

CABINET

14 JANUARY 2025

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: DECARBONISATION OF LEISURE CENTRES UPDATE

REPORT OF: Service Director Place

EXECUTIVE MEMBER: ,Environment, Leisure and Green Spaces

COUNCIL PRIORITY: SUSTAINABILITY

1. EXECUTIVE SUMMARY

To provide an update on the project to decarbonise the Council's leisure centres, including predicted growth in ongoing revenue and capital costs, due to revised modelling of the impact of installing air source heat pumps and the expected capacity for PV panels at the facilities.

2. RECOMMENDATIONS

2.1 That Cabinet agrees in principle to proceed with Option 4a as detailed in paragraph 8.9.1.

2.1 That Cabinet recommends to Council to proceed with Option 4a and approve the additional forecast capital and ongoing revenue costs (including revenue costs of capital) and note the ongoing project risks.

3. REASONS FOR RECOMMENDATIONS

3.1 To identify the most appropriate way forward for the leisure centre decarbonisation project, taking into account both the environmental benefits of the project and the impact on the Council's wider financial position.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1. None. Four potential options are presented at paragraphs 8.6 – 8.9.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1. The Executive Member for Environment, Leisure and Green Spaces and Executive Member for Finance and IT have been consulted.

5.2 A project board has been established for consultation on the leisure decarbonisation project. The project board includes senior officers and the Executive Member for Environment, Leisure and Green Spaces, 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. An extraordinary meeting of the project board took place on 7 January.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key Executive decision, which has not been notified to the public in the Forward Plan. It is not possible to defer consideration of this decision, because two of the options involve the need to order heat pumps by 15 January, to meet grant funding requirements. The Chairman of the Overview and Scrutiny Committee has been informed and notice of the recommendation has been available at the Council Offices in Gernon Road, Letchworth for three clear working days prior to the date of this meeting. The decision is also being referred to Council for the reasons set out in paragraph 9.1.

