

**TEIGNBRIDGE DISTRICT COUNCIL
FULL COUNCIL
4 MAY 2021**

Report Title	FORDE HOUSE DECARBONISATION AND AGILE WORKING PROJECT
Purpose of Report	To approve spending secured under the Public Sector Decarbonisation Scheme for Forde House, and to approve additional spending to enable works in connection with the Forde House decarbonisation project and the Agile Working project.
Recommendation(s)	<p>The Committee RESOLVES to:</p> <p>(1) Provide authority to the Head of Place and Commercial Services to spend Public Sector Decarbonisation Scheme grant funding of £672,000 on projects identified in Section 2 of the report;</p> <p>(2) Approve additional funding from prudential borrowing and capital receipts of up to £2,721,679 to support the delivery of Public Sector Decarbonisation Scheme projects and Agile Working projects; the funding to be in a combination which provides the minimum 1% return on investment.</p> <p>(3) Delegate authority to the Head of Place and Commercial Services (in consultation with the Executive Member for Climate Change, Flooding and Coastal Protection and the Chief Finance Officer) to ensure appropriate delivery of the decarbonisation project and Agile Working project and associated scope in accordance with this report, Council policy and approved budget.</p>
Financial Implications	<p>The project is anticipated to deliver a return of 1.0% based upon using a mixture of capital receipts and borrowing.</p> <p>Chief Finance Officer Martin.Flitcroft@teignbridge.gov.uk</p>
Legal Implications	<p>Legal Implications are outlined Section 5.2. There are no further legal implications.</p> <p>Karen Trickey Monitoring Officer Karen.Trickey@teignbridge.gov.uk</p>

Risk Assessment	A summary of risks is set out in section 5.3 and a risk register is available in Appendix E. William Elliott Climate Change Officer Email: William.Elliott@teignbridge.gov.uk
Environmental/ Climate Change Implications	The recommendations of the report are environmentally positive and will reduce the Authority's carbon footprint by up to 1,427 tonnes CO ₂ cumulatively over the next 20 years. David Eaton Environmental Protection Manager David.Eaton@teignbridge.gov.uk
Report Author	Neil Blaney Head of Place and Commercial Services Neil.Blaney@Teignbridge.gov.uk
Executive Member	Councillor Jackie Hook Executive Member for Climate Change, Flooding and Coastal Protection Jackie.Hook@Teignbridge.gov.uk
Appendices / Background Papers	Appendix A: Summary of grant funded projects Appendix B: Forde House Carbon Emissions Trajectory Appendix C: Business Case Appendix D: Project Programme Appendix E: Risk Register

1. INTRODUCTION / BACKGROUND

The Public Sector Decarbonisation Scheme (PSDS) was launched by Government in October 2020 and made £1 billion of capital grant funding available for public bodies to invest in low-carbon building technologies. Teignbridge District Council submitted three grant application bids under the PSDS ahead of the deadline in January 2021.

Despite the PSDS receiving over £2.3 billion in applications, two out of three of the bids submitted by the Authority have been successful including the Leisure Sites Bid for £2.3 million and the Forde House Bid for £672,000, which once delivered, will represent a significant step towards delivering a net-zero Authority.

The delivery of projects covered by grant funding at Forde House is dependent on the Authority further investing in building upgrade and renovation works to enable compatibility with low-carbon technologies and to future-proof the site for Agile Working. As such, the following report provides a summary of projects covered by

PSDS grant funding and a summary of further projects requiring the approval of Full Council.

2. GRANT FUNDED PROJECTS

In terms of buildings owned and operated by the Authority, Forde House is the second-highest source of carbon emissions and represents circa 10% of the Authority's direct Scope 1 & 2 carbon footprint. The building has seen few fabric upgrades since its construction in the mid-1980s and is largely heated by an inefficient gas boiler, which is due for replacement in the next 12 months at a cost of at least £229,900.

2.1 Grant Funded Decarbonisation Projects

A total of £672,000 has been awarded to upgrade heating and ventilation systems, install thermal fabric improvements and upgrade the incoming electricity supply. A summary of projects included in the bid is shown in Appendix A. Projects were included in the bid based on maximising carbon savings and based on the practicality of installing each system.

Grant-funded projects are anticipated to deliver up to a 92% carbon emissions reduction in 2041/42 when compared with carbon emissions in 2018/19, as shown in Appendix B. Cumulative lifetime carbon savings of 1,270 tonnes CO₂ have been estimated over the same period. Utility bill savings of up to £2,000 are anticipated in year one of operation.

