

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

9th MARCH 2021

JOINT REPORT OF THE CORPORATE DIRECTOR COMMUNITIES AND INTERIM CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

BRIDGEND TOWN HEAT NETWORK PROJECT PHASE 1

1 Purpose of report

1.1 The Bridgend Town Heat Network Project is being created with the primary purpose of delivering the decarbonisation of Bridgend and contributing to the creation of a Net Zero Bridgend County Borough by 2030, as mandated by Welsh Government. The purpose of this report is:

- to seek agreement from Cabinet to present a report to Council seeking approval to include a capital budget of £3.4m in the capital programme for the Bridgend Town Heat Network Project (Phase 1),
- to establish a Special Purpose Vehicle (SPV) for the development of the Bridgend Town Heat Network Project based on recommendations within the report on the form and structure of the SPV and how it will be governed and managed,
- to seek Council approval to provide a loan of £1.821m to the Special Purpose Vehicle to enable the project to progress. The £1.821m forms part of the £3.4m capital budget for the project, with the remaining balance of the funding being provided by a Heat Network Investment Programme (HNIP) grant (£1m), BCBC contribution from its Capital Programme (£0.5m), connection charges and share capital (£0.068m) .

1.2 The delivery of the Bridgend Town Heat Network Project is ultimately predicated on the capital cost for the project being affordable. This will be determined by the outcome of the current procurement exercise for a contractor to construct the scheme.

2 Connection to corporate well-being objectives/other corporate priorities

2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great place to do business, for people to live, work, study and visit, and to ensure that our schools are focused on raising the skills, qualifications and ambitions of all people in the county borough.

2. **Smarter use of resources** – ensuring that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as

possible and support the creation of resources throughout the community that can help deliver the Council's well-being objectives.

3 Background

3.1 The Bridgend Town Heat Network project is being taken forward to contribute to the Council's decarbonisation targets and assist in the creation of a Net Zero Bridgend. A capital grant application was made to UK Government via its Heat Network Investment Programme (HNIP) in April 2019. This was approved in December 2019 for: (i) £1,000,000 capital investment towards the construction of the heat network; and (ii) £241,000 revenue funding for pre-construction activities.

3.2 The HNIP guidance states that "local authority controlled" projects with a capital expenditure (capex) greater than £2.4m, must be delivered through a separate vehicle. Therefore, to access the HNIP capital funding, an SPV must be set up by the Council to deliver the project. The project is to be 100% owned by the Council.

4 Current situation/proposal

4.1 To establish an SPV each of the following factors must be considered:

- The benefits and risks of establishing an SPV, notwithstanding the HNIP requirement.
- The form of entity to be established.
- The constitution of the SPV.
- The practical arrangements for governance, management and administration of the SPV.
- The contracts required between the Council and the SPV.

SPV Name

4.2 It is proposed that the SPV be called Bridgend Heat & Power Ltd.

Power to establish an SPV

4.3 The Council has the power to generate, buy and sell heat per s11 of the Local Government (Miscellaneous Provisions) Act 1976. It also includes express powers to lay pipes and carry out associated works for the purpose of conveying the heat. The Council can then rely upon the supplementary / ancillary power in s111 of the Local Government Act 1972 which gives a local authority power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. This is relevant only for the means by which the Council may adopt to take forward the scheme (such as the establishment of, or participation in, a company). In addition, councils in Wales have the power to establish Local Authority Trading Companies under s95 of the Local Government Act 2003 by virtue of the Local Government (Best Value Authorities) (Power to Trade) (Wales) Order 2006. It is a general power subject to meeting the conditions of the Order around preparation of an appropriate business case for the trading activity. However, for the purposes of establishing the SPV, the power in s111 of the Local Government Act 1972 is sufficient.

