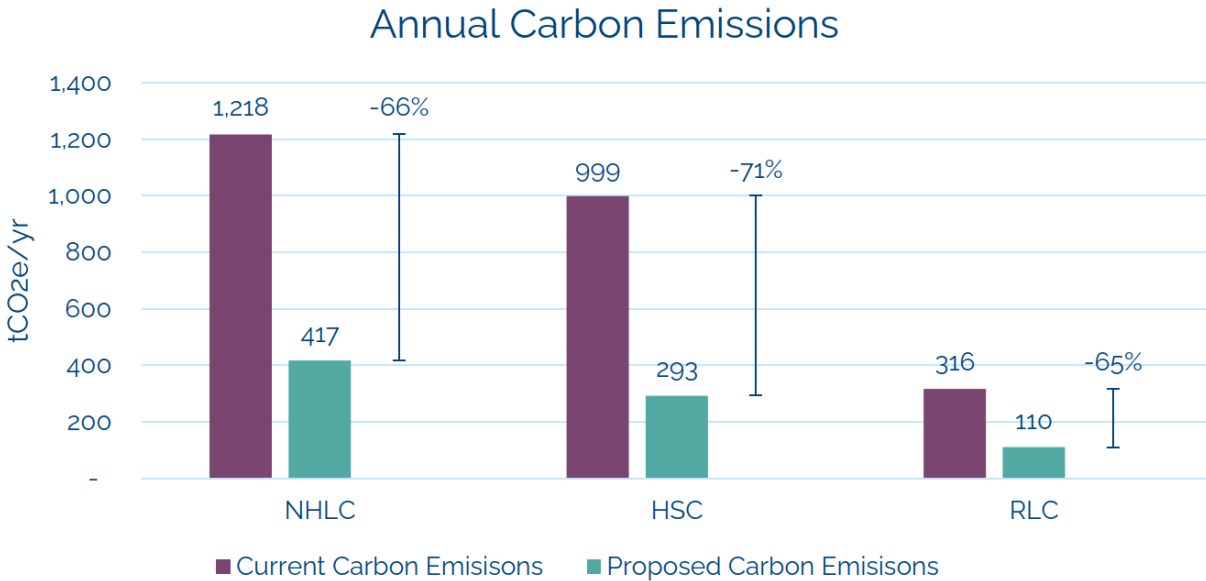
To save on preliminary construction costs, it is planned that any Royston Leisure Centre developments will be carried out at the same time as the PSDS works. There is currently a capital allocation in the 2024/25 capital budget to build a gym extension (£1m) and learner pool (£2.5m) at the centre. The 2024/25 Revenue Budget incorporates the management fee from the contract with Everyone Active (EA), inclusive of inflationary increases. This incorporates the increased income that EA expect the fitness extension to generate. The 2024/25 Budget also included assumed income equal to the revenue costs of capital from building the learner pool. That was based on a capital cost of £2.5m and a cost of capital at 5%. A lower cost of capital was used to reflect that any additional income generated would increase in line with inflation.

7.6 The business case for the gym extension was tested as part of the procurement of the Council's Leisure and Active Communities contract and it was agreed to proceed with this element as part of the process. It was however agreed that the business case for the learner pool be brought back to Cabinet, once the capital costs had been through feasibility stage.

8. RELEVANT CONSIDERATIONS

8.1 The annual carbon emissions before and after low-carbon interventions have been calculated using the 2023 UK government carbon factors, published by DESNZ. The proposed carbon emissions include both the additional grid import due to the loss of CHP-generated electricity, and PV generation. After the decarbonisation measures, there would be over 60% reduction in CO₂e emissions for all sites. There are still some carbon emissions for each site, partly due to residual emissions from energy consumption. These will reduce year-on-year as the UK's power grid transitions to renewable sources, in line with the Government's 2050 net-zero target. NHLC also has gas boilers for the learner pool which are not included in the project, due to the boilers

not being eligible for funding, as they are not end of life (less than 10 years old). At Hitchin, the emissions include those from the outdoor pool which also are not included in the project, due to the boilers being too new to qualify. The following graph demonstrates the carbon savings at each facility following completion of the decarbonisation project:



8.2 Once the works are complete there will be anticipated revenue savings from lower energy consumption, of approximately £32,000 per year (based on the leisure operator’s current energy prices). Due to current low gas prices and the decarbonisation project leading to a higher reliance on grid electricity, the anticipated savings based on current prices are low.

