

Cabinet

Supplementary Information



Date: Tuesday, 12 July 2022

Time: 4.00 pm

Venue: The Council Chamber - City Hall, College Green, Bristol, BS1 5TR

17. Transfer of Heat Network assets from the Council to Bristol Heat Networks Limited

(Pages 2 - 35)

Please note that a revised Public Forum Question deadline applies to this report.

The deadline for receipt of questions for this report is 5.00 pm on Thurs 7th July. These should be sent, in writing to Democratic Services as per details held within the agenda.

Issued by: Sam Wilcock, Democratic Services
City Hall, Bristol, BS1 9NE
E-mail: democratic.services@bristol.gov.uk
Date: Tuesday, 05 July 2022



Decision Pathway – Report

PURPOSE: Key decision

MEETING: Cabinet

DATE: 12 July 2022

TITLE	Transfer of Heat Network assets from Bristol City Council (BCC) to Bristol Heat Networks Limited (BHNL)		
Ward(s)	Central		
Author: Peter Anderson	Job title: Head of Service		
Cabinet lead: Cllr Kye Dudd	Executive Director lead: Stephen Peacock		
Proposal origin: BCC Staff			
Decision maker: Mayor Cllr Dudd			
Decision forum: Cabinet			
Purpose of Report:			
The purpose of this Report is to:			
<ol style="list-style-type: none"> 1. Seek authorisation of the transfer of all heat network assets currently owned by the Council to its wholly owned company, Bristol Heat Networks Limited (BHNL) and matters in connection with the transfer. 2. Seek authorisation of an additional loan facility to BHNL of £11.3m. 			
EVIDENCE BASE:			
1. Why does the Council want to transfer its heat network assets?			
1.1. Heat Network Investment Project (HNIP)			
1.1.1. The council is currently constructing new heat network assets in Old Market, Redcliffe and Bedminster, and developing a new project in Temple. These projects were the subject of previous Key Decisions (in September 2018, March 2020 and October 2021) where approval was given to bid for and accept government grant funding from a programme called Heat Network Investment Project (HNIP)			
1.1.2. It was a condition of this grant funding that the newly-constructed assets would be held by a Special Purpose Vehicle (SPV) rather than directly by the Council, so a Key Decision was taken in March 2020 to set up a SPV for this purpose, which is called Bristol Heat Networks Limited (BHNL)			
1.1.3. In September 2020, Cabinet approved transfer of Old Market & Redcliffe assets to BHNL. This report seeks authority to transfer the remainder of the above assets (which are described in Appendix A) from the Council to BHNL			
1.2. BCC Housing (HRA)			
1.2.1. Currently, the heat network assets supplying heat and hot water to the Redcliffe blocks have a mix of arrangements, with some owned by HRA and some owned by BCC Energy Service. The Redcliffe blocks			

are now connected to the wider Redcliffe network and can be supplied by the energy centre at 100 Temple St.

1.2.2. HRA is responsible for billing and metering to its tenants and is recharged for bulk supplies of gas, electricity and biomass by BCC Energy Service.

1.2.3. This means that different customers on the network have different arrangements for asset ownership, heat supply, billing and maintenance. This report seeks approval to simplify and regularise the current mixed approach by:

1.2.3.1. Transferring primary heat network assets and their maintenance to BHNL (described in Appendix A)

1.2.3.2. Moving bulk heat and hot water supply billing to the same contractual basis with BHNL as all of the other connections on the network. There will be no material change for tenants.

1.2.3.3. HRA will continue to be responsible for billing its tenants and managing the network from the bulk supply points to each flat (see section Consumer Pricing in Appendix A). Again, this is in line with the arrangements elsewhere on the network

1.2.4. Subject to further cabinet approval to be sought in autumn, the Council will subsequently sell 100% of the shares in Bristol Heat Networks Limited to the City Leap Strategic Partner and it is expected that any amounts owing to the Council by BHNL will be fully repaid at completion of that share sale.

1.2.5. The onward pricing to the social housing tenants is the responsibility of the HRA, however the pricing of the bulk heat supply is managed through the supply agreement with BHNL with set formulas for pricing and annual reviews.

2. Asset Transfer Value

2.1. In total, circa £20m of heat network assets will be transferred to BHNL, being the estimated book value, net of grant funding, of completed works as at 30th June 2022.

2.2. It should be noted that as the assets are in part, still under construction, any additional costs incurred beyond 30th June 2022 will also need to be transferred to BHNL.

2.3. The additional forecast expenditure from 1st July 2022 to 31st March 2023 is £ 5.4m

2.4. The transfer value of the old pipework and small number of assets held by the HRA and to be transferred to the General Fund is nil, based on a review of the enterprise value and future expected remedial works. The Council is seeking Secretary of State consent for the disposal of assets from the HRA including the grant of leases.

3. Funding the Heat Networks

3.1. BHNL was primarily established as the SPV for the HNIP Funded assets as a mandatory requirement under the grant funding conditions, as such it has always been expected that BHNL would have limited income generation in its early years.

3.2. Accordingly, the wider business case for all of the Heat Networks assumes a 40- year term, with funding required in the early years, comprising Connection Fee Income, Grant Funding and PWLB borrowing to support the early build-out of the Networks.

3.3. All the assets being transferred to BHNL (as set out above) are subject to Council PWLB borrowing, previously approved by Cabinet.

4. Required additional borrowing to the existing Loan facility of BHNL

4.1. To support the transfer of ALL Heat Network Assets to BHNL an addition to the existing loan facility of £12.7m (in respect of Old Market & Redcliffe Phase 2 only) is required.

4.2. The additional loan requirement amounts to £11.3m, based on projected peak-cash requirements of BHNL to December 2022, and assumes the following:

4.2.1. That the acquisition of BHNL by the Preferred Bidder, subject to further Cabinet approval, will take place on or before 31st December 2022

4.2.2. That the terms of any extension will be broadly similar to the existing loan arrangement

4.2.3. That SDLT will have to be paid on some or all of the value of assets being transferred, the precise amount dependent upon external tax advice

5. Other contractual arrangements

5.1. It should be noted that, at the point that the heat network assets transfer to BHNL, the Council will enter into a heat supply contracts with BHNL to provide low carbon heat to each social housing block on the Redcliffe estate that is connected to the heat network. Over the lifetime of the supply the amount charged to the Council could reach more than £500k per contract (as the contract is not for a fixed term), but the amount charged depends on heat use by the blocks so it is not an outright commitment by the Council to pay that amount. The supply contracts will contain robust safeguards to ensure continuity and availability of heat – See Appendix A.

5.2. The Council currently provides services through its 'Energy Services' team for the delivery and operation of heat generation and heat distribution assets to BHNL pursuant to a Services Agreement. This arrangement will continue following the transfer of assets into BHNL (for so long as BHNL remains a wholly owned subsidiary of the Council) but will need to be updated to reflect the asset transfer.

Cabinet Member / Officer Recommendations:

That Cabinet:

1. approves the transfer of the Heat Network Assets (being the heat network installed by the Council as shown in the map at figure 1 in appendix A including related heat and power generation facilities and building connections as detailed in Appendix A and relevant associated contracts) from the Council to Bristol Heat Network Ltd (“BHNL”).

2. Delegates authority to Executive Director of Growth & Regeneration, in consultation with Cabinet Member for Climate, Ecology, Waste and Energy, Director of Legal and Democratic Services and Director of Finance:
 - a. to finalise the process and terms of the agreements for the transfer of the Heat Network Assets and the ongoing construction and delivery of the assets up to the point of the proposed transfer of BHNL to Vattenfall Heat UK Ltd;
 - b. finalise the terms of an agreement between the council and BHNL for the provision of services by the Council to BHNL in relation to the Heat Network Assets; and
 - c. to take all steps required to approve the terms of the transfer of Heat Network Assets set out above and to implement and enter into all such documents to give effect to the transfer of the assets set out above.
 - d. enter into heat supply contracts (including any individual contracts over £500k) with BHNL under which BHNL will provide a bulk supply of low carbon heat to the social housing blocks on the Redcliffe Estate as outlined in this report.
3. Delegates authority to the Director_of Finance (s151 Officer) in consultation with the Cabinet Member for Finance, Governance and Performance to:
 - a. approve an allocation of up to £11.3m to fund the consideration payable by BHNL for the Heat Network Assets; and
 - b. agree the terms of the provision of such finance and to enter into any documents required to fund the transaction.
4. approves for the purposes of reserved matter consent required to be given by the Council as shareholder pursuant to the articles of association of BHNL, the acquisition by BHNL of the Heat Network Assets and the additional funding required to finance such acquisition.
5. Notes the previous approval of the transfer of Old Market and Redcliffe heat network assets to BHNL by Cabinet in September 2020, to take effect as part of the above asset transfer.
6. Delegates authority to the Head of Property Services in consultation with the Executive Director Growth and Regeneration to negotiate, agree and complete the grant of leases to Bristol Heat Network Ltd as set out in point 5 of the evidence base to this report
7. Notes the intention to bring a further report back to Cabinet to seek approval to enter into the City Leap contracts and the proposed transfer of BHNL to Vattenfall Heat UK Ltd.

Corporate Strategy alignment:.

1. The development of heat networks within Bristol is an essential component of the citywide goal to achieve carbon neutrality by 2030. This report seeks approval to standardize arrangements across current operations, providing for future opportunities to further decarbonize the network.

