

# **BRIDGEND COUNTY BOROUGH COUNCIL**

## **INFORMATION REPORT TO CABINET**

**28 NOVEMBER 2017**

### **REPORT OF THE CORPORATE DIRECTOR COMMUNITIES**

#### **SMART SYSTEM AND HEAT PROGRAMME ACCEPTANCE OF A EUROPEAN FUNDING AWARD**

##### **1. Purpose of Report**

- 1.1 The purpose of this report is to make Cabinet aware of a European Regional Development Fund (ERDF) grant offer of £6,498,943 for the further development and delivery of the Caerau Heat Scheme which is a demonstrator project for the UK Government led Smart System and Heat (SSH) Programme.

##### **2. Connection to Corporate Improvement Objectives/Other Corporate Priorities**

- 2.1 The Bridgend County Borough Council (BCBC) Corporate Plan covers a 5 year period from 2016 – 2020 and even though the SSH Programme and the Caerau Heat Scheme will run beyond this timeframe it will nonetheless address the current Corporate Improvement Objectives namely:

- Supporting a successful economy
- Helping people to be more self reliant
- Smarter use of resources

- 2.2 The Caerau Heat Scheme has the potential to have a significant economic development impact within the County Borough, attracting substantial inward investment, creating jobs both within the initial construction period and related to the ongoing supply chain and acting as a catalyst for other energy project investment, potentially through the City Deal and other external funding.

- 2.3 Caerau is ranked as the 5<sup>th</sup> most deprived ward within Wales according to the latest figures from the Welsh Index of Multiple Deprivation (WIMD). The WIMD is based on a number of factors such as Income, Health, Services, Housing, Education etc. The heat project aims to positively impact across a number of these areas through the creation of better quality more energy efficient housing, improved health through warmer, more comfortable homes and the opportunity to generate a legacy of training and educational opportunities.

##### **3. Background**

- 3.1 BCBC was selected as a demonstrator for the SSH Programme in October 2014. Cabinet previously received a report (3<sup>rd</sup> February 2015) regarding the programme and authorised BCBC participation. The SSH Programme is an ambitious, highly prestigious project, which will catapult BCBC into the role of one of the leading low

carbon local authorities in the UK. The programme offers significant benefits and opportunities to BCBC such as:

- Enhanced profile;
- Income generation and financial savings potential;
- Significant investment creating job and training opportunities,
- Address fuel poverty and health inequalities among residents;
- Enhanced energy security and resilience to residents and businesses;
- Supply chain development opportunities for local businesses.
- Link to energy prospectus opportunities within the proposed Cardiff City Deal

3.2 The programme within Bridgend will be divided into three phases (the phases follow calendar years not financial years). The Programme will be developed in three stages (which will overlap) with the key constituents of the three stages being:

#### **Phase 1 2015 - 2018**

3.3 This phase involves using the EnergyPath Network suite of tools to create a Low Carbon Transition Strategy for Bridgend County Borough. Detailing how the County Borough can meet the UK decarbonisation targets by 2050.

#### **Phase 2 Development 2016 – 2019**

3.4 This phase will involve the development of the funding package for the project, establish the scope of the demonstrator schemes, engage with residents and commercial stakeholders and create the delivery structure for the programme.

#### **Phase 3 Delivery 2019 and beyond**

3.5 Phase 3 Delivery will be the construction and monitoring phase of the programme which will test the concept and methodology of the project, and most importantly that the approach can be adopted nationally and provide an evidence base for future UK and Welsh Government (WG) policy.

3.6 BCBC proposed the Caerau Heat Scheme as one of the demonstrator projects for the SSH Programme. The project is highly innovative and proposes to extract heat from water contained within flooded former coal mine workings to provide a resource for properties within Caerau. The water would be transported via a network of pipes to the properties where the temperature would be boosted to the residents required level by a ground source heat pump.

3.7 A master planning exercise was completed in early 2016 which considered opportunities for heat schemes in the Upper Llynfi Valley area (area covered from Garth in the south to Caerau in the north) and the report concluded that the most suitable opportunity existed in Caerau which had potential to exploit mine water as a resource.

3.8 A feasibility study was commissioned in September 2016, with a consortium, led by Cardiff University procured for delivery. The study is due for completion in January 2018 but early outcomes from the work are encouraging. The former colliery workings have been accessed through the geo-technical site investigation and the

early indications are that they are full of water with a temperature of 20.6°C (this will be confirmed by British Geological Survey when they carry out the pump test).

