

# Decision Pathway – Report Template



**PURPOSE:** Key decision

**MEETING:** Cabinet

**DATE:** 04 September 2018

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| <b>TITLE</b>  | <b>Bristol Heat Networks – 2018 update on progress and proposed expansion</b> |   |  |
| <b>Ward(s)</b>  | All   |   |  |
| <b>Author:</b> Paul Barker  |   | <b>Job title:</b> Energy Infrastructure Programme Manager |  |
| <b>Cabinet lead:</b> Cllr Dudd  |   | <b>Executive Director lead:</b> Patsy Mellor              |  |
| <b>Proposal origin:</b> BCC Staff   |   |   |  |
| <b>Decision maker:</b> Cabinet Member   |   |   |  |
| <b>Decision forum:</b> Cabinet  |   |   |  |
| <p><b>Purpose of Report:</b> To further expand the city of Bristol's heat network in support of the Mayor's commitments to Bristol being a carbon neutral city by 2050 and to reduce fuel poverty.</p>  |   |   |  |
| <p><b>Evidence Base:</b> Heat networks are central to achieving the Mayor's commitment to Bristol being a carbon neutral city by 2050 as well as helping to tackle fuel poverty by providing heat to residents at lower prices. The heat network will also provide the Council with a revenue stream from the sale of heat and power to connected residential and commercial buildings as part of its commercialisation agenda. The expansion of the heat network forms part of the City Leap Prospectus, which was approved by Cabinet in May 2018.</p> <ul style="list-style-type: none"> <li>• Approval for £2 million of the £14 million allocation of Prudential Borrowing for Energy Service projects as part of PL19 approved capital programme along with the reallocation of £4.5 million previously allocated to the City Centre P1 heat network scheme to enable the delivery of £11.2 million of investment in the council's heat network. The remaining funding will come from government grant funding (BEIS HNIP) and connection fees.</li> <li>• The requested funding supports the delivery of the next phase of the council's heat network where: <ul style="list-style-type: none"> <li>○ Connection to new developments are required</li> <li>○ Income generation targets and Government grant funding is at significant risk</li> <li>○ Support the integration of heat networks with digital and/or highway infrastructure projects</li> </ul> </li> <li>• Proposals to fund the remaining £35 million required to complete Phase 1 and subsequent phases will be brought to Cabinet as part of the City Leap programme.</li> </ul> |   |   |  |
| <p><b>Cabinet Member / Officer Recommendations:</b> That Cabinet:</p> <ol style="list-style-type: none"> <li>1. Approves the Allocation of £2 million of Prudential Borrowing and reallocation of £4.5 million of City Centre Phase 1 heat network Prudential Borrowing for the further expansion of the council's heat network.</li> <li>2. Delegates authority to the Executive Director responsible for the Energy Service, in consultation with the Cabinet Member for Energy, the Cabinet Member for Finance, the Chief Finance Officer and the Monitoring Officer, to apply for and accept any government revenue and capital grant funding where available (including Heat Network Investment Project (HNIP) capital grant funding from the Department of Business, Energy &amp; Industrial Strategy (BEIS), European Regional Development Fund (ERDF) and Heat Network Delivery Unit (HNDU) funding) and, where grant funding has been successfully applied for, this will constitute additional capital funding over and above the Prudential Borrowing sought within this Cabinet report and dedicated to the heat network.</li> <li>3. Delegate authority to the Executive Director responsible for the Energy Service, in consultation with the Cabinet Member for Energy, the Chief Finance Officer and the Monitoring Officer, to determine the</li> </ol>  |   |   |  |

