monmouthshire
sir fynwy

SUBJECT:	**RE:FIT PROGRAMME PHASE 1**
MEETING:	**Full Council**
DATE:	**4th June 2020**
DIVISION/WARDS AFFECTED:	**All**

NON-PUBLICATION

Appendix items 4, and 5 are not to be published publicly as exempt under paragraph 12 of Schedule 14 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

1. PURPOSE:

1.1 To secure financial approval for Re:fit programme Phase 1, installing energy conservation measures (ECMs) across a portfolio of MCC buildings.

2. RECOMMENDATIONS:

2.1 To seek approval to install a first phase of ECMs with a combined 8-year payback across a portfolio of MCC buildings at a budget cost of up to £2.5M, generating net energy savings to the Council and reducing operational carbon emissions.

2.2 To seek approval to fund the installation of the ECMs with a Salix interest-free loan from Welsh Government, repayments over a 10-year period to be covered by the energy savings generated, and add the project to the Authority's capital programme.

2.3 To delegate final approval for the funding and commencement of the works stage of the Re:fit programme to the Chief Officer, Resources in consultation with the Cabinet Member Resources, based on presentation of a detailed business case to the Chief Officer before submission of the Salix application.

3. KEY ISSUES:

3.1 Energy savings of £25k from Re:fit in 2020/21 have been included in the Sustainability budget mandate agreed by Council, based on an initial desk-based benchmarking exercise across the entire Council estate undertaken by Re:fit Cymru.

3.2 The Re:fit programme will play a vital role in delivering actions included in the MCC Climate Emergency Strategy adopted in October 2019 and the goals of the MCC Corporate Plan, identifying and implementing energy efficiency improvements and renewable energy generation to reduce carbon emissions.

3.2.1 The accelerated survey and implementation of ECMs will make significant contribution towards delivery of Climate Emergency Action Plan actions to “Implement energy efficiency improvements across the existing council estate by 2022” and for “All bulbs within council owned buildings [to] be LED.”

3.2.2 The improved energy efficiency, reductions in carbon emissions and increased capacity of renewable energy installations will contribute to achieving Goal C of the MCC Corporate plan to “Maximise the potential of the natural and built environment”

3.3 The cost of ECMs will be funded by a Salix interest-free loan available from Welsh Government (WG), repayable from energy savings generated over a 10-year period. The Salix funding criteria requires an 8-year payback generated a net saving for the Council. Salix loan repayments will be made from energy savings recovered from energy budgets over a period of 10 years, the terms of the Re:fit programme requiring the Service Provider to guarantee kWh energy savings over the period.

3.4 Based on the initial desk-based benchmarking exercise, an Expression of Interest (EoI) was submitted to WG for Salix funding of up to £2.5M. This funding is available to the Council subject to approval of a detailed application that must be submitted by 30th June 2020.

3.5 Under the existing delegated authority, a Service Provider (SSE contracting) has been appointed and undertaken a High Level Assessment (HLA) to determine viability of ECMs across an initial phase of MCC buildings. Following review of the HLA findings, the Service Provider has been authorised to produce an Investment Grade Proposal (IGP) to confirm designs, costs, guaranteed kWh savings and measurement and verifications plans that will form the basis of the Salix funding application.

3.6 Delegated authority for the Chief Officer, Resources to approve the Salix application and works phase following production of the IGPs is sought to avoid delays at critical stages in the programme, thereby meeting Salix funding deadlines and allowing works in schools to be completed during the summer holidays.

4. REASONS:

4.1 Individual Cabinet Member Approval was given on 13th June 2018 to access Local Partnership's framework and support from Re:fit Cymru Programme Implementation Unit (PIU) to develop a Re:fit programme, delegating decision making and management of the programme to the Chief Officer, Resources in consultation with the Cabinet Member Resources.

4.2 Energy savings of £25k from Re:fit have been included in the Sustainability budget mandate agreed by Council for 19/20, based on an initial desk-based benchmarking exercise across the entire Council estate undertaken by Re:fit Cymru. Delays in implementation in 19/20 have meant the savings have had to be managed by other means, and the 19/20 saving rolled into 20/21 as part of the base.