The rationale for establishing an SPV

- 4.4 The use of an SPV is often a matter of choice for a project after considering funding, project risk, management and governance. The SPV model has also been utilised by other councils to deliver similar projects with successful outcomes.
- 4.5 This project requires an SPV to comply with HNIP requirements. Despite the SPV not being a matter of choice, as part of the decision making process, it is a matter of good governance to document the benefits and risks associated with an SPV.
- 4.6 Benefits of an SPV:
 - 4.6.1 An SPV can procure and retain the necessary skills to deliver this type of specialist project which may not be available within the Council.
 - 4.6.2 Establishing an SPV can enable project benefits to be retained in the SPV to further the wider strategic objectives to be delivered from the project in the future and facilitate the primary aim of the SPV which is to assist in the delivery of decarbonisation and a Net Zero Bridgend by 2030.
 - 4.6.3 An SPV is an independent company, separate from the Council and so it can be independent i.e. it can make the best decisions in the interests of the project without having to manage competing Council constraints. The Council can get on with the business of the Council, and the SPV can get on with running the project. On some projects this is a driver for choosing to establish an SPV. This of course must be subject to robust governance.
 - 4.6.4 Project management, operations, maintenance functions and other risks can ultimately be transferred out of the public sector, while the public sector retains a high degree of influence / direction.
 - 4.6.5 Using an SPV helps to package the project more easily to facilitate a Council exit in future.
 - 4.6.6 Using an SPV helps to package the project more easily to facilitate multiple investors. This will be relevant if private sector investment is required for future expansion of the network.
- 4.7 Risks and Barriers:
 - 4.7.1 There is a cost to set up an SPV and ongoing costs associated with administering and managing the vehicle for example, audit, accounts, governance. An allowance for these costs has been included in the financial model for this project. It is accepted that these costs will need to be reviewed, and possibly amended, once the SPV is operational and the real costs are known and understood.
 - 4.7.2 The Council does not have experience of setting up and running a company and so resource will have to be dedicated to establishing the necessary governance, policies and procedures to make the company work.

- 4.7.3 Costs of the SPV will be funded by Council contributions and HNIP grant as part of the overall scheme budget until the SPV is operational and it generates its own revenues. It may be possible to have voluntary board members but the SPV will have to be resourced. An allowance for these costs has been included in the financial model for this project.
- 4.7.4 An SPV can introduce procurement risk on the energy supply where the SPV is providing the energy services to the public sector. However, for now, that risk is mitigated as the Council is the SPV's only customer (energy is being supplied to Halo via the Council) and therefore the SPV can be 'Teckal' compliant. A Teckal compliant structure means that the SPV complies with regulation 12 of the Public Contract Regulations 2015, which means that (i) the Council exercises control over the SPV as if it were a Council department, (ii) more than 80% of the activities of the SPV are carried out in the performance of tasks given to it by the Council i.e. it provides 80% of its services for the Council; and (iii) there is no private sector ownership of the SPV. The situation will need to be reviewed for future phases when the building connection makeup of those phases is known. However, breaking the Teckal compliant structure in Phase 2 does not invalidate the energy supply contracts created between BCBC and the SPV in Phase 1.
- 4.7.5 Currently Halo are able to procure their own energy however, in order for the Council to provide the energy to Bridgend Life Centre, the leisure services contract with Halo will need to be varied in relation to this venue only.
- 4.7.6 The creation of the heat network potentially opens up operational risk but the proposal is to use a gas Combined Heat and Power Unit which is a highly mature technology which has been operating for many decades within the UK and therefore is well understood. Operational risks within the project will be passed and managed by the appointed specialist contractor procured by the Council to deliver the project.
- 4.8 The SPV will have an independent board of directors, which can include representatives from the Council and those with relevant expertise from the private sector. Having sector and technical experts on the board can give the SPV additional credibility and support commercial decision making. An independent board requires strong governance arrangements to be in place so that there is clarity on matters where the board is free to make decisions and matters that require owner (i.e. Council) approval. A certain level of separation and board freedom may be important to achieve the long-term objectives of the Council for the project but this needs to be balanced against a continued requirement for Council oversight of the SPV's activities.

Legal Form of the SPV

- 4.9 Various different types of legal entities (e.g. company, charity, partnership, trust) were assessed against the following factors:

- 4.9.1 the suitability in terms of the potential for liability to attach to members or officers of the SPV;
 - 4.9.2 the purpose of the SPV;
 - 4.9.3 whether the SPV would be charitable or would be capable of distributing profit to the Council as a member.
- 4.10 The recommendation from the Council's advisers is that the SPV should be established under the Companies Act 2006 as a company limited by shares with the Council as sole shareholder.
- 4.11 The reasons for this recommendation are set out below:
- 4.11.1 A company limited by shares is a straightforward and well understood structure and is the most commonly used form for SPVs on projects of this type. This may also provide greater flexibility should the Council wish to exit the project in future.
 - 4.11.2 A company has a separate legal personality such that its members (i.e. in this case, the Council) are not liable for the company's debts and obligations, nor are its directors (except in particular circumstances such as the commission of offences by the company or wrongful and fraudulent trading). A limited Liability Company can raise debt in its own name and the funder has no recourse to the owners of the company. In this case, the company rather than the Council is responsible for the debt of the SPV. The risk to the Council is if the SPV becomes unable to repay the loan from the Council. If the SPV defaults on its debt to the Council, the Council would seek to step in to operate the contracts of the SPV directly, and the Council as owner of the SPV will benefit from the value of the network's contracts and assets.
 - 4.11.3 A company has the necessary flexibility to fulfil the SPV's objects and purposes which are to support and facilitate decarbonisation. While the core purpose of the SPV is the delivery of the project initially, the SPV will be able to develop to achieve broader strategic aims of the Council on energy in line with the Council's 2030 Decarbonisation Strategy.
 - 4.11.4 A company limited by shares provides the flexibility to enable future distribution of any profit to its members (i.e. the Council or any future owner of the SPV). While the primary purpose of the project is to support decarbonisation, the Council (and HNIP) requires that the SPV is economically viable which means that the SPV is expected to generate some profit over its lifetime. That profit may be reinvested in the activities of the SPV or, if appropriate, distributed to the Council by way of dividend.
- 4.12 Various other legal forms were considered, but discounted as follows:
- 4.12.1 Limited Liability Partnership (LLP) – whilst this is an option for the Council, it is not considered suitable because the primary purpose of such a partnership is the pursuit of profit which is not the primary purpose of this

project. An LLP also requires at least two members, therefore for the Council to create an LLP would require it to set up another company, in order for that company to be the other partner. The management structure for the LLP would also require more development as there are fewer tested templates for the constitution of an LLP for this type of project.

- 4.12.2 General Partnership – this is considered unsuitable because it requires at least two partners (the Council could not be the sole owner) and those partners would be liable themselves for the partnership debts and liabilities.
- 4.12.3 Community Interest Company / Community Benefit Society – the main purpose of the project and therefore the SPV is not to carry out activities for the benefit of the community and therefore it would be difficult to meet the required tests to establish these types of vehicles. These models also require an "asset lock" which restricts the distribution of profit to members. An asset lock means that assets must stay in the company and cannot be transferred back to the Council, they can only be used for the future activities of the company.
- 4.12.4 Charity / Company Limited by Guarantee – given that the SPV will be carrying out a primarily commercial activity i.e. the development of a heat and power project (albeit for the purpose of achieving its Net Zero decarbonisation objects for Bridgend and not for pure commercial gain) that will generate revenue, this ruled out a charitable structure. A company limited by guarantee is usually asset locked and used for charities and social enterprises.
- 4.12.5 Unincorporated Association / Trust – both are unsuitable for finance arrangements as they are not separate legal persons and do not have limited liability for members. They also cannot raise finance in their own right.

Objects/aims of the SPV

- 4.13 The objects of the SPV can be set out in the Articles of Association. It is not necessary to do this, but for governance and clarity, it is appropriate for an SPV of this type to have a statement of what its objects are.
- 4.14 The objects attempt to strike a balance between being broad enough (and not unduly restrictive) to take account of activities that the SPV may undertake over time, but narrow enough to constrain those activities appropriately. This means that the Council can use the SPV not only for the initial project, but for further energy projects to achieve the Council's long-term Net Zero Decarbonisation Strategy should it wish to do so. This may provide long term cost efficiencies as the Council may not need to set up other SPVs to deliver other energy projects, if the creation of an SPV was considered necessary for those projects.
- 4.15 Objects for the SPV are proposed to be:

The company is established for the benefit of the citizens of the Bridgend County Borough, to facility the delivery of decarbonisation, provide lower cost energy, capture

economic opportunities and promote the improved wellbeing of its citizens. Subject to that qualification and to the proviso that the company is not precluded from carrying on activities outside the Bridgend County Borough so long as there is reasonably considered to be benefit, whether financial or non-financial, to the citizens of the Bridgend County Borough from so doing, the objects for which the company is established are:

To carry on in any manner the company thinks fit the businesses of generating and supplying electricity and space and water heating, exporting surplus electricity and heat, purchasing and supplying electricity and heat and generally operating in the wholesale and retail markets in commodities, fuels and others of all kinds;