City Benefits:

1. Keep Bristol on course to be run entirely on clean energy by 2050 by delivering up to £1bn of investment in

the city's low carbon, smart energy system.

2. Improve our environment to ensure people enjoy cleaner air through supporting the further deployment of renewable energy generation and electric vehicles.
3. Improve physical and mental health and wellbeing by making residents' homes warmer and cheaper to heat, reducing inequalities and the demand for acute services.
4. Tackle food and fuel poverty by reducing energy bills.
5. Create jobs, contributing to a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person.

Consultation Details:

- The current proposal is not deemed to have a substantial affect or negative impact on tenants as outlined in this report.
- The transaction has been approved in principle by the board of BHNL at a board meeting held on 28 June 2022, based on financial assumptions provided by the Council, and subject to acknowledgement that in the event that the anticipated onward sale of shares in BHNL to Vattenfall is delayed beyond March 2023 or does not take place, there will be a requirement for a revised business plan to be submitted to the Council for approval.

Background Documents:

Heat Networks

1. The October 2021 Cabinet Report:
<https://democracy.bristol.gov.uk/documents/s64436/2021%2009%2022%20Bedminster%20and%20Temple%20heat%20Cabinet%20report%20-%20FINAL%20-%20Copy.pdf>
2. The March 2020 Cabinet Reports:
<https://democracy.bristol.gov.uk/documents/s46635/A%20Cabinet%20Decision%20Pathway%20-%20Heat%20Network%20Expansion%20final.pdf>
<https://democracy.bristol.gov.uk/documents/s46792/A%20Cabinet%20Decision%20Pathway%20-%20Establishment%20of%20%20Special%20Purpose%20Vehicles%20SPV.pdf>
3. The September 2018 Cabinet Report:
[2018 08 24 Exec Summary Report - Heat networks FINAL.pdf \(bristol.gov.uk\)](https://democracy.bristol.gov.uk/documents/s20180824/2018%2008%2024%20Exec%20Summary%20Report%20-%20Heat%20networks%20FINAL.pdf)

City Leap

1. The April 2022 Cabinet Report:
<https://democracy.bristol.gov.uk/documents/s71662/2022%2004%2005%20City%20Leap%20Energy%20Partnership%20-%20Appointment%20of%20Preferred%20Bidder%20Cabinet%20Report%20-%20FINAL.pdf>
2. The January 2022 Cabinet Report: <https://democracy.bristol.gov.uk/documents/s68668/City%20Leap%20-%20procurement%20update%20and%20contract%20extension%20notification%20FINAL.pdf>
3. The December 2020 Cabinet Report:
<https://democracy.bristol.gov.uk/ielssueDetails.aspx?IId=30452&PlanId=0&Opt=3#AI22528>
4. The July 2020 Cabinet Report:
<https://democracy.bristol.gov.uk/ielssueDetails.aspx?IId=25279&PlanId=0&Opt=3#AI20063>
The June 2020 Cabinet Report:
<https://democracy.bristol.gov.uk/documents/s49367/2020%2006%2002%20Cabinet%20Decision%20Pathway%20-%20City%20Leap%20Energy%20Partnership%20update.pdf>
5. The April 2019 Cabinet Report: <https://democracy.bristol.gov.uk/ieDecisionDetails.aspx?AllId=15747>
6. The City Leap Prospectus: www.energyservicebristol.co.uk/cityleap

Revenue Cost	£0.00	Source of Revenue Funding	n/a
Capital Cost	£11.3m	Source of Capital Funding	General reserves
One off cost <input type="checkbox"/> x Ongoing cost <input type="checkbox"/>		Saving Proposal <input type="checkbox"/>	Income generation proposal <input type="checkbox"/>

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice:

- A detailed financial commentary and assessment is set out in Appendix G, which concludes:
- There are no other material matters to note from a financial perspective, other than ensuring tax advice is obtained in a timely manner, and appropriate reconciliations and accounting entries, consistent with the CIPFA code are undertaken and approved commensurate with the transfer date.
- It is recommended that the transfer takes place on or before 31st July 2022.

Finance Business Partner: Paul Keegan 5th July 2022

2. Legal Advice:

Terms of the Asset Transfer

- Under the transfer agreements the assets and associated contracts (including all rights and obligations under those contracts) will transfer to BHNL. There will be some residual risks to the Council in relation to any warranties granted and liabilities remaining in BCC. Further liabilities may arise on the onward transfer of BHNL into City Leap – this will be the subject of a separate cabinet report.
- As part of the asset transfer, amendments will be made to the services agreement between the council and BHNL under which the council manages the construction and operation of the heat network. The amended agreement will place liability on the Council to the extent that the Council does not fulfil its obligations under that agreement.
- Certain contracts may require third party consent to transfer, and this should be sought where required.

Subsidy Control

- Whenever the Council grants a benefit, in any form, which may afford the recipient an advantage that has the potential to distort competition, consideration needs to be given as to whether the benefit is compliant with the subsidy control regime. Provided that the terms of any asset transfer or loans granted to BHNL are on the same terms as would be available in the market, then they will be compliant. Legal and financial advice will need to be taken throughout the transaction to ensure that this remains the case.

Procurement

- There are not expected to be any procurement implications as a transfer of assets does not constitute a contract for provision of goods/works/services.

Onward Loan Funding

- If the Drawdown Request is approved, legal advice will need to be obtained to ensure that any such arrangement is appropriately documented.
- Where BCC intends to onward lend funds received, it must ensure that all relevant regulations and policies

are complied with. In particular, if any prudential borrowing is to be transferred to BHNL, legal advice must be sought to ensure such entities are bodies governed by public law (as these are the only bodies that can receive prudential borrowing).

Property Transfer Comments

The Council is under a duty by virtue of S123 of the Local Government Act 1972 to achieve best value for its assets and any disposal should be at the best price reasonably obtainable. The duty to seek best consideration is subject to certain exceptions, most notably section 2 of the Local Government Act 2000 providing the Council with well-being powers to accept a disposal at undervalue within the £2 million threshold, where the authority considers the disposal will help it to secure the promotion or improvement of the economic, social or environmental well-being of its citizens.

Legal Team Leaders: Husinara Jones and Andrew Jones

3. Implications on IT: I can see no implications on IT in regards to this activity.

IT Team Leader: Gavin Arbuckle – Head of Service Improvement and Performance

4. HR Advice: There are no HR implications evident.

HR Partner: Celia Williams, Human Resources Business Partner

EDM Sign-off	Stephen Peacock	25 th May 2022
Cabinet Member sign-off	Cllr Dudd	30 th May 2022]
For Key Decisions - Mayor's Office sign-off	Mayor	13 th June 2022

Appendix A – Further essential background / detail on the proposal Use this section to provide more details to expand upon the points made in this report.	YES
Appendix B – Details of consultation carried out - internal and external	NO
Appendix C – Summary of any engagement with scrutiny	NO
Appendix D – Risk assessment	YES
Appendix E – Equalities screening / impact assessment of proposal (Please contact equalities.team@bristol.gov.uk for support. See also equality impact assessments)	YES
Appendix F – Eco-impact screening/ impact assessment of proposal (template available here) Lead officer for support Giles Liddell..	YES
Appendix G – Financial Advice (Financial officer must be the author of the advice)	YES
Appendix H – Legal Advice (Legal Services must be the author of the advice)	NO
Appendix I – Exempt Information (Legal Services must confirm that information is to be exempt in accordance with the constitution)	NO
Appendix J – HR advice	NO
Appendix K – ICT Include here additional information from ICT	NO
Appendix L – Procurement Include here additional information from Procurement	NO



Heat Network Asset Transfer from BCC to BHNL Cabinet Paper
Appendix A – Further Essential Background Information



**ENERGY
SERVICE
BRISTOL**

**BRISTOL
ONE CITY**

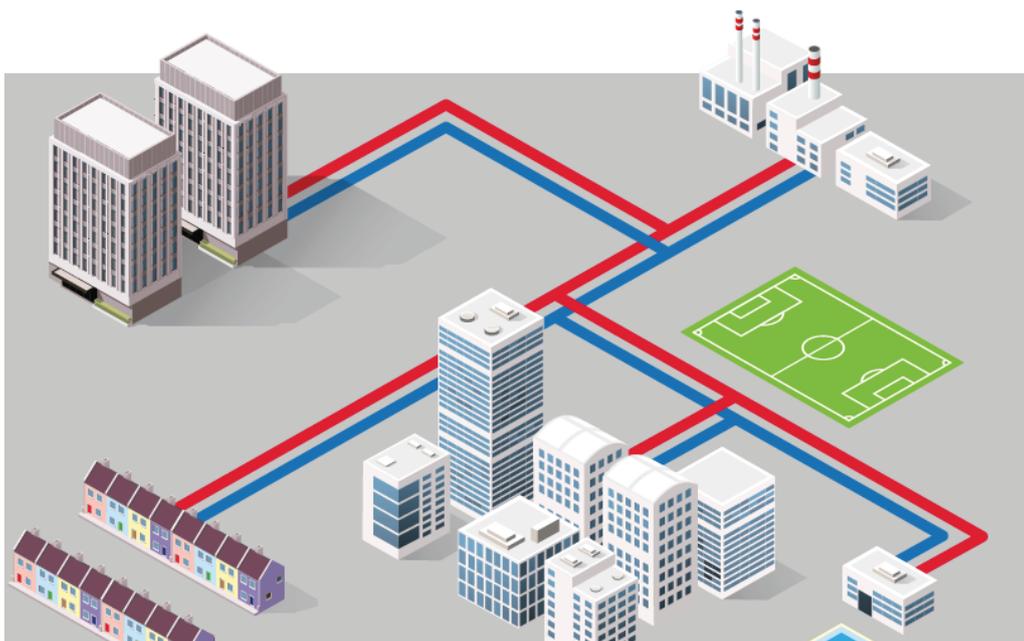
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Why Heat Networks?