2.2 Project Timescales

According to the terms and conditions of the PSDS, all projects must demonstrate "project start" by March 31st 2021 and "project completion" by September 31st 2021.

"Project Start" was demonstrated in February 2021 when AECOM was appointed to undertake concept design works.

Project completion is expected in June 2022 and as such, a project extension has been requested and is pending a final decision from the grant awarding body. Until that decision is made, the Authority has been advised to continue with the project and

maximise the level of grant expenditure by the end of September 2021. This risk has been assessed in the financial appraisal set out in Appendix C.

A detailed project programme is available in Appendix D.

3. NON-GRANT FUNDED ITEMS

The following section provides an overview of works that will need to be funded by the Authority through a combination of borrowing and/or capital receipts.

3.1 Authority Investment to Enable PSDS projects

In addition to projects covered by grant funding, the Authority will need to invest in a series of enabling works. Items include but are not limited to: external project management and consultancy services, building survey works, supplementary funding for heating and ventilation systems, installation of suspended ceilings and general builders work.

Elements associated with these enabling works are estimated to cost £1,540,467 and have been factored into the financial appraisal set out in Appendix C.

3.2 Authority Investment in Carbon Action Plan Projects

Solar PV has been included in the project scope under the emerging Carbon Action Plan and is anticipated to deliver a lifetime carbon saving of up to 157 tonnes CO₂ and energy bill savings of £7,000 per annum.

Elements associated with the Carbon Action Plan are estimated to cost £85,000 and have been factored into the financial appraisal set out in Appendix C.

3.3 Authority Investment in Agile Working

The coronavirus pandemic has led to a rapid transition from traditional office-based working to agile and remote working. Looking to the future, when the majority of staff have been vaccinated, current office occupancy levels are expected to increase as staff begin to return to the office.

The Agile Working Project seeks to capture some of the benefits gained over the past twelve months and to optimise and modernise staff provisions and to support Authority services. Delivering these works in conjunction with PSDS grant funded projects and Carbon Action Plan projects increases value for money through economies of scale and prevents the need to adapt works at a later date. The proposals include:

- Freeing up the ground floor currently occupied by Revenue & Benefits and Housing; this would enable the *potential* to rent the space out to a third-party tenant and generate a new income stream for the Authority.
- Optimising the use of the first and second floors by redistributing desks to accommodate full and part-time staff, developing 'touch down' spaces, and creating meeting rooms and staff break-out spaces.

Elements associated with the Agile Working Project are estimated to cost £1,096,212 and have been factored into the financial appraisal set out in Appendix C.

4. PROCUREMENT

Project management, design services and other project preliminaries will be procured on the SBS NHS framework. The remaining scope of works, (contractor works and equipment etc.) will be procured in a two stage process on the OJEU compliant Southern Construction Framework. This procurement process has been chosen on the basis of:

- Achieving early appointment of the main contractor ahead of the completion of design works; and
- Making early purchases for long lead items to assist the spend profile in alignment with grant funding requirements and to reduce risk in the delivery programme.

5. IMPLICATIONS, RISK MANAGEMENT & CLIMATE CHANGE IMPACT

5.1 Financial

A provision of £815k for heating and fabric improvements at Forde House was included in the capital programme which was approved as part of the 2021-22 Budget at Full Council on 22 February 2021. At that time, the likelihood was that this would be funded from borrowing and would therefore need to return to Council for approval once a business case had been put together.

Other relevant provisions in the Budget capital programme were

£75k estimated for the provision of solar PV (included within this report in the sum of £85k)

£310k in 2021-22, with a further £1.2 million in each of the following two years for the Carbon Action Plan.

Both these items were to be funded from prudential borrowing and therefore reliant on the production of business cases demonstrating the affordability of the projects and a suitable return of 1.00% or more. While the business cases had not been produced at Budget time, the forecast borrowing was included in the Council's Prudential Indicators, so falls within both the Council's self-imposed borrowing cap and the authorised limit (a CIPFA indicator within the Prudential Indicators).

There was no budget line for agile working alterations.

Several scenarios have now been tested to evaluate the business case for the combined grant-funded, carbon action plan and agile working projects, and are available in Appendix C. Due to the increased scope of the proposed project beyond the grant-funded measures, other savings or income are required to fund the financing costs which arise from borrowing. If the savings or income needed for a positive business case cannot be found, then some or all of the cost must be met from another source, as borrowing would not be affordable.

