CAPITAL INVESTMENT BUSINESS CASE

Heat Decarbonisation Programme, Phase A – additional funds

EXECUTIVE SUMMARY

The Executive Summary is a short summary of the Business Case and should be the last section you complete, this will enable you to extract or only the key facts from relevant sections i.e. 'project on a page'. The summary is a 'snapshot' of the business case which will need to tell the story and sell the proposal.

Business cases for the 'Big 4' and 'Next 7' Decarbonisation Projects were signed in February and March of 2021.

Since then some sites were removed from this phase of the programme, additional funding was added & subtracted and the two projects were combined into one cost code. The completion of works is delayed mainly due to supply chain delays, the main contractor having sub-contractor issues, asbestos clearing taking longer than anticipated and other unforeseen issues. The latest update on completion of the last site is end September 2023, plus 1 year of monitoring and optimisation.

The original BC cost was £4.809m and covered by Salix grants, S106 and PCC borrowing.

The current project cost has increased to £5,428,052.41 including a 2.5% contingency. Some of these increases (£181,395.62) have already been covered by additional funds from S106, CEIF and other grants along the way and already added to the Capital Programme. However, there is still **£437,707.79** needed.

This BC proposes adding **£437,707.79** from D2Grids fund and CEIF funding to cover the shortfall.

Any further risk of unforeseen cost rises will be mitigated by the contingency included in the final cost.

There is a small saving of approximately £623 in year 1 on energy and maintenance costs and a good carbon reduction of 7,680 tonnes of CO_2e over the life of the measures.

SECTION 1: PROJECT DETAIL

Project Value (indicate capital or revenue)	£4,990,344.62 plus **£437,707.79** for this BC = £5,428,052.41 Capital	**Contingency (show as £ and % of project value)**	£135,683.66 (2.5% of overall project value, with 90% of works already paid for)
Programme		**Directorate**	Place - SP&I
Portfolio Holder	Cllr Tom Briars-Delve	**Service Director**	Paul Barnard
Senior Responsible Officer (client)	Dan Williams	**Project Manager**	Paul Roscorla (WWA) / Alastair Gets (PCC)
Address and Post Code	Various across city	**Ward**	Citywide

Current Situation: *(Provide a brief, concise paragraph outlining the current situation and explain the current business need, problem, opportunity or change of circumstances that needs to be resolved)*

Business cases for the 'Big 4' and 'Next 7' Decarbonisation Projects, covering 11 sites and mostly funded by Salix grants, were signed in February and March of 2021.

Since then some sites were removed from this phase of the programme (leaving 8 sites), additional funding has been added, some funding was moved to other cost codes, some Salix money was paid back (unspent by the grant deadline) and the two projects were combined into one PCC Decarbonisation Programme with a single cost code (8596//6043). The completion of the works has also been delayed mainly due to supply chain delays, the main contractor having sub-contractor issues, asbestos clearing taking longer than anticipated and other unforeseen issues. As a result, additional funding is required to cover the final costs.

At the time of writing, some sites have been commissioned and the latest estimated completion of the last site is September 2023. The ASHP contractors then have 1 year of monitoring and optimisation before handing over to PCC. That year is also the defect period for the works and 2.5% of retention is held for that.

Original Cost and Budget
The two BCs for the Heat Decarbonisation Projects had a combined projected cost of £4.809m and was originally funded from:

- Three Salix grants (86%),
- S106 certificates (10%), and
- PCC borrowing for Ballard insulation (4%).

Current Project Costs
The current total project cost for the ASHP contract, the solar PV contract, the consultant and capitalised costs is £5,292,396.59. This increase, since the original BC, is due to:

- Delays of delivery have resulted in extended time and therefore cost for external PM, CA, QA, EA and PCC capitalised salaries,
- Unforeseen price increases since the 2021 tender,
- Additional PCC instructions and contractor variation claims (that have been approved), and
- Surveys for other buildings for future decarbonisation

The main contractor has also submitted in additional claims amounting to £135,655.82. These claims have not agreed to by our Employers Agent, and are unlikely to be so. However, the value needs to be reserved and, more likely, will actually serve as a 2.5% contingency for any unknown future costs.

