

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Re:Fit Programme – Energy Conservation Measures for One Leisure Sites
Meeting/Date:	Cabinet – 20 October 2016
Executive Portfolio:	Councillor Robin Carter – Executive Councillor for Environment, Street Scene and Operations.
Report by:	Neil Sloper – Head of Operations
Ward(s) affected:	All Wards

Executive Summary:

1. Following the Cabinet decision to defer the commencement of the Re:Fit project until lease issues at One Leisure (OL) sites have been resolved, the programme has now been reviewed to address Member concerns.
2. This report presents a proposed way forward, which will mitigate the risk associated with the unsigned leases at OL St Neots and OL Huntingdon (Dry-side) and to alleviate the uncertainty over the possible redevelopment of OL Ramsey.
3. Following discussions, Bouygues Ltd have proposed that Call-Off Contract 2 is amended to include an exclusion clause designed to protect the Council against liability in the event of a lease not being signed.
4. Work on the sites affected by the leasing issues will not commence until after the lease has been agreed. The exclusion clause will be triggered if a lease is not in place by 1st March 2017, and the site will be excluded from the programme at no cost to the Council.
5. Such an exclusion clause will allow the Council to invest in the unaffected OL facilities and to start to accrue savings without committing to sites with an uncertain future.
6. Owing to a possible redevelopment of the Ramsey Abbey School site, it is recommended that OL Ramsey is removed from the scope of the Re:Fit programme.
7. Savings arising from the energy efficiency measures installed through the Re:Fit programme of £109,000 over the next 3 years are already included in the Medium Term Financial Strategy (MTFS). With the exclusion of Ramsey from the programme these savings will need to be realigned to reflect this and will reduce to £84,000.
8. The deadline for agreeing the Call-off Contract 2 without the Investment Grade Proposal needing to be renegotiated is 31st October 2016.
9. The deadline for activation of the exclusion clause is 1 March 2017, which

allows time for the Council to implement new leases at the affected sites. This deadline has been agreed in consultation with Bouygues Ltd.

The Cabinet is

RECOMMENDED

- To approve the signing of Call-off Contract 2 with an exclusion clause for OL Huntingdon Dry-side and OL St Neots, both to realise savings at sites unaffected by lease issues and to give time to resolve outstanding lease issues.
- To remove OL Ramsey from the scope of the programme owing to a potential redevelopment of the Ramsey Abbey School site incorporating the possible creation of a new leisure facility.

1. PURPOSE OF THE REPORT

- 1.1 This report details the review of the Re:Fit programme following deferment by the Cabinet while the situation surrounding the leases for the One Leisure (OL) sites is resolved.
- 1.2 Discussions have been held with Bouygues Ltd to find a way to accommodate the issues surrounding the leases and to re-align the programme.
- 1.3 Bouygues Ltd have proposed that the Call-off Contract 2, the contract covering the delivery of the energy conservation measures, contains an exclusion clause which will mean that if the leases have not been agreed for St Neots or Huntingdon Dry-side, by an agreed date, then these sites will be removed from the project entirely.
- 1.4 The exclusion clause will protect the Council from investing in OL sites with an uncertain future.
- 1.5 The proposed exclusion clause will allow the Council to progress with the Re:Fit project and to realise the savings which have been built into the Medium Term Financial Strategy for the One Leisure budget.
- 1.6 In addition, it is recommended that OL Ramsey is removed from the programme in light of a possible redevelopment of the site to which would potentially allow for a new leisure facility.

2. BACKGROUND

- 2.1 Delivering revenue savings through energy efficiency is a strategic objective for the Council. The Corporate Plan has an objective of becoming a more efficient and effective council, with a target of achieving an annual 2% reduction in overall energy.
- 2.2 The full report on the Re:Fit programme and Investment Grade Proposal was passed by Overview and Scrutiny Panel (Performance and Customers) on 7 September 2016 and was presented to the Cabinet on 22 September 2016.
- 2.3 The Cabinet resolved to defer the progress of the Re:Fit Programme until the current lease situation could be resolved.
- 2.4 Bouygues Ltd have proposed that the Call-off Contract 2 can include an exclusion clause. This will mean that should the leases for either Huntingdon Dry-side or St Neots not be in place by 1 March 2017, then they will be excluded from the work programme at no risk to the Council.

3. OPTIONS ANALYSIS

- 3.1 Since the Cabinet meeting in September, Officers have investigated the expiry date for the Investment Grade Proposal (IGP) and can confirm that the tendered programme of work presented in the IGP is valid until 31 October 2016.
- 3.2 One Leisure have confirmed that there are no other Capital projects that will provide the same rate of return for savings as the Re:Fit programme.
- 3.3 Due to the potential redevelopment of the Ramsey school site, with the possibility of a more comprehensive redevelopment of the OL Ramsey facility, it is recommended that OL Ramsey is removed from the scope of the programme.

