monmouthshire
sir fynwy

RE:FIT PROGRAMME PHASE 1 REPORT

Appendix 3 – Detailed Resource Implications

1 All work undertaken by MCC staff to date has been delivered from existing staff resources, mainly within Estates, Property, Procurement, and Legal.

1.1 The Re:fit Programme Implementation Unit (PIU) has provided support for benchmarking, tender development, project management and High Level Assessment (HLA) review to date, and will provide additional support including Investment Grade Proposal (IGP) and monitoring and verification (M&V) plan reviews.

1.2 Technical input and review during the IGP stage, together with clerk of works and QS functions during the works stage, will be delivered from existing Property staff resources, but will require allocation of key staff and may cause capacity issues.

1.3 Annual performance reviews against the M&V plans and any subsequent contractual activities will be undertaken by existing MCC Estates staff resources with support available from the PIU and Welsh Government Energy Services.

2 Under the Individual Cabinet Member Decision on 13th June 2018, commitment was made to the Re:fit Cymru PIU support fee of £10,000.

2.1 The estimated cost of delivering the standard package of Re:fit PIU support for an organisation is approximately £70-100k. However, funding from Welsh Government to subsides the PIU support results in a net cost to MCC of £10,000 which will escalate to £20,000 should the Council choose not to proceed.

2.2 The £10,000 will form part of the capital programme costs to be funded via the Salix bid.

3 The costs of producing the IGPs for all Phase 1 sites will form part of the capital programme costs to be funded via the Salix bid. The indicative cost in the HLA for the IGP stage is £14,600.

3.1 Should the Council choose not to proceed past the IGP stage, the IGP costs will be met from existing budgets as abortive project costs.

4 All capital and delivery costs of Phase 1 will be included in the final Salix funding bid, up to a maximum of £2.5M.

4.1 The capital costs in the Salix bid will include the PIU support fee, IGP costs, all costs incurred by the Service Provider to design, supply, install and project manage the delivery of the Energy Conservation Measures (ECMs), and any contingencies or provisional sums. Preliminary review of the draft HLA has confirmed that this can be done while delivering the required 8-year payback for Salix funding.

4.2 Initial indications from HLA stage estimate that a provisional sum in the region of £100,000 may be considered to cover contingencies that could be included within the Salix funding bid. The draft IGP indicates that there may be room to increase the sum included within the Salix funding bid while maintaining required paybacks.

4.3 The deadline for submission of the Salix application is 30th September 2020, extended from 30th June 2020 upon request due to the potential impact of COVID-19 on the programme. It is expected an application could be submitted to Salix in June 2020 which may allow funding to be drawn down from July 2020 that would need to be spent within 12 months

4.4 Where ECM paybacks do not meet the Salix criteria, it may be possible to deliver them from the capital maintenance budget. Alternatively, a blended funding approach may be considered to reduce payback to within Salix limits using existing capital budgets. This approach will be subject to MCC officer review of existing capital budget programmes, but may have potential to add value to existing and/or future maintenance or refurbishment projects.

5 Additional maintenance costs and M&V fees for the ECMs installed will be paid for from the energy savings generated. The impact of these on gross savings has already been included in the HLA/daft IGP and will be confirmed by completion of the IGP stage.

5.1 Ongoing M&V and reporting will provide evidence of the guaranteed kWh savings achieved and form the basis for any claim against the service provider for underperformance.

6 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.

6.1 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 1. Current Re:fit energy savings MTFP profile

6.2 Although it is difficult to accurately estimate by how much until the COVID-19 impacted programme is finalised, it is expected that part-year energy savings will be achieved in 2020/21 as ECMs are installed before Mar-21 and Salix repayments and annual fees commence in 2021/22. If these part-year savings were assumed at 25% of indicative annual savings from the HLA it would equate to approximately £63,000.

7 Energy consumption savings will be guaranteed by the Service Provider to deliver a payback of 8 years or less across the portfolio making up the Salix application, resulting in a project that delivers net savings to the Council over the 10-year Salix repayment period. (See Appendix 5 for indicative HLA cash flow.)

7.1 The savings guarantee is applied to the portfolio as a whole and expressed in terms of kWh units of energy consumption. The financial savings and any income achieved is calculated by applying the unit rates to the energy consumption savings.

7.2 The estimated financial savings are based on April 2020 energy contract prices with a 4% p.a. increase applied, an average figure over the 10-year period being used in producing the HLA. There is a risk that actual savings may be impacted by differences in actual energy prices, so a sensitivity analysis using a separate MCC model on the impact of different energy price increases on the indicative savings in the HLA is summarised in Table 1.