The final overall cost, including contingency, is therefore £5,428,052.41

Current Project Funding
During the project delivery some funding (originally under this project) was moved from this cost centre to other decarbonisation projects and some Salix grant was paid back, as follows:

- Ballard roof insulation project - £364,000 of borrowing & Salix grant moved to that cost centre
- Ballard basement/car-park insulation - £36,500 of Salix grant moved to that cost centre
- Elliot Terrace glazing - £35,000 of Salix grant moved to that cost centre
- Salix Next 7 grant - £166,479.10 of unspent grant was returned (unable to be spent by the deadline).

However, also during the delivery, other funding was added to this cost centre (8596//6043) from:

- Salix Skills grants – £162,888.00
- Additional S106 – £283,949.00
- CEIF – £127,798.76
- HeatNet grant – £80,690.00
- SunPeople grant – £62,176.40
- BEIS Civic grant – £66,187.96

The net remaining addition to the cost centre is £181,344.62 and this brought the current budget to £4,990,344.62

This means that we still need **£437,707.79**, or another 9%, to cover the final costs.

Proposed Additional Funding
It is proposed that CEIF and D2Grids funds of cover the **£437,707.79** shortfall.

Three additional CEIF fund certificates, from a £600,000 CEIF pot that was already allocated to decarbonisation delivery within the Net Zero Delivery Team (formally the Low Carbon City Team), and grant from D2Grids NW Europe Interreg fund:

- CEIF 2.4 - £270,019.24*
- CEIF 47k - £46,972.16 (fund certificate rounded to 47,000)
- CEIF 70k - £70,000.00
- D2Grids fund - £50,716.39 (for district heat connection installed as part of this project)

The final budget proposed is therefore £5,428,052.41

**The value of CEIF 2.4 is £320k, however, the Council House asbestos works associated with this project during 2022/23 was originally charged to Revenue for £49,980.76. This was subsequently recoded to capital in April 2023 and paid for by some this CEIF funding. It was requested from Revenue and approved by David Northey (record available) 'with the understanding that if the project goes overspent that Corporate Borrowing can be allocated to cover up to the £50k charged'. So the additional that needs to be added to the capital programme from this certificate is £270k as listed above. But it implies an additional backstop of £50k, should it be needed.*

Proposal: *(Provide a brief, concise paragraph outlining your scheme and explain how the business proposal will address the current situation above or take advantage of the business opportunity)* **and** *(What would happen if we didn't proceed with this scheme?)*

It is proposed that the **£437, 707.79** CEIF funding and BEIS Civic Centre grant be added to the Capital Budget for the PCC Heat Decarbonisation programme to cover the additional costs that have arisen due to supply chain delays and other unforeseen additional costs.

Milestones and Date:		
Contract Award Date	Start On Site Date	Completion Date
Main M&E contracts awarded in September & December of 2021	October 2021	Last site estimated to be complete by end September 2023, followed by 1y of monitoring & optimisation

SECTION 2: PROJECT RISK, OUTCOMES AND BENEFITS

Risk Register: *The Risk Register/Risk Log is a master document created during the early stages of a project. It includes information about each identified risk, level of risk, who owns it and what measures are in place to mitigate the risks (cut and paste more boxes if required).*

Potential Risks Identified – only for new budget of this BC			***Likelihood***	***Impact***	***Overall Rating***
Risk	Unforeseen cost rises and further delays resulting in cost increases for the remainder of the project meaning further funds need to be sought		Medium	High	High
Mitigation	A contingency has been included at 2.5% of the overall project value and 31% of the new funds proposed in this BC. PCC are also looking into LAD claims due to contract date overruns by the main contractor		Low	Low	Low
Calculated risk value in £ (Extent of financial risk)	£0		Expected to be covered by contingency (and LADs if necessary)		