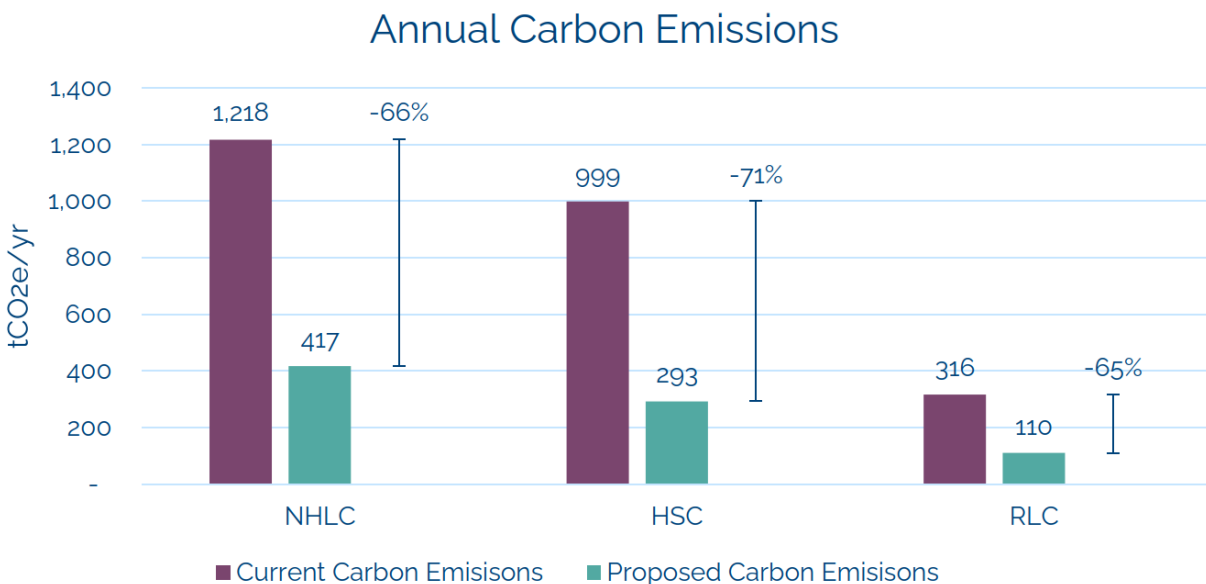
7. BACKGROUND

- 7.1 The Council's leisure centres are a significant source of the Council's operational carbon emissions. In 2022-23, gas use across the three leisure centres accounted for 1,428 tonnes CO₂e for gas use for three leisure centres - 45% of the Council's Scope 1-3 emissions.
- 7.2 In November 2023, the Council submitted an application for Phase 3c of the Public Sector Decarbonisation Scheme (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.
- 7.3 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).
- 7.4 In addition to the decarbonisation works, the project includes plans to build a gym extension at Royston leisure centre and refurbishment of the changing village at that site. The business case and capital budget for these works has already been approved.
- 7.5 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, such as preliminary costs were not incorporated into the application. 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 original total capital allocation for 2024/25 was £10,803,000 (including the grant).
- 7.6 During the detailed feasibility stage of the project, technical issues were identified, such as problems with insulating the underside of the roofs at the centres, resulting in additional costs being identified. Significant costs were also identified to terminate the agreements for the gas combined heat and power units (CHPs) which operate at NHLC and HSC. Therefore, at a meeting on 11 July 2024, Council resolved:

- (1) That Council approves 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) That Council approves 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.
- (3) That Council approves 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.

7.7 In August 2024, the Council signed a Pre-Construction Services Agreement with Willmott Dixon Construction Ltd, enabling the detailed design of the schemes to take place.

7.8 The annual carbon emissions before and after low-carbon interventions were 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 in Phase 3C of PSDS, as they are not end of life (less than 10 years old). They have been included in our application for PSDS funding in the latest phase. 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:



7.9 During the feasibility stage it was calculated that once the works are complete, there would 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 at that time were low. The July report included analysis of the impact of future changes in electricity and gas prices, and how that would affect the net cost of the project. This information has been attached as a Background paper – (Energy cost modelling provided to Full Council July 2024).

- 7.10 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.
- 7.11 The PSDS grant conditions requires the funding to be spent over two years shown in the table below. It is a Salix condition that the funding is spent in the correct year, there can be no carry forward into the next year. There are, however, no restrictions on what year the Council spends its own capital allocation for the match funding element.

| | |
|---|---------------|
| Amount of Grant (Year 1) - 2024/25 | £6,165,264.00 |
| Amount of Grant (Year 2) - 2025/26 | £1,577,960.00 |

Salix require evidence of spend in the correct year, in order to draw down payment of the grant. This is usually in the form of a vesting certificate. A vesting certificate is a legal document that confirms ownership of assets, such as plant, machinery, or materials, that have not yet been delivered to site. The purpose of a vesting certificate is to provide protection of ownership rights; security and safety; and compliance to regulations for the goods acquired. However, if a vesting certificate cannot be provided, the Council can provide the following documents to make a valid claim; purchase order, suppliers purchase order acceptance, latest delivery communication from supplier and an accompanying invoice or other evidence to show the costs have been incurred.

8. RELEVANT CONSIDERATIONS

- 8.1 During the detailed RIBA Stage 3 / Stage 4 design phase, a review of the proposed air source heat pumps (ASHP) at all three leisure centres highlighted significant additional running costs, compared to previous estimates at detailed feasibility stage. Since the publication of the original Cabinet report, these have been re-modelled to include the impact of the significant improvements to the fabric of the leisure centres, which will be carried out as part of the PSDS project. The figures have also been aligned with the baseline data used to calculate the original predicted running cost savings as per paragraph 7.9. The impact on the carbon produced has also been calculated. The table confirms that the carbon impact of replacing gas heating with ASHPs and solar PV is significant with the most conservative estimate being a 75% reduction in carbon at Hitchin Swim Centre, to the most positive being a 90% reduction at Royston.
- 8.2 The original Cabinet report of 14 January 2025 advised that the primary reason for the increase in running costs was due to the need to order smaller, modular heat pumps, which can be bought off the shelf, as these were the only type advised by Willmott Dixon, that we could feasibly order within the timeframes to meet the 2024/25 spend

and vesting requirements for our Salix grant, as per paragraph 7.11. The larger, bespoke heat pumps have a 26 week lead in time and therefore these were originally discounted due to not meeting the Salix timeframes. It was not possible to order heat pumps any earlier in the year, due to the need to go through the design process and calculate the impact of the fabric improvements first, before calculating the load of the heat pumps. Unfortunately, the smaller heat pumps are up to 15% less efficient than the larger bespoke units.

