

EAST RENFREWSHIRE COUNCIL14 December 2016Report by Director of EnvironmentCAPITAL INVESTMENT IN ENERGY EFFICIENCY MEASURES**PURPOSE OF REPORT**

1. The purpose of this report is ask the Council to approve investment of £1.754million on the Councils property estate, on the understanding that this investment is able to be financed by the revenue savings arising from the energy conservation measures installed.

**RECOMMENDATIONS**

2. The Council is asked to:

- (a) Approve capital investment of £1.754m into the Councils property estate; and
- (b) Note that that prudential borrowing utilised to fund this investment will be financed by the guaranteed revenue savings arising from the energy conservation measures installed.

**BACKGROUND**

3. Climate change reporting arrangements were introduced by the Scottish Government in 2015, with mandatory reporting coming into force in Autumn 2016. As part of the new reporting arrangements, public bodies are expected to *“report actions taken to mitigate and adapt to climate change. This includes having a fully costed and funded “project register” for projects which are planned and, crucially, have been signed off by senior management and will go ahead”*.

4. In light of this, officers from within the Environment Department have been engaging positively with the Scottish Futures Trust (SFT), regarding financial and in kind support which might be able to be offered to the Council to take forward a programme of works.

5. SFT, on behalf of the Scottish Government, has recently put in place a Non-Domestic Energy Efficiency (NDEE) framework which is intended to “streamline procurement and delivery of energy efficiency measures in public buildings by public bodies in Scotland”. The core purpose of the NDEE framework is to ensure any investment is recovered over time through guaranteed energy savings.

6. NDEE is a priority for the Scottish Government as it allows the public sector in Scotland to make a significant contribution to achievement of targets in the Climate Change (Scotland) Act 2009. In addition, NDEE is designed to address a wide breadth of challenges faced by the Scottish public sector, including funding and borrowing constraints, maintenance backlog, procurement bottlenecks, and other buildings management and estate requirements.

7. In summary, NDEE provides an opportunity to address multiple energy efficiency opportunities in public buildings through procurement of a full building energy 'retrofit'. Adopting a full building retrofit approach would require significant investment but allows Council's to shift away from the current approach where small-scale energy efficiency measures are implemented in several buildings annually towards a position where whole building solutions e.g. implementing lighting, heating, cooling, controls and thermal efficiency are delivered as one large 'NDEE' project.

## REPORT

8. Council staff have been working intensively in partnership with SFT on an NDEE "pathfinder" project since December 2015. The purpose of the pathfinder is to increase the effectiveness of collaborative working amongst public bodies both in terms of sharing of information and knowledge transfer regarding technical solutions which can be replicated elsewhere. East Renfrewshire Council is leading the way. It is intended that this pathfinder project will support and accelerate the delivery of other NDEE projects across the wider public sector.

9. The Scottish Government agreed to fund an NDEE Pathfinder Project given the leadership shown by the Corporate Management Team and the enthusiasm of the Council's project team. The pathfinder was delivered by consultants working in partnership with SFT and representatives from across Council Departments and the East Renfrewshire Culture and Leisure Trust. Participation in the pathfinder secured senior management buy-in, to establish a wider project team, undertake preparatory work to scope the project, prepare a Business Case, obtain approvals, and prepare mini competition documents.

10. The Council is responsible for almost 120 buildings with an annual energy spend of £3.4m (based on 2014/15 energy and water consumption). The majority of these buildings have the potential for their energy performance to be improved. The pathfinder work initially identified 29 poorer performing buildings for a more comprehensive desktop energy assessment and following assessment by a cross-Department core team, 12 buildings were prioritised and selected for further desktop and on-site investigation to identify potential energy efficiency improvements. These buildings are:

- Council HQ Eastwood Park
- Council Offices - 211 Main Street
- Thornliebank Depot
- The Foundry
- Thornliebank Resource Centre
- Carolside Primary School (inc. Nursery)
- Cross Arthurlie Primary School
- Giffnock Primary School
- Mearns Castle High School (East Renfrewshire Council element)
- Springhill and Auchenback Primary School
- St Luke's High School
- Woodfarm High School (East Renfrewshire Council element)

## Options Appraisal

11. Having completed a detailed analysis of these buildings, an Outline Business Case was prepared which presented a strong case for accessing the NDEE Framework to reduce energy costs and carbon emissions in the above short-listed buildings by installing energy conservation measures and delivering energy conservation services.