To consider, develop and implement, and revise and update from time to time, a strategy or strategies for delivering energy and resource efficiency, energy savings, reductions in carbon and other emissions, the production of renewable or sustainable energy, district heating, and/or sustainable transport ("Energy Services"), from Energy Services;

To carry on in any manner the company thinks fit the businesses of delivering Energy Services, and/or the promotion of community benefits from Energy Services;

To provide in any manner the Company thinks fit affordable energy to persons who by reason of age, ill health, disability, financial hardship or other disadvantage would benefit from the supply of affordable energy, and in doing so to seek to reduce levels of fuel poverty;

To provide professional and advisory services relating to Energy Services and to provide training programmes and dissemination of information and advice relating to Energy Services;

To design, engineer, manufacture, construct, extend, demolish, execute, carry out, equip, improve, purchase or otherwise acquire, lease, develop, administer, manage or control buildings, facilities, works and conveniences of all kinds in the furtherance of any of the above objects; and

To carry on in any manner the company thinks fit the business of implementing projects which are desirable for the furtherance of any of the above objects.

- 4.16 These objects cover the activities required initially for the delivery of this project. They also reflect the wider strategic decarbonisation aims of the Council. It is recommended that 'catch all' objects are also included to allow flexibility. However, the Articles of Association can be amended at any time by passing a special resolution of shareholders holding at least 75% of the share capital of the SPV.

SPV Constitution

- 4.17 The constitution of a company limited by shares is contained in its Articles of Association. In addition to the objects of the SPV the Articles will contain terms for the management and governance of the SPV as follows:

- 4.17.1 Board of the SPV – the SPV will be managed by its board of directors. The Council as sole shareholder of the SPV has the right to appoint and remove any director.
- 4.17.2 Number / identity of directors - a minimum and a maximum number of directors should be specified, and an odd number can help the board when making majority decisions. For a single project two or three directors would be sufficient although there should be flexibility to appoint more in future by setting a higher maximum e.g. seven. Having three directors from the Council may be easiest initially and the recommendation is that most are Council officers rather than Councillors due to concerns around conflict of interest. Directors should be appointed that understand the project, have sufficient time to devote to the management of the SPV and recognise that being a Director on the SPV requires a commercial approach to their role. Ideally the SPV would appoint external (non-executive) directors, who could bring significant energy market experience to the SPV. The Council should retain a majority of Council directors to ensure that the Council controls the SPV in the same way it controls other Council departments for the purposes of "Teckal" compliance. It is recommended that the directors of the SPV should be:
- Corporate Director Communities
 - Head of Operations Community Services
 - Head of Partnership Services
- 4.17.3 Number of board meetings - there should be a specified minimum number of board meetings taking place during the year e.g. once every quarter or every two months. More frequent board meetings may be required during construction of the project.
- 4.17.4 Board meeting quorum – with a smaller board, a quorum of two directors is recommended of which at least one has to be a director appointed by the Council. (A proportion of the board such as one third or one half of the directors are present could also be specified). If there are external directors, the Council director could have a casting vote. We recommend that the chairman has no casting vote, which means the board has generally to reach a majority decision.
- 4.17.5 Board director term – No term needs to be specified and if the only directors are Council officers this is less relevant. However, if the board may be expanded in future you may want to specify a term of e.g. three years, renewable once, with any extension beyond that only with the approval either of the entire Board and/or the Council.
- 4.17.6 Directors' remuneration – directors will only be entitled to travel and other expenses for attending meetings and conducting company business, which will be paid upon proper vouching being produced.
- 4.17.7 Directors' conflict - for external directors, the conflict provisions can be in standard form but Council directors should be subject to the same conflict provisions as would apply if Council business was being conducted (which

is a separate question from declaring interests). Council directors are likely always to have an interest to declare as they are Council employees or Councillors. That does not preclude them from voting on a particular matter unless they have a particular interest in the matter in question e.g. a Councillor as director voting on a project which affects the constituency that they represent. Conflicts of interest need careful consideration if any director was to be a Council officer that performs a key oversight role e.g. audit responsibilities or contract approvals (see also SPV Governance and Oversight).