The assets team have considered a range of rental income expectations in the context of challenging Covid-related economic factors. At the time of writing, these were based on letting out the remaining ground floor space currently occupied by the Council's

Revenue and Benefits and Housing teams, totalling approximately 4,700 square feet. Due to project timescales, there is the potential for the grant repayment clause to be triggered should the grant awarding body enforce its initial deadline. Financial modelling has therefore looked at each rental income level on the basis of receiving full grant, 50% grant and no grant. All models are over a period of 20 years. The figures for capital costs are currently based on high-level estimates obtained from specialist consultants. The consultants work on the basis of assuming a high level of cost risk at the outset of the project, due to potential unforeseen events. As the project progresses and the risks are either realised or recede, these allowances may fall away. However, the estimates are not firm and should the final tendered contract sums be higher, this would result in either lower returns (representing a less favourable impact on the Council's revenue budgets), use of additional capital receipts or a combination of the two.

A summary of the revenue return and required capital receipts subsidy can be found at Appendix C. Based on current cost estimates, assuming the full grant is retained and a rent based on the higher rate per square foot, a return of 1.00% can be enabled with a capital receipts subsidy of £1,030k. Reduced grant and/or lower rental income would negatively affect the revenue implications, meaning that further subsidy would be required. If a tenant cannot be found, the return assuming full grant is negative at -5.36%, meaning an average annual revenue budget pressure of £146k in relation to financing costs. To avoid this would require use of £2.4 million of capital receipts.

As at the 2021/22 budget capital programme, it was forecast that the balance of general fund capital receipts by the end of 2023/24 would be £640k, which would represent a potential shortfall. In the most recent projections, the availability of capital receipts has increased. It is therefore anticipated that capital receipts could be re-aligned up to a level of £1.1 million to cover funding shortfalls, ensuring that any borrowing undertaken is affordable and sustainable. This roughly equates to the scenario above of full grant and rent at the higher rate per square foot. If more capital receipts were required, it would be necessary to reconsider other projects and provisions funded from capital receipts (IT projects, waste equipment, leisure equipment, etc.), or consider the disposal of assets.

It will take time to establish the rental position. It is therefore proposed to borrow internally (saving on interest costs) for the first year. This will allow time for officers to engage with public and private sector partners to gauge interest in renting the space. The financial affordability of the project is dependent on finding a suitable tenant. While there is a timescale risk for repayment of the grant, as can be seen at Appendix C, the receipt of grant enables a project which otherwise does not produce a positive business case .

5.2 Legal

The decarbonisation project will be carried out in accordance with the terms and conditions of the Grant offer Letter, its relevant schedules and terms and conditions. The Authority is currently liaising with Salix, the grant funding provider to confirm extended project delivery timescales extending until June 2022.

5.3 Risks

A register of risks and mitigation measures is contained in Appendix E. Three overriding risks relate to:

- Project overspend – Current project costs are based on concept design works and will be refined as the project develops and building surveys are completed. Project scope will be finalised with SLT before detailed design works commence and project costs will be monitored throughout the scheme.
- Inability to find a ground floor tenant – A shortfall in income from a ground floor tenant will negatively impact the business case and would need to be supplemented by capital receipts and/or the disposal of assets.
- The need to return grant funding if project delivery extensions are not awarded - The Authority provided the grant awarding body with an early notice identifying that the September 2021 project completion deadline will be missed. The Authority will remain in regular contact with the grant awarding body and aim to accelerate the delivery of grant funded projects.

5.4 Environmental/Climate Change Impact

Environmental benefits associated with this committee report are contained in Section 2 above. Should Full Council approve the recommendations of this report, a carbon

reduction of up to 1,427 tonnes CO₂ is anticipated over the next 20 years relative to a like-for-like gas boiler replacement scenario.

6. ALTERNATIVE OPTIONS

The alternative option would involve handing £672,000 of grant funding back to Government and “making do” with the existing mechanical and electrical equipment and the existing building layout. Replacing the gas boiler with a modern like-for-like system will cost £229,900 and will lock the site into emitting higher levels of carbon emissions over the next 15 to 20 years.