Heat networks, also known as district heating, are systems for distributing heat generated in a centralized location via a network of pipes for domestic and commercial space heating and water heating.

As the heat network is agnostic to the type of heat generation installed, it can supply heat from a variety of energy generation technologies and most crucially from low and zero carbon technologies such as water source heat pumps as well as biomass and waste heat from industrial processes. This ensures heat networks are a ‘no regrets’ technology able to deliver heat whatever the heat generation technology available.



Heat networks using low or zero carbon energy technologies is the most viable methods of cutting carbon emissions in high density urban areas as the only other currently viable alternative would be the retrofitting of air source heat pumps to every building which will need to overcome significant building challenges such as the structural ability for buildings to be retrofitted with this technology.

The Bristol Heat network already operates with various low and zero carbon heat sources including the newly installed water source heat pumps (WSHP) supplying heat from the floating harbour, Gas CHP and the biomass boiler within the Broughton House Energy Centre. The wider network will also be investigating other heat sources such as heat from mines and sewers.

Heat Pump Technologies - take heat typically from the ground, water or air although Energy Services are also investigating using them to obtain heat from sewers. The heat obtained is then transferred into buildings or a district heating system. The technology used is the same as that used in refrigerators. Just as a fridge extracts heat from the food and transfers it into the kitchen, so a water source heat pump extracts heat from the water and will transfer it to the heat network. For every unit of electricity used to power the heat pump, approximately 3-4 units of heat are captured and distributed.

Although only 2% of heat in the UK is currently supplied by heat networks, this is rapidly increasing, particularly in cities. They are supported by UK government who have recognised that around 20% of heat could be supplied by heat networks across all five future energy supply scenarios contained in the Clean Growth Strategy, which was published by Central Government in 2017. Major European cities like Vienna

and Copenhagen have installed heat networks supplying over 95% of homes. Consequently, Copenhagen is on track to be carbon neutral by 2025.

In the UK, almost all cities have either installed or are looking to install heat networks. London currently has the greatest number of heat networks with London boroughs such as Enfield and Islington taking a lead. A number of large towns are also installing heat networks. For example, Gateshead has completed a £25 million heat and power network supplied from a Gas CHP energy centre.

Heat networks are central to achieving the Mayor’s goal for Bristol to be a carbon neutral city by 2030 as well as help to tackle fuel poverty by providing heat to residents at lower prices. In confined urban areas like central Bristol, it can be argued that heat networks provide the only financially and technically viable solution for zero carbon heat.

BCC and BEIS have over the past few years commissioned various studies that confirm the importance of a Bristol Heat Network to the net zero carbon target. This included the CSE report on what Bristol needs to install to meet the net zero challenge by 2030 at least cost which recommended that over 70,000 buildings in Bristol be connected to a heat network with the remaining 90,000 buildings install an individual building solution such as air source heat pumps.

Installing heat networks will also support the following corporate strategy key commitments:

- Improve our environment to ensure people enjoy cleaner air through supporting the further deployment of renewable heat generation.
- Improve physical and mental health and wellbeing by making residents’ homes warmer and cheaper to heat, reducing inequalities and the demand for acute services.
- Tackle food and fuel poverty by reducing energy bills.
- Create jobs, contributing to a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person.
- Increased resilience against fossil fuel price shocks.
- Reduce energy consumption and operating costs for building occupiers, improving Bristol’s competitiveness for attracting new businesses to the city.
- Reduce costs for developers as they no longer need to install and maintain expensive heat generation plant and equipment.
- Increase the City’s energy security and resilience.

Net zero, Bristol Heat Network Ltd and City Leap

BCC received over £10m in UK gov HNIP grant funding for the Redcliffe Phase 2 and Old Market heat networks and one of the conditions for the funding was that BCC would set up a Special Purpose Vehicle company (SPV) where the heat network assets would be incorporated.

In 2020 BCC met this condition through the setting up of Bristol Heat Networks Ltd (BHN), an SPV wholly owned by Bristol City Council.

BHN is the current operating SPV for the Old Market and Redcliffe Phase 2 networks but will also include the Bedminster heat network which is currently under construction

Whilst Bristol’s heat network is one of the fastest growing heat networks in the UK, as identified by CSE in its Bristol net zero report, if the 2030 net zero carbon target is to be met, the Bristol heat network will need to be expanded much further and much quicker than would be possible by BCC building the network on its own.

Moreover, the cost of developing such a network is likely to cost in the order of £1 billion. This significant sum is well beyond what BCC as a local authority can provide on its own.

To deliver such an ambitious infrastructure project requires the investment and expertise of large 3rd party organisations which is exactly what City Leap is intended to deliver. In Vattenfall, BCC has secured the support of one of the major heat network operators within Europe that currently manage heat networks in Berlin and Amsterdam as well as networks within its home country of Sweden (Vattenfall is owned by the Swedish state)

As part of City Leap, all BCC’s heat network assets not currently managed as part of BHN will be transferred to the SPV so that on completion of the City Leap agreement, a single transfer of BHN to Vattenfall can take place, enabling Vattenfall to progress the expansion of the Bristol Heat Network

Current Bristol heat network grant funding

Figure 1: Heat network currently installed to date and buildings connected (inset – Bedminster network – For illustrative purposes only)

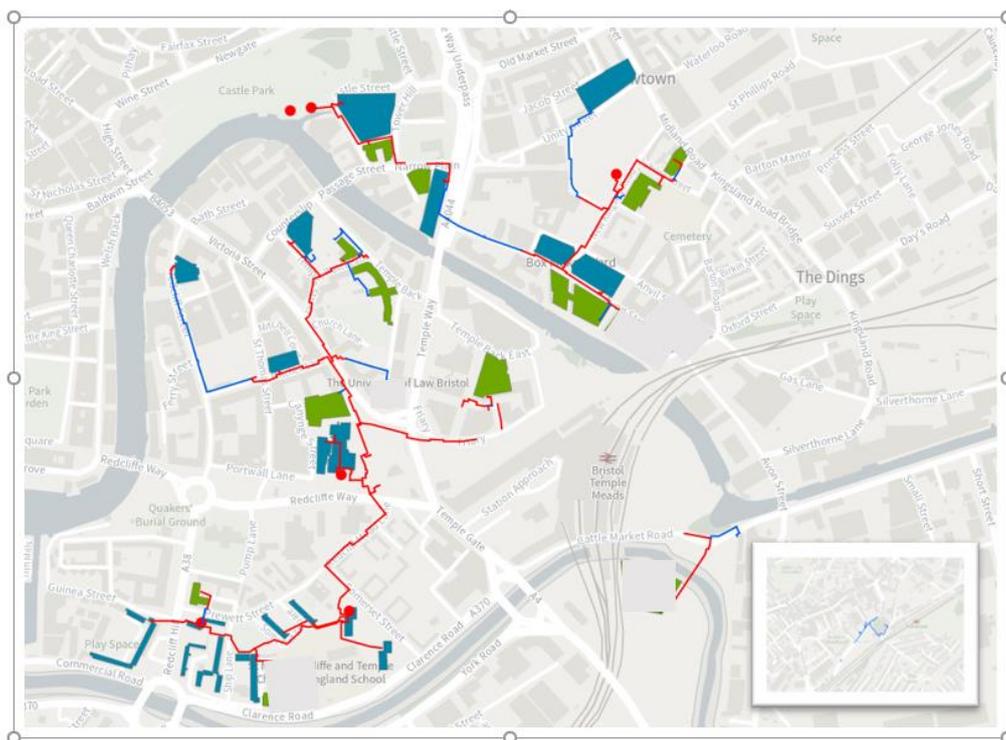
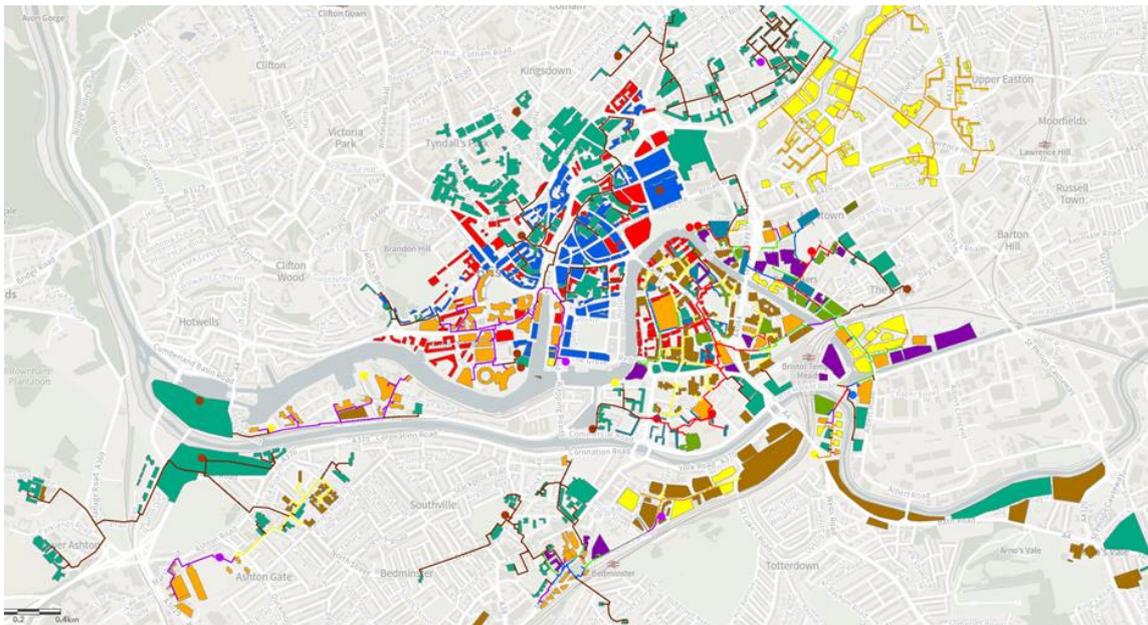


Figure 2. Heat networks in development expected to be developed by City Leap



Work to date / in progress

Old Market Heat Network

The Old Market Network is currently supplying heat to new developments in the city including the new developments of Castle Park View, Box Makers Yard and Assembly. Student housing in Unity St and affordable homes in Midland St are also currently being connected.