Table 1 below details the revised Capital cost, revised annual cost savings and revised return on investment for the Re:Fit Programme without OL Ramsey.

Table 1: Impact of removing Ramsey OL from the Re:Fit Programme

Original Total cost of measures	Revised capital cost of measures	Original Minimum annual cost benefit	Revised Minimum annual cost benefit	Original Payback Period	Revised Payback Period
£1,038,000	£832,000	£102,500	£84,000	9.45 years	9.41 years

The table shows that with the removal of OL Ramsey there is a £206,000 reduction in the overall Capital cost of the scheme and that the pay back period for the work at other sites remains almost unchanged.

- 3.4 **Contractual Arrangements:** Bouygues Ltd have proposed that an exclusion clause be included in the Contract which will alleviate the issues surrounding the unresolved leases for One Leisure St Neots and Huntingdon Dry-side. This will mean that if the new leases for these sites have not been signed by 1 March 2017 then the site/s without the lease will be excluded from the programme. If either or both of the sites are excluded from the work programme, then the overall payback for the project is extended. The payback period would vary depending on whether one or both of the sites was excluded from the contract to a maximum of 11.6 years (Ramsey, St Neots & Huntingdon Dry-side all excluded). However Bouygues Ltd would still guarantee the savings for the whole of the revised payback period, giving the same surety on the loan being paid off through savings delivered.
- 3.5 Bouygues Ltd submitted the Investment Grade Proposal on 2 August 2016. The Investment Grade Proposal is valid for 90 days from the date of submission. This means that the current tendered programme of work is valid until 31 October 2016.
- 3.6 Currently Bouygues Ltd has concerns about the delay of the project on its supply-chain partners, many of which are local SME's. Local SME's are programmed to deliver measures including solar panels, lighting, boilers and electrical services. There are also concerns that whilst Bouygues Ltd is large enough to absorb the delays, the consequences for the the SME's could be significant.
- 3.7 Bouygues Ltd have restated that the programme is low risk and offers a good return on investment as they will be guaranteeing the savings for the duration of the payback period of the loan. Subsequently, the forecast savings would be achievable for 20 years subject to the proper maintenance of the plant and equipment installed and appropriate building maintenance.
- 3.8 **Medium Term Financial Strategy.** The financial savings identified from the Re:Fit programme have already been built into the Medium Term Financial Strategy (MTFS). These savings were also taken into account during the ZBB review for Operational Services. Detailed below in Table 2 are the savings that have been modelled for One Leisure based on the assumption that the Re:Fit programme would be going ahead in its entirety.

Table 2 – Financial savings identified as part of MTFS

Savings from Utilities from energy management measures at One Leisure Sites (Savings included here as within the Operational ZZB review)	2016/17	2017/18	2018/19	2019/20
	-	£33,000	£69,000	£109,000

Delaying the project would mean that the costs savings which have already been identified would not be achieved. With the removal of Ramsey OL from the programme of work, the schedule of savings will have to be revised downwards with the total annual saving once all work is completed amounting to £84,000.

4. COMMENTS OF OVERVIEW & SCRUTINY PANEL

4.1 The Overview and Scrutiny Panel (Performance and Customers) meeting of 7 September 2016 requested that the programme should review the inclusion of OL St Ives Outdoor and resolved to commit the additional funding requested in order to fully implement the programme of work identified.

4.2 There was some discussion at the Overview & Scrutiny Panel as to whether OL St Ives Outdoor should be included in the programme as it had the longest payback. However, as the inclusion of the site increases overall payback by only 0.4 years, it is recommended that this site remains in the programme.

5. KEY IMPACTS

5.1 Key Issues:

Issue	Priority	Impact	Proposed Mitigation	Residual Risk/issue
Leases not renewed for OL St Neots and/or Huntingdon Dryside leading to a significant risk for any investment	High	High	Insert an exclusion clause into the Call Off Contract 2 so that should either of the leases still be outstanding by 1 March 2017 the sites/s can be excluded from the programme of work.	Low – the exclusion clause protects both the Council and Bouygues Ltd. Savings still are guaranteed for the updated payback period
By 31 st October 2016 a decision has been made not to proceed with the Re:Fit Programme.	High	High	Mitigation none, savings currently identified within the MTFS will not be achieved and £20,000 will need to be paid to Bouygues Ltd to cover the cost of the IGPs.	High – Significant gap in the MTFS for Leisure.
Not achieving the savings which have been built into the MFTS for One Leisure.	High	High	Utilising the proposed exclusion clause, to remove either St Neots or Huntingdon Dry-side (or both) will allow the	Low – with the target date of 1 March 2017 for the resolution of the lease