Increase in energy prices p.a.	Gross savings (10 years)	Net savings (10 years)	Simple Payback (years)
0%	£2,119,877	£75,758	9.3
2%	£2,317,121	£273,002	8.5
4%	**£2,536,518**	**£492,399**	**7.7**
6%	£2,780,485	£736,366	7.1

Table 2. Energy price increases sensitivity analysis.

7.3 All energy savings used for the HLA, IGP and Salix application are based on the energy consumption savings guaranteed by the Service Provider. The Service Provider has confirmed that the anticipated energy consumption savings are higher than the guaranteed savings. How the difference between guaranteed and anticipated kWh savings may impact the indicative HLA assessment is summarised in Table 2.

Savings approach	Gross savings	Net savings	Simple Payback (years)
Guaranteed	**£2,536,518**	**£492,399**	**7.7**
Anticipated (assuming portfolio guarantee of 95% of savings)	£2,667,756	£623,636	7.4

Table 3. Guaranteed v anticipated savings sensitivity analysis.

7.4 Under the terms of the Re:fit contracts, should the actual energy consumption savings achieved from the portfolio of ECMs fail to deliver the guaranteed kWh savings, the service provider will be liable to pay the Council the difference in the monetised value.

8 The gross energy savings achieved will be used to cover annual Salix funding repayments over a 10-year period, together with the additional maintenance costs and M&V fees.

8.1 Under the original programme, Phase 1 ECMs would begin to be installed in July 2020, school sites being completed by September 2020 and all installations completed by the end of March 2021. The impact of COVID-19 working restrictions are expected to delay the programme delivery and installations further, resulting in savings in 2020/21 and Year 1 to be reduced, annual savings likely being realised in full from 2021/22 onwards. Due to the high level of the analysis, the HLA template and cash flow in Appendix items 4 and 5 do not show this reduction in Year 1.

8.2 The repayment of Salix funding over 10 years when the portfolio of ECMs has a combined 8-year payback will reduce the impact of part-year savings in Year 1. Together with the difference between the guaranteed and anticipated savings, this will create the net saving to the Council to deliver the energy savings in the budget mandate.

9 Although a portfolio approach is applied to the energy consumption savings guarantee, guaranteed and actual kWh savings are itemised in the HLA, IGP, and M&V reporting to identify actual savings achieved by individual ECMs at each site.

9.1 Itemised energy savings generated will be recovered from individual energy budgets to cover the costs of Salix repayment contributions, maintenance costs and M&V fees. Energy savings from CYP buildings (schools) will be recovered through Education Finance by a reduction in allocated energy budgets by the guaranteed savings amount. Where there is any difference in the predicted and actual energy savings from any individual budget, this will be reconciled and adjusted during the annual M&V review.

9.2 Any surplus from the energy savings across the portfolio after repayment of costs will be captured to deliver the £25k energy savings in the Council budget mandate.

9.3 Any surplus from the energy savings across the portfolio after repayment of costs and delivery of the mandated energy savings will be redistributed back into the individual energy budgets on a pro-rata basis.

9.4 Where an individual ECM has a shorter payback, savings will continue to be recovered throughout the 10-year period that Salix repayments are due for funding across the portfolio.

10 Additional savings to Council revenue and capital budgets is anticipated from the Re:fit programme. However, these are difficult to quantify accurately at present and/or are unable to be included within the Salix funding bid.

10.1 Some ECMs included in the HLA will result in water consumption savings, but the Salix funding criteria does not allow these to be included in the funding application and payback calculations.

10.2 The expected lifetime and persistence factors of ECMs is longer than the 8-year payback and 10-year repayment periods and will, therefore, continue to deliver energy savings after funding has been repaid in full.

10.3 The installation of ECMs is expected to produce some maintenance savings due to:

- Longer life and lower maintenance requirements of ECMs compared with some existing plant and equipment.
- Replacement of aging plant and equipment that would otherwise be included in future maintenance programmes.
- Alignment with other planned maintenance works where possible to add value.

11 Outside the scope of Phase 1 and limited eligibility criteria of Salix funding, the Re:fit programme and terms of the Service Provider appointment presents opportunities to identify and realise additional energy and carbon savings.

11.1 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. The Phase 1 HLA process has also identified opportunities outside the scope of Salix funding that could be considered under an alternative business case.

11.2 An initial assessment of Caldicot Leisure Centre has been made by the Service Provider and a full HLA will be undertaken once developing plans and scope for the refurbishment are confirmed. Inclusion with the Re:fit programme will add value to the refurbishment and deliver additional long term energy and carbon savings.

11.3 The scope of the original ITT issued allows for the provision of other energy related services across a wider portfolio, and the Service Provider appointed has experience with varied and innovative projects that align with other MCC decarbonisation interests.