

TITLE OF REPORT: Energy Grants for Swimming Pools

REPORT OF: Anneliese Hutchinson – Interim Strategic Director
Economy, Innovation and Growth

Purpose of the Report

1. To report an Urgent Decision which accepted a grant of £0.356m from Sport England for energy improvement works at Dunston Leisure Centre
2. To request grant approval for £4.148m grant to install low carbon heat pumps at Dunston Leisure Centre and Blaydon Leisure and Primary Care Centre
3. To request approval to award design contracts to Equans Ltd for low carbon heat pumps

Background

4. The Council has committed to reducing its carbon emissions to net zero by 2030.
5. The Council has been successful in grant funding applications made to Sport England and the Public Sector Decarbonisation Scheme Round3c to support the installation of low carbon technology at various swimming pool sites in Gateshead

Proposal

6. It is reported that the Council took an Urgent Decision to accept a 100% grant of £0.356m to fund the following energy saving works at Dunston Leisure Centre
 - a. 175kW of ground mount solar PV outside Dunston Leisure Centre
 - b. Full LED lighting replacements

7. It is proposed that the Council accepts a £4.148m grant from the Public Sector Decarbonisation Scheme Round3c, to fund the following works
 - a. Air source heat pump installation at Dunston Leisure Centre
 - b. Minewater heat pump installation at Blaydon Leisure and Primary Care Centre

This will require an additional £0.395m to be added to the capital programme.

8. NEPOs Retrofit and Decarbonisation Framework has been selected and the most cost effective and efficient means of procuring the heat pump installations, and the Council proposes to award design contracts initially to the lead bidder of the relevant Lot, Equans Ltd.

Recommendations

9. It is recommended that:
 - (i) Cabinet note the Urgent Decision taken to accept a £0.356m grant from Sport

- England for energy efficiency works to Dunston Leisure Centre.
- (ii) Approval is given to accept the grant of £4.148m towards energy works at various swimming pools
 - (iii) Approval is given to add £0.395m to the 2024/25 and 2025/26 capital programme, to provide the required 12% match funding
 - (iv) Approval is given to appoint Equans Ltd as the contractor to undertake both the detailed design work for energy works at various swimming pools, at a budgeted cost of £0.475m
 - (v) Delegated approval of final terms, conditions and costs of the design contract is given to the Strategic Director of Economy, Innovation and Growth, in consultation with Strategic Director, Resources and Digital, and Strategic Director, Corporate Services and Governance.

For the following reason(s):

- (i) To improve energy efficiency and reduce carbon emissions of the swimming pools in question
- (ii) To support the future viability of swimming pools in Gateshead,
- (iii) To support the Council's Climate Emergency Action Plan to achieve net zero emissions by 2030

CONTACT: Jim Gillon, Service Director, Energy and Design

extension: 3923

Policy Context

1. The proposals here continue to contribute to the delivery of many targets within the Corporate Plan, Thrive and the Council's Climate Emergency Action Plan. specifically:
 - Supporting the ongoing viability of leisure centres, under their new management arrangements, to ensure communities continue to receive health and activity benefits
 - The heat pumps will ensure these leisure centres – some of the Councils largest gas consumers – are on a path to have zero carbon emissions

Background

2. In October 2023, the Council submitted two speculative capital grant bids to two funding schemes. Leisure facilities were prioritised for both applications, to maximise the cost and carbon saving opportunity for leisure facilities.
 3. The Council has received two grant offers:
 - a. Sport England - £998k was requested for energy savings works to 5 swimming pools. A 100% capital grant has been received for £356k for works to Dunston Leisure Centre (solar PV, LED lighting) - no funding was received for other 4 pools.
 - b. Public Sector Decarbonisation Scheme Round 3c (PSDS3c) - the Council received the full grant offer requested, of £4.15m towards £4.73m of scheme costs (88% grant). To install heat pumps at Blaydon, Dunston and Birtley pool sites, as well as some smaller energy savings measures.
 - i. For Dunston / Blaydon, the Council would be responsible for that element of the grant, and any match funding
 - ii. For Birtley, the grant has been offered to Birtley Aquatics (community asset transfer organisation seeking to take on operation of Birtley Pool) with them taking on risks of delivery and match funding.
 4. This report updates Cabinet on a recent Urgent Decision taken to accept the Sport England grant, due to grant deadlines, and presents the business case for accepting the PSDS3c grant.
 5. It is noted that the Council is midway through a procurement exercise to find a third-party operator of leisure centres. Three bidders are now going through a second stage selection process, via open dialogue procurement route, which aims to appoint an operator by Autumn 2024, for 10 years, with an option to extend to 15 years.
- grant**
6. The £356k grant, at 100% funding, offered from Sport England is to fund the following:
 - a. 175kW of ground mount solar PV outside Dunston Leisure Centre
 - b. Full LED lighting replacements

7. The grant had some significant terms associated, the most significant being that the Council remains liable for grant clawback should Dunston Leisure Centre not remain operational for 15 years.
8. This risk is being addressed as follows:
 - a. No grant needs to be spent for 2-3 months, while projects delivery is set up, after which time Council will have greater certainty that operators believe the site to be viable.
 - b. Prospective operators will be provided details / benefits of grant, to inform the procurement of the new operator
 - c. When operators appointed, it will be for 10 – 15years, same duration as the grant clawback period.
 - d. Funder may take into account extra-ordinary circumstances should the site cease to operate, to not apply clawback.
9. However, the Council cannot be sure the site will remain operational for 15 years and some risk remains. On balance, it was felt the grant investment will improve the viability of the site, and its low carbon credentials, and with the risk management approach above, the Council took an Urgent Decision to accept the grant, to meet the acceptance deadlines imposed by Sport England.