8.3 The future savings will be affected by any change in gas and electricity prices, especially where the changes are relatively different. Electricity has the potential to be produced with a lower (or zero) carbon impact, relative to gas. Electricity production can also be achieved without using limited resources. This could be an indication that electricity prices are more likely to move downwards relative to any movement in gas prices. The heatmap below shows a comparison of estimated current usage (pre decarbonisation interventions) and estimated future energy usage (after decarbonisation interventions). Each usage estimate is costed at various relative prices for gas and electricity. The difference between the total cost is shown (in £000’s) and shaded as green to red. Green shows cost decreases and red shows cost increases. The £32k annual cost reduction is highlighted at that shows the impact at current prices. Under the leisure contract, the Council takes on the risk and reward in relation to energy prices. If energy prices increase with general inflation, then it is estimated that they would increase by around 20% over a 10 year period. In that scenario the estimated savings would actually reduce slightly to £26k annually. In paragraph 8.13 it shows a revenue cost of capital of around £450k. The heatmap shows that there would need to be a significant increase in gas prices (80%+ increase) and a significant fall in electricity prices (20%+ decrease) to move to a point where the cost of capital would be covered by energy savings.

COMPARING COST OF CURRENT USAGE WITH FORECAST USAGE (POST DECARBONISATION) AT VARIOUS PRICE POINTS FOR ELECTRICITY AND GAS																
Amounts are £000		ELECTRICITY PRICES AS A PERCENTAGE OF CURRENT														
		60%	70%	80%	90%	100%	110%	120%	130%	140%	150%	160%	170%	180%	190%	200%
GAS PRICES AS A PERCENTAGE OF CURRENT	60%	-46	-12	22	56	89	123	157	191	225	259	293	327	360	394	428
	70%	-77	-43	-9	25	59	93	127	161	194	228	262	296	330	364	398
	80%	-107	-73	-39	-5	29	62	96	130	164	198	232	266	300	333	367
	90%	-137	-104	-70	-36	-2	32	66	100	134	167	201	235	269	303	337
	100%	-168	-134	-100	-66	-32	2	35	69	103	137	171	205	239	272	306
	110%	-198	-164	-131	-97	-63	-29	5	39	73	107	140	174	208	242	276
	120%	-229	-195	-161	-127	-93	-59	-26	8	42	76	110	144	178	212	245
	130%	-259	-225	-191	-158	-124	-90	-56	-22	12	46	80	113	147	181	215
	140%	-290	-256	-222	-188	-154	-120	-86	-53	-19	15	49	83	117	151	185
	150%	-320	-286	-252	-218	-185	-151	-117	-83	-49	-15	19	53	86	120	154
	160%	-351	-317	-283	-249	-215	-181	-147	-113	-80	-46	-12	22	56	90	124
	170%	-381	-347	-313	-279	-245	-212	-178	-144	-110	-76	-42	-8	26	59	93
	180%	-411	-378	-344	-310	-276	-242	-208	-174	-140	-107	-73	-39	-5	29	63
	190%	-442	-408	-374	-340	-306	-273	-239	-205	-171	-137	-103	-69	-35	-2	32
	200%	-472	-438	-405	-371	-337	-303	-269	-235	-201	-167	-134	-100	-66	-32	2

8.4 The issue with the heatmap above is that it is comparing relative costs, and in some cases both impacts would be unaffordable against current budgets. The revised heatmap below compares the costs at various gas and electricity prices, with the cost of current usage at inflated current prices. The inflation that has been added is based on 10 years of general price inflation, which is estimated at around 22%. This shows that we get towards the right size of savings (to cover the revenue costs of capital) when there is a fall in electricity prices by 40%, with a lower impact from any change in gas prices.

