

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO COUNCIL

10 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 purpose of this report is to:

- update Council on the development of the Bridgend Town Heat Network Project;
- seek approval for the inclusion of a budget of £3.4m within the capital programme for the project;
- seek approval for a loan of £1.821m to be made from the Council to the proposed Special Purpose Vehicle (SPV).

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 focussed on raising the skills, qualifications and ambitions for all people in the county borough.

2. **Smarter use of resources** – ensure 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 to deliver the Council's well-being objectives

3 Background

3.1 Bridgend County Borough Council (BCBC) initially started looking at the opportunities for the development of heat networks in Bridgend County Borough in 2012 with drivers for the projects identified as:

- **Decarbonisation:** Heat networks offer a key mechanism to help public sector buildings in Wales meet the Welsh Government and our Council's ambitious 2030 decarbonisation of the public sector target.
- **Economic:** UK Government have set ambitious targets for the development of heat networks across the UK and this will create a supply chain demand for new skills in the creation and operation of heat networks. This has also led to BCBC

working in partnership with Bridgend College to create a Heat Academy that will support the development of a supply chain in Wales.

- **Social:** The ability to manage bills and utilise local resources via a heat network has the potential to create local benefits in terms of lower bills and better managed homes and buildings leading to health benefits and reductions in fuel poverty.

- 3.2 The Bridgend Town Heat Network Project is included as a project within the BCBC Smart Energy Plan (SEP) (approved by Cabinet in February 2019). The Smart Energy Plan details the projects that BCBC will participate in during the period 2019 – 2025. This proposes to test various technologies, consumer propositions and business models to provide a pathway to the decarbonisation of Bridgend County Borough. It is also a key contributor to the Welsh Government’s decarbonisation strategy (published March 2019) “Prosperity for All: A Low Carbon Wales”.
- 3.3 The Bridgend Town Heat Network Project proposes to deliver heat (via a gas combined heat and power engine located within the Bridgend Life Centre) to the Bridgend Life Centre, Civic Offices and the Bridgend Bowls Hall. The project will also provide electricity to the Life Centre, Civic Offices and Bowls Hall.
- 3.4 A report was submitted to Cabinet in April 2018 seeking approval, in principle, for the financial case of the Outline Business Case for the project and to submit an application to UK Government through its Heat Network Investment Programme (HNIP). The report was approved by Cabinet on the 24 April 2018.
- 3.5 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 for pre-construction activities.

4 Current situation/proposal

- 4.1 At its meeting of 19 January 2021 Cabinet approved the continued delivery of the Bridgend Town District Heat Network project.
- 4.2 Progression of the scheme involved certain financial decisions. One was to note that the Treasury Management Strategy will need to be revised to enable the Council to make a loan of £1.821 million to the SPV, and that this was to be reflected in the draft Treasury Management Strategy 2021-22 that was presented to the Audit Committee on 28 January 2021 and then subsequently to Council for approval in February 2021.
- 4.3 Cabinet also agreed that a report be taken to Council recommending that the capital programme be amended to include the Bridgend Town District Heat Network project and that Council agrees the loan to the SPV, subject to approval to changes to the Treasury Management Strategy.
- 4.4 In relation to procurement activity, Cabinet agreed to suspend the relevant parts of the Council’s Contract Procedure Rules which require procurements to be conducted under the Public Contracts Regulations 2015 and approved the

procurement of a Design Build Operate Maintain contractor for the Bridgend District Heat Network by utilising the negotiated procedure with prior call for competition under the Utilities Contract Regulations 2016. Cabinet agreed to Brodies LLP (legal advisers for the Council on this scheme) running the procurement of the Design Build Operate Maintain Contractor under the negotiated procedure with prior call for competition under the Utilities Contract Regulations 2016 on behalf of the Council. Cabinet also delegated authority to the Corporate Director Communities to tender the contract for the Design Build Operate Maintain contractor for the Bridgend District Heat Network, in consultation with the Chief Officer – Legal, HR and Regulatory Services using the negotiated prior call for competition under the Utilities Contract Regulations 2016 and noted that a further report shall be presented to Cabinet following the conclusion of the procurement of the Design Build Operate Maintain contractor for a decision on whether to award the contract.