PSDS3c grant

10. The Council has received a grant offer of £4.148m, providing 88% of the cost of the following projects:
 - a. Dunston Leisure Centre – new air source heat pump, and minor energy efficiency works
 - b. Blaydon Leisure and Primary Care Centre – new minewater heat pump, and minor energy efficiency works
 - c. Birtley Swimming Centre - new air source heat pump, and minor energy efficiency works
11. These grants offer a significant opportunity to put two Council sites - Dunston and Blaydon pools – on a path to being net zero emissions. These sites are the 2 largest gas users of the Council – accounting for 10% of total gas demand.
12. The grants to Birtley Swimming Centre have been offered to Birtley Community Aquatics Centre (BCAC), the voluntary organisation seeking to operate the pool under a community asset transfer, under the same terms as offered to the Council.
13. All the sites have gas boilers and gas combined heat and power plants that are end of life, in need of replacement, which was a key criteria of the grant.
14. **Birtley Swimming Centre.** Unfortunately, Birtley Aquatics are not in a position to take on the grant for a number of reasons
 - a. Their immediate priority is to replace existing boiler plant, which is end of life. This will invalidate the grant offer
 - b. The heat pump installation would not be complete until summer 2025. However, it is unlikely the current gas plant will last the next winter.

- c. The risk of taking on a £1.2m construction scheme, including the risk of funding any cost increases, is too great.

15. Options were put to the funder, including diverting grant to other energy efficiency measures, but these were not compliant with the grant rules.

16. **Blaydon Leisure and Primary Care Centre.** The following developments to the scheme have come forward.

- a. The scheme has switched from using air source to minewater, which will be a warmer, more efficient source of heat. Minewater currently flows into the adjacent Shibdon Pond, from abandoned mineshaft nearby. It is proposed to drill into these workings closer to the leisure centre, to access this water. This has been confirmed following feasibility studies by the Coal Authority, but remains subject to permits and planning applications.
- b. The scheme has in principle support from NHS Property, who lease the primary care centre. The Council requires an estimated capital contribution of £30k from NHS Property group, and ongoing recharges, which has to be paid to the Council with the lease agreement. We await their internal approval.

17. **Dunston Pool.** The main development is that the site has received the Sport England funding for solar PV and lighting improvements. This will provide site savings, and additional power generation, to support the operating costs of the heat pump (which remains an air source heat pump).

PSDS3c Financials

18. The cost estimates of the works have been provided by Equans Ltd, who are the lead contractor for heat pumps on NEPO's Low Carbon Framework, and who have installed multiple heat pump schemes in pools (including several for Newcastle City Council). Equans have provided a design stage contract proposal, with budget cost of up to £0.475m to cover design, preconstruction and survey stage. Approval is requested to enter contracts with Equans up to this contract value, with the exact value to be agreed through delegations.

19. The table below shows the scheme cost breakdown, and the amount of match funding required by the Council for Blaydon and Dunston.

20. The spare grant available from Birtley, which cannot be spent at Birtley, is shown for information. We are in discussions with the funder to determine if the Council can use this to fund additional works at Blaydon / Dunston, or fund zero carbon heating installations at other public sector sites in Gateshead.

Cost element, £m	Dunston	Blaydon	Spare
Design	£0.197	£0.202	
Install	£1.100	£1.390	
Fees / contingency	£0.185	£0.366	
Total	£1.482	£1.958	£1.273
Match funding required	£0.178	£0.235	£0.153

Total Grant	£1.304	£1.723	£1.121
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21. The table below summarises the revenue cost implications of progressing PSDS schemes at Dunston and Blaydon. Key points are as follows
- An additional £0.395m (after deducting NHS contributions) of borrowing is required, which is not currently in the capital programme, which creates additional financing costs.
 - The heat pump provides some financial savings, on current energy pricing
 - It is noted that Government policy commits to rebalancing gas and power tariffs, as early as end 2024 to move green levies from power to gas, reducing power tariffs while increasing gas tariffs, specifically to support the viability of heat pumps. This increases the expected savings.
 - The project savings are then compared to the business as usual scenario, where costs increase due to stopping the current gas combined heat and power (CHP) plant, which is end-of-life.
22. Under current pricing, the revenue cost increase of the project is similar (£15k/yr vs £22k/yr) to the business as usual, but achieves a far greater carbon saving, making a significant contribution to the Council's net zero emission targets. With the expected rebalanced gas/power pricing, the project generates net savings compared to business as usual, after financing costs.
23. The project and savings need to be considered within the appointment of a new operator of the leisure facilities, to ensure savings are retained to recover Council finance costs firstly, as well as supporting the ongoing operation of the facilities
24. In addition to the financial business case, creating net zero swimming pools will increase the attractiveness of these sites to operators and future customers, supporting the ongoing viability of these leisure facilities.