COMPARING COST OF FORECAST USAGE (POST DECARBONISATION) AT VARIOUS PRICE POINTS FOR ELECTRICITY AND GAS WITH ESTIMATED IMPACT OF INFLATION (2% PER YEAR OVER 10 YEARS) ON CURRENT USAGE AND PRICES																
Amounts are £000		ELECTRICITY PRICES AS A PERCENTAGE OF CURRENT														
		60%	70%	80%	90%	100%	110%	120%	130%	140%	150%	160%	170%	180%	190%	200%
GAS PRICES AS A PERCENTAGE OF CURRENT	60%	-469	-402	-334	-267	-199	-132	-64	3	71	138	206	273	341	408	476
	70%	-465	-397	-330	-262	-195	-127	-60	8	75	142	210	277	345	412	480
	80%	-461	-393	-326	-258	-191	-123	-56	12	79	147	214	282	349	417	484
	90%	-456	-389	-321	-254	-186	-119	-51	16	84	151	219	286	354	421	489
	100%	-452	-385	-317	-250	-182	-115	-47	20	88	155	223	290	358	425	493
	110%	-448	-380	-313	-245	-178	-110	-43	25	92	160	227	295	362	430	497
	120%	-443	-376	-308	-241	-173	-106	-38	29	96	164	231	299	366	434	501
	130%	-439	-372	-304	-237	-169	-102	-34	33	101	168	236	303	371	438	506
	140%	-435	-367	-300	-232	-165	-97	-30	38	105	173	240	308	375	443	510
	150%	-431	-363	-296	-228	-161	-93	-26	42	109	177	244	312	379	447	514
	160%	-426	-359	-291	-224	-156	-89	-21	46	114	181	249	316	384	451	519
	170%	-422	-354	-287	-219	-152	-85	-17	50	118	185	253	320	388	455	523
	180%	-418	-350	-283	-215	-148	-80	-13	55	122	190	257	325	392	460	527
	190%	-413	-346	-278	-211	-143	-76	-8	59	127	194	262	329	397	464	531
	200%	-409	-342	-274	-207	-139	-72	-4	63	131	198	266	333	401	468	536

- 8.5 The PSDS application included details of high-level site surveys for existing buildings and heating systems and high-level proposals to generate the required technical appraisals to support the application. Following the grant award, the Council commissioned Willmott Dixon (WD) to carry out further detailed feasibility studies to ensure the decarbonisation measures set out in the application could be achieved. WD also carried out feasibility for the gym extension and the learner pool at Royston.
- 8.6 During feasibility, WD identified a technical issue regarding the proposal to insulate the underside of the roofs at all three centres. These would have carried a significant risk of condensation and are not therefore deemed viable options. This option would also have meant the pools would have to be closed for several weeks while the works are carried out. Due to this, the proposal is now to install new roofing systems on the outside of all three roofs, which has led to a significant increase in costs. In addition, there have been amendments to the cladding replacement required at Royston Leisure Centre. Temporary plant costs have also been added to ensure any closures to the leisure facilities are kept to a minimum.
- 8.7 The Council would need to fund these additional costs using its own capital, as the Salix grant conditions do not allow an increase to the overall grant value under any circumstance.
- 8.8 Council funding of £3.060m was agreed last year, in addition to the grant value, giving a total of £10.803m. This budget included original estimates for the works to the leisure centres at £10.55m plus provisional costs associated with required upgrades to the

electricity network. Following detailed feasibility works and as a result of the issues identified at 8.6, WD have advised of an increase in budget of £2.24m.

