

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

8 MARCH 2022

REPORT OF THE CORPORATE DIRECTOR COMMUNITIES

BRIDGEND TOWN HEAT NETWORK PROJECT

1. Purpose of report

- 1.1 The purpose of this report is to provide Cabinet with an update on the development of the Bridgend Town Heat Network Project and to seek delegated authority to award the contract for the construction and operation of the heat network subject to the approval of the revised project Financial Model by the Council's Section 151 Officer.

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**:

- **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.
- **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 Bridgend Town Heat Network Project is included as a project within the BCBC Smart Energy Plan (SEP) (approved by Cabinet 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*".
- 3.2 The Bridgend Town Heat Network Phase 1 Project proposes to deliver heat, via a gas combined heat and power (CHP) 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.
- 3.3 In April 2018 Cabinet approved the Outline Business Case for the project and to the submission of an application to UK Government through its Heat Network Investment Programme (HNIP).

- 3.4 A capital grant application was made to UK Government via the Heat Network Investment Programme (HNIP) and this was approved in December 2019 for £1,000,000 capital investment towards the construction of the heat network and £241,000 for pre-construction activities.
- 3.5 A further report on the project was submitted to Cabinet in January 2021 updating Cabinet on the project and covering elements such as the procurement of a Design Build Operate Maintain contractor under the Utilities Contracts Regulations 2016 and applications for the necessary permits (Environmental Permit due to the gas CHP engine falling under the Medium Plant Combustion Directive) and permissions (planning permission for the location of a thermal store at the rear of the Bridgend Life Centre).

4. Current situation/proposal

Environmental Permit

- 4.1 An application was made to Natural Resources Wales (NRW) in February 2021 for an Environmental Permit for the gas CHP engine within the proposed energy centre of the Bridgend Life Centre. NRW considered the application to be a bespoke application which required additional information around air quality. The application was then considered and approved by NRW in October 2021.

Planning Permission

- 4.2 An application was made to the BCBC Planning Authority in March 2021 for the thermal store that will be located at the rear of the Bridgend Life Centre. No objections were received to the application but the BCBC Highways Department requested that a Traffic Management Plan for the scheme be submitted to them ahead of them supporting the planning application. It was considered appropriate that the appointed DBOM contractor is best placed to provide this and this will be submitted to Highways after the appointment of the contractor.

Design Build Operate Maintain Contractor Procurement

- 4.3 The procurement for the main construction contractor was launched in February 2021 and followed a two stage process, with an initial Pre-qualifying Questionnaire (PQQ) and then an Invitation to Tender (ITT) stage. Five bids were received at the PQQ stage and these were scored and 3 bidders were invited to tender. The ITT was launched in April 2021 and concluded in June 2021.
- 4.4 All of the bids received in June 2021 were outside the projects Capital Expenditure (CAPEX) and Operational Expenditure (OPEX) budgets. Much of the price increases were due to the impact of Covid-19 on the cost of raw materials and labour.
- 4.5 Extensive dialogue was carried out with all the bidders over the following months to understand where savings could be made to re-align the costs of the project within the project budget, whilst ensuring deliverables remained the same.
- 4.6 Final bids were invited in December 2021 and these were received at the end of January 2022. The bids were assessed as compliant from a procurement process

perspective and BCBC and the consultant team evaluated the bids from a quality and cost perspective.

- 4.7 Following the evaluation of the bids an updated financial model is being produced by the consultant team for the project containing the actual bid prices. The financial model now needs to be approved by the Section 151 Officer.
- 4.8 At the meeting of Cabinet in January 2021, Cabinet noted that a further report would be presented to it to make a decision on the approval of the award of the DBOM contract. However, the meeting of Cabinet in March 2022 is the last meeting prior to the local government elections due to take place in May 2022. It is not possible to seek a decision from Cabinet in its meeting in March 2022 to make a decision on the award of the DBOM contract because there is insufficient time to evaluate the bids received, update the financial model and present the financial model to the finance department for approval by the Section 151 Officer. In addition, a decision to award the contract cannot wait until after the local government elections because the tender prices submitted by bidders will not remain valid for that length of time.
- 4.9 It is therefore proposed that Cabinet delegates authority to the Corporate Director – Communities, in consultation with the Chief Officer – Finance, Performance and Change and Chief Officer – Legal & Regulatory Services, HR & Corporate Policy to award the DBOM contract and enter into and arrange execution of that contract on behalf of the Council subject to the Section 151 Officer approving the updated financial model (which will be updated following the evaluation of the bids) and determines that the scheme is financially viable. This delegated authority shall only be exercised if the Section 151 Officer determines that the scheme is financially viable. If the Section 151 Officer does not approve the financial model and determines that the scheme is not financially viable, a report shall be brought back to Cabinet for a decision on how to proceed with the scheme.