4.2.1 The impact of COVID-19 working restrictions from the IGP stage onwards are expected to delay energy savings further, creating an additional budget pressure in 20/21. Although it is difficult to accurately estimate by how much until the programme is finalised, it is expected that part-year energy savings will be achieved as ECMs are installed before Mar-21 and Salix repayments and annual fees commence in 2021/22.

4.3 In May 2019, the Council declared a Climate Emergency, committing to achieving net zero carbon emissions from it's operations by 2030. A phased Re:fit programme will identify and implement an accelerated programme of energy efficiency improvements and renewable energy generation projects to reduce carbon emissions necessary to deliver Climate Emergency actions.

4.4 Goal C of the MCC Corporate Plan, refreshed in March 2020, is to "Maximise the potential of the natural and built environment." The energy efficiency and carbon reductions delivered by a Phased Re:fit programme will help to upgrade and optimise the operation of existing buildings within the MCC estate.

4.5 Salix-funded projects must meet strict payback and cost-of-carbon criteria and help deliver national carbon reduction targets. The Re:fit approach to guarantee kWh savings and use Salix interest-free loans repaid from financial savings generated represents a cost-effective opportunity to deliver carbon reduction projects.

4.5.1 Additional Re:fit phases/programmes and funding will be required to fully deliver the Climate Emergency actions and Corporate Plan goals relating to energy and carbon due to the limitations of Salix paybacks, but use of the funding will allow significant progress to be made immediately without additional MCC capital expenditure.

4.6 Under the Local Partnerships Re:fit framework and with support from the PIU, a tender process was undertaken in 2019 and SSE Contracting Ltd. were appointed as Service Provider to deliver the Re:fit programme in January 2020. A High Level Assessment (HLA) undertaken by the Service Provider and completed in March 2020 included site surveys and data analysis across a first phase of sites. Although indicative at this stage, the HLA exercise has confirmed a potentially viable Phase 1 portfolio warranting progress to an Investment Grade Proposal (IGP) stage.

4.6.1 The indicative figures from the HLA estimated a budget Service Provider capital cost of £1,864,487 with gross savings of £2,493,506 over 10 years and a simple payback of 7.7 years based on energy consumption savings of 2,043,334 kWh p.a. With Salix repayments, contingencies, PIU fees, maintenance and monitoring and verification (M&V) costs added and covered by the energy savings, an indicative net saving is shown of £492,399 over 10 years or £49,240 p.a. on average. Indicative carbon savings of 501 tCO2 p.a. are the equivalent of approximately 9% of emissions from the MCC estate.

4.6.2 The HLA has been reviewed by MCC officers and the PIU, and the final portfolio and scope of ECMs will differ by the time the final Salix bid is submitted to align with future building developments and allow for other project costs to be built into the Salix application.

4.6.3 Examples of ECMs proposed in the Phase 1 HLA include:

- LED lighting and controls
- Additional rooftop, ground-mounted, and car port solar PV
- Air handling unit and fan upgrades
- Boiler upgrades and CHP installation
- Heat pumps
- High efficiency showers

4.6.4 See Appendix 4 for the draft HLA report and Appendix 5 for the indicative HLA template.

4.7 The IGP stage has commenced to confirm detailed designs, costs, and guaranteed kWh savings to form the basis for the Salix funding application. The original deadline for submission of the Salix funding application was 30th June 2020, but the IGP was to be completed by 15th May 2020 and Salix bid submitted by the end of May 2020, allowing time for review and approval by various parties ready for sign-off in June 2020.

4.7.1 The original deadline for the Salix funding had been 30th June 2020, but Salix confirmed in writing an extension to 30th September 2020 due to the impact of COVID-19 on the programme. Once approved, applicants have 12 months to complete the funded works.

4.7.2 The Service provider produced a draft IGP by the original programme deadline of 15th May 2020, but it is heavily caveated and awaiting further detailed surveys and reviews delayed due to COVID-19 working restrictions.