The following table details the budget costs by leisure centre.

Leisure Centre	Previous Budget	Revised Budget	Cost Increase
NHLC	£3,920,815	£4,215,742	£294,927
HSFC	£3,308,226	£4,187,520	£879,294
RLC	£3,324,819	£4,388,591	£1,063,772
Total	£10,553,860	£12,791,853	£2,237,993

8.9 As part of the PSDS application, high level site surveys were undertaken across all three centres to generate the required technical appraisals to support the application. Two of these sites, NHLC and HSFC, have Combined Heat and Power (CHP) units installed. CHP's use gas to generate electricity and additionally gives the opportunity to use the excess heat for heating and hot water. It was originally intended that the units would remain in place as emergency backups, with the primary source of heating being switched to Air Source Heat Pumps (ASHPs).

8.10 At the detailed feasibility stage of the project, it was identified that 15-year Discount Energy Purchase (DEP) Agreements are in place for both CHPs with Centrica, which end in 2035. These agreements also have a minimum usage requirement of 19 hours a day and therefore it is not feasible to keep the CHPs in place as emergency backup only, under the terms of the agreement. There are financial penalties of £737k (as of 31 March 2025) for early termination of these agreements, plus fees of approximately £10,000 per site for removal of the CHPs. The Council did attempt to negotiate with Centrica on these fees, however they have advised that they will not change their position. The termination fee per centre can be found below:

Date	Location	Amount
31 March 2025	NHLC	£434,523
31 March 2025	HSFC	£302,201

8.11 The proposed PSDS works would see improvements to some of the building fabric (e.g. walls, glazing and roofing) at each of the leisure centres. These improvements may mean that future works to these areas are not required or can be significantly delayed. This could therefore mean that this investment is providing future capital savings. However, there is no capital budget currently allocated for any such works to the building fabric.

Project management and Quantity Surveyor costs

8.12 Due to the scale of the projects and limited officer technical expertise and resource, it is recommended that the Council appoint an external Quantity Surveyor (QS) to oversee North Herts Council's interests. Services would include reviewing and negotiating the Contractor's second stage tender price, agreeing any variations and producing cost update reports. The cost of appointing a QS to the project is up to £170,000 (this could be reduced depending on appointment date). These costs directly relate to the delivery of the capital project so can be treated as capital expenditure. These costs take the increase up to £2.4m as detailed in recommendation 2.4.

Financial Summary

- 8.13 With the latest forecasts, the total capital spend that the Council would need to fund is around £5.5m. Assuming a 7.5% cost of capital this gives an annual cost of capital of £413k. Whilst the buy-out of the CHP is not capital expenditure, it is a significant payment that has not been budgeted for. At a 5% interest rate, £737k would generate annual income of £37k. The current annual cost is therefore estimated at £450k.
- 8.14 As detailed in paragraph 8.2, the estimated energy cost savings are forecast to be around £32k per year. Paragraphs 8.3 and 8.4 show how these savings could be impacted by future movements in energy prices. They focus on the scenarios where price changes would enable the costs of capital to be covered by savings. However, the heatmaps also show the impact of energy prices making the financial situation worse. This is also covered in the risk implications (section 11). Overall, the decision on whether to proceed with the leisure sector decarbonisation project has to be made on the basis of environmental sustainability, and noting that it will come at a significant financial cost. As detailed in section 10, this will require financial savings to be made on other areas of revenue spend.

Royston Leisure centre investments

- 8.15 Following feasibility assessments, WD have advised an increase in budget of £470k for the learner pool and gym extension at Royston. This increase is primarily due to the building upgrades needed to ensure they are built to net zero carbon standards.

Project	Previous Budget	Revised Budget	Cost Increase
Gym Extension	£1m	£1.25m	£250k
Learner Pool	£2.5m	£2.72m	£200k
Total	£3.5m	£3.97m	£470k

As referenced in paragraph 3.4, there is still a viable business case for the gym extension.