The Old Market network is also being extended to supply existing buildings including the Central Health Clinic and Hannah Moore Primary School following BCC successfully applying for £6.9 million of Public Sector Decarbonisation Scheme (PSDS) grant funding. These and other PSDS connections will be completed in summer 2022

The network is currently supplied by the Castle Park Energy Centre which includes a 3.1MW Water Source Heat Pump (the largest in the UK) drawing waste heat from the floating harbour along with peak and reserve gas boilers. An interim gas boiler energy centre is also in operation but will soon be switched off as the network is full served by the Castle Park Energy Centre.

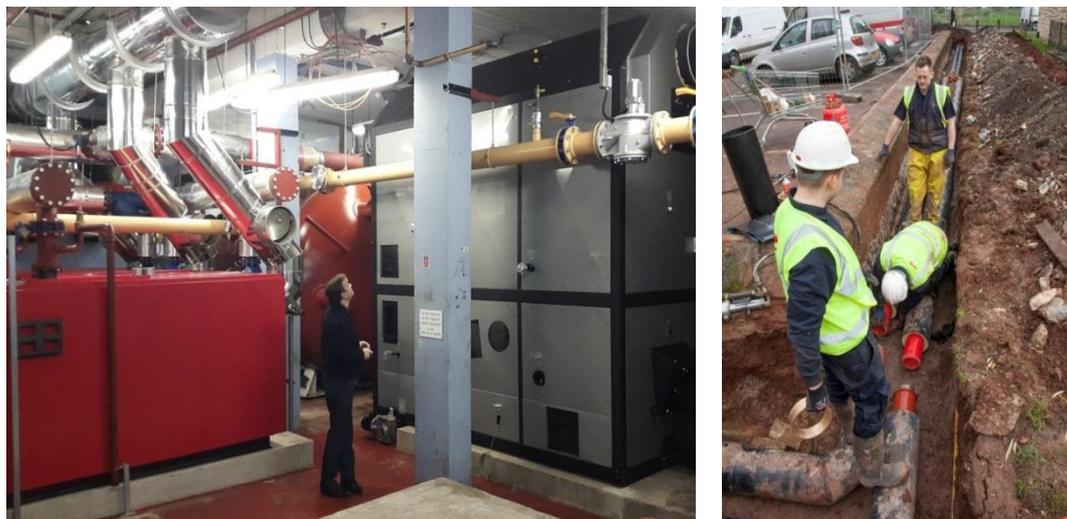
Figure 3 Castle Park Energy Centre during construction:



Redcliffe Heat Network

Phase 1 of the Redcliffe network completed in March 2016 which included the installation of a 1MWth biomass energy centre at Broughton House (Redcliffe) supplying low carbon heat via underground heat mains to 13 social housing blocks. This network also includes older assets belonging to HRA including pipework connecting the blocks and assets in the plantrooms at Broughton House and Canynge House, which includes some gas boilers.

Figure 4: Biomass energy Centre Broughton House and Laying of Rehau PEX pipe as part of Redcliffe Phase 1:



Heat network installation was also installed as part of the Temple Gate highway works in order to enable the Redcliffe heat network to be connected to a city-wide heat network that also includes buildings adjacent to Temple Meads.

Phase 2 of the Redcliffe heat network is also now in operation and extends Phase 1 of the network to supply additional buildings in the Redcliffe area including BCC's 100 Temple St office and new developments such as student housing at 21 St Thomas St with further connections happening as new developments currently in construction require heat (Halo, Coopers Court, Aspire etc)

In addition to extending the network, Phase 2 also includes the installation of the 2nd Redcliffe energy centre at 100 Temple St supplying heat and electricity from a 0.55 MWe Gas CHP engine as well as peak and reserve gas boilers to increase resilience.

Similar to Old Market, PSDS grant funding is also being used to connect existing public sector buildings to the network. These include Temple Back Fire station and St Mary Redcliffe School 6th Form as well as replacing inefficient plant with modern plate heat exchangers within the Redcliffe social housing blocks.

Bedminster Heat Network

Construction has begun on the Bedminster heat network that will initially supply new developments as part of Bedminster Green.

The £11.6m Bedminster network received £1.3 million of commercialisation grant funding and a £3.27m loan from BEIS with the remaining funds from building connection fees and BCC prudential borrowing.

Work on the network has commenced early to ensure it is installed as part of major highway works in the area with a large air source heat pump (ASHP) energy centre being proposed as the low carbon technology supply to the heat network

Temple Heat Network

BCC received a commercialisation grant of £1.8m for this heat network that will serve new developments in the Temple Quarter Enterprise Zone including the Temple Island developments and the new University campus.

The proposed £20m project is planned to be developed as part of City Leap but has already received £1.8m of commercialisation grant funding from BEIS to progress this project to detailed design ready for City Leap to progress the capital installation (subject to Cabinet approval).

Future Heat Network plans

Master planning and feasibility studies have also been completed for a City Centre, Ashton Gate, Frome Gateway and Spike Island heat networks (incorporating Western Harbour). These and other heat networks in Bristol yet to be investigated will also need to be developed as part of City Leap to support the city's net zero ambitions.

Strategic Heat main

In addition to City Centre heat networks utilising locally sourced low and zero carbon heat, to meet the demand for heat it has been identified that a large district heating pipe will also need to be installed from Avonmouth to the City Centre to utilise waste heat from the energy from waste (EFW) plants in Avonmouth that is currently being wasted.

As well as providing heat to the City Centre it will also enable further heat networks to be built out along the route

Actions required

To comply with grant funding conditions, regularize current arrangements and provide for the City Leap procurement, heat network assets need to be transferred to BHNL.

Transfer of Heat Network Assets

All of the Heat network assets are required to transfer to BHNL in order that a single owner and operator of the heat network is appointed. The assets will include all the recently completed and in construction assets such as Old Market and Redcliffe Phase 2 heat networks but also other network assets such as the heat network installed as part of the Temple Circus highway works.

In addition, heat network assets currently under BCC HRA control will also need to be transferred. This is the primary heat network pipework and some plantroom assets currently serving social housing residents of the Redcliffe social housing blocks.

The rationale for this transfer is that this primary network pipe enables individual blocks to be supplied by the BHN in line with how the heat network has been installed elsewhere and allows the whole heat network to be operated and maintained and extended by a single organisation.

This will ensure that in line with other parts of the network, the currently controlled HRA network is able to receive the same level of energy security and operation as other heat network customers.

Currently, the HRA manage this part of the network and energy supply is managed by BCC Energy Service. Once the network is transferred, the prices will be set in line with the current contractual heat network connection and supply agreements used elsewhere on the network

Consumer Pricing

BHN have a set Connection and Bulk Supply Agreement which is provided in the same format to all those connecting and being supplied to the network. This includes a set pricing methodology.

- The standard supply agreement details and secures the arrangements for the ongoing supply of heat to the building, including: the price paid for heat, metering and billing arrangements, maintenance obligations for the supplier, and Guaranteed Standards of Service provided.
- HRA as a customer will have obligations that relate to the timely payment of bills and operation of the buildings heating system so as not to impact the rest of the heat network.
- On Pricing and Billing:
 - Variable - Heat Charge
 - Heat charge per unit (kWh) of heat consumed by each housing block – metered and charged at the point of bulk supply to substation – and passed on to tenants by the HRA.
 - No costs associated with maintenance or capital investment included within this price.
 - Fixed – Service Charge
 - Fixed annual cost covering all maintenance (and replacement when necessary) of everything up to and including the substation equipment. This is calculated as a £ per kW for the substation size.
 - Not passed through directly to residents.
 - The equivalent current costs would include annual maintenance contract costs and sinking fund / capital investment costs. This means that BHNL would be, for example, responsible for the replacement of a boiler.
 - This is a change to HRA’s current arrangements, where new equipment would be funded from a capital replacement budget
 - Indexation
 - The fixed and variable prices will adjusted/indexed on an annual basis against industry indices. All calculations and indices used will be publicly available to ensure transparency in repricing.
 - Billing
 - The breakdown of charges will be separated on the monthly heat supply bills for each substation, so the costs of these can be allocated by BCC HRA to tenants in the same way that they are currently.