5. Effect upon policy framework and procedure rules

- 5.1 This report has no effect on the policy framework and procedural 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 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 The Well-being of Future Generations (Wales) Act 2015 assessment has been completed. A summary of the implications from the assessment relating to the five ways of working is as follows:

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, in the long term, to develop a heat network that serves Bridgend Town and that offers carbon reductions, and creates economic opportunities through a clearly identified value chain for the area supporting business and local employment.
4. **Collaboration:** BCBC is working in partnership with both UK Government and private and public 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 It was noted in the report to Cabinet in January 2021 that the financial model developed for the project was based on estimated costs and the actual cost of delivering the project would not be known until final prices had been received from bidders.

8.2 As reported to Cabinet in January 2021, the latest model identified a capital cost of £3.390 million, to be funded via £1 million HNIP grant, £0.5 million approved Council capital funding, a BCBC loan to the scheme's Special Purpose Vehicle (SPV) company of £1.82 million, and connection charges and share capital of just under £0.07 million.

8.3 The financial returns for the SPV were based over a 50 year scheme, with the loan repayable over 40 years. The revised financial model for the delivery of heat and power estimated an internal rate of return, over the 50 years, of 2.22%. Excluding any residual value of equipment, the cash return was estimated to total £1.567 million for the life of the scheme. This was based on a loan interest rate of 2.6%. However, interest rates have started to increase. The current PWLB borrowing rates over 40 years is 2.65%. This is likely to increase should the Bank of England base rate increase from the current 0.5%. As noted in the January 2021 Cabinet report, higher interest rates require higher financing costs to the SPV and could have potential cash flow difficulties in the earlier years of the SPV's existence.

8.4 The most recent model suggested a return to the Council across the life of the scheme of £4.076 million, via the payment of dividends. However, these were not anticipated to commence until 2024-25, and the SPV was not anticipated to deliver a profit until 2035-36, when it was anticipated dividend returns to the Council would cease for a number of years. Dividends were not anticipated to be payable every year, and the model included a significant payment at the end of the 50 year period

of £1.092 million. Dividends in the first 10 years of the scheme were anticipated to total £0.191 million. A revised financial model is being developed.

- 8.5 It will be necessary to assess a revised financial model following the submission of the tenders. A number of changes will need to be factored into a revised model, including a potential increase in the interest rate of the loan by the Council to the SPV, the useful life of the existing CHP and ongoing lease costs of any replacement, and the impact of likely increased costs on revenue budgets.
- 8.4 Following the January 2021 Cabinet Report, the Council's Treasury Management Strategy was amended to increase the limit on loans to third parties to £2 million. This was approved by Council on 24 February 2021. The current proposed loan to the SPV falls within this limit.
- 8.5 The bid prices are currently being evaluated and the financial model will be updated to take account of these changes and allow a further financial re-evaluation of the scheme.

9. Recommendation(s)

9.1 It is recommended that Cabinet:

- Note the update on the development of the Bridgend Town DHN Project.
- Subject to the determination by the Chief Officer – Finance, Performance and Change that the Bridgend Town DHN Project is financially viable, delegate authority to the Corporate Director – Communities in consultation with the Chief Officer – Finance, Performance and Change and the Chief Officer – Legal & Regulatory Services, HR and Corporate Policy to award the contract for the design build operation and maintenance of the Bridgend Town DHN Project and subject to no challenge being received during the standstill period enter into and arrange execution of that contract on behalf of the Council with the successful bidder.

JANINE NIGHTINGALE
CORPORATE DIRECTOR COMMUNITIES
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Background documents:

None