#### **4. Current Situation / Proposal**

- 4.1 BCBC has been engaged in a dialogue with the Welsh European Funding Office (WEFO) since 2015 regarding securing ERDF funding for the SSH Programme projects within Bridgend. During summer 2016 WEFO considered that due to the financial costs of the SSH Programme any ERDF bid made at the programme level would likely trigger the major project threshold of EU funding rules.
- 4.2 It was agreed with WEFO that to avoid these complications any funding application made should focus upon the Caerau project partly due to the lower costs associated with this scheme but also because the scheme aligned more closely with WEFO's community energy and innovative project agendas.
- 4.3 BCBC submitted an Operation Logic Table (OLT) to WEFO on the 3<sup>rd</sup> June 2016 for the Caerau project. WEFO then took the OLT to their Programme Management Group who approved the OLT and BCBC were invited to submit a business plan for the Caerau Heat Scheme as part of the ERDF funding process.
- 4.4 Work on the business plan commenced in September 2016 in partnership with the Energy Systems Catapult (ESC). ESC procured the services of a professional bid writer to assist in the drafting of the business plan and the services of AECOM (an engineering consultancy) to provide detailed costings for the project.
- 4.5 The business plan went through several versions during an ongoing dialogue with WEFO and the final plan for approval was submitted in September 2017 under ERDF Priority 3 Renewable Energy and Energy Efficiency – SO3.2: *Increasing the number of commercially viable small scale renewable energy schemes*.
- 4.6 WEFO made a formal grant offer to BCBC (dated 22<sup>nd</sup> September 2017) for £6,498,943, which was the maximum amount that was bid for. BCBC had to formally accept the grant offer and sign and date the letter and return to WEFO within 20 working days of the date of the original letter.
- 4.7 Due to an incorrect date and address on the letter, WEFO issued a new offer letter (dated 13<sup>th</sup> November). BCBC will now need to return the re-issued letter within 20 working days of the issue date.
- 4.8 A delegated power was completed and signed (10<sup>th</sup> November) by the Corporate Director Communities to provide the authorisation for the formal acceptance of the grant.

#### **5. Effect upon Policy Framework & Procedure Rules**

- 5.1 The delivery of the Caerau Heat Scheme will require procurements to be carried out most notably for a design, build, operate and maintain contractor for the project.

#### **6. Equality Impact Assessment**

- 6.1 The BCBC Equalities Impact Assessment (EIA) Toolkit has been previously utilised when submitting update reports to Cabinet, which have indicated that the Programme will have no impact on specific equality groups and disability duties. Prior to the project moving into the delivery phase a further EIA will need to be undertaken to assess the current impacts of the project.
- 6.2 The programme is a positive step in regard to the Council's role in complying with the Well-being of Future Generations (Wales) Act 2015.

## 7. Financial Implications

- 7.1 The ERDF grant of £6,498,943 is awarded at an intervention rate of 69% with total project costs standing as £9,422,430. The match funding contribution is therefore calculated as £2,923,487. Total match funding secured for the project (a mixture of retrospective and in-kind contributions) has been calculated and accepted by WEFO as part of the bid and this totals £2,243,150. The BCBC contribution is made up of in-kind contribution from staff costs both retrospectively and for future years and from contributions to project development costs. The gap funding required by the project is therefore calculated as £680,337.

### 7.2 Table 1 Match Funding Secured

Funding Source	Total Value (£)
HNDU	94,000
ESC (staff and consultancy)	143,099
Welsh Government (ECO)	1,385,171
Welsh Government (Revenue Grant)	29,243
Welsh Government (Feasibility Study)	119,750
Scottish Power (ECO)	108,000
BCBC (Retrospective Staff Costs)	50,238
BCBC In-kind Contribution	252,649
BCBC Feasibility Study Contribution	61,000
<b>Total</b>	<b>2,243,150</b>

- 7.3 The remaining match funding is anticipated to be secured from other grant funding sources. Originally it was anticipated that the match funding for the project would be secured from the UK Government HNIP Heat Network Capital Funding Programme. The HNIP fund is a £320 million capital fund created by the UK Government to develop heat networks. The first round of funding opened in Autumn 2016, but due to delays the second round of funding is unlikely to open until Autumn 2018 which does not align with the development profile of the Caerau project.
- 7.4 Discussions have been ongoing between UK Government and Welsh Government regarding Welsh Government receiving a consequential of the HNIP funding and managing this for schemes within Wales. If a proportion of the funding is allocated to Wales then it could be that the funding will be made available for schemes early in the 2018-19 financial year making it possible for the funding to be accessed for this scheme.

- 7.5 Alternative funding opportunities exist with UK Government Business Energy & Industrial Strategy (BEIS) and a meeting between BEIS, Welsh Government and BCBC was held on the 15<sup>th</sup> November 2017 to explore opportunities. An example of a funding opportunity is the £10 million Low Carbon Heat Innovation Fund which is open for bids until January 2018 and which it is intended that BCBC submit an application. If the bid is successful BCBC would be notified in Spring 2018.
- 7.6 No ERDF funding will be accessed until the match funding is in place and BCBC have a 12 month mobilisation period starting from the 13<sup>th</sup> November 2017 to secure the appropriate match funding. As such there is limited financial risk, the risk is far more reputational risk if BCBC was unable to acquire the match funding and had to withdraw its acceptance of the ERDF grant.

## **8. Recommendation**

8.1 It is recommended that Cabinet note that:

1. BCBC has been offered an ERDF grant offer from WEFO of £6,498,943 for the further development of the Caerau Heat Scheme.
2. BCBC is intending to continue dialogue with BEIS and Welsh Government to secure the match funding through either the HNIP Heat Network Capital Fund or the UK Government Heat Innovation Programme.
3. No funding will be drawn down from the ERDF grant until the full match funding for the scheme is in place.
4. BCBC intends to submit a bid to access match funding for the project through the £10 million BEIS Low Carbon Heat Innovation Fund.
5. BCBC has prepared a delegated power (Scheme B2 1.2) to provide the authorisation for the formal acceptance of the ERDF grant offer from WEFO.

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**November 2017**

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### **Background Documents:**

None