- 4.18 The SPV's constitution should include a list of reserved matters. These are matters which the Board cannot decide without the approval of shareholders (i.e. the Council). These provisions could be added to the Articles of Association but are more commonly included in a shareholder agreement between the SPV and its shareholders. The Articles of Association are a public document whereas a shareholder agreement can be confidential. A shareholder agreement is also easier to amend. The following activities should require prior Council consent:
- 4.18.1 establishing companies, partnerships, or joint ventures of any kind;
 - 4.18.2 borrowing or lending money or entering into loan etc. transactions;
 - 4.18.3 granting or taking security over any item of property of whatever type;
 - 4.18.4 purchasing, selling, leasing etc. land or other property;
 - 4.18.5 other key stage aspects of project implementation (once approved by the Council) such as shortlisting of contractors, appointment of a preferred contractor and contract signature;
 - 4.18.6 entering into contracts of employment;
 - 4.18.7 expenditure on specialist or other services in excess of thresholds established for delegated authority for Corporate Director Communities.

The above list is not exhaustive but is intended to cover the main "control" items.

- 4.19 The Articles of Association should also have express provisions that prohibit the key provisions described above from being amended without the Council's consent. This will not be an issue while the Council is the sole member as only its consent is required for the change but the SPV may not always have a single member.

SPV Governance and Oversight.

- 4.20 Beyond those reserved matters listed in section 4.16 there are additional internal governance measures that will need to be put in place to ensure the Council exercises proper oversight of the activities of the SPV:
- 4.20.1 SPV Oversight - the SPV's financial and service performance will need to be embedded into the Council's own audit and scrutiny processes, as well as a mechanism for dealing with additional investment / financial difficulties.

The Council should have oversight on any strategic decisions to avoid any question of delegation of statutory function.

- 4.20.2 SPV Reporting – the Council should identify the appropriate Council board/committee for the SPV Board to report to and should specify which matters will need to be reported to Cabinet or Council as appropriate.
- 4.20.3 Policies and Procedures – the SPV will be able to adopt and comply with the vast majority of the Council's existing policies and procedures (e.g. procurement, supply chain management, freedom of information, data protection, anti-bribery and others). Some updating of policies may be required to ensure that references to the SPV are included where relevant.
- 4.20.4 Business Planning – the SPV should develop a business plan. The process for developing, reviewing, approving and updating that plan will need to be developed further. As a minimum the ongoing business plan should be prepared by the SPV management and then approved by the SPV board. However, updates to the business plan may require Council approval if they involve elements that require Council decision (e.g. entering into partnership) as part of its oversight of the SPV and the approval of any business plan should be a reserved matter in the SPV's constitution.

Administrative and Management Services

- 4.21 The SPV is a small business that needs to be run on a day-to-day operational basis as well as having the appropriate governance and strategy. It is not necessary for the SPV at the outset of the project to have a management team. For day-to-day operational matters, it is proposed that an SPV manager will be seconded from the Council on a part-time basis. The SPV manager could also be a director of the SPV. Whilst there is a budget within the scheme of £40,000 to support the running of the SPV, costs will need to be monitored and reviewed to ensure that sufficient budget is provided within the SPV's operating budget to meet such costs fully.
- 4.22 The SPV will not employ its own staff and is not anticipated to have access to its own resources (e.g. IT systems or office space), however this position will be monitored in case the situation changes (e.g. the SPV requires separate accounting software). The day-to-day management and administration of the SPV will therefore need to be provided in part, by the Council initially (e.g. contract management, IT services). This may include the secondment of an SPV manager.
- 4.23 The Council will recharge the cost of performing these services to the SPV under a management services agreement. This document will describe the services to be provided from the Council to the SPV and how the Council will be paid for those services.
- 4.24 The services to be covered can include the following:
 - 4.24.1 day to day project and contract management including co-ordination with contractors, health and safety duties and contract enforcement.

