

**BRIDGEND COUNTY BOROUGH COUNCIL**

**REPORT TO CABINET**

**19 OCTOBER 2021**

**REPORT OF THE CORPORATE DIRECTOR COMMUNITIES**

**CAERAU HEAT SCHEME**

**1. Purpose of report**

- 1.1. The purpose of this report is to update Cabinet on recent activity in relation to the Caerau Heat Scheme and to seek approval to change the scope of the Caerau Heat Scheme and submit a re-profile of the project to the Welsh European Funding Office (WEFO).

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

- 2.1. This report assists in the achievement of the following corporate well-being objective/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. The Caerau Heat Scheme was established as a highly innovative project that proposed 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 with the temperature being boosted to the residents required level by a ground source heat pump.
- 3.2. The innovative nature of the project has presented several challenges most notably how to commercially use mine water as a resource, how to secure customers to a heat network largely serving the housing market and how to create a commercially affordable and viable project.
- 3.3. In June 2021 a report was taken to Cabinet detailing options for taking forward the Caerau Heat Scheme. The decision taken by Cabinet was to progress with

a blended option of a demonstrator mine water scheme, serving the school, and a heat network with an alternative heat source serving homes and a private wire connection from the wind farm.

#### **4. Current situation / proposal**

- 4.1. Following the decision made by Cabinet at its meeting in June 2021 further work was undertaken on the approved proposal in order to inform the re-profile of the project business plan to WEFO. This work identified a number of challenges facing the project and so a re-profile has not yet been submitted.
- 4.2. Work undertaken since the June 2021 report has identified a number of challenges such as financial viability after the inclusion of business rates, domestic customer sign up to the heat network, meeting the project delivery target date of June 2023 and the delivery of a financially viable project.
- 4.3. Each of the challenges presented in section 4.2 were reviewed and assessed for the impact on the approved option for project progression.

##### ***Challenge 1: Business Rates***

- 4.4. For the Caerau Heat Scheme to proceed in line with the option approved by Cabinet in June 2021 an exemption from Welsh Government for the application of business rates to the project would be required. No such exemption for heat network projects exists in Wales and consequently the project is not financially viable if business rates are included.

##### ***Challenge 2: Domestic Customer Sign Up***

- 4.5. An engagement event with residents on the Tudor Estate was held in July and showed an interest in the scheme but also highlighted the difficulty in recruiting 100 homes to the project in a limited time period in order to deliver a commercially viable project.

##### ***Challenge 3: Meeting June 2023 Delivery Target***

- 4.6. In order to fully utilise the ERDF funding the Council has to complete the project by June 2023. In order to secure the number of customers needed and then procure and construct the scheme as well as obtain business rates relief financial viability is not achievable in the timeframe required by the ERDF funding.

##### ***Challenge 4: Delivery of a Financially Viable Project***

- 4.7. Full relief from business rates as well as 100 homes connected to the heat network element of the project are required in order for the project to be considered financially viable. The further work undertaken following the decision of Cabinet in June 2021 shows that it is not possible to achieve either of these elements within the project timescales and therefore it would not be a financially viable scheme.

4.8 Consequently, alternative options were investigated and it is considered that the only options now suitable for progression are:

- Option A: close the project, or;
- Option B: remove the Tudor Estate heat network element of the project and deliver a mine water demonstrator project with a private wire arrangement from the wind farm providing a lower cost supply of electricity to the heat pump at Caerau Primary School.

4.9 Closing the project would be the option only if it was not possible to deliver a viable project centered on the school. WEFO would need to agree that this option still aligns with the criteria of the funding and consequently, Cabinet approval is sought to prepare and submit to WEFO a re-profile, based upon Option B, which would be a mine water demonstration project centered on the school using a heat pump and a private wire connection to the local wind farm.

## **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 Act 2010 implications**

6.1. An initial EIA screening has identified that there would be no negative impact on those with one or more of the protected characteristics, on socio-economic disadvantage or the use of the Welsh language. It is therefore not necessary to carry out a full EIA on this policy or proposal.

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

7.1. The Well-being of Future Generations (Wales) Act 2015 Assessment Template has been completed and a summary of the implications from the assessment relating to the five ways of working is below:

Long Term: The project will provide a key opportunity to deliver a decarbonised heat system that support efforts through an innovation project to meet the UK decarbonisation targets.

Prevention: The project will provide an opportunity to test mine water as a heat resource which will inform future potential heat projects in Caerau that could assist the village to decarbonise.

Integration: The project will offer carbon reductions and assist the school in meeting its 2030 Net Zero Public Sector target by creating a template that is using local resources (mine water and wind) to decarbonise and create economic opportunities through a clearly identified value chain

Collaboration: BCBC is working with both UK Government and Welsh Government as well as private sector partners to deliver the decarbonisation agenda.

Involvement: The project involves working with a variety of stakeholders to deliver sustainable solutions around the creation of a holistic decarbonisation solution for Caerau Primary School.

## 8. Financial implications

- 8.1. The total scheme cost, as approved by the Welsh European Funding Office (WEFO), is £9,732,922, split between capital and revenue as set out in the table below. This also shows the funding sources for the scheme.

<b>Caerau Heat Scheme</b>	<b>Total cost</b>	<b>ERDF grant approved</b>	<b>Other grants &amp; service charges</b>	<b>BCBC contribution</b>
	£	£	£	£
Capital	7,827,791	6,293,463	366,218	1,168,110
Revenue	1,905,131	1,002,782	529,308	373,041
<b>Total</b>	<b>9,732,922</b>	<b>7,296,245</b>	<b>895,526</b>	<b>1,541,151</b>

- 8.2 The figures presented in the above table are based around the project as it was considered to be at the last re-profile. The re-profile developed around Option B (as presented in section 4.8) will have a new set of figures that will be presented to the Section 151 Officer for agreement ahead of submission to WEFO.
- 8.3 A report would then be presented to Cabinet at a future date to update on the outcome of the WEFO re-profile and to outline next steps in respect of the scheme, including financial implications.

## 9. Recommendation(s)

- 9.1 It is recommended that Cabinet:

- Approves the change to the Caerau Heat Scheme as detailed in sections 4.8 and 4.9 of this report being to remove the Tudor Estate heat network element of the project and deliver a mine water demonstrator project with a private wire arrangement from the wind farm providing a lower cost supply of electricity to the heat pump at Caerau Primary School;
- Delegates authority to the Corporate Director Communities, in consultation with the Chief Officer - Legal & Regulatory Services, HR & Corporate and the Section 151 Officer to agree and submit the Scheme re-profile to WEFO based on the changes to the Caerau Heat Scheme outlined in sections 4.8 and 4.9 of this report;

- Notes that a further report shall be presented to Cabinet following the outcome of the submission of the re-profile to WEFO

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**19<sup>th</sup> October 2021**

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**Background documents:**

None