Outcomes and Benefits

List the outcomes and benefits expected from this project.
*(An **outcome** is the result of the change derived from using the project's deliverables. This section should describe the anticipated outcome)*
*(A **benefit** is the measurable improvement resulting from an outcome that is perceived as an advantage. Benefits are the expected value to be delivered by the project, measurable whenever possible)*

Financial outcomes and benefits:	**Non-financial outcomes and benefits:**
The financial outcome is: Less reliance on gas and any costs associated with air quality around boilers, and ultimately costs of fossil-fuel-driven climate change. The financial benefit in total including all measures that this cost code contributed to is estimated at about £60.6k per year of gas and electricity savings (for this cost centre only is about £4k per year). However, there is about £3.4k of net maintenance cost over and above the boiler maintenance, resulting in about £623 benefit in year 1.	Non-financial outcomes are improved air quality around boilers due to the reduction in gas use and contribution to the climate emergency by the reduction in carbon emissions. The Non-financial benefits to PCC's carbon net zero by 2030 commitment is 425 tonnes of CO_2e reduced per year or about 7,680 tonnes of CO_2e reduced over the life of the measures.

Low Carbon		
What is the anticipated impact of the proposal on carbon emissions	425 tonnes of CO_2e reduced per year or about 7,680 tonnes of CO_2e reduced over the life of the measures	
How does it contribute to the Council becoming Carbon neutral by 2030	These buildings are among the highest emitters of carbon so these measures contribute greatly to carbon neutrality	
Have you engaged with Procurement Service?		Yes
Procurement route options considered for goods, services or works	Open tenders, mini competition within frameworks, variations of existing contracts	
Procurements Recommended route.	The project is currently running and there are 2 main contractors procured through invited tender and variation of contract	
Who is your Procurement Lead?	Gosia Anthony	
Is this business case a purchase of a commercial property		No

If yes then provide evidence to show that it is not 'primarily for yield'	
Which Members have you engaged with and how have they been consulted *(including the Leader, Portfolio Holders and Ward Members)*	Initially for original BCs Cllr Sue Dann Cllr Stoneman was subsequently briefed Cllr Tom Briars-Delve briefed by presentation and discussion on 05 September 2023

SECTION 4: FINANCIAL ASSESSMENT

FINANCIAL ASSESSMENT: *In this section the robustness of the proposals should be set out in financial terms. The Project Manager will need to work closely with the capital and revenue finance teams to ensure that these sections demonstrate the affordability of the proposals to the Council as a whole. Exact amounts only throughout the paper - not to be rounded.*

CAPITAL COSTS AND FINANCING – TOTAL PROJECT

Breakdown of project costs including fees surveys and contingency	**Prev. Yr.** **£**	**23/24** **£**	**24/25** **£**	**25/26** **£**	**26/27** **£**	**27/28** **£**	**Future Yrs.** **£**	**Total** **£**
ASHP M&E Contract	4,110,184.40	220,786.50	111,050.54					4,442,021.44
Solar&Battery Contract	317,207.88	26,310.89	4,176.31					347,695.08
Surveys		35,000	35,000					70,000.00
Project delivery	301,979.31	33,720.00	47,000.00					382,669.31
Asbestos removal	49,980.76							
Contingency		67,827.91	67,827.91					135,655.82
TOTAL capital spend	**4,779,352.35**	**383,645.30**	**265,054.76**					**5,428,052.41**

Provide details of proposed funding: *Funding to match with Project Value*								
Breakdown of proposed funding	**Prev. Yr.** **£**	**23/24** **£**	**24/25** **£**	**25/26** **£**	**26/27** **£**	**27/28** **£**	**Fut Yrs.** **£**	**Total** **£**
Original BCs (Salix, S106, Borrowing)	*4,738,891.59*	*70,108.41*						*4,809,000.00*
Net during delivery: <u>Added</u> (Salix, S106, CEIF, grants), & <u>Subtracted</u> (borrowing, Salix)		*181,344.62*						*181,344.62*