- 4.24.2 sales activities and interface with customers e.g. billing and payment;
 - 4.24.3 company secretarial including arranging board meetings, taking board minutes, arranging companies house filing etc;
 - 4.24.4 arranging SPV insurances;
 - 4.24.5 provision of an SPV manager and SPV administrator;
 - 4.24.6 business planning and community engagement; and
 - 4.24.7 procurement of additional services for the SPV as required e.g. technical, financial including preparing management and financial accounts, legal and banking services.
- 4.25 With the exception of a specific time commitment from an SPV manager (8 days per month) and an SPV administrator (3 days per month), the provision of these management / administrative services is not expected to require a significant amount of time from Council employees while the SPV is solely delivering the initial heat network project.
- 4.26 It is recommended that the Council charges the SPV a fixed monthly / annual fee. A sum of £40,000 per annum has been allocated in the model for the cost of running the SPV, which could be translated into a fixed annual fee, commensurate with the services provided by the Council, to the SPV. It is recognised that these costs would need to be reviewed after 12 months of operation to ensure that they represent the real costs of operation. Should the actual costs be in excess of this amount, the Council would need to consider whether to meet these or seek to increase the charge to the SPV. The Council should also consider the extent to which the SPV will have cash available to pay for the management services from time to time to avoid triggering technical insolvency (particularly before the SPV is fully funded). In the instance of there being insufficient funds available to pay the management fee, the Council could consider delaying the payment of the management fee for a period until the SPV is able to meet its obligations (with regard to the payment of the management fee) or it could suspend or delay payment of dividends from the SPV to the Council to cover the management fee costs.

Contracts with the SPV

- 4.27 To deliver the heat network project the Council will need to enter into a number of contracts with its SPV. These are described below.
- 4.27.1 Shareholder Agreement – as described above this is a private contract between the Council (in its capacity as shareholder) and the SPV. It can set out more of the detailed governance arrangements that wouldn't usually sit in standard Articles of Association.
 - 4.27.2 Funding Agreement – this will be a simple agreement to document the terms of the grant and loan to be provided from the Council to the SPV.

- 4.27.3 Energy Services Agreement – this will set out the SPV's responsibility and right to deliver the heat network project on behalf of the Council but can also include the provision of wider strategic energy services.
- 4.27.4 Energy Centre Lease – this will be a standard lease over an area within the Bridgend Life Centre in which the heat and power generation equipment for the project will be located.
- 4.27.5 Energy Supply Agreements – these will be contracts for the supply of heat and electricity to the Council buildings (including the Bridgend Life Centre). The SPV will initially only supply heat and power to the Council so that the SPV can comply with "Teckal" principles; and
- 4.27.6 Management Services Agreement – this will set out the management and administrative services to be provided by the Council to the SPV and the management fee payable to the Council.

5 Effect upon policy framework and procedure rules.

- 5.1 There is no direct impact on the Council's policy framework and procedure rules.

6 Equality Impact Assessment

- 6.1 An initial Equality Impact Assessment (EIA) screening has identified that there would be no negative impact on those with one or more of the protected characteristics and an EIA status of low priority is considered appropriate at this stage. It is considered that there will be no negative impacts from this report.

7 Well-being of Future Generations (Wales) Act 2015 implications

- 7.1 The Bridgend Town Heat Network Project is a positive step in regard to the Council's role in complying with the Well-being of Future Generations (Wales) Act 2015. The project demonstrates BCBC taking a positive proactive role within the decarbonisation agenda in Wales which will ensure that the significant environmental, social and economic opportunities created through the decarbonisation transition of the energy market will be captured for Bridgend as well as the area being able to demonstrate its compliance with national carbon reduction targets.
- 7.2 In terms of meeting the 5 ways of working within the Act:
 - 1. **Long Term:** The Bridgend Town Heat Network Project will provide the foundation for Bridgend Town to develop a decarbonised heat system that meets the UK 2030 decarbonisation targets in line with BCBC's Local Area Energy Strategy and Smart Energy Plan.
 - 2. **Prevention:** The Bridgend Town Heat Network Project will provide an opportunity for all to benefit from the decarbonisation transition and ensure that solutions are designed and available for everyone within Bridgend Town.
 - 3. **Integration:** The Bridgend Town Heat Network Project offers an opportunity to develop a heat network that could serve Bridgend Town and that could ultimately offer carbon reductions, reduced fuel bills and create economic opportunities through a clearly identified value chain for the area.

4. **Collaboration:** BCBC is working in partnership with both UK Government and private sector partners to deliver the project.
5. **Involvement:** The Bridgend Town Heat Network Project involves working with a variety of stakeholders to deliver a sustainable solution for the decarbonisation of heat within Bridgend Town.

8 Financial Implications.

The Capital Year 1 outlay for the project is £3.389m and the funding of this is broken down in Table 1.