4.7.3 Although the delivery programme may delayed due to COVID-19 restrictions, the Re:fit programme itself aligns with the MCC coronavirus strategy value of teamwork, the principle of “being innovative and creative,” and the strategic aim of “ensuring we remain financially sustainable as an organisation.”

4.8 Delegated authority for the final approval for the funding and commencement of the works stage of the Re:fit programme to the Chief Officer, Resources will avoid further delays following the IGP stage that could result in loss of Salix funding or more significant delays to the programme. It may still be possible to undertake some works in schools during the summer holidays or at other properties during COVID-19 closures, minimising disruption to sites and overall programme.

4.9 See Appendix 7 for a Gantt chart demonstrating the original Phase 1 Re:fit Programme Plan. Delays due to COVID-19 have impacted the IGP stage onwards, although the approach to date has been to try and follow the original programme as closely as possible. It is almost certain there will be delays to delivery, and the programme is being reviewed with the Service Provider alongside the draft IGP containing details of the proposed works and timescales.

4.10 Assuming successful delivery of Phase 1, the intention is that a phased roll out of the programme covers the whole estate and may be expanded in scope to include wider measures and opportunities.

5. OPTIONS APPRAISAL

5.1 See sections 6 and 7 for resource implications and risks respectively.

Option	Benefits	Risks	Comments
Do nothing	• None	• Energy bills continue to increase • Failure to deliver carbon reductions and Corporate Plan goals/Climate Emergency actions • Replacement of services within buildings will be funded from maintenance programme reducing budget available for other works	Maintenance programme and new builds have delivered incremental improvements, but scope limited by available budgets and specific investment required to deliver significant and accelerated energy and carbon savings and meet obligations of Climate Emergency/WBFGA/budget pressures.
Deliver ECMs in-house	• Direct control over delivery and costs, avoiding Service Provider fees	• Limited capacity to undertake accelerated programme in line with Corporate Plan/Climate Emergency Action Plan • No guarantee of savings and performance	Budget and Climate Emergency pressures require accelerated delivery of ECMs across Estate, would require additional staffing resources and procurement processes to deliver.
Deliver ECMs using alternative funding.	• Less restrictive funding criteria • Longer paybacks over lifetime of ECMs allowing wider scope of works	• Availability of alternative sources of funding/capital • Interest repayable on alternative funding impact paybacks and net savings	Interest-free Salix funding has been allocated and offers cheaper way to deliver qualifying ECMs, alternative funding could be considered for longer-payback ECMs at later stage.
Deliver Re:fit programme with Service Provider using Salix funding.	• Project management support from Local Partnerships and • Accelerated delivery of ECMs and savings due to delivery capacity and technical expertise of Service Provider • Guaranteed savings underwritten by Service Provider	• Delays in programme miss funding or delivery deadlines • Changes in energy prices affect paybacks • Contingencies render paybacks unviable under Salix	Delegated authority for Salix application will reduce delays at key stage in programme. Contingencies and costs to be confirmed during IGP stage and portfolio reviewed to include cost within Salix funding and paybacks.

Option	Benefits	Risks	Comments
	• Reduction of future maintenance budget pressures	• Salix funding limitations unable to deliver all MCC decarbonisation goals	Salix funding will enable immediate action towards goals, help identify further opportunities

Table 1. Options appraisal

6. RESOURCE IMPLICATIONS:

6.1 All work undertaken by MCC staff to date has been delivered from existing staff resources, and will require allocation of key staff (Legal, QS, clerking) through the IGP and works stages.

6.2 All capital and delivery costs of Phase 1 up to a maximum of £2.5M will be included in the final Salix funding bid, including PIU support fees, IGP costs and a provisional sum for contingencies. Salix repayments, any additional maintenance costs and M&V fees for the ECMs installed will be paid for from the gross energy savings generated. Initial reviews of the draft HLA confirm that this can be done while delivering the required 8-year payback for Salix funding.