Heat rates have been provided to the HRA. These are detailed within each Supply Agreement for each block and these contractual requirements would be transferred should City Leap be approved.

The Energy Service has analysed the new pricing and compared it with current arrangements. Whilst this varies depending on wholesale fuel prices, in all cases the new pricing was shown to be the same or cheaper than the current methodology.

There is potential for further savings in the future, as Bristol Heat Networks continues to diversify its heat generating assets, any remaining reliance on volatile gas and electricity supply will be reduced and the network should be able to provide heat at a price that is stable and offers value for money.

In the event of the onward sale of shares in BHNL to Vattenfall Heat UK Limited being approved, there are various safeguards in place with regard to consumer pricing as set out below.

The City Leap Concession Agreement contains provisions around operating the heat network and minimum standards to be achieved in operation of the heat network following the transfer to Vattenfall. The provisions in the Concession Agreement include where domestic supply agreements are in place compliance with the Heat Trust Scheme rules. There is also a stipulation that any connection agreement or supply agreement shall be substantially in the form of the precedent agreements currently in place. Vattenfall is to provide fair and transparent pricing which demonstrates savings or parity against an air source heat pump counterfactual for customers.

Where there may be deemed to be an impact on customers, public engagement or consultation as appropriate will take place. The outcome of which will be taken into account before any final decision is made.

Although still subject to contract Vattenfall's proposals regarding fair and transparent pricing are as follows:

- Vattenfall shall provide each Customer with visibility of their energy consumption, tariff and tariff construction that will allow Customers to assess where their heat is coming from and how it affects their bills.
- Vattenfall commit to always beating the variable cost of heat from the appropriate counterfactual for supply agreements.

The heat network is a Strategic City Asset and in the Concession Agreement the Strategic Partner commits contractually to fair and transparent pricing for Customers in Schedule 8, paragraph 3. Vattenfall will honour the prices and Supply Agreements in place with all Customers connected to the Heat Network. There is a contractual commitment in Clause 4, Appendix 1 to Schedule 14 of the Concession Agreement to publicly disclose fixed charges, tariffs and unit rates on the BHN website.

The proposed structure for pricing provides fairness and transparency to Customers as it accurately reflects the costs of building and operating the Heat Network and protects end users from future costs of decarbonising the network, as these capital costs will not be passed through to them. These costs are picked up by future connection charges and from grant funding where applicable.

Vattenfall have committed to maintain a priority services register for Vulnerable Customers, and use expanded eligibility criteria, going beyond minimum standards under the Heat Trust Scheme.

Vattenfall have committed to no back-billing of domestic Customers for amounts more than 12 months old where the failure to bill is their fault. In addition there is a commitment that Vulnerable Customers will never be disconnected during the winter heating season. Vulnerable Customers will also be provided with alternative Heat for any interruptions lasting longer than 12 hours. BHNL will adopt ability to pay principles and extended credit control process for domestic customers. The debt respite scheme known as 'Breathing Space' recently came into force, offering enhanced protection to individuals (domestic Customers) in debt crisis. Whilst the protections do not extend to the unregulated energy market, BHNL shall adopt the protections for our domestic Customers.

In the unlikely event of a supply failure, HRA would be entitled to standard compensation payments in line with Heat Trust guidance for bulk supplies. However, the possibility of an enhanced payment to allow the HRA to pass this on to tenants in the unlikely event of a disruption – much like if a resident with a normal gas supply experienced a disruption – is being discussed with Vattenfall. This would be a departure from normal bulk supply arrangements adopted across the rest of the network.

The table below shows the proposed Guaranteed Standards of Service (GSOS) for Domestic Customers. For Customers other than Domestic Customers, Vattenfall are to adopt the Standards of Service that already exist in the BHNL supply agreements.

Standard	KPI and guaranteed service payment if KPI is missed
Planned outage	<ul style="list-style-type: none"> • We will provide 5 days written notice. £10 one-off payment if 5 days’ notice is not provided. • £30 payment to eligible Customers if the outage exceeds 5 Business Days. Payment is for each 24-hour period outage continues from hour 24 on the fifth day to a cap of £500. • Vulnerable Customers are provided with alternative heating for outages that exceed 12 hours. If this is not met, a one-off payment of £24 will be paid by BHNL to affected Domestic Customers.
Unplanned outage	<ul style="list-style-type: none"> • We will restore Heat supply within 24 hours from notification of an unplanned outage that we are responsible for. If supply is not restored, £30 payment to eligible Customers for each full 24hr period off supply up to a cap of £500. • Vulnerable Customers are provided with alternative heating for outages that exceed 12 hours. If this is not met, a one-off payment of £24 will be paid to affected Domestic Customers.
Multiple outages	<ul style="list-style-type: none"> • If we record four or more unplanned interruptions during any 12-month period and each unplanned interruption exceeds 12 hours, the Domestic Customer is eligible to receive a one-off payment of £54.
Emergency	<ul style="list-style-type: none"> • We will respond to emergencies within 4 hours. Responding means BHNL will attend the development address. We will pay £10 to eligible Domestic Customers if the KPI is missed.
Fault (not an outage)	<ul style="list-style-type: none"> • We will begin fault response within 7 days of receipt of a report from a Domestic Customer. We will pay £10 to eligible Domestic Customers if the KPI is missed.
Missed appointment	<ul style="list-style-type: none"> • If we need to reschedule an appointment, we will provide 24 hours’ notice. We will pay £10 payment to eligible Domestic Customers if the KPI is missed.

Summary of assets being transferred

Name	Asset type	Network	Summary
Redcliffe Phase 1 heat network	DH Pipework	Redcliffe	District heating pipework installed as part of the Redcliffe Phase 1 heat network project
Broughton House Energy Centre	Energy Centre	Redcliffe	Energy Centre plant situated within the Broughton House plant room – comprising of a biomass boiler, peak and reserve gas boilers and associated ancillaries (thermal stores, pressurisation units etc) (HRA & BCC General Fund assets)
Canynge House Energy Centre	Energy Centre	Redcliffe	Energy Centre plant situated within the Canynge House plant room – comprising gas boilers and associated ancillaries (HRA asset)
Redcliffe social housing heat network	DH Pipework	Redcliffe	DH Pipework installed as part of the Social housing primary heat network – (HRA asset)
Redcliffe Phase 2 heat network	DH pipework	Redcliffe	DH Pipe installed as part of the HNIP funded Redcliffe heat network
100 Temple St Energy Centre	Energy Centre	Redcliffe	Energy centre plant situated within 100 Temple St Plant room comprising of 0.5Mwe Gas CHP, peak & reserve gas boilers
Temple Gate network	DH Pipework	Redcliffe	Network installed as part of Redcliffe Phase 1 – installed as part of Temple Circus major highway works
Old Market heat network	DH Pipework	Old Market	DH Pipework installed as part of the Old Market heat network (HNIP funded)
Castle Park Energy Centre	Energy Centre	Old Market	Permanent Energy Centre for Old Market heat network including 3MW Water Source Heat Pump and peak & reserve gas boilers.
Gardner Haskins Energy Centre	Energy Centre	Old Market	Interim gas boiler energy centre for the Old Market heat network
Building network connections	Substations	Old Market, Redcliffe	Substations and associated equipment to supply heat from the heat network to individual buildings
Temple Heat network	DH Pipework	Temple	Brocks Bridge, Cattle market Road crossing and Temple Island DH pipework

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Appendix D - Risk Assessment

Risk Description	Key Consequence	Risk Rating	Key Mitigations
Secretary of State consent to transfer HRA assets (timing implications)	This will need to be sought so that the HRA asset transfer can be completed	5	Consent will be sought as soon as possible following Cabinet Approval.
Pricing of heat provision	Risk that HRA is adversely affected compared with current arrangements	5	Protections as set out in section Consumer Pricing in Appendix A. Review shows that pricing same or cheaper than current arrangements
Lack of resource for actually enacting the transfer	Could be a delay in transfer	10	Detailed legal step plan prepared.
Risk that Operation & Maintenance provisions are not properly handed over	Leads to lack of emergency O&M provision in HRA heat assets	10	Handover process and programme agreed between BCC/BHN and HRA. Whilst works are taking place BS3 acting as first responder for any issues until handover date to Pinnacle. Remaining heat network assets (Broughton and Canynge House boiler rooms plus buried network) - detailed handover plan in development
Risk that new service provision isn't to the standards required by HRA.	Tenants complaints	9	Proposed standards cover most requirements, with some added benefits (like remote monitoring) and reassurances from Vattenfall about provision under City Leap.



Equality Impact Assessment [version 2.9]

Title: Heat Network Asset Transfer	
<input type="checkbox"/> Policy <input type="checkbox"/> Strategy <input type="checkbox"/> Function <input checked="" type="checkbox"/> Service <input type="checkbox"/> Other [please state]	<input checked="" type="checkbox"/> New <input type="checkbox"/> Already exists / review <input type="checkbox"/> Changing
Directorate: Growth and Regeneration	Lead Officer name: David White
Service Area: Energy, City Leap, Management of Place	Lead Officer role: Service Manager

Step 1: What do we want to do?

The purpose of an Equality Impact Assessment is to assist decision makers in understanding the impact of proposals as part of their duties under the Equality Act 2010. Detailed guidance to support completion can be found here [Equality Impact Assessments \(EqIA\) \(sharepoint.com\)](#).