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|    | appropriate delivery model with potential investment partners should opportunities arise as part of the City Leap Prospectus.   |
| 4. | Delegate authority to the Executive Director responsible for the Energy Service, in consultation with the Cabinet Member for Energy, the Chief Finance Officer and the Monitoring Officer, to carry out potential enabling works, with prospective funding appropriately identified from the funding approved by this Cabinet Report in order to future proof the infrastructure for potential cross border strategic heat networks, should such opportunities arise. |
| 5. | Delegate authority to the Executive Director responsible for the Energy Service to approve all necessary operational decisions associated with delivering the council's heat network expansion programme, including signing of heat connection agreements with customers.   |
| 6. | Delegate authority to the Executive Director responsible for the Energy Service, in consultation with the Cabinet Member for Energy, the Chief Finance Officer and the Monitoring Officer, to undertake and approve the procurement of all goods, works and services referenced in paragraphs 22 to 55 of Appendix A to this Cabinet Report.  |

**Corporate Strategy alignment:** This Cabinet Report supports the Key Commitment to 'Keep Bristol on course to be run entirely on clean energy by 2050 whilst improving our environment to ensure people enjoy cleaner air, cleaner streets and access to parks and green spaces.'

**City Benefits:**

- Keep Bristol on course to be run entirely on clean energy by 2050 by supporting the build out of low carbon heat networks
- 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.

**Consultation Details:** This Cabinet Report builds on the previous approvals and consultation on BCC Heat network plans. See Appendix B for further details

| Revenue Cost   | Average net income between £200k - £700k per annum | Source of Revenue Funding   | n/a  |
|--|--|---|--|
| Capital Cost   | £11.2m   | Source of Capital Funding   | <ul style="list-style-type: none"> <li>- £2m of Prudential borrowing earmarked under the approved capital programme (PL19)</li> <li>- Redirecting up to £4.5m of previously approved capital budget under PL18 funded by prudential borrowing</li> <li>- Government Grant c£3.2m</li> <li>- Private connection charges c£1.5m</li> </ul> |
| One off cost <input checked="" type="checkbox"/> Ongoing cost <input type="checkbox"/> |  | Saving Proposal <input type="checkbox"/> Income generation proposal <input checked="" type="checkbox"/> |  |

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

**1. Finance Advice:** This proposal seeks approval to 1) allocate and drawn down up to £2m capital budget (via prudential borrowing) earmarked for Energy Infrastructure investments under the capital programme (PL19); 2) redirect £4.5m available funds previously allocated to the City Centre Hospital heat network (PL18 approved in June 2016) to the wider City centre heat networks if required. A total of £11.2m will support 4 distinct initiatives and projects illustrated in the table below.

|  | Grant funding<br>(30%) | Connection<br>charges | CAPEX via Prudential<br>Borrowing | Total CAPEX        |
|--|------------------------|-----------------------|-----------------------------------|--------------------|
| 100 TEMPLE STREET - 1 MW gas CHP and 2 MW Backup Gas             | £ 1,200,000            | £ 768,000             | £ 2,032,000                       | £ 4,000,000        |
| Old Market - 4MW (CHP and Backup)                                | £ 1,225,535            | £ 414,000             | £ 2,445,581                       | £ 4,085,116        |
| ST PAULS - 0.7 MW CHP and 1MW Backup                             | £ 830,219              | £ 317,387             | £ 1,619,230                       | £ 2,766,836        |
| Old Market 3 MW Water source Heat Pump<br>(Energy Centre design) |                        |                       | £ 350,000                         | £ 350,000          |
| <b>Total</b>   | <b>£3,255,754</b>      | <b>£1,499,387</b>     | <b>£6,446,811</b>                 | <b>£11,201,952</b> |

The total capital project cost (£11.2m) is also partly funded by potential government grant (>£3.2m which is anticipated to be announced in Autumn 2018) and parts of the initial network connection charges to privately owned buildings and commercial properties (£1.5m). The average net aggregate income for all projects is estimated between £200k and £700k p.a. over the network asset life of 40 years. This forms a part of the savings delivery in the MTFP (IN27 target at £1.05m). Depending on the speed of delivery and plans for network connections, it is estimated that the Council could start receiving income from 20/21 onwards.

