

Decision Pathway – Report Template



PURPOSE: Key decision

MEETING: Cabinet

DATE: 1st September 2020

TITLE	Bristol Heat Networks – Update		
Ward(s)	All		
Author: Paul Barker	Job title: Energy Infrastructure Programme Manager		
Cabinet lead: Cllr Kye Dudd	Executive Director lead: Stephen Peacock		
Proposal origin: BCC Staff			
Decision maker: Cabinet Member			
Decision forum: Cabinet			
Purpose of Report:			
This report seeks:			
<ul style="list-style-type: none"> (1) In relation to the SPV set up to deliver the Bristol Heat networks at Old Market and Redcliffe, to confirm approved funding to satisfy a grant condition, request a minor change to the delivery of the networks, and provide cabinet with an update on the funding ratio of the heat networks (2) In relation to the council's other heat networks, seek approval to apply for further grant funding. 			
The report does not seek any additional funding to that already approved by Cabinet.			
Key points			
<ol style="list-style-type: none"> 1. Approval - On lending of up to £12.7m to the Special Purpose Vehicle (SPV). It is a requirement of our grant funding conditions that we specify the amount to be on-lent to the SPV. Approval for the SPV and capital funding allocation were given by Cabinet in March 2020 and September 2019 respectively. 2. Update - Single rather than multiple SPV set up. BCC Energy Service (ES) was proposing the setting up of two Special Purpose Vehicles, one to hold heat network assets and one to hold heat generation assets. BCC ES is now progressing a single SPV approach whilst operating the assets separately within the vehicle in order to pilot the solution and reduce the administrative burden. 3. Update – Change in grant/connection fee/BCC Funding ratios. The ratio of HNIP grant funding and connection fees BCC ES successfully applied for has changed since September 2019 with a reduced Heat Network Investment Project (HNIP) grant funding application being offset by increased connection fees with no change to either the total capital cost of the project or BCC's capital contribution. 4. Approval - Bedminster & Temple Heat network early works draw down and additional grant application. BCC ES is seeking approval for up to £0.35m of HNDU grant funding to be applied for to support the project management and detailed design of the Bedminster and Temple Heat networks. Up to £120k match funding would be required from the already approved PL19 capital funding. Up to an additional £120k is also sought to carry out a Borehole survey on Temple Island to align the proposals for a zero carbon energy centre on the island to align with the wider Temple Island development project. 			

Evidence Base:**1. Onward lending value**

Prudential borrowing totalling £12.7m was previously approved as part of the September '19 Cabinet report

In March 2020 the Cabinet approved the establishment of the SPV(s) and transfer of HNIP grant funding and BCC finance in line with the HNIP grant funding applications

The £12.7m is the maximum amount intended to be transferred from BCC to the SPV via onward lending. This allocation aligns with the requirement under the HNIP grant agreements between BEIS and BCC, pursuant to which BCC must match-fund BEIS' contribution. BEIS' contribution is £10.2m in total. BCC's contribution has been determined as £12.7m.

Note 1: the 12.7m is consistent with figures provided in previous Cabinet reports rather than being in addition to it.

Note 2: there are some assets not covered by the HNIP grant such as the water source heat pump hence the resultant £10.2m grant to £12.6m loan is not a 50:50 match).

In addition, BCC, as the recipient of the HNIP grant funding, will enter into an onward grant agreement with Bristol Heat Networks Limited (the newly formed name of the SPV) to the value of the HNIP Grants (£10.2m) that are between BCC and BEIS in respect of the two projects.

2. Single SPV (Bristol Heat Networks Ltd)

As stated above the Cabinet paper from March 2020 authorised the set-up of 2 SPVs to separately hold assets relating to heat generation and heat distribution. This approach reflected the City Leap competitive heat market strategy.

This heat market strategy still remains but it has subsequently been decided to take a lower risk approach and create one SPV with the appropriate internal accounting to prove the split asset concept without the need for multiple intercompany agreements and transactions. This approach also reduces the administrative and operational costs. The single SPV is being designed in a way to allow for separation at future date aligned with the City Leap programme. The SPV is currently being set up including the appointment of directors and has been registered as Bristol Heat Networks Ltd.

3. Funding ratio. Table showing previous and updated ratio of HNIP grant funding, connection charges and BCC funding highlighting no change to total capital expenditure or level of BCC funding required.

Network	Old Market		Redcliffe		Total	
	Sep '19	Sep '20	Sep '19	Sep '20	Sep '19	Sep '20
	£'m (rounded)					
Total CAPEX	18.2	18.2	8.1	8.1	26.3	26.3
Funded By:						
Grant funding - HNIP	8.2	6.5	3.6	3.6	11.8	10.2
Connection charges	0.6	2.3	1.2	1.2	1.8	3.5
BCC Loan	9.4	9.4	3.3	3.3	12.7	12.7

Cabinet Member / Officer Recommendations:

That Cabinet:

1. Authorises the Chief Finance Officer (S.151 Officer), in consultation with the Cabinet Member for Finance, Governance and Performance to agree the terms of the previously approved prudential funding, to the SPV, via onward lending loan agreement, up to a maximum of £12.7m;
2. Notes the updates provided in this Cabinet report in relation to a single SPV, change in funding ratios (with no change to total capital cost or BCC loan value) and proposed onward grant agreement from the Council to the SPV (£10.2m);
3. Approve the early draw down of up to £0.24m (funded from already approved PL19 funds) for early heat network work on Bedminster and Temple (to include match funding against the HNIP grant and a bore hole survey) Authorise the Executive Director for Growth and Regeneration, in consultation with the Cabinet Member for Energy, the Cabinet Member for Finance, and the Chief Finance Officer, to apply for and accept

HNDU government grant funding of up to £0.35m from the Department of Business, Energy & Industrial Strategy to facilitate the development of the Bedminster and Temple heat networks

Corporate Strategy alignment: *No Change from March 2020 report*

1. This report supports the Key commitment to ‘Keep Bristol on course to be run entirely on clean energy whilst improving our environment to ensure people enjoy cleaner air, cleaner streets and access to parks and green spaces.’