Deferment of Contract with Bouygues Ltd until the leases are in place for St Neots and Huntingdon Dry will delay the budget savings built into the MTFS.			Council to implement the programme of work and start to realise the savings which have already been planned into the MTFS.	situation or the removal of the sites from the work stream, the Council has best chance to achieving the savings identified.
Removal of Ramsey from the programme of work.	Moderate	Moderate	The programme of work can be adapted and savings are guaranteed for the remaining sites. The savings identified for OL in the MTFS will be revised downwards.	Low - the MTFS will be revised to reflect the projected savings of the new programme.
Delay to the Re:Fit programme until the leases are signed for St Neots and Huntingdon Dryside	High	High	No mitigation – if the programme of work tendered in the IGP expires before the contract is agreed, then it is expected that the cost of the measures will increase in a future programme, which will severely impact on the return on investment.	High

6. TIMETABLE FOR IMPLEMENTATION

6.1 Detailed below is the implementation timetable, being the work required to deliver the project.

- Cabinet Decision 20 October 2016.
- Deadline for signing Call off Contract 2 - 31 October 2016.
- Deadline for excluding either or both OL St Neots and Huntingdon Dryside from the programme of work 1 March 2017.
- Start of installation of measures on site if Contract with exclusion clause is approved by Cabinet – November 2016.

7. LINK TO THE CORPORATE PLAN

7.1 As part of the Council's Corporate Plan, under the objective of becoming more business-like and efficient, an action of achieving a 2% year on year reduction in energy use has been identified. In the financial year 2015/16 the Council used 12,096,814 kWh energy (gas and electric), which cost £862,148. This was a rise of 3.45% on the energy used in the financial year 2014/15.

7.2 The revised Re:Fit programme, excluding OL Ramsey, will deliver the majority of the savings which have already been attributed to OL in the Medium Term Financial Strategy. As the overall annual benefit of the scheme has been reduced to £84,000, the MTFS will need to be revised downwards to reflect this.

8. LEGAL IMPLICATIONS

- 8.1 The tendered programme of work presented in the IGP is valid until 31 October 2016.
- 8.2 The introduction of an exclusion clause in the Call-Off Contract 2 to cover the uncertainty surrounding the leases of the St Neots and Huntingdon dryside. This will protect the Council from investing in sites which have an uncertain financial future, whilst allowing the Council to accrue savings which have been identified in the MTFs.
- 8.3 The removal from OL Ramsey from the scope of the Programme.

9. RESOURCE IMPLICATIONS

- 9.1 Project management of the programme is drawn from the existing officer resources in the Council.

10 REASONS FOR THE RECOMMENDED DECISIONS

- 10.1 In summary, it is recommended that the Cabinet approve the signing of Call off Contract 2, with the addition of the exclusion clause to allow the removal of either OL St Neots or OL Huntingdon Dry-side or both sites if the leases are not in place.
- 10.2 The exclusion clause allows the Council to invest with confidence in the remaining One Leisure sites and to start making the savings which have been identified in the MTFs.
- 10.3 The deadline for activation of the exclusion clause is 1 March 2017, which allows the Council time to negotiate the leases for the affected sites.

13. LIST OF APPENDICES INCLUDED

- 13.1 Appendix 1 – Re:Fit Acronym List

CONTACT OFFICER

Neil Sloper, Head of Operations
Tel No. 01480 388635
Email: Neil.sloper@huntingdonshire.gov.uk

RE-FIT ACRONYM LIST

AHU	Air Handling Unit
BEC	Baseline Energy Consumption
BEMS	Building Energy Management system
BYes	Bouygues Energy and Services Ltd
CoC	Call off Contract
CHP	Combined Heat and Power
CMT	Chief officers Management Team
CWS	Cold Water System
DEC	Display Energy Certificate
DHW	Domestic Hot Water
DNO	Distribution Network Operator, UK Power network, who is responsible for the local network electrical infrastructure
DTA	Desk Top Assessment
EPC	Energy Performance Certificate
ESCo	Energy Service Company
GIFA	Gross internal floor area
HVAC	Heating, Ventilation and Air Conditioning
IGP	Investment Grade Proposal
LED	Light Emitting Diodes
LP	Local Partnerships
MLEI	Mobilising Local Energy Investment
MTFS	Medium Term Financial Strategy
M+V	Measurement and Verification
OL	One Leisure
PV	Photo Voltaic
RHI	Renewable Heat Incentive
TMV	Thermostatic Mixing Valves