- 8.3 Since the publication of the original report, officers have investigated if there is still an option to order the larger, bespoke heat pumps and meet the Salix grant conditions. We have received confirmation from Salix that it would be acceptable for the Council to pay upfront for the heat pumps in the absence of providing a vesting certificate, and this would be deemed acceptable proof of spend in the correct financial year by Salix. Payment up-front is not encouraged by the Council's Financial Regulations, but it is allowed. It is higher risk than payment after goods (or services) have been received.
- 8.4 Further information on the projected increase in running costs has also been provided since the original Cabinet report. During the detailed design stage, a structural assessment was carried out of the roofs of the centres. Following this, it has been necessary to resize down the original intended size of the solar PV arrays. This has had a significant impact on the estimated running costs of the centres, (approx. £55,000 per year reduction in savings across the 3 centres) as the PV electricity generation helps to offset the increased demand for grid electricity.
- 8.5 The table below shows the estimated impact on running costs of both the smaller heat pumps at best case and worst case operating scenarios and also the larger heat pumps. The actual performance of the heat pumps relies on human behaviour in the building, outside temperature, hot water/heating demand, how the building is performing thermally etc and therefore the utility costs will likely fall somewhere in between these figures, based on current design. The design of the heat pumps will also be reviewed by our Quantity Surveyor, and initial indications are that they may be over-specified in terms of capacity. Reduced capacity should lead to lower capital costs and lower running costs.

| | July report | | Latest estimate (modular heat pumps) OPTION 1 | | Latest estimate (bespoke heat pumps) OPTION 4 | |
|---|---------------|-----------------|--|--|--|--|
| | Current usage | Post PSDS works | Post PSDS works (manufacturer target efficiency) | Post PSDS works (prudent estimated efficiency) | Post PSDS works (manufacturer target efficiency) | Post PSDS works (prudent estimated efficiency) |
| Electricity usage (MWh) | 1,528 | 3,068 | 3,567 | 4,291 | 3,380 | 3,745 |
| Gas usage (MWh) | 7,720 | 954 | 954 | 954 | 954 | 954 |
| CHP cost (£000) | 66 | 0 | 0 | 0 | 0 | 0 |
| Electricity cost (£) | 336 | 675 | 785 | 944 | 744 | 824 |
| Gas cost (£) | 347 | 43 | 43 | 43 | 43 | 43 |
| Total cost (£) | 750 | 718 | 828 | 987 | 787 | 867 |
| Difference (from current) (£) | n/a | -32 | 78 | 237 | 37 | 117 |
| Difference (from post completion July report) (£) | n/a | n/a | 110 | 269 | 69 | 149 |

8.6 Option 1: Continue with the existing scheme (with smaller heat pumps) for all three leisure centres and accept the increased running costs of the buildings.

The benefit to this would be that the Council would benefit from £7.74 million of funding to help meet our net zero targets. Taking action to replace gas heating for our leisure centres with low carbon alternatives is the single most effective action we can take towards reducing carbon use. However, the financial impact on current estimates could be increased running costs of up to £269k per year (based on modelled energy prices and design impact). The design is also not optimal in terms of the total energy use that could be achieved. The additional running costs (based on modelled data) is estimated to be between £40k and £120k more than option 4. However, the additional capital costs that are estimated to be between £311k and £668k would be avoided. The capital costs relate to heat pumps so would have an estimated life of around 20 years, Therefore Minimum Revenue Provision (5% per year) and interest costs (initially 4-5%) could add a revenue cost of capital of up to £70k. There is therefore a small chance that this could be more cost effective than option 4. It would also avoid the risk of payment in advance. However, on balance **Cabinet are recommended to not take forward this option.**

8.7 Option 2: Abandon the project (apart from the Royston Gym extension and change village) and aim to resubmit a bid to a future round of PSDS. The benefit of this would be planning a programme which allowed more time to secure the appropriately sized heat pumps, without the need for payment in advance. In the meantime, the termination costs of the CHPs at NHLC and Hitchin Swim Centre would continue to decrease each month, meaning a reduced one-off revenue impact for the council. However, there are significant risks to this approach – firstly the boilers at all three leisure centres are end of life and are encountering regular maintenance issues. If we install new gas boilers at any of the sites (which may become a necessity if they fail), we will not be eligible for future rounds of PSDS funding. The council will also need to commit its own capital expenditure to install the air source heat pumps (or similar) at a later date.