This assessment should be started at the beginning of the process by someone with a good knowledge of the proposal and service area, and sufficient influence over the proposal. It is good practice to take a team approach to completing the equality impact assessment. Please contact the [Equality and Inclusion Team](#) early for advice and feedback.

1.1 What are the aims and objectives/purpose of this proposal?

Briefly explain the purpose of the proposal and why it is needed. Describe who it is aimed at and the intended aims / outcomes. Where known also summarise the key actions you plan to undertake. Please use plain English, avoiding jargon and acronyms. Equality Impact Assessments are viewed by a wide range of people including decision-makers and the wider public.

The purpose of the July 2022 Cabinet Report is to seek authorisation of the transfer of all heat network assets currently owned by the Council to its wholly owned company, Bristol Heat Networks Limited. This follows a decision at the April 2022 Cabinet for the Council to set up the City Leap Partnership, a 20 year joint venture with Ameresco with the aim of delivering up to £1bn of investments in low carbon energy to support the aim of Bristol becoming a carbon neutral city by 2030.

In order to affect this transaction, the heat network assets that have been built by the Council to the point that City Leap contract award takes place, need to be transferred to Bristol Heat Networks Limited (BHNL), a wholly-owned company of the Council. The Council will then sell 100% of the shares in Bristol Heat Networks Limited to the City Leap Strategic Partner.

1.2 Who will the proposal have the potential to affect?

<input type="checkbox"/> Bristol City Council workforce	<input type="checkbox"/> Service users	<input type="checkbox"/> The wider community
<input type="checkbox"/> Commissioned services	<input type="checkbox"/> City partners / Stakeholder organisations	
Additional comments: There will be no impact on the provision of services through the transfer of the asset from BCC to BHNL.		

1.3 Will the proposal have an equality impact?

Could the proposal affect access levels of representation or participation in a service, or does it have the potential to change e.g. quality of life: health, education, or standard of living etc.?

If 'No' explain why you are sure there will be no equality impact, then skip steps 2-4 and request review by Equality and Inclusion Team.

If 'Yes' complete the rest of this assessment, or if you plan to complete the assessment at a later stage please state this clearly here and request review by the Equality and Inclusion Team.

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	[please select]
-------------------------------------	---	-----------------

There will be no impact on the provision of services through the transfer of the asset from BCC to BHNL: tenants will not be financially affected in cost terms, than if their heat had been generated using communal gas boilers supplied via BCC's corporate gas contract, i.e. the current situation pre-City Leap. BHNL is signed up to the Heat Trust standard, ahead of the establishment of the national Heat Regulator. In December 2021, government announced that OFGEM will be appointed as the Heat Networks regulator. Both the Heat Trust standard and the new role for OFGEM will protect customers through 'ensuring fair treatment for all consumers, especially the vulnerable'.

Step 5: Review

The Equality and Inclusion Team need at least five working days to comment and feedback on your EqIA. EqIAs should only be marked as reviewed when they provide sufficient information for decision-makers on the equalities impact of the proposal. Please seek feedback and review from the [Equality and Inclusion Team](#) before requesting sign off from your Director¹.

Equality and Inclusion Team Review: <i>Reviewed by Equality and Inclusion Team</i>	Director Sign-Off:  Peter Anderson Acting Director, City Leap
Date: 26/4/2022	Date: 05/07/202

¹ Review by the Equality and Inclusion Team confirms there is sufficient analysis for decision makers to consider the likely equality impacts at this stage. This is not an endorsement or approval of the proposal.

Eco Impact Checklist

Title of report: Transfer of Heat Network assets from the Council to Bristol Heat Networks Limited				
Report author: Peter Anderson				
Anticipated date of key decision				
Summary of proposals:				
<ol style="list-style-type: none"> 1. Seek authorisation of the transfer of all heat network assets currently owned by the Council to its wholly owned company, Bristol Heat Networks Limited and matters in connection with the transfer. 2. Seek authorisation of an extension to the loan facility to BHNL of £11.3m. 				
Will the proposal impact on...	Yes/ No	+ive or -ive	If Yes...	
			Briefly describe impact	Briefly describe Mitigation measures
Emission of Climate Changing Gases?	Yes	+ive	No immediate impact, but the change in ownership will allow for the longer-term expansion of the heat network, which will improve efficiency and reduce emissions.	
Bristol's resilience to the effects of climate change?	Yes	+ive	Long-term ownership model for operation & maintenance and billing services through City Leap partner.	
Consumption of non-renewable resources?	No			
Production, recycling or disposal of waste	No			
The appearance of the city?	No			
Pollution to land, water, or air?	No			
Wildlife and habitats?	No			
Consulted with:				
Summary of impacts and Mitigation - <u>to go into the main Cabinet/ Council Report</u>				
There are not likely to be any immediate significant environmental impacts from this proposal, since it is just a change of ownership. In the long-term, transfer of the heat				

network assets to the City Leap joint venture will allow for future strategic investments in the build out of more heat networks across the city, which will have a positive impact on residents energy bills and the emission of Climate Changing Gases.

No measures to mitigate the impacts are needed.

The net environmental impact of the proposals are likely to be a long term improvement of heating efficiency and reduction of greenhouse gas emissions through the expansion of Bristol's heat networks (connecting residential blocks and commercial premises).

Checklist completed by:

Name:	Peter Anderson
Dept.:	Growth and Regeneration / Management of Place
Extension:	
Date:	12/07/2022
Verified by Environmental Performance Team	Giles Liddell, Project Manager - Environmental

Appendix G – Financial Commentary

Background

1. As part of the City Leap Procurement, the Authority required the Preferred Bidder to acquire all Heat Network Assets (HNA) via the acquisition of Bristol Heat Networks Limited (BHNL).
2. The assets to be acquired fall into two broad categories.
 - a. Heat Network Investment Project (HNIP) funded assets (comprising Old Market, Redcliffe Phase 2, Bedminster and Temple Networks, all subject to completion)
 - b. Non HNIP funded assets (comprising completed Phase 1 Temple & Redcliffe Networks, including a small portfolio of HRA owned assets at Broughton House)
3. As part of the Procurement, Bidders were to commit to completing the build-out of the HNA to the extent construction was not complete at the point of the transaction, including additional networks, notably Bedminster & Temple and Public Sector Decarbonisation Scheme (PSDS) funded projects.

Transfer Value

4. The precise value of the HNA to be transferred into BHNL has yet to be determined, and is subject to:
 - a. The stage of completion of the various networks, as at the transfer date;
 - b. Appropriate reconciliations and completion of an Asset Register;
 - c. Agreement on the final transfer value, but expected to be at the recorded book value less associated grant funding received by Bristol City Council (BCC); and
 - d. Ratification by BCC corporate finance of the transfer value and any impact arising thereon.
5. As the market value has been determined by virtue of the competitive City Leap Procurement process, it was agreed that no independent valuation is required, save for any specific obligations pertaining to the small portfolio of Housing Revenue Account (HRA) owned assets, and in relation to the HNIP funded HNA (Old Market & Redcliffe Phase 2), under the terms of the Grant Funding
6. Work is underway to populate a detailed Asset Register, alongside validation of all outstanding contractual commitments, that will be assigned to the Preferred Bidder.
7. The final price payable for the acquisition of BHNL is subject to a Completion Accounts mechanism but is expected to cover all outstanding debt, owed by BHNL to BCC, only subject to financial and tax due diligence by the Preferred Bidder.

Current Estimated Value of the Assets to be transferred to BHNL

8. The current estimated forecast expenditure through to 31st March 2023 is set out in Annex C
9. The initial tranche of assets, based on book values as at 30th June 2022 is expected to transfer to BHNL on or before 31st July 2022.

10. These amounts and final reconciliations have yet to be completed, including determination of any gain/loss on disposal.
11. The transfer value of assets transferring from the HRA to the general fund has been determined as Nil Value based on an analysis that was carried out in March of this year.

Various valuation methodologies were examined, including a discounted replacement cost and enterprise value based on projected levels of Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) and a transfer value consistent with Annex C below, which returned a negative value.

It was therefore noted that on the basis that there are no substantive returns to be made from the Assets supporting the HRA social housing properties, there is no inherent value in the Network and HRA would benefit from avoiding future maintenance & replacement costs.

12. The value excludes circa £1m of historic costs, which is yet to be analysed, though indications from the Energy Services (ES) team suggest some or all of this represents initial feasibility studies, for which no physical assets exist. If this is confirmed, a charge to the revenue budget will arise.
13. There is a sum of £1.8m included in the actual costs to 31st March 2022 which has yet to be analysed, though it is deemed that these costs are legitimate, and accordingly no provision has been made for any impairment.
14. It should be noted, that as the assets are in part, still under construction, any additional costs incurred beyond 30th June 2022 will need to be transferred to BHNL, and these amounts are reflected in the monthly Cash Flow Forecast and summarised in Annex C below.
15. The precise value will be driven by the date of acquisition of BHNL by the Preferred Bidder and is expected to be in the range set out in Annex C.
16. A cut-off date of 30th June has been used to allow for the various reconciliations to take place in order to affect the transfer to BHNL by 31st July 2022.