THIS BUSINESS CASE: proposed: CEIF, and		265,231.47	121,759.93					386,991.40
EU D2Grids fund		50,716.39						50,716.39
TOTAL this BC		**315,947.86**	**121,759.93**					**437,707.79**
Total Project funding	*4,738,891.59*	*567,400.89*	*121,759.93*					*5,428,052.41*

Which external funding sources been explored	Additional Salix grant funding has been added along the way
Are there any bidding constraints and/or any restrictions or conditions attached to your funding	There was a spend deadline on the Salix funding and some had to be paid back (very tight timeline).
Tax and VAT implications	The original BCs: *The sites proposed for the decarbonisation works include some premises which are leased out or where the Council receives income from lettings. This means that a proportion of the VAT incurred on the capital cost of the works will be directly attributable to a VAT-exempt activity of the Council. VAT will still be recoverable but a proportion of the VAT will need to be included in the Council's partial exemption calculation which is required to ensure that the Council is able to fully recover VAT relating to all of its VAT-exempt activities and does not exceed its limit. Expenditure on the project must be regularly monitored, therefore, to determine the amount of VAT to be included in the calculation.*
Tax and VAT reviewed by	The original BCs: Sarah Scott

REVENUE COSTS AND IMPLICATIONS	
Cost of Developing the Capital Project *(To be incurred at risk to Service area)*	
Total Cost of developing the project	N/A (capitalised)
Revenue cost code for the development costs	
Revenue costs incurred for developing the project are to be included in the capital total, some of the expenditure could be capitalised if it meets the criteria	Y/N
Budget Managers Name	

Ongoing Revenue Implications for Service Area	**Prev. Yr. £**	**23/24 £**	**24/25 £**	**25/26 £**	**26/27 £**	**27/28 £**	**Final Yrs. £**
Service area revenue cost							
Other *(net maintenance)*			3,500	3,616	3,724	3,836	6,155
Loan repayment *(terms agreed with Treasury Management)*	0	0	0	0	0	0	0
Total Revenue Cost (A)			**3,500**	**3,616**	**3,724**	**3,836**	**6,155**

Service area revenue benefits/savings							
Annual revenue income *(net energy)*			4,133	4,257	4,385	4,516	7,247
Total Revenue Income (B)			**4,133**	**4,257**	**4,385**	**4,516**	**7,247**
Service area net (benefit) cost (B-A)			**623**	**641**	**661**	**680**	**1,092**

Has the revenue cost been budgeted for or would this make a revenue pressure	No revenue pressure, modest financial saving (large carbon saving)						
Which cost centre would the revenue pressure be shown	N/A		**Has this been reviewed by the budget manager**		Y/N		
Name of budget manager							
Loan value	£	**Interest Rate**	%	**Term Years**		**Annual Repayment**	£
Revenue code for annual repayments							
Service area or corporate borrowing							
Revenue implications reviewed by							

Version Control: *(The version control table must be updated and signed off each time a change is made to the document to provide an audit trail for the revision and update of draft and final versions)*

Author of Business Case	Date	Document Version	Reviewed By	Date
	25/08/2023	v 1.0	Lynn Walter	29/08/2023

SECTION 6: RECOMMENDATION AND ENDORSEMENT

Recommended Decision

It is recommended that the Leader of the Council:

- Approves the Business Case
- Allocates **£437,707.79** for the project into the Capital Programme funded by CEIF

Tom Briars-Delve, Environment and Climate Change		*Paul Barnard, Service Director for SP&I*	
Either email dated:	*06/09/2023*	**Either email dated:**	*07/09/2023*
Or signed: 		**Signed:** 	
Date: 06/09/23		**Date: 07/09/2023**	