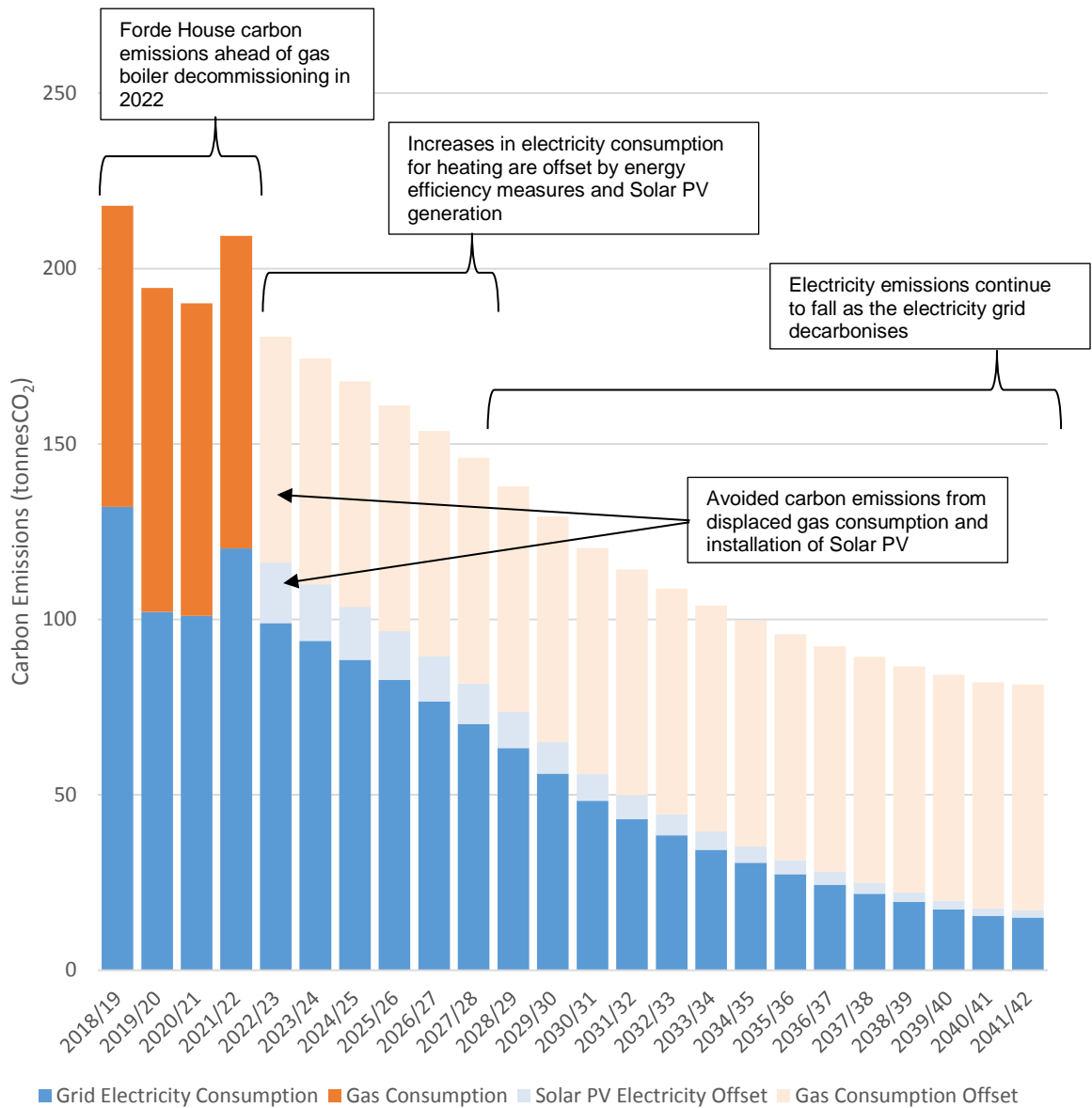
7. CONCLUSION

Full Council is recommended to invest a total £2,721,679 from Prudential Borrowing and capital receipts in Forde House to enable delivery of PSDS grant funded projects, Carbon Action Plan projects and the Agile Working project.

APPENDIX A - SUMMARY OF GRANT FUNDED PROJECTS

Summary of Grant Funded Projects		
Project	Budget Costs	Project Benefits
Replaced gas fired heating system with air source heat pump	£337,600	<ul style="list-style-type: none"> Eliminates all gas-fired heating within the building. Delivers significant and long-term carbon reductions.
Replace extract ventilation system with mechanical ventilation & heat recovery	£61,226	<ul style="list-style-type: none"> Increases the energy efficiency of air handling within the building. Increases occupant comfort levels, supporting staff wellbeing and productivity.
Install draught proofing on window boxes to reduce heat loss	£25,955	<ul style="list-style-type: none"> Prevents un-controlled air infiltration and reduces demand on heating & cooling systems. Increases occupant comfort levels, supporting staff wellbeing and productivity.
Replace barrel vaulted skylights with insulated flat roof structure.	£112,605	<ul style="list-style-type: none"> Reduces thermal loads on heating and cooling systems and therefore reduces energy consumption.
Increase capacity of incoming electrical supply	£134,708	<ul style="list-style-type: none"> Enables connection of the electrically powered air source heat pump. Futureproofs the Site's electricity supply to enable future work-place EV charging.