City Benefits: *No Change from March 2020 report*

1. Keep Bristol on course to be run entirely on clean energy by supporting the build out of low carbon heat networks
2. Improve our environment to ensure people enjoy cleaner air through supporting the further deployment of renewable heat generation.
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: Please refer to the March 2020 report.

Background Documents:

1. March SPV paper
2. [Bristol Heat Networks – September 2019 Cabinet Report](#)
3. [September 2018 Report](#)

Revenue Cost	£ N/A	Source of Revenue Funding	N/A
Capital Cost	No change	Source of Capital Funding	HNIP Grant Funding (10.2m) + already approved Prudential Borrowing (12.7m)+ Connection Fees (3.5m)
One off cost <input 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:

The Financial elements of the updated Heat Network Business Plan have been reviewed, and no significant items have been noted, other than the regular monitoring and control of the Capital Investment Program in line with the Authority’s code of practice and financial governance arrangement. Additionally, arrangements are in place to continually assess the risk and mitigate the impact of not achieving the required level of connection fees and income generation to maintain a net zero working capital requirement.

In assessing the revised Business Plan (Model), an initial period of 4 years to FY 23-24 has been taken, consistent with the capital rollout program. The table below summarises the position, and the level of BCC funding required to maintain a cash neutral position.

Cash Requirements HNIP SPV Model v1.13extract PK - £k

	FY 20-21 (PTD)	FY 21-22	FY 22-23	FY 23-24	Total
Capex (Old Market & Redcliffe)	(13,232)	(9,344)	(3,496)	(244)	(26,316)
Funding					-
HNIP Funding	10,222	-	-	-	10,222
BCC Loan	2,216	6,831	1,769	261	11,076
Connection Fees	990	2,464	1,177	-	4,631
EBITDA *	(195)	50	550	737	1,142
Annuity Repayment (Moratorium 3 years) **	-	-	-	(755)	(755)
Net Cash	-	-	-	-	-
Cum Cash	-	-	-	-	-

Headroom against Max Funding £12.7m to cover **Risk** & all other charges incurred by HoldCo / BHN Ltd **1,624**

* From Old Market & Redcliffe - Business Rates - SPV Costs

% Headroom (£11.1m / £12.7m) **12.8%**

** Interest Rate = PWLB Annuity Standard New Loan Rate 19.08.20 + 1% - Term = 20 years

If the full £12.7m BCC Loan is required, the Annuity repayment would increase to £876k, reducing the headroom accordingly.

Based on the analysis, and taking account of a reasonable level of risk and mitigations in place, the level of borrowing required for this project is maintainable within the previously authorised level of £12.7m

Finance Business Partner: Paul Keegan, Interim Finance Business Partner, Resources, 19th August 2020

Legal Advice:

Onward Loan funding

Where BCC intends to onward lend funds received, it must ensure that all relevant regulations and policies are complied with.

Procurement

As it is likely that the SPV will be a BGPL, it will when procuring goods, works or services over certain thresholds need to comply with the Public Contracts Regulations or the Utilities Contracts Regulations.

It should also be noted that despite the SPV being a BGPL, the Council cannot directly award contracts for goods, works or services to the SPV unless this is done in compliance with the Public Contracts Regulations and the Council's own procurement rules.

State Aid

Whenever the Council grants a benefit, in any form, which may afford the recipient an advantage that has the potential to distort competition, there is a risk of State Aid (which is prohibited under the Treaty on the Functioning of the European Union). Provided that any assets/loans etc which are transferred to the SPV are transferred on the same terms as would be available in the market, no State Aid will be present. Legal and financial advice will need to be taken throughout the transaction to ensure that this remains the case.

Electricity Market Act

If there is a supply of electricity (which would be minimal through this provision) this will be under 5 MW of electricity (or not supplying domestic properties more than 2.5 MW) then the council can operate under a license exemption. If not the council would have to involve a licensed supplier who is compliant with the Electricity Act.

Legal Team Leader: Eric Andrews, Commercial and Governance Team Leader 18th August 2020		
3. Implications on IT: <i>No Change from March 2020 report</i> No anticipated impact on IT Services, unless the new limited company needs IT equipment or identity (website/email) or will formally transfer data between itself and the Council.		
IT Team Leader: Simon Oliver, Digital Transformation Director 7th August 2020		
4. HR Advice: <i>No Change from March 2020 report</i> [Celia to confirm] There are no HR implications evident.		
HR Partner: Celia Williams, HR Business Partner, Growth & Regeneration 12th August 2020		
EDM Sign-off	Stephen Peacock	12th August 2020
Cabinet Member sign-off	Clr Dudd	17th August 2020
For Key Decisions - Mayor's Office sign-off	Mayor's Office	

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