- 8.16 EA have provided a forecast of additional income from the building of a learner pool at Royston Leisure Centre. This forecast reflects the impact of the closure of the Ward Freman Pool in Buntingford (East Herts). They have also advised that the closure of the pool at Melbourn (South Cambs) could further increase income, but it is not certain whether that pool will stay closed, so they cannot commit to that further additional income. In accordance with the contract, the increase from the learner pool would increase by inflation each year (using CPI). Further details are in the part 2 report.
- 8.17 WD have provided an estimate of the capital cost of building a learner pool at Royston, which is £2.72 million. That estimate is based on a previous design, and WD have advised that it is likely to be necessary to change the roof design and they would also recommend some internal layout changes. They have not been able to advise on the impact of those changes, except to say that they would increase the build costs. It would therefore be prudent to assume build costs of at least £3 million.
- 8.18 As detailed in paragraph 10.2, capital investment has a revenue cost. Based on a revenue cost of capital of 7.5% (2.5% MRP and 5% interest) this is an annual cost of £225k.

- 8.19 The revenue implications of the £3m build cost are far higher than the forecast additional management fee income in the short and long-term. The average annual revenue loss from the learner pool is forecast to be over £100k per year on an ongoing basis. The Part 2 report provides specific details of the forecast additional income and how this could be affected by increases in line with inflation.
- 8.20 The non-financial benefits of a learner pool would include:
- Capacity for more swimming lessons. Royston is current at capacity for stage 1 and 2 classes. These are the first two stages for school age children. The centre is also at 86% capacity for pre-school classes.
 - The teaching pool would also add value to school swimming lessons, increasing capacity and providing a more comfortable environment for non swimmers.
 - The teaching pool could also be used for under 5s fun swimming (to build water confidence), quiet adult swimming (which may be of particular benefit to those living with dementia and those who are neurodivergent) and quiet family swimming (which may be of particular benefit to those living with SEND, those who are neurodivergent or people living with other long term health conditions).
- 8.21 On financial grounds it is recommended to not proceed with the learner pool at Royston. It is recommended that the capital budget is removed from the capital programme, as keeping it in there means the costs of capital have to continue to be forecasted in later years. But the business case could be kept under review as it could change with the following factors:
- Further increases in income projections e.g. from greater certainty over the Melbourn pool and/or greater demand from population growth.
 - Relative reductions in construction costs.
 - Improvements in interest rates.
 - External funding (e.g. s106 contributions).
 - To promote the potential non-financial benefits and see if there is the opportunity for alternative funding (e.g. suitable central government, lottery or sports body grant funding), especially in relation to the quiet adult and quiet family sessions.

9. LEGAL IMPLICATIONS

- 9.1. Cabinet has remit as per section 5.7.3 of the Cabinet's terms of reference "*To take decisions on resources and priorities, together with other stakeholders and partners in the local community, to deliver and implement the budget and policies decided by the Full Council. To monitor performance and risk in respect of the delivery of those policies and priorities.*". Where budget is required, then appropriate recommendations to Council should be made.

10. FINANCIAL IMPLICATIONS

- 10.1 The financial implications are generally covered in the body of this report, and also in the part 2 report.
- 10.2 The Council has a reasonable level of financial reserves but is currently budgeting to spend more than its forecast funding whilst it identifies the decisions that it needs to take to achieve a balanced budget. Any decision that results in an increase in expenditure above that currently reflected in the budget, will further increase the level

of savings that will need to be identified and delivered. It is therefore vital that decisions reflect Council priorities, as there will be an inherent need for other services/ projects to have a lower priority attached to them.