APPENDIX B - PREDICTED CARBON EMISSIONS TRAJECTORY FOR FORDE HOUSE



Assumptions: Electricity emissions factors decrease in accordance with Green Book Supplementary Guidance (2020). Gas emissions factors remain constant over the project life. Heat pump and gas boiler performance remain constant over project life.

APPENDIX C – BUSINESS CASE

Work Description	Budget Cost
Public Sector Decarbonisation Scheme grant funded projects	£672,094
Additional costs to support PSDS decarbonisation projects	£1,540,467
Additional costs support the Carbon Action Plan	£85,000
Additional costs to support Agile Working Project	£1,096,212
Grand Total	£3,393,773
Grand Total less grant funding	£2,721,679

Option	Capital cost	Grant income	Capital receipts	Borrowing	Return
Higher rent	3,393,773	672,094	1,030,000	1,691,679	1.00%
Higher rent	3,393,773	336,047	1,375,000	1,682,726	1.04%
Higher rent	3,393,773		1,720,000	1,673,773	1.07%
Medium rent	3,393,773	672,094	1,250,000	1,471,679	1.00%
Medium rent	3,393,773	336,047	1,600,000	1,457,726	1.06%
Medium rent	3,393,773		1,925,000	1,468,773	1.01%
Lower rent	3,393,773	672,094	1,475,000	1,246,679	1.02%
Lower rent	3,393,773	336,047	1,810,000	1,247,726	1.01%
Lower rent	3,393,773		2,145,000	1,248,773	1.01%
No rent	3,393,773	672,094	2,445,000	276,679	1.10%
No rent	3,393,773	336,047	2,780,000	277,726	1.07%
No rent	3,393,773		3,115,000	278,773	1.05%

APPENDIX D – PROJECT PROGRAMME

Description	Start	Finish
Consultant Team Appointed	Completed February 2021	
Building Surveys	March 2021	May 2021
Concept Design Works	March 2021	May 2021
Detailed Design Works	May 2021	July 2021
Procurement	April 2021	October 2021
Building Works	October 2021	May 2022
Project Commissioning	June 2022	

APPENDIX E: RISK REGISTER

Risk ID	Risk	Level	Mitigation
01	Achieving project delivery in alignment with Public Sector Decarbonisation Scheme requirements	High	SLT , TDC Project team and consultant team fully engaged to deliver to tight programme
02	Scope amendments during project development stages resulting in increased costs and programme delays	High	Scope to be agreed with SLT with design freeze at concept design.
03	Unable to secure rental income on the overall project due to market conditions	High	Market testing and advertisement for the vacant office space will need to be undertaken by the Council in the event that we are unable to secure public sector tenants.
04	Missed grant funding deadlines result in funding/percentage or funding needing to be returned.	High	TDC Climate Change Officer to keep in frequent contact with funders (Salix) to obtain agreement at the earliest possible time to agree a project extension.
05	Professional & survey fees will be incurred (circa.£91K) if the project stops ahead of implementation	Medium	Fees have been committed to the early design development. If the scheme stops now some of the fees may not be incurred.
06	Cost estimates change significantly requiring extra Council funding from capital receipts or borrowing	Medium	Design freeze agreed with SLT at concept design stage. The project can be paused to enable a project scope review if tender costs are higher than estimates
07	Results of the measurement survey of the ceiling voids in the office makes the current scheme unfeasible.	Medium	Preliminary building surveys have been completed to inform the early concept design. Detailed measurement survey are underway to further inform project scope.
08	Loss of competitive commercial position during procurement	Medium/High	Consultant team to manage project risk ensuring full engagement of contractors. Following procurement process TDC will have ability to withdraw where necessary.
09	Agile working ethos requires further input that could result in design changes	Medium	Liaise with SLT to ensure that plans are in accordance with agile working vision
10	Purchase of mechanical/electrical plant is not secured in a timely manner to achieve funding milestones and programme	Medium	Use Southern Construction Framework to engage and appoint a contractor and place orders in a timely manner.
11	Appointment of competent contractor to implement scheme	Low	Southern Construction Framework has been selected to procure competent contractor
12	Sustaining service delivery and staff wellbeing during building works	Medium	Communications plan and agile working strategy to be implemented during building works.

Committee
Date of meeting