Annex C

Estimated Transfer Value of Assets as at £m*	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jul-Mar
Old Market	15.7	16.9	17.2	17.3	17.9	1.0
Redcliffe Phase 2	8.1	8.4	8.7	8.9	9.2	0.7
Redcliffe Phase 1	6.0	6.0	6.0	6.0	6.0	-
Bedminster	1.1	1.9	3.0	4.8	5.6	3.7
PSDS	4.9	6.9	6.9	6.9	6.9	-
Temple Commercialisation %	TBC	TBC	TBC	TBC	TBC	TBC
Gross Asset Cost	35.9	40.2	41.8	43.9	45.6	5.4
HNIP Grant Old Market	(6.4)	(6.4)	(6.4)	(6.4)	(6.4)	-
HNIP Grant Redcliffe Phase 2	(3.6)	(3.6)	(3.6)	(3.6)	(3.6)	-
EU/Replicate Phase 1	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	-
HNIP Grant Bedminster	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	-
PSDS Grant	(4.9)	(6.9)	(6.9)	(6.9)	(6.9)	-
Total Grant Funding	(18.2)	(20.1)	(20.1)	(20.1)	(20.1)	-
Transfer Value	17.7	20.0	21.6	23.8	25.5	5.4

* Subject to final reconciliations

Forecast & Estimated Value of Debt (Funding Requirements) of BHNL

- Annex D sets out the operating cash flow requirement through to 31st March 2023, based on preliminary Draft Accounts to 31st March 2022 and current forecast of spend on the networks.
- The forecast assumes that the assets transfer in June, though it is acknowledged that this date cannot now be met, so a one-month slippage needs to be allowed for.
- Expenditure on PSDS work is not included, though this is expected to be substantially cash neutral as fully grant funded.
- Expenditure on Temple Network is excluded, noting that the Council is in receipt of £1.8m of grant funding for commercialisation, which has not fully been utilised at the time of this report.

The Council is treating this as deferred income with associated expenditure offset in the year it is incurred. Any residual unspent funding will be transferred to BHNL on or before the effective date of the SPA.

Annex D

BHNL (Excl Interest & SDLT) - £m	30-Jun-22	30-Sep-22	31-Dec-22	31-Mar-23
Cum Cash requirements	18.9	20.2	22.0	22.8

- Any liability to Stamp Duty Land Tax (SDLT) is **NOT** included in these figures.
- Loan Interest is equally excluded.
- Any liability to SDLT would be partially recoverable from the Preferred Bidder, the precise amount being dependent upon final tax advice, which remains dependent on a completed asset register.

24. The preliminary tax advice received (TOGC memo dated 16 June 2022) assumes that the transfer of assets to BHNL will be considered a TOGC (Transfer of a Going Concern), and therefore no VAT would be chargeable on the transaction. However, this remains subject to final determination, with a range of between £0m & £4m as shown in Annex E. It should be noted that any element chargeable to VAT is expected to be recoverable from HMRC, and therefore represents a short-term cash impact only.

Annex E

				£m
Estimated Transfer Value of assets £m	20.0	Proportion Liab * 75%		15.0
Maximum Estimated SDLT based on Transfer value of £20m @ 30.06.22		SDLT Liability 5%		0.8
VAT if all of the transaction considered non TOGC		VAT Recoverable 20%		4.0

Extension to the current lending facility of BHNL

25. The current loan facility agreed by the Council is £12.7m. To date, only £300k has been utilised as a working capital facility.
26. Based on the current Projected Cash Flows, and assuming a transaction date in Q4 2022, additional lending would amount to a minimum of £11m to allow some headroom for unforeseen delays and/or SDLT liabilities crystallise & become due. Annex F sets out the calculation.
27. Whilst additional loan facility is required by BHNL to enable the transfer of assets to take place, it should be noted that the overall borrowing requirement of the Council would not materially change, as most of the assets are funded via Public Works Loan Board (PWLB) loans.
28. Based on the conclusion of successful discussions with the Preferred Bidder and a willingness by all parties to enter into the Concession Agreement, to be approved by Cabinet later in the year, it is expected that the debt owed to the Council by BHNL would be fully repaid as part of the transaction, subject to final financial and tax due diligence.
29. The current capex forecast for Financial Year (FY) 22-23, included in the cash requirement is £7.8m, which is broadly consistent with the Council's Capital Programme.

Annex F

Peak Cash £m	Based on requirement through to Dec'22	22.8
Existing Facility		12.7
Additional required		10.1
Loan Interest per month @	4.5% assume 6 months	0.5
SDLT		0.8
Additional Borrowing required	(from 1 August through to completion)	11.3

Risk Assessment

30. Two risks are worthy of note:

- a. We fail to reach a successful outcome following discussions with the Preferred Bidder, and do not proceed to contract.
- b. We conclude discussions with the Preferred Bidder and proceed to contract, but final tax and financial due diligence highlight some discrepancies which, if unresolved by the completion date, could impact the final price paid for the acquisition of BHNL.

31. Risk (a) is probably unlikely, though in the event, it would require further funding of BHNL until an alternative solution was found, and a revised business plan presented for further approval.

32. Risk (b) is more probable, primarily because of the nature of the assets being acquired, which in part remain under-construction. This adds a complication to final certification of cost elements, timing and cut-off procedures. Notwithstanding, it is not expected to have a significant impact on the final price paid as we would expect to reach a satisfactory outcome with the Preferred Bidder to minimise any such impact.

Sensitivity Analysis

33. A sensitivity analysis has been carried out on the forecast data and assumes delayed connection fees of 3 months and circa 10% additional expenditure. The Peak Cash Requirement noted above takes account of these eventualities, which amount to £1.3m

BHNL (Excl Interest & SDLT) - £m	30-Jun-22	30-Sep-22	31-Dec-22	31-Mar-23
Cum Cash requirements *	19.3	20.7	22.8	24.1
Risk Adjustment Factor				1.3
* Adjusted for sensitivities on Connection Fee Income & Operating Expense				

34. A detailed and comprehensive review of the forecast has not been carried out, save for internal reviews within the ES team / BHNL.

35. Appendices 1 & 2 set out the Monthly Cash Flow, Balance Sheet & Supporting Schedules.

Impact on the Council

36. If the transaction between the Council and Preferred Bidder does not proceed, based on the latest forecast and including loan interest & SDLT, and further work on the Temple Network, peak operating cash requirement would increase to £30.9m by March 2024, with a determination to be made on the feasibility of building out the Temple Network which remains cash negative until FY 35-36 with a peak funding requirement of £8.7m in FY 27-28, excluding interest. The corresponding figure in the Table below is £3.5m to March 2026.

Should this arise a separate review and approval of the funding requirements for the Temple Network will be brought back to Cabinet at a later date.

Peak Operating Cash Req (Incl Temple) £m	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26
Including Interest & SDLT	24.9	30.9	32.2	34.2

Other Matters

37. As part of the City Leap procurement and heat network business case, it was decided that use of Council properties, including HRA owned buildings (Broughton House & Canynge House) which hold the Energy Centres would be at a peppercorn rent, as the over-arching aim of building out the networks was to facilitate carbon reductions and in the case of HRA, provide the 700 social housing tenants with renewable & affordable energy.
38. Notwithstanding, and as part of the overall due diligence in transferring the Heat Assets to BHNL an independent valuation report has been commissioned to determine a “commercial rent” for the space utilised to accommodate the Energy Centre Assets.
39. The report, which remains Draft at the time of this paper, and has not undergone any financial due diligence, and used a basic assumption that the space could be leased for other commercial purposes, which is debatable, and came up with a valuation based on a NPV on a 50-year lease of between £0.4m-£0.7m, £0.5m-£1.0m and £0.4m-£0.7m for each of the three energy centres currently located in Council properties.
40. Whilst arguably there is an opportunity cost in granting leases at a peppercorn rent, the overall benefit from appointing a City Leap Partner far outweighs any such costs and accordingly are not considered fundamental in approving the transfer of assets.

Accounting Treatment – Grant Income

41. In the case of grants related to assets the Council deducts the related and proportionate level of grant received from the carrying amount of the asset whilst under construction. This is reflected in the figures set out in this report.
42. If a grant becomes repayable, it should be treated as a change in estimate. Where the original grant related to an asset, the repayment should be treated as increasing the carrying amount of the asset and the cumulative depreciation which would have been charged had the grant not been received should be charged as an expense in the year in question. This has not arisen at the date of this report.
43. Where the asset is not yet under construction the alternative treatment is to set up the grant as deferred income and in the case of repayment, the repayment would be applied first against any residual related unamortised deferred credit, and any excess would be dealt with as an expense. This relates to Temple Commercialisation Grant only, as noted in (24) above.

Alignment with Capital Affordability Principle

44. The principles have been reviewed in connection with the transfer and are set out below as Appendix 1.

Conclusion

45. There are no other material matters to note from a financial perspective, other than ensuring tax advice is obtained in a timely manner, and appropriate reconciliations and accounting entries, consistent with the CIPFA code are undertaken and approved commensurate with the transfer date.