Table 1 Project Funding

BCBC Capital Programme	£500,000	Already included within capital programme
BCBC Loan to SPV	£1,821,367	BCBC to fund from prudential borrowing
HNIP Grant	£1,000,000	Approved
Connection Charges	£67,366	Halo*
BCBC shares	£1,000	Economy, Natural Resources & Sustainability 2021-22 Budget
TOTAL	£3,389,733	

**This forms part of the Halo negotiations. However, if this contribution is not possible the Bridgend Town DHN project contingency budgets will be used and the cost recovered through the heat price payable by Halo.*

- 8.2 Further capital funding will be required through the life of the project for asset replacement and that is built into the business case. In terms of the loan, Council approved an amendment to its Treasury Management Strategy at its meeting on 24 February 2021, which enables the Council to lend up to £2 million to a third party. It is proposed that the Council approves a loan of £1,821,627, funded from prudential borrowing, to the Special Purpose Vehicle. The terms of the loan are outlined in Table 2 below.

Table 2 Loan Terms

Loan Amount	£1,821,267	
Repayment Loan Period	40	Compared to scheme financial evaluation period of 50 years
Interest Payable by BCBC (charged by PWLB to BCBC)	2.6%	To be determined at the date the loan is taken out by BCBC
Interest Rate charged to SPV	2.6%	To be determined at the date the loan is taken out by BCBC

The capital grant from HNIP has been secured and the proposed loan to be made available to the SPV is being taken to Council on 10 March 2021 for approval.

8.3 A sum of £40,000 has been allocated in the financial model to pay for administrative and management services that the SPV will require, as previously stated this figure will be reviewed once operational to ensure that it reflects the real costs of operation. Appendix 1 to this report shows a breakdown of task and costs for SPV activities. Table 3 below shows the anticipated annualised cost for the operation

Table 3 Annualised Cost of SPV Operation

Activity	Role	SPV Resource (days per month) £21,500 of budget is allocated to cover these activities in the Financial Model	External Resource Budget is specifically allocated for these activities in the Financial Model
Supporting new connections	Promotion	1	
Contract Performance	Governance	4	
Annual Accounts	Governance	0	External Audit - £5,392
Minor Asset Replacement	Ownership	2	
Major Asset Replacement	Ownership	0	
Insurances	Ownership	0	Insurances - £6,779
Supporting gaps in contract	Supplier of Last Resort	0	
Undertaking emergency operation	Supplier of Last Resort	0	
TOTAL		7.5	£12,171

9 Recommendations

9.1 It is recommended that Cabinet:

9.1.1 approves a report being presented to Council on 10th March 2021 to amend the Capital Programme 2021-2022 for the inclusion of this scheme in the Capital Programme, noting that there is already £500,000 included within the Capital Programme towards the scheme;

- 9.1.2 Subject to Council approval of the inclusion of this scheme in the Capital Programme and borrowing for the Bridgend Town DHN Project it is recommended that Cabinet:
- 9.1.2.1 recommends that Council provides a loan to the SPV on the terms set out in this report for the purposes of the Bridgend Town DHN Project and delegates authority to the Chief Executive to agree and approve the final terms of the Loan Agreement and arrange execution of the Loan Agreement on behalf of the Council subject to such powers being exercised in consultation with the Chief Officer - Legal, HR & Regulatory Services and the Interim Chief Officer Finance, Performance and Change.
- 9.1.2.2 approves the formation of a Special Purpose Vehicle as a Company Limited by shares as set out in this report (“the Company”);
- 9.1.2.3 approves the use of ‘Bridgend Heat & Power Ltd’ as the name of the Company;
- 9.1.2.4 approves the appointment of the Corporate Director Communities, Head of Operations Community Services and Head of Partnership Services as Directors of the Company for the purpose of representing the interests of the Council;
- 9.1.2.5 delegates authority to the Chief Officer - Legal, HR & Regulatory Services to enter into the following and any other related agreements to enable the Company to be established:
- Articles of Association
 - Shareholder Agreement
 - Management Services Agreement
- 9.1.2.6 approves the implementation of the governance and oversight measures set out in this report;
- 9.1.2.7 approves entering into a Management Services Agreement with the Company at a fixed annual / monthly fee, which is funded by the Company and delegates authority to the Chief Executive and the Interim Chief Officer – Finance, Performance and Change to finalise the management fee and agree the terms of the Management Services Agreement in consultation with the Chief Officer - Legal, HR & Regulatory Services.

Janine Nightingale
Corporate Director Communities
9th March 2021

Gill Lewis
Interim Chief Officer – Finance, Performance and Change

9th March 2021

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Background documents

None