6.3 Gross savings in 2020/21 will be reduced due to the timing of ECM installations and the delays resulting from COVID-19 restrictions, but the high-level analysis of the HLA template and cash flow in Appendix items 5 and 6 do not show this reduction in Year 1. However, repayments of the Salix funding over 10-years will not commence until 2021/22 and reduce the impact of the reduced gross savings in Year 1, and the business case presented to the Chief Officer, Resources for approval will show accurately the predicted financial-year cash flows throughout the Salix repayment period.

6.4 Energy savings of £25k from Re:fit have been included in the Sustainability budget mandate agreed by Council for 19/20, delays in implementation in 19/20 meaning the savings have had to be managed by other means. The 19/20 saving has now been rolled into 20/21 as part of the base but the impact of COVID-19 working restrictions are expected to delay these savings further, creating an additional budget pressure in 20/21. Further energy savings are anticipated as the scheme develops that will be built into MTFP saving plans, existing profiles having been based on the desk-based benchmarking exercise undertaken by Re:fit PIU. The energy savings expected from Phase 1 will be confirmed following completion of the IGP and ahead of the Salix application.

6.4.1 The current profile of savings in the MTFP is shown in Table 2 based on an initial desk-based benchmarking exercise across the entire Council estate undertaken by Re:fit Cymru. The actual profile of savings achievable will be dependent on the final viability and delivery of Phase 1 and any subsequent roll out of additional phases, and any differences will have to be managed as budget pressures.

Year	Saving	Additional saving released to MTFP
2020-21	£25,000	-
2021-22	£49,000	£24,000
2022-23	£72,000	£23,000
2023-24	£72,000	-

Table 2. Current Re:fit energy savings MTFP profile

6.5 Energy consumption savings will be guaranteed by the Service Provider to deliver a payback of 8 years or less across the portfolio, delivering net savings to the Council over the 10-year Salix repayment period. Under the terms of the Re:fit contracts, the Service Provider will be liable to pay the monetised difference should the actual savings achieved across the portfolio fail to deliver the guaranteed kWh savings. Sensitivity analysis undertaken on the impact of energy price increases and the difference between guaranteed and anticipated kWh energy savings is shown in Appendix 3 and will be repeated following the IGP stage.

6.6 Energy consumption savings at each site will be itemised to allow recovery of the financial savings from individual energy budgets. Energy savings from CYP buildings (schools) will be recovered through Education Finance by a reduction in allocated energy budgets, any difference between predicted and actual energy savings being reconciled and adjusted during the annual M&V review. The surplus from the energy savings across the portfolio after repayment of costs will be captured to deliver the mandated energy savings, with any additional surplus redistributed back into the individual energy budgets on a pro-rata basis.

6.7 Additional savings to Council budgets are anticipated from the Re:fit programme, for example from water and maintenance savings over the lifetime of the ECMs that is anticipated to be longer than the Salix repayment period. However, these are difficult to quantify accurately at present and/or are unable to be included within the Salix funding bid.

6.8 Outside the scope of Phase 1 and Salix funding criteria, the Re:fit programme and terms of the Service Provider appointment presents opportunities to identify and realise additional energy and carbon savings. A roll-out of additional phases is anticipated to cover the whole Council estate, potentially add value and reduce capital costs of refurbishment schemes such as Caldicot Leisure Centre, and identify other energy and carbon related opportunities within the scope of the original ITT.

7. RISKS:

7.1 Key risks affecting the business case and delivery are summarised in Table 3.

Risk	Likelihood	Impact	Mitigation
Impact of COVID-19 working restrictions causes delays to IGP and works stages of programme resulting in missed Salix deadlines/holiday periods for works in schools and delay to achieving savings	High	High	• Work on IGP stage (technical meetings, design, and tendering) has continued remotely, allowing draft IGP to be produced • Written confirmation of extension to Salix application deadline, and 12 months to complete works following award of funding • Existing programme to be reviewed and amended as necessary as detailed surveys completed and ECM timescales confirmed • May be able to reschedule schools works for other holidays, bring forward works in other buildings/those with reduced occupation.
Time taken to approve IGP/Salix application/works contract cause additional delays resulting in missed Salix deadlines/holiday periods for works in schools and delay/failure to implementation of measures and overall programme progress.	High	High	• Availability of MCC technical and Legal staff to input and review IGP/draft and finalise contracts. • Delegated authority to Chief Officer, Resources to approve Salix application and works stage.
Identification of asbestos/planning/other costs during IGP stage results in cost increases outside Salix funding criteria.	Medium	High	• Estimation of some potential provisional/contingency sum identified following HLA stage and included within Salix funding total. • Reduction of payback in draft IGP and anticipated reduction in scope/costs for some ECMs expected could allow sum within Salix to be increased. • Where costs cannot be absorbed within Salix funding, portfolio of ECMs to be reviewed and reduced further.
Volatility of energy prices leads to variation/reduction in energy rates and actual savings achieved by energy reductions.	High	Medium	• Monetisation of energy savings based on 8-year average energy prices applying conservative inflation rate to latest 2020/21 energy prices.

