

<b>Agenda Item</b>	<b>6</b>
<b>Report No</b>	<b>CCP/1/20</b>

## HIGHLAND COUNCIL

**Committee:** Climate Change Panel

**Date:** 15<sup>th</sup> January 2020

**Report Title:** Salix Recycling Fund

**Report By:** Salix Fund Manager

### **1. Purpose/Executive Summary**

1.1 This report provides a summary of the Council's Salix Recycling Fund (RF) and an update on the progress being made.

### **2. Recommendations**

2.1 Members are asked to note the contents of this report.

### **3. Implications**

3.1 Resource – All resource utilised to support the delivery of the work is charged against the RF. Delivery of the work has no cost implications for the Council.

3.2 Legal – There are no legal implications arising from this report.

3.3 Community (Equality, Poverty and Rural) – Utilising local contractors, at least initially, to deliver the work will help support the Highland economy. The LED upgrades cover a vast area therefore smaller, more remote schools will still benefit from lighting upgrades.

3.4 Climate Change/Carbon CLEVER – During a financial challenging period, the Salix RF offers a huge opportunity for the organisation to proactively reduce carbon emissions without negatively impacting a reduced capital budget.

3.5 Risk – Failing to properly manage the fund and maximise the potential benefits, carries significant reputational risk for the organisation and it is essential that the work continues to progress at pace and unimpeded if we are to meet our climate targets.

3.6 Gaelic – There are no Gaelic implications arising from this report.

## 4. Background

- 4.1 Salix Finance are an independent, government-funded organisation which provides interest-free loans to the public sector for energy efficiency projects.
- 4.2 Since late 2018, officers have been in discussion with Salix about the possibility of applying for a loan. At the beginning on 2018/19, Highland Council was awarded a **£3.5m interest-free loan** from Salix following the development of a business case by the Commercial and Efficiency Team (CET), with support from the Energy & Sustainability Team (E&S).
- 4.3 ***This is the largest award ever made in Scotland and the largest made to a local authority in the UK.***
- 4.4 Salix offer several loan types, however The Council opted for a Recycling Fund (RF) - a ring-fenced pot of money held by the local authority, which is created with capital provided by Scottish Government through Salix, and equally matched by the local authority. The fund aims to increase long-term investment in energy-efficient technologies across the public sector by enabling clients to reinvest savings from previous projects to finance further energy reduction schemes.
- 4.5 There are 3 key elements to the Recycling Fund –
- The pot – Salix Finance will provide a loan of £3.5m to The Highland Council. This is matched by The Highland Council's £3.5m investment in Solar and other small energy projects. Together, these funds create an energy efficiency fund known as "the Local Fund".
  - The savings – 75% of the financial savings made from all projects – funded by Salix and The Council – must be paid back (i.e. recycled) into the "Local Fund" to finance further energy saving projects. 25% of the financial savings can be accounted for as savings for the Council.
  - The recycling – It is expected that the money in the Local Fund will be recycled at least 3 times. Once a Local Fund is established, it becomes self-sustaining and can be in operation for 15-20 years as savings generated by completed projects are recycled back into it, to finance further projects.
- 4.6 Projects progressed must meet specific financial and carbon conditions determined by the Scottish Government; due to the recycling nature of the fund, it is essential that the Council adheres to the strict financial criteria, with ongoing support and scrutiny from Salix to maximise the benefits to the Council.

## 5. Progress to date

- 5.1 The Fund Manager leads a multi-disciplinary team with sponsorship from the Head of Property Services. Given the tight timeframes involved and to ensure adequate pace, weekly meetings take place. This has been vital in getting the right level of understanding and support.
- 5.2 Due to the recycling nature of the fund, the working group has taken a data driven approach; ensuring a commercial mindset is adopted is vitally important to realise strong financial returns which will allow the progression of further energy efficiency projects.
- 5.3 **LED**

Understanding our estate and the lighting infrastructure within it was a key task. The only way we could accurately ensure sites meet financial and carbon criteria was with robust data. Utilising

students recruited by E&S, over 125 sites have had detailed lighting surveys carried out at a cost of £17,800, demonstrating avoided spend of over £170k based on local contractor costs.