Recommendation

46. It is recommended that the transfer takes place on or before 31st July 2022.

P Keegan

Finance Business Partner

5th July 2022

Appendix 1

Capital Strategy Affordability Principle	Potential Impact and Considerations
<p>General Fund: Ensure the cost of capital financing does not exceed 9.4% of general fund net revenue budget over the medium to long term.</p>	<p>The approved capital programme expenditure for Heat Network Expansion funded by grants, connections fees and borrowing. If costs were to increase above the amount in the programme in advance of the transfer of assets from BHNL to the City Leap Strategic Partner there is a risk capital financing costs would be above the 9.4%. Mitigating actions would need to be considered in the following priority order use of Energy Services grants, reprioritisation of the programme and capital contingency to stay within the affordability principle.</p>
<p>Housing Revenue Account: Ensure the Interest Cover Ratio (ICR) of the HRA is a minimum of 1.25.</p>	<p>The asset transfer includes HRA assets which need to meet specific accounting treatment. An assessment is required to ahead of the transfer to ensure the HRA affordability principle is maintained. As the HRA assets transferring are expected at nil value there should not be an impact on this affordability principle.</p>
<p>Loans to Subsidiaries: The maximum level of loans in subsidiaries is the lower of either 10% of the Council's general fund capital financing requirement, or £70m. When loans and investments are repaid they may be recycled into new loans, subject to cabinet/council approval, appropriate safeguards being in place, the above affordability indicators and adequate due diligence undertaken to protect the Council.</p>	<p>The loans to subsidiaries will increase as a result of the asset transfer. The asset transfer from the council to BHNL is not anticipated to exceed the maximum value in the 2022/23 financial year based on the council's current plans. However, if the sale of the assets from BHNL to the strategic city leap partner was delayed beyond the 31 March 2023 there is a risk that the maximum level could be exceeded based on current subsidiary business plans. The council will need to keep this position under review and take appropriate action if required.</p>

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Appendix 2 – Capital Expenditure Profile x Network to 31st March 2023

Capex	31-Mar-22	30-Apr-22	31-May-22	30-Jun-22	31-Jul-22	31-Aug-22	30-Sep-22	31-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	Total
Old Market	15,700,217	627,697	223,683	368,546	147,294	18,310	66,167	64,032	37,076	42,201	25,167	6,033	614,872	17,941,294
Redcliffe Phase 2	8,115,347	125,457	118,693	85,166	115,745	33,446	149,266	56,160	69,498	38,787	12,660	8,333	225,492	9,154,050
PSDS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bedminster	1,124,394	442,333	83,590	286,401	306,761	314,596	422,321	323,575	1,097,143	419,083	247,142	281,083	298,133	5,646,556
Temple	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Redcliffe/Temple Phase 1	6,005,214	-	-	-	-	-	-	-	-	-	-	-	-	6,005,214
Total	30,945,172	1,195,487	425,966	740,112	569,800	366,352	637,754	443,767	1,203,718	500,071	284,969	295,450	1,138,497	38,747,115
Cum	30,945,172	32,140,659	32,566,625	33,306,737	33,876,537	34,242,889	34,880,643	35,324,410	36,528,128	37,028,199	37,313,168	37,608,618	38,747,115	

Grant Funding	31-Mar-22	30-Apr-22	31-May-22	30-Jun-22	31-Jul-22	31-Aug-22	30-Sep-22	31-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	Total
Old Market	6,426,000	-	-	-	-	-	-	-	-	-	-	-	-	6,426,000
Redcliffe Phase 2	3,627,551	-	-	-	-	-	-	-	-	-	-	-	-	3,627,551
PSDS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bedminster	1,348,000	-	-	-	-	-	-	-	-	-	-	-	-	1,348,000
Temple	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Redcliffe/Temple Phase 1	1,860,000	-	-	-	-	-	-	-	-	-	-	-	-	1,860,000
Total	13,261,551	-	-	-	-	-	-	-	-	-	-	-	-	13,261,551
Cum	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	13,261,551	

Net Capex	31-Mar-22	30-Apr-22	31-May-22	30-Jun-22	31-Jul-22	31-Aug-22	30-Sep-22	31-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	Total
Old Market	9,274,217	627,697	223,683	368,546	147,294	18,310	66,167	64,032	37,076	42,201	25,167	6,033	614,872	11,515,294
Redcliffe Phase 2	4,487,796	125,457	118,693	85,166	115,745	33,446	149,266	56,160	69,498	38,787	12,660	8,333	225,492	5,526,499
PSDS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bedminster	(223,606)	442,333	83,590	286,401	306,761	314,596	422,321	323,575	1,097,143	419,083	247,142	281,083	298,133	4,298,556
Temple	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Redcliffe/Temple Phase 1	4,145,214	-	-	-	-	-	-	-	-	-	-	-	-	4,145,214
Total	17,683,621	1,195,487	425,966	740,112	569,800	366,352	637,754	443,767	1,203,718	500,071	284,969	295,450	1,138,497	25,485,564
Cum	17,683,621	18,879,108	19,305,074	20,045,186	20,614,986	20,981,338	21,619,092	22,062,859	23,266,577	23,766,648	24,051,617	24,347,067	25,485,564	

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Appendix 3 – BHNL Forecast to 31st March 2023 based on 31.03.22 Draft Management Accounts.

Projected Cash Flow & Balance Sheet - BHNL Year-Ending 31st March 2023

Cash Flow	31-Mar-22	30-Apr-22	31-May-22	30-Jun-22	31-Jul-22	31-Aug-22	30-Sep-22	31-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	Total
Op Bal		459,200												459,200
Capex		-		(33,306,737)	(569,800)	(366,352)	(637,754)	(443,767)	(1,203,718)	(500,071)	(284,969)	(295,450)	(1,138,497)	(38,747,115)
Grant Income		-		13,261,551	-	-	-	-	-	-	-	-	-	13,261,551
Connection Fees		-	274,736	18,350	143,344	-	284,390	66,825	295,258	-	1,001,945	-	-	2,084,848
Receivables		228,865	192,635	110,616	122,511	145,623	201,917	190,581	294,330	287,937	499,921	418,930	417,857	3,111,723
VAT		-	(17,139)	-	(92,257)	-	-	(56,556)	-	-	(278,089)	-	-	(444,041)
Outgoings / Payables		(90,185)	(12,160)	(12,565)	(100,606)	(208,337)	(137,381)	(204,281)	(206,553)	(249,354)	(254,948)	(470,119)	(439,145)	(2,385,633)
Other		(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(13,793)	(165,514)
Net Cash Flow		-	584,087	424,279	(19,942,578)	(510,601)	(442,859)	(302,620)	(834,475)	(475,281)	670,067	(360,430)	(1,173,578)	(22,824,981)
Cum		-	584,087	1,008,366	(18,934,212)	(19,444,812)	(19,887,671)	(20,190,291)	(20,651,283)	(21,485,758)	(21,961,040)	(21,290,972)	(21,651,403)	(22,824,981)

Balance Sheet	31-Mar-22	30-Apr-22	31-May-22	30-Jun-22	31-Jul-22	31-Aug-22	30-Sep-22	31-Oct-22	30-Nov-22	31-Dec-22	31-Jan-23	28-Feb-23	31-Mar-23	Total
Fixed Assets		17,869	17,869	20,063,054	20,632,855	20,999,207	21,636,961	22,080,728	23,284,446	23,784,517	24,069,486	24,364,935	25,503,432	
Acc Depreciation														
Net Assets		17,869	17,869	20,063,054	20,632,855	20,999,207	21,636,961	22,080,728	23,284,446	23,784,517	24,069,486	24,364,935	25,503,432	
Receivables		1,542,176	1,511,434	442,798	513,815	532,467	595,670	674,080	740,184	765,672	917,310	947,248	916,493	
Payables		(999,847)	(1,081,097)	(113,605)	(221,336)	(150,379)	(217,280)	(219,551)	(262,353)	(267,947)	(483,117)	(452,144)	(380,358)	
Loan BCC		(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	
VAT		(8,050)	(48,114)	(50,657)	23,384	22,107	(30,260)	8,144	(57,338)	(64,769)	21,463	25,011	26,374	
Taxation		22,881	22,881	22,881	22,881	22,881	22,881	22,881	22,881	22,881	22,881	22,881	22,881	
Cash Balances		584,089	1,008,368	(18,934,210)	(19,444,810)	(19,887,669)	(20,190,289)	(20,651,281)	(21,485,756)	(21,961,038)	(21,290,970)	(21,651,401)	(22,824,979)	
Deferred Income		(1,913,833)	(2,188,568)	(2,206,918)	(2,350,262)	(2,350,262)	(2,634,652)	(2,701,477)	(2,996,735)	(2,996,735)	(3,998,681)	(3,998,681)	(3,998,681)	
Net Assets / (Liabilities)		(1,054,713)	(1,057,227)	(1,076,656)	(1,123,474)	(1,111,648)	(1,116,969)	(1,086,477)	(1,054,672)	(1,017,419)	(1,041,629)	(1,042,151)	(1,034,838)	
Shareholders Funds														
Share Capital		1	1	1	1	1	1	1	1	1	1	1	1	
P&L Prior Year		(1,060,133)	(1,054,715)	(1,057,228)	(1,076,657)	(1,123,475)	(1,111,649)	(1,116,971)	(1,086,478)	(1,054,674)	(1,017,421)	(1,041,630)	(1,042,152)	
P&L Current Year		5,418	(2,513)	(19,429)	(46,818)	11,826	(5,321)	30,493	31,804	37,253	(24,210)	(522)	7,313	
Total Shareholders Funds		(1,054,714)	(1,057,227)	(1,076,656)	(1,123,474)	(1,111,648)	(1,116,970)	(1,086,477)	(1,054,673)	(1,017,420)	(1,041,629)	(1,042,151)	(1,034,838)	