There is an option that the council could complete scaled back energy efficiency works and install solar PV using its own capital and not change the heating source from gas, however this would not help the council in meeting its decarbonisation objectives.

- 8.7.1 If Cabinet took this decision, we would have to return all of our grant funding and pay for all of the works incurred to date. The total spent to date on pre-construction works is estimated to be £902k as at 15 January 2025. The Intellectual property on the designs belongs to the Council and therefore we would be able to re-use these details on a future scheme, however there is likely to be a significant element of costs which we cannot recoup if we were to revisit the scheme at a later date. The costs incurred would become a revenue cost as there would not be a capital scheme they could be applied to.

There is also no guarantee that we would receive future funding from PSDS, or similar schemes and the eligibility criteria (including capital contribution required from the applicant) can change from round to round of funding.

- 8.8 **Option 3: Proceed with the decarbonisation project at Royston Leisure Centre only (with smaller heat pumps).** The reason for this option is that the initial revised modelling showed that there would still be a reduction in ongoing running costs reducing, compared to current monthly costs. There are also efficiencies on preliminary costs, due to the works already scheduled to take place to complete the gym extension and change village being scheduled for the same time as the decarbonisation works. However, Salix would have to agree to the change and therefore we would have to order the heat pumps at risk on 15 January to guarantee the necessary lead in time. Other equipment such as air handling units also needs to be ordered asap. Willmott Dixon have calculated what our likely grant value would be just for a Royston scheme, and this would be £1.496m. However, this is only an indication and is based on the information from our original application and therefore would need updating as some of the scheme details have subsequently changed. The downside to this approach is that from a carbon perspective, Royston has the lowest emission of all three sites and therefore we would not be tackling our two sites with the highest emissions. Also, as the modelling has evolved there would still be an increase in ongoing costs. Cabinet are asked to discount this option.

- 8.9 **Option 4a: Instruct Willmott Dixon to design and order the larger, bespoke heat pumps.** This option was previously discounted due to the timeframe involved in designing the heat pumps, as they are bespoke to the centres, vs the smaller modular heat pumps which are off the shelf. However, as we now have confirmation from Salix that they would accept proof of payment upfront for the heat pumps, as evidence of spend in the correct financial year, Cabinet are asked to consider this as a potential solution. Since writing the original report, Willmott Dixon have confirmed that they can incorporate the design, ordering and installation of the larger heat pumps into the project programme.

- 8.9.1 The risks to the Council with this approach needs to be considered, due to paying up front approximately £4 million (approximate estimated cost of the larger heat pumps). For example, if Willmott Dixon Construction were to become insolvent prior to the Council receiving the heat pumps, there is a risk that we would not be able to recoup the spend. However, officers have previously been issued with information on Willmott Dixon's financial position which would mean that the actual risk of this happening would be low. We are currently investigating options to minimise the risk to the Council with our legal

advisers, including looking at ways to ensure that the assets would transfer to the Council.

8.9.2 There is also a high likelihood that the capital costs of the scheme will increase, due to the larger heat pumps being bespoke. Current estimates are that this could be between £225,000 and £582,000, based on two different types of heat pumps, both of which have a higher efficiency than the original smaller ones. Wilmott Dixon are hopeful that they can purchase the lower cost heat pumps and that this cost may even be able to be reduced further, however this won't be confirmed until the detailed design has taken place, including a review of the number of heat pumps required and any impact on the UK Power Networks costs. There is also an £86,000 cost for the redesign of the heat pumps. However, the programme is currently within budget and there is also a tolerance on the overall capital budget of 5%. Additional capital spend also has an ongoing impact, through revenue costs of capital. As the additional capital costs are estimated to be between £311k and £668k, that could mean an annual revenue cost of up to around £70k. The capital costs relate to heat pumps so would have an estimated life of around 20 years, Therefore Minimum Revenue Provision (5% per year) and interest costs (initially 4-5%) would total up to 10% of the capital cost.