- 5.4 The data was then used to determine the anticipated project cost, energy saving and reduced spend to determine whether the site was viable. To realise economies of scale and protect the organisation from spiralling costs a framework has been established specifically for this LED programme. The sites were then packaged into lots based on geographical spread but also based on the potential repayment period and overall compliancy – this has allowed us to progress sites that otherwise would not be compliant as per our fund agreement with Salix.
- 5.5 Dornoch Primary School and the Avern Leisure Centre have already been complete. Rose St car park will begin work in mid-Jan 2020 and will be carried out by our internal Street Lighting team. Spend and savings profile for 2019/20 and 20/21 are as follows -

Period	No. of lots	No. of sites	Anticipated spend	Anticipated kWh savings
2019-20	6	30	~£950,000	1,200,000
2020-21	8	44	~£990,000	880,000

Stated figures may change as tender quotes are received and costs and savings are purified, equally high tender costs will erode savings and impact future scopes of works.

#### 5.6 Boilers

Due to the nature and scale of this work, progressing with boiler replacements is far more complex than LED and requires longer lead in times. The financial savings, and therefore the amount Salix can contribute, are relatively small and there is a requirement to fund the bulk of the works through capital funding.

- 5.7 To date the focus has been on replacing poor performing oil-fired boilers, many of which are well past their useful shelf life. Supporting the replacement of these boilers will help ensure schools and leisure centres have adequate heat systems in place, whilst reducing emissions and spend and ultimately keeping buildings open.
- 5.8 Building maintenance has produced a finalised list of the most critical sites and these are currently being assessed by the Energy & Sustainability team for suitable solutions considering a variety of complicated factors.
- 5.9 A number of these sites have limited fuel source options and have been expedited to ensure pace is maintained; contractor quotes and designs for St Joseph’s Primary School, Raigmore Primary School and Banavie Primary School have been returned and will be reviewed in December 2019 before going to the Salix Working Group for any further decisions.

### 6. Key Next Steps

- 6.1 The working group will continue to model and package work with the aim of establishing a clearer spend profile for 19/20 and 20/21 (across both LED and boiler work). By establishing work packages and engaging with framework contractors early we can then build up a clearer understanding of likely completion dates as well as likely costs – this will help inform future modelling and determine favourable sites and lots.
- 6.2 Moving beyond 20/21 the spend, and level of input required, will decrease as only the savings will be recycled. It is envisaged that given the smaller investment, the internal Street Lighting Team will be able to take on a bigger share of the work – early discussion has taken place regarding capacity and several work packages are being progressed by them currently and due for completion in 19/20.

- 6.3 Officers will also start evaluating new opportunities in relation to alternative technologies or improvements to help ensure building upgrades are being looked at holistically, where deemed financially viable and appropriate by the Fund Manager and Salix.
- 6.4 Continued tactical alignment with the Energy & Sustainability Manager and the ongoing recruitment of student placements is an opportunity to further assess our estate for future opportunities, LED and otherwise, at a favourable rate.

## **7. Benefits**

- 7.1 The Salix RF will deliver a great number of benefits to the organisation and region -
- To help minimise or reduce the organisations energy spend the £7m fund, when fully operational, will realise financial savings of ~£0.4m annually and will deliver project lifetime savings of ~£14m.
  - To support the Climate Change agenda and the aspiration of being 'net zero' by 2025, the works undertaken will reduce carbon emissions by over 1,400 tCO<sub>2</sub>e annually.
  - Reduction in maintenance burden through the addition of modern, reliable fittings with industry warranties.
  - Improved lighting environments for classrooms and buildings through the addition of better performing, less harsh lighting.
  - Resilient heat supply to buildings which will minimise the likelihood of closures and help reduce any reliance on expensive temporary heat systems.
  - Highland Council can proactively address it's spend and consumption through the fund which will have significant reputational benefits, particularly given the ambition and size of the fund.
  - The fund will support economic generation through the use of local contractors to support delivery of the work and the ongoing recycling of the savings.
- 7.2 It should also be noted that the Council has the option to increase the fund allowance by aligning the Salix RF closely with future capital plans on a match funding basis. Any further award would be dependent on business case scrutiny from Salix and would likely depend on the opportunities identified; this would be part of the Fund Manager role with support from the Energy & Renewables Board.

**Designation: Salix Fund Manager/ CET Project Manager**

**Date: 12<sup>th</sup> December 2019**

**Author: Martin MacDonald**