12. A full option appraisal was carried out. During the investigation of options, which included a review of existing capital spend profiles, consideration was given to the current condition of each building along with an assessment of future capital investment plans and the current backlog maintenance liability for each building. These were evaluated in detail to establish if the proposed energy measures could also act to reduce backlog maintenance and/or reduce the impact upon future capital investment programmes.

13. From the range of options considered, a preferred option emerged. The preferred option involves the installation of a range of energy conservation measures within the above buildings plus the inclusion of additional capital works which would serve to improve the general conditions within these buildings, reduce the existing maintenance backlog and create an improved environment for both customers and staff.

14. The financial appraisal carried out suggests that, through the delivery a range of energy conservation measures, an estimated energy saving of 13% would be **guaranteed** by the contractor which equates to an estimated financial saving of at least £137,000 annually and savings of 670tCO<sup>2</sup> (tonnes of carbon dioxide emitted). This would require significant capital investment but it is estimated that the annual revenue savings would be able to fund the borrowing costs associated with the investment undertaken. In summary, the savings achieved would be able to meet the costs of the up-front investment necessary.

15. The £137,000 guaranteed revenue savings can, over a 15 year period, support borrowing of £1,754,000. Subject to Council approval, this investment would be used to install energy conservation measures at a total cost of £930,000 (required to achieve the resultant revenue saving), with the balance of funding of £824,000 being used to undertake a wider programme of capital works across these buildings.

16. Discussions are currently taking place between Departments and officers within PaTS to consider the best projects to be undertaken utilising the funding of £824,000. Further detail of these projects will be reported as part of the General Fund Capital Plan report to the Council in early 2017.

17. In addition, Council Officers are currently looking at any other works already programmed to be undertaken within these buildings over the course of 2017/18 (and future years), to see what opportunities exist to maximise the scope and value for money of works which are able to be undertaken within the NDEE framework.

18. This arrangement offers the Council an opportunity to invest over £1.7m into our property estate through a funding model which allows the investment to be self-financed from those revenue savings arising (and guaranteed through the framework) from the energy conservation measures installed.

## **FINANCE AND EFFICIENCY**

19. This report asks the Council to approve capital investment of £1.754m into our property estate, with the required borrowing able to be funded from the revenue savings arising from the energy conservation measures installed.

20. The proposed works will be undertaken during 2017/18 but the revenue savings will not be fully realised until 2018/19. The cost of borrowing £1.754m during year 1 (2017/18) is estimated at approximately £30,000 and this figure will need to be factored into the 2017/18 revenue budget.

## **CONSULTATION**

21. Consultation on these proposals has taken place with relevant officers from across the Council and from within the ERCLT.

## **PARTNERSHIP WORKING**

22. These proposals have been developed following on from positive partnership discussions across a wide range of partners including Scottish Futures Trust and others.

## **IMPLICATIONS OF THE PROPOSALS**

23. There are no adverse property, legal, IT or equalities implications associated with this report. The proposed measures, once implemented, will have a positive impact upon environmental sustainability through a reduction in the tonnes of carbon dioxide emitted by the Council.

## **CONCLUSIONS**

24. The proposals contained within this report can be undertaken within existing financial resources and through self-financed borrowing and will lead to improvements in environmental energy performance and will have a positive impact upon the condition of the Council's property assets.

## **RECOMMENDATIONS**

25. The Council is asked to:

- (a) Approve capital investment of £1.754m into the Council's property estate; and
- (b) Note that that prudential borrowing utilised to fund this investment will be financed by the guaranteed revenue savings arising from the energy conservation measures installed.

Director of Environment

Further information can be obtained from Iain MacLean, Head of Environment on 0141 577 3720

November 2016

**KEY WORDS**

Capital, investment, non-domestic, energy conservation, efficiency, property, carbon management

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