- 4.5 Looking towards future phases of the Bridgend Town District Heat Network, Cabinet approved the procurement of and subsequent appointments of technical/financial consultant and a legal advisor to prepare an Outline Business Case for Phase 2 of the Bridgend Town Heat Network Project. This included delegating authority to the Corporate Director Communities to tender for the technical/financial consultant and Legal Advisor to prepare an Outline Business Case for Phase 2 of the Bridgend Town Heat Network Project and award the contracts to the successful tenderers, the contractual terms of the contracts to be approved by the Corporate Director Communities in consultation with the Chief Officer – Legal, HR and Regulatory Services.
- 4.6 Cabinet agreed to receive a further report on the creation of the Special Purpose Vehicle which will provide the commercial delivery mechanism for the project.
- 4.7 Since this time officers have progressed required actions aligned to the approval of these recommendations.
- 4.8 At its meeting of 9 March 2021, Cabinet have been asked to agree to the creation of a SPV as a Company Limited by shares for the Project and the use of 'Bridgend Heat & Power Ltd' as the SPV Company name. It was proposed that the Directors of the Company be the Corporate Director Communities, Head of Operations Community Services and Head of Partnership Services as Directors of the Special Purpose Vehicle. The report to Cabinet also outlined a proposed delegation of 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
- 4.9 A number of recommendations relating to the finance of the project were also outlined to Cabinet on 9 March 2021. This included that Cabinet recommend to Council that the Capital Programme be amended to the full value of the project as outlined in section 8 below and that Cabinet recommend to Council that a loan be provided to the SPV for the Bridgend Town District Heat Network Project.

- 4.10 This report therefore seeks approval for the inclusion of a budget of £3.4m within the capital programme for the Bridgend Town Heat Network Project. Further details on the breakdown of the funding is presented in section 8 below. The Council will likely need to borrow the funding itself, within the terms of the approved Treasury Management Strategy, and then on-lend this to the proposed Special Purpose Vehicle (SPV). The interest rate charged to the SPV will ensure there is no detriment to the Council.

5 Effect upon policy framework and procedure rules

- 5.1 There are no effects upon Policy Framework or Procedure Rules as a result of this report.

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

8.1 The Cabinet Report in April 2018, had the Phase 1 Year 1 capital outlay as £1.959m. This increased to £4.229m in April 2019 when an amended financial model was created as part of the grant submission to UK Government through the Heat Network Investment Programme (HNIP). The increase was driven primarily by the inclusion of the new Sunnyside development in the scheme. The later withdrawal of the development from the scheme has meant that the Year 1 capital outlay is currently £3.389 million. The total costs within the project are different to those presented in the original outline business case to Cabinet in April 2018, and those presented to Corporate Management Board in April 2019, due to a number of factors most notably:

- the withdrawal of the Sunnyside development from the project,
- the inclusion of the cost of upgrades to the transformer required at the Bridgend Life Centre,
- inflationary impacts, and
- future proofing of the further network connections.

8.2 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.*

8.3 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

- 8.4 A sum of £40,000 has been allocated in the financial model to pay for administrative and management services that the SPV will require. This figure will be reviewed once operational to ensure that it reflects the real costs of operation. 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 allocations 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	

Activity	Role	SPV Resource (days per month). £21,500 of budget is allocated to cover these allocations in the financial model	External Resource - Budget is specifically allocated for these activities in the Financial Model
Undertaking emergency operation	Supplier of Last Resort	0	
TOTAL		7.5	£12,171

9 Recommendations

9.1 It is recommended that Council:

- 9.1.1 Approves the inclusion of the Bridgend Town Heat Network Project within the capital programme with a budget of £3.4m.
- 9.1.2 Subject to Cabinet approving the establishment of the Special Purpose Vehicle at its meeting on 9 March 2021, approves a loan of £1.821m to the Special Purpose Vehicle on the terms set out in this report, 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.

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9 March 2021

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9 March 2021

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Background documents:

None.