Risk	Likelihood	Impact	Mitigation
			• M&V reporting will confirm actual energy consumption savings that can be reviewed and adjusted with latest contract prices change. • Wholesale energy prices have fallen during decrease in demand through COVID-19, but accepted long-term trend that energy prices will recover and continue to increase above inflation.
Predicted savings are not realised and fail to cover funding repayments/provide additional savings, leading to dispute with Service Provider.	Low	High	• Savings guarantees and M&V plans to be included in IGPs and works contracts and reviewed with Re:fit PIU support. • Portfolio approach taken to energy savings guarantee, but itemised M&V will allow adjustment of savings recovered from individual budgets to reflect actual site-by-site savings.
Specification of low-quality or inappropriate ECMs by Service Provider fail to deliver performance/savings required resulting in issues for building users, maintenance, and repayments of Salic funding	Medium	Medium	• MCC technical staff engaged through IGP stage to review ECM design and spec proposals • Service Provider has removed/amended some ECM proposals to address MCC concerns • Re:fit contractual approach places liability for defects and savings guarantee with Service Provider
Delay in agreeing works contract following IGP delays drawing down of funding, implementation of measures and overall project progress.	Medium	Medium	• MCC Legal engaged at early stage and throughout tender process to review standard Re:fit contracts and call off docs. • Allocation of Legal resource to draft/finalise contracts during/at end of IGP stage. • Submission of contracts for LP review as soon as possible.
Lack of adequate MCC staff capacity to review IGP/act as clerk of works result in works that do not meet required performance/standards.	Medium	Medium	• Allocation of adequate MCC technical staff resources at key times, and identify any additional capacity required. • Support from Re:fit PIU to review elements of IGP.

Risk	Likelihood	Impact	Mitigation
			• Service Provider appointed has allocated own in-house design and site management resources.
Changes to building occupation in “new normal” following COVID-19 impact energy consumption in buildings affecting baselines and savings	Medium	Low	• Anticipated changes to be considered during IGP review and portfolio amended as appropriate • Measures will reduce energy consumption and contribute to long-term sustainability of estate

Table 3. Summary of main business case and delivery risks.

7.2 A comprehensive wider risk register is being maintained by MCC officers throughout the project and will be presented to the Chief Officer, Resources with the final Salix business case.

8. WELLBEING OF FUTURE GENERATIONS IMPLICATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING AND CORPORATE PARENTING):

8.1 The proposal does not have any equalities, safeguarding or corporate parenting implications.

8.2 The proposal contributes to the delivery of five of the seven well-being goals including:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A Wales of cohesive communities
- A globally responsible Wales

8.3 The proposal demonstrates embedding and prioritising all five of the sustainable governance principles in its development.

8.4 See Appendix 2 for the detailed Future Generations Evaluation.

9. CONSULTEES:

Estates
Property
Finance

CYP
Leisure

10. BACKGROUND PAPERS:

Appendix 1: Exemption from Disclosure of Documents Certificate
Appendix 2: Future Generation Evaluation
Appendix 3: Detailed Resource Implications
Appendix 4: Indicative HLA Draft Report
Appendix 5: Indicative HLA Assessment Template
Appendix 6: Indicative HLA Cash Flow (MCC Amended)
Appendix 7: Re:fit Programme Plan

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