	Business as usual (stop CHP plant)	PSDS3c scheme
Summary		
Capital investment, £	£0	£395,460
Finance cost (10yrs)		£57,342
<i>Current tariffs</i>		
Operating cost change, £/yr	£14,674	-£35,215
Net Cost, £/yr	£14,674	£22,127
<i>Rebalanced tariffs</i>		
Operating cost change, £/yr	-£430	-£99,162
Net Cost, £/yr	-£430	-£41,820
Carbon savings, tonnes/yr	- 62	- 749

Delivery / next steps

25. Next steps for the Sport England grant are as follows:
- Commence project planning / procurement of works (process to be confirmed, with LED lighting expected to be delivered by Construction Services. Solar PV

will be procured through the Council's Dynamic Purchasing System, or potentially through the same contractor as heat pumps below)

- Communicate opportunity to bidders on leisure centre operator procurement
- Review grant risks within 3 months, prior to contracting works
- Works need to complete by end March 2025

26. Next steps for the PSDS3c grant are as follows:

- Agree principles of participation with NHS Property
- Commence permitting process with Environment Agency / Coal Authority
- Seek revision to scope of works from funder, to invest in additional energy efficiency works with spare grant
- A review of available procurement routes has indicated the best available is the NEPO Retrofit and Decarbonisation Framework, with specific lots for heat pump installation. Equans are the lead bidder on the Framework, and can be appointed through direct award. Approval for this route is included in this report recommendations
- Following award of design contract, an outline programme is as follows:
- In contract by May 24, design / planning to run until Nov 24
- Pilot borehole drilled June 24 at Blaydon
- Approvals / costs received by Dec 24, with further cabinet approval for construction contracts.
- Jan 25 start on site
- Dunston heat pump complete by May 2025
- Blaydon Heat pump complete by Oct 2025
- Grant funding spend deadline is March 2026

Alternative Options

27. Not accept the grant funding: While this option is lower risk in the short term, it is still expected to increase costs, and longer term it forgoes the opportunity to receive significant grant funding to make these sites net zero emissions, and will increase costs in the long run.

Consultation

28. The Culture, Sport and Leisure Portfolio, as well as Housing and Economy, and Environment and Transport portfolio has been consulted on these proposals and supported recommendation to Cabinet.

Implications of Recommended Option

29. Resources:

- a) Financial Implications** – The Strategic Director, Resources and Digital confirms that this scheme will add an estimated £0.058m per annum of capital financing costs to revenue.
- b) Human Resources Implications** – the construction scheme will be managed by Energy and Design Service, and its outputs will support the ongoing viability of leisure centres to protect those sites and personnel.
- c) Property Implications** - The scheme will provide low carbon heating

systems for the 2 largest gas consuming sites in the Council portfolio of buildings, supporting their ongoing viability and the procurement of new operators for these sites.

30. Risk Management Implication – There will be an element of risk in taking forward the PSDS scheme. Key risks, and how they are managed, are as follows:

- Energy tariffs change – sensitivity modelling shows that if prices increase, the net benefit remains similar as increased power costs are offset by gas savings. If energy tariffs decrease, savings will not be achieved. But this is unlikely, and if it did happen, any reductions will produce costs savings across the Council, to afford this scheme.
- Project costs overrun – the spare grant from Birtley will be requested to be used as additional contingency, if required, to mitigate cost overruns.
- Project spend delays – grant funding has to be spent before March 2026. Through the application process, funding allocations have already been revised, pushing more into 2025/26, to allow for spend delays, with healthy programme float in place
- Minewater source not confirmed – already feasibility has confirmed likely targets and temperatures. Project will progress permits needed to carry out pilot boreholes early in design phase.
- Delivery contractor – lessons learnt from previous PSDS project has led to engaging an experience contractor, Equans, through existing NEPO construction frameworks. Equans have delivered £20m plus PSDS funded schemes for other Councils in the region, so have far greater experience and knowledge. Equans are the lead contractor for heat pump and solar PV frameworks.
- Partners – scheme at Blaydon relies on acceptance by NHS Property. They supported the bid, but now are considering their small capital and revenue contributions, in line with the current lease agreement.
- Permits / planning – the minewater scheme will require Coal Authority / Env Agency permits for exploratory drilling, then abstraction / discharge. Planning approval will also require consultation / agreement with Natural England. Allowance in the programme has been made for extended approvals processes

31. Equality and Diversity Implications - None

32. Crime and Disorder Implications – None

33. Health Implications - supporting the viability of leisure centres, to continue providing health benefits to the communities and residents

34. Climate Emergency and Sustainability Implications - The project will reduce Council gas consumption and emissions by 10% from these 2 sites, which are the largest gas users across all Council buildings

35. Human Rights Implications - None

36. Ward Implications - the schemes are in Blaydon and Dunston / Teams Wards.

Background Information - None