

Item No	Referred from:	FINANCE, AUDIT AND RISK COMMITTEE
61	Date:	19 JUNE 2024
	Title of item:	LEISURE INVESTMENT OPTIONS – PART 1
To be considered alongside agenda item:		AGENDA ITEM 15

The report considered by Finance, Audit and Risk Committee at the meeting held on 19 June 2024 can be viewed here [Agenda for Finance, Audit and Risk Committee on Wednesday, 19th June, 2024, 7.30 pm | North Herts Council \(north-herts.gov.uk\)](#)

RECOMMENDATIONS TO CABINET:

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 recommendation 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.

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.

REASONS FOR RECOMMENDATIONS:

- (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.
- (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) 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.
- (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.
- (5) The business case for the learner pool has not yet been agreed and is included in the Part 2 report.

Audio Recording – 2 hours 12 minutes and 26 seconds

The Executive Member for Finance and IT presented the report 'Leisure Investments and Decarbonisation Project Part 1' and advised that:

- Funding of £7.7M had been secured from the Public Sector Decarbonisation Scheme in February 2024 for the decarbonisation of our leisure centres.
- The Council had previously agreed £3.06M of match funding.
- There would be a reduction of over 60% on carbon dioxide emissions for the three leisure centres, assisting the Council in meeting its target of being carbon neutral by 2030.
- Willmott Dixon had been commissioned to carry out feasibility studies as detailed in paragraph 8.6 of the report.
- There was a termination fee for the Combined Heat and Power (CHP) units as highlighted in paragraph 8.10.
- Willmott Dixon also considered the feasibility of the Royston Gym extension and the Learner Pool, with both being built to net zero carbon standards, and this was detailed in paragraph 8.15 of the report.
- There was a positive business case for the Royston Gym extension.
- There were strict conditions attached to the decarbonisation funding, £6.165M had to be spent in the civic year 2024-25 and the remaining balance in 2025-26, there was no flexibility to change this.

- The funding was front loaded to enable the purchase of the heat pumps and PV panels
- A decision was required from Council on 11 July 2024 to enable a preconstruction service agreement with Willmott Dixon to commence.
- An external Quantity Surveyor was proposed to be appointed to oversee the project with the aim that they will drive down the project costs which would in turn cover the costs of employing a Quantity Surveyor.
- The Overview and Scrutiny Committee had amended recommendation 2.3 and added an additional recommendation during their meeting of the 18 June 2024.
- There were already lessons available at Royston Leisure Centre for children to learn to swim.
- Should the Learner Pool project be agreed then savings would need to be found in the future.

The following Members asked questions:

- Councillor Vijaiya Poopalasingham
- Councillor Paul Ward
- Independent Person John Cannon

In response to questions, the Service Director – Place stated that:

- Centrica defined end of life for the CHP's as units over 10 years old. The boilers in our leisure centres were currently all over this age and funding had been allocated in the capital programme to replace them.
- The grant funding had a requirement to spend the funds by March 2026, with the majority of the funding being used to purchase heat pumps and panels by March 2025.
- Under the terms and condition of Centrica their units would need to operate for 19 hours per day, so using for less than that time would be in breach of the funding agreement.
- There was a taper on the termination fees and the actual figure may be lower depending on the changeover timing.
- A 15 year contract with Centrica was a standard in these situations, and common practice in the public sector.
- When the climate emergency was called in 2020 the technology and cost of heat pumps was not as advanced as now.
- It was not possible under the current contract to create and export power from the CHP's.

In response to questions, the Executive Member for Finance and IT stated that:

- There was no guarantee of any grant funding being available should the Council wait another 12 months to reduce the termination fees.
- It was not viable to export any power back to the grid.

The following Members took part in debate:

- Councillor Paul Ward
- Councillor Sean Nolan
- Councillor Vijaiya Poopalasingham
- Councillor Daniel Wright-Mason
- Independent Person John Cannon

Points raised in debate include that:

- There were reservations regarding the termination costs.
- There would be higher costs to continue with Centrica.
- Could Centrica supply the heat pumps in exchange for a reduction in the termination fees.
- Would this type of funding be available at a later date.
- The termination fee was significant.
- The learner pool would benefit the residents.

In response to points raised in debate, the Service Director – Place stated that there had been some negotiations with Centrica regarding the supply of heat pumps in exchange for termination fees, however having sought advice from Willmott Dixon, a commercial decision was made that the heat pumps and panel could be purchased for a better price elsewhere. Attempts would continue to try and reduce the termination costs.

In response to points raised in debate, the Service Director – Resources stated in referring the report to Cabinet the concerns from the Finance, Audit and Risk Committee could be presented.

Councillor Stewart Willoughby proposed and Councillor Daniel Wright-Mason seconded and, following a vote, it was:

RESOLVED: That the Finance, Audit and Risk Committee provided comments and recommended to Cabinet the Leisure Investment Options – Part 1.

RECOMMENDATIONS TO CABINET:

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