- 10.3 The Council is moving to a position where it has a need to borrow to fund its capital spend (i.e. it cannot fund them from previous capital receipts). This does not mean that the Council has to borrow externally, as it can initially borrow against its internal cash reserves. But in the longer term those reserves will run out and external borrowing will be required. The revenue costs of the capital spend are then made up of (1) lost interest that would have been generated from investing those cash reserves or in the longer term the cost of external borrowing, and (2) a requirement to charge a Minimum Revenue Provision (MRP) which spreads the capital investment over the life of the asset.
- 10.4 For a new building or significant alternation works it can be reasonable to assume a useful life of 40 years, which gives an annual MRP charge of 2.5% of the capital cost. There is some risk with assuming a 40 year life for the works covered by this report as they are change to buildings that are already fairly old (e.g. RLC is 20 years old and NHLC is over 40 years old. But this is mitigated by the fact that we continue to invest in the building and carry out condition surveys.
- 10.5 Air Source heat pumps will have a shorter expected useful life of around 20-25 years. Using a 20 year life equates to an annual MRP charge of 5%. However the PSDS grant will fund the costs of the heat pumps. As that means that the Council funded element will be on building fabric works, it is appropriate to use a MRP charge of 2.5%.
- 10.6 Interest rates remain high and currently borrowing rates and investment returns are both around 5%. We had expected that we would see a drop in interest costs by now, but economic conditions have not yet enabled that to happen. The Council can borrow from the Public Works Loan Board and they publish borrowing rates for various durations of borrowing. There is currently very little variation between across the various borrowing terms (e.g. around 5.2% for 10 years, 5.4% for 20 years and 5.7% for 40 years). Based on that we cannot assume that there will be a drop in borrowing rates.
- 10.7 If the decision is taken to proceed with the leisure centre decarbonisation, then it needs to be accepted that it comes with an annual revenue cost of around £400k per year. The forecasts in the Medium Term Financial Strategy are that the Council already needs to make significant savings, so this will add to that requirement, and require further decisions in relation to service changes, income generation (including increases in fees and charges) and reduced capital spend. Most of the capital spend that will be funded from Council resources will not be incurred until 2025/26, so there will not be a need to revise the current Council Investment Strategy.
- 10.8 If there was a decision to proceed with the learner pool, then it needs to be accepted that it comes with an average annual revenue cost of around £100k per year. This would be higher in the earlier years and slowly reduce over time. The forecasts in the Medium Term Financial Strategy are that the Council already needs to make significant savings so this will add to that requirement, and require further decisions in relation to service changes, income generation (including increases in fees and charges) and reduced capital spend. The level of capital spend in 2024/25 may mean that there is a need to revise the current Council Investment Strategy.

11. RISK IMPLICATIONS

11.1 The decisions contained within this report cannot be made on a financial basis, due to the capital costs involved and relatively low value of the energy savings that will be generated. The decision needs to therefore be based on relative priorities, whilst also considering risk. Risks that would favour making a decision to continue with the decarbonisation works are:

- By not progressing we will lose access to the substantial PSDS funding, and (due to the need to replace the boilers) would not have access to any such funding in the future.
- The work by WD and the Quantity Surveyor may identify capital cost savings.
- Gas prices may increase by more than projected, which makes the move to electricity more economically viable (note: this improves the business case but doesn't actually help the Council's budget)
- Electricity prices may drop by more than projected, which helps reduce the cost of heating generated by electricity.
- As we approach national net zero targets (which we're not currently on track to achieve), one aspect that may drive behavioural change, may come in the form of a carbon tax, which could financially penalise bodies for carbon emitted over baseline/benchmark values. However, this is not a current policy direction which has been set by Government.

Risks that would **not** favour making a decision to continue with the decarbonisation works are:

- We have already seen cost increases, and there is the potential that further capital cost increases could be identified.
- Gas prices may increase by less than projected (or even fall), which makes the move to electricity relatively even more expensive.
- Electricity prices may not drop as much as projected (or could increase) which increases the relative cost of heating generated by electricity.
- There is a low risk that alternative, non-fossil fuel-based heating sources, such as hydrogen, will emerge as commercially viable options in the long term. However, the UK Government has indicated that the use of technologies such as heat pumps will be "the primary means of decarbonisation for the foreseeable future."