Further opportunities, risks and mitigations:

- 1) The business plan assumes 30% grant funding contribution for each of the project. Early indication suggests the funding calls to be formally announced in the autumn may present a higher % contribution. However there is also a risk that not all bids would be successful in securing the grant funding.
- 2) The projects would require further viability assessments after the results of grant funding bids are known. Further prioritisation would be required taking into account funding available, the return on investment, net revenue implications, timing of private connections and other non-financial implications such as tonnage of CO2 reductions.
- 3) Other risks include the speed of delivery. The business plan assumes a timescale for connecting privately owned buildings and commercial properties, either new or existing, to the network. In these cases not only they generate ongoing revenue for the Council, the initial connection charges will also be partly or fully used to fund the initial capital. Based on known building developments on the horizon, any significant delays in these projects may result in permanent losses of connections to the network and the associated income.
- 4) If the Old Market water source heat pump design would not lead to capital buildout, the design costs will need to be written off back to Revenue as abortive costs.
- 5) Under the City Leap initiative, potential partners may present interests in this area to invest alongside public funds, however it is too early to predict at this stage.

**Finance Business Partner:** Tian Ze Hao

**Date:** 16/08/2018

**2. Legal Advice:** This proposal seeks allocation of £2 million of Prudential Borrowing as part of £14 Million allocated to Energy Service in the current capital programme as approved by Full Council in February 2018. The amount is required for expansion of the heat network in accordance with the corporate priorities. The contracts required will need to be drafted to include the intended deliverables. In addition it authorises applications for additional grant funding to support the project, and provide approval to apply and spend any grant secured

Any goods works or services the Council procures in the expansion of the heat network will (if over the relevant thresholds) need to be procured in compliance with the Public Contracts Regulations 2015, or the Council's Procurement Rules.

There are no particular equalities issues arising from the proposals in this report. Should any be identified they will be brought to client officers' attention to be addressed as appropriate. There are no public consultation issues associated with this proposal.

**Legal Team Leader:** Sinead Willis, 14<sup>th</sup> August 2018

**3. Implications on ICT:** See **Appendix L**.

**ICT Team Leader:** Ian Gales, 21<sup>st</sup> June 2018

**4. HR Advice:** No HR implications

**HR Partner:** Celia Williams, 2<sup>nd</sup> July 2018

|  |                |                             |
|--|----------------|-----------------------------|
| <b>EDM Sign-off</b>                                | Patsy Mellor   | 11 <sup>th</sup> July 2018  |
| <b>Cabinet Member sign-off</b>                     | Cllr Dudd      | 12 <sup>th</sup> July 2018  |
| <b>CLB Sign-off</b>                                | Mike Jackson   | 7 <sup>th</sup> August 2018 |
| <b>For Key Decisions - Mayor's Office sign-off</b> | Mayor's Office | 3 <sup>rd</sup> August 2018 |

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| <b>Appendix A – Further essential background / detail on the proposal</b>       | <b>YES</b> |
| <b>Appendix B – Details of consultation carried out - internal and external</b> | <b>NO</b>  |
| <b>Appendix C – Summary of any engagement with scrutiny</b>                     | <b>NO</b>  |
| <b>Appendix D – Risk assessment</b>   | <b>YES</b> |
| <b>Appendix E – Equalities screening / impact assessment of proposal</b>        | <b>YES</b> |
| <b>Appendix F – Eco-impact screening/ impact assessment of proposal</b>         | <b>YES</b> |
| <b>Appendix G – Financial Advice</b>  | <b>NO</b>  |
| <b>Appendix H – Legal Advice</b>  | <b>NO</b>  |
| <b>Appendix I – Combined Background papers</b>                                  | <b>NO</b>  |
| <b>Appendix J – Exempt Information</b>  | <b>YES</b> |
| <b>Appendix K – HR advice</b>   | <b>NO</b>  |
| <b>Appendix L – ICT</b>   | <b>YES</b> |