8.10 Option 4b : Instruct Willmott Dixon to design and order the larger, bespoke heat pumps at Royston leisure centre only. To minimise the financial impact on the Council, there is an option to just proceed with the scheme at Royston leisure centre, as the impact on running costs is expected to be less than £20k per year.

9. LEGAL IMPLICATIONS

9.1. Cabinet's Terms of Reference (at paragraph 5.7.8) include "to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework". This means that Cabinet can agree (usually through the quarterly budget monitoring reports) to increases in forecast spend. Where these have an ongoing impact, these are then incorporated into budgets for future years. However, such decisions are required to be in the context of the budgetary framework and that must consider the degree to which there is an element of choice and the financial value. Where decisions are made outside of the budgetary control framework then they should be referred to Council. The revenue impacts of both options 1 and 4a (after inclusion of revenue costs of capital) are expected to be more than £100k. The advice of the Service Director: Resources (as Chief Finance Officer) is that such a decision should be referred to Full Council for approval. This is partly based on the ability for this decision to be referred to the existing additional Council meeting on the 15th January, and that this timing would allow the project to continue without jeopardising the receipt of Salix funding.

10. FINANCIAL IMPLICATIONS

10.1. The revised current capital forecast for the project if option 4a is taken forward (excluding the gym extension) is £13.979 million. This is against an allocated capital budget of £13.590 million. This increase is within the capital tolerances (totalling £740k) set out in the Council's Financial Regulations. From a capital investment perspective, this means that whilst the project could continue without Cabinet (or Council) approval, for completeness, the recommendation includes approval of this additional capital expenditure.

- 10.2. Cabinet should note the additional costs to the Council that were agreed in the July report. These arose from the additional capital spend creating a revenue cost of capital from interest costs and Minimum Revenue Provision. This was an additional annual cost budgeted at around £400k. The table in paragraph 8.2 and paragraph 8.8.4.1 set out additional annual revenue costs (including revenue costs of capital) of up to £219k.
- 10.3. From the Medium-Term Financial Strategy and subsequent budget reports (including one on the agenda for this meeting), Cabinet will be aware of the financial pressures facing the Council. Increases in spend will mean that greater savings will need to be found from other services and budgets.
- 10.4. Options 2 and 3 (if taken forward) would see costs that are currently being treated as revenue having to now be treated as revenue. This happens when a capital project is not completed, and an asset is not created or enhanced. The Council has sufficient General Fund reserves to accommodate that additional revenue expenditure. This means that options 2 and 3 (whilst not recommended) are financially viable decisions that could be taken.

11. RISK IMPLICATIONS

- 11.1. 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.
- 11.2. The decisions contained within this report cannot be made solely on a financial basis, due to the capital costs involved and projected increase in running costs of the facilities. 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 potential need to replace the boilers) may not have access to any such funding in the future.
 - The work by Willmott Dixon and the Quantity Surveyor may identify capital cost savings, although as the project progresses this is less likely.
 - 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 or ongoing revenue 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.”

11.3 We have already seen increases in electricity and gas prices since the July report assumptions. Gas prices increased by more than electricity prices, which overall improves the benefit of a scheme that swaps gas for electricity use. However as energy prices will move again in both the short and long term, the modelling (for consistency) is still based on the original rates. But this highlights both the financial risk and opportunity of a decarbonisation scheme.

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. There are no equalities implications resulting from this report.

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. 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 7.8. Section 7.10 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, which may have a higher carbon cost.

15. HUMAN RESOURCE IMPLICATIONS

- 15.1 To ensure resource can be appropriately managed, a Project Manager has been appointed to support the project alongside a quantity surveyor to represent the Council's interests.

16. APPENDICES

- 16.1 None

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

- 18.1 Energy cost modelling provided to Full Council July 2024