11.2 A representative from SIAS will sit on Project Board to mitigate project risks and ensure good governance of the project.

11.3 There are numerous risks relating to the delivery of decarbonisation schemes, including risks associated with the installation and operation of measures as well as programme related risks, such as delays resulting from supply chain issues. Salix Finance, as the fund administrator, sets extremely short project delivery timescales, with a completion date set of 31 March 2026.

11.4 The risks relating to these programmes have been captured in a risk register, which sets out the risk owners and mitigation strategies. The risk registers will be kept up to date and reported to the Project Board, which will have oversight of the project.

- 11.5 Otherwise, good risk management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 The Council has a responsibility to achieve a balanced budget in order to provide a wide range of services to residents in North Hertfordshire. There is already a provision for swimming lessons at Royston which provides an opportunity for those who wish to learn. However, it is acknowledged at paragraph 8.20 that a learner pool may increase participation opportunities. If the learner pool provision is to be kept under review, these opportunities should be taken into consideration, in conjunction with consideration of the council's priorities.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations in the report relate to a contract above £50,000, Social Value will be incorporated in the procurement process.
- 13.2 The Public Services (Social Values) Act 2012 imposes an active duty on relevant contracting Authorities to consider the economic, environmental and social benefits that can be achieved through commissioning. It does so by requiring consideration of the improvements of economic, environmental and socio-economic of the procurement to wider society.
- 13.3 The Council will be using the SCAPE Procure Regional Construction Framework for the procurement and social value is integral to SCAPE's approach and operations. Utilisation of the Framework ensures Social Value outcomes; for example, utilising a 'go local' approach to spend which benefits the local economy.
- 13.4 SCAPE unlocks social value at scale, through procurement solutions and innovative joint ventures, which engender long-term collaborative relationships with framework delivery partners and with the Council, creating scope to plan sustainably and invest for the future. SCAPE generates social value both directly, through its activities; and indirectly, by regulating supplier behaviour through procurement and thought leadership.

14. ENVIRONMENTAL IMPLICATIONS

- 14.1. Section 8 highlights that whilst there are carbon costs associated with construction, the project is solely focused on improving the energy efficiency of the sites and implementing renewable energy solutions to substantially decarbonise the sites. This should lead to an overall reduction in operational carbon emissions as identified at the graph at 8.1. Section 8.11 identifies that fabric work (glazing, new roofing, cladding etc) may prolong the life of the buildings, reducing the risk of needing to demolish and replace buildings from scratch, which may have a higher carbon cost. Additionally, the proposed gym extension will be built to net zero carbon standards.

15. HUMAN RESOURCE IMPLICATIONS

- 15.1 A project of this size will have considerable resource implications internally. To ensure resource can be appropriately managed, a Project Manager has been appointed to support the project and the costs of appointing a quantity surveyor to act on the council's behalf are included in recommendation 2.3.

16. APPENDICES

- 16.1 None

17. CONTACT OFFICERS

- 17.1 Sarah Kingsley, Service Director – Place
sarah.kingsley@north-herts.gov.uk
- 17.2. Louise Randall, Leisure and Active Communities Manager
Louise.randall@north-herts.gov.uk
- 17.3. Ian Couper, Service Director - Resources
ian.couper@north-herts.gov.uk
- 17.4. Jeanette Thompson, Service Director – Legal and Community
Jeanette.thompson@north-herts.gov.uk
- 17.5 Reuben Ayavoo, Policy and Communities Manager
Reuben.ayavoo@north-herts.gov.uk
- 17.6 Rizwan Shah, Procurement officer
Rizwan.shah@north-herts.gov.uk

18. BACKGROUND PAPERS

- 18.1 None