


REPORT TO CABINET

18 November 2020

Subject:	Heat Networks – Appointment of contractor to complete Detailed Project Development
Presenting Cabinet Member:	Cabinet Member for Inclusive Economic Growth - Councillor Danny Millard Cabinet Member for Homes - Councillor Keith Allcock
Director:	Interim Director-Regeneration and Growth-Tammy Stokes Director-Housing and Communities-Alan Caddick
Contribution towards Vision 2030:	
Key Decision:	Yes
Cabinet Member Approval and Date:	Yes
Director Approval:	Yes
Reason for Urgency:	Does not apply
Exempt Information Ref:	Does not apply
Ward Councillor (s) Consulted (if applicable):	Boroughwide
Scrutiny Consultation Considered?	Scrutiny has not been consulted
Contact Officer(s):	Mark Taylor Housing & Partnerships mark_taylor@sandwell.gov.uk

DECISION RECOMMENDATIONS

1. That Cabinet, following the result of a procurement exercise in accordance with the Council's procurement and financial regulations, authorise the Director - Regeneration and Growth to award a contract to Greenfield Nordic Ltd to undertake Detailed Project Development for potential heat network projects at West Bromwich and Smethwick simultaneously.
2. That in connection with 1 above, the Director - Regeneration and Growth, in consultation with the Section 151 Officer, be authorised to let a separate contract for Legal services, if required.
3. That in connection with 1 and 2 above, the Director, Law and Governance and Monitoring Officer be authorised to enter into appropriate contracts.

1. PURPOSE OF THE REPORT

- 1.1 To seek approval for the appointment of Greenfield Nordic Ltd to undertake Detailed Project Development for potential heat network projects at West Bromwich and Smethwick projects simultaneously.

2 IMPLICATION FOR VISION 2030

- 2.1 **Ambition 1** - *Sandwell is a community where our families have high aspirations and where we pride ourselves on equality of opportunity and resilience.* Heat networks could decrease reliance on gas supplies.
- 2.2 **Ambition 2** - *Sandwell is a place where we live healthy lives and live them for longer, and where those of us who are vulnerable feel respected and cared for.* Heat networks should provide energy at a reduced cost to conventional arrangements which help to address fuel poverty, allowing vulnerable residents to enjoy more comfortable lives.
- 2.3 **Ambition 7** - *We now have many new homes to meet a full range of housing needs in attractive neighbourhoods and close to key transport routes.* Energy generated from renewable sources will help satisfy planning regulations and Climate Change priorities.
- 2.4 **Ambition 8** - *Our distinctive towns and neighbourhoods are successful centres of community life, leisure and entertainment where people increasingly choose to bring up their families.* Energy generated from a renewable, centralized, local source will help to form cohesive relationships within neighbourhoods.

- 2.5 **Ambition 9** – *Sandwell has become a location of choice for industries of the future where the local economy and high performing companies continue to grow.* Involvement with Heat networks will evidence Sandwell’s commitment to embracing new technologies and could attract companies that work in this sector. There is also potential for industry to be supplied with lower-cost heat and power which could also attract new businesses into the borough.
- 2.6 **Ambition 10** – *Sandwell now has a reputation for getting things done, where all local partners are focussed on what really matters in people’s lives and communities.* This initiative will demonstrate Sandwell as a forward-thinking authority that is prepared to look at modern alternative arrangements for the supply of heat and power that should reduce energy bills. It will also help to address the Council’s Climate Change Strategy and Action Plan.

3 **BACKGROUND AND MAIN CONSIDERATIONS**

- 3.1 In 2012, the Government published “The Future of Heating: A Strategic Framework for Low Carbon Heating in the UK” which described a vision for a future of secure low carbon and renewable energy supplies at affordable prices. Heat networks are an important part of the plan to help reduce carbon and cut heating bills for both domestic and commercial applications.
- 3.2 A heat network is a system of pipes that takes heat from a central source, and delivers it to several buildings. These systems can be a cost-effective way of reducing carbon emissions related to heating as they can be used to exploit renewable energy sources and can take advantage of recovered heat from industrial processes. Heat networks can also incorporate energy storage potential, which is important given the highly variable nature of demand for heat supplies.
- 3.3 At a local level, the development of heat networks can provide various benefits including substantial inward investment, job creation and reduced energy costs for businesses and residents. In addition, heat networks can demonstrate a firm commitment towards achieving carbon reduction targets and climate change initiatives.
- 3.4 In summary, some of the potential benefits of heat networks could be as follows:
- o Reduced carbon and greenhouse gas emissions
 - o Reduced waste sent to landfill
 - o Contribute towards the Circular Economy
 - o Contribute towards inclusive economic growth
 - o Discounted energy should help residents to save money on fuel bills and alleviate fuel poverty

- o Jobs will be created initially to cover construction and afterwards to deal with servicing and maintenance
 - o Attract new businesses into the borough
- 3.5 During 2015 the Council successfully bid for match funding (67%) from HNDU to support a Heat Mapping and Master Planning study of the borough.
- 3.6 This high-level review identified over 30 sites which have potential. Sufficient budget remained to support further analysis of a small number of sites to identify which, if any, might be commercially viable.
- 3.6.1 One site of interest for a potential heat network focusses on an area near to West Bromwich town centre. This has since been subjected to a Feasibility Study.
- 3.6.2 The site covers an area that incorporates 6 high-rise blocks on the Kenrick Park estate, Kenrick Way and includes two potential energy centres.
- 3.6.3 To increase the potential customer base this network could be expanded to extend through West Bromwich town centre as far as Sandwell General Hospital, situated on All Saints Way.
- 3.6.4 In addition to the feasibility study for West Bromwich, the Council has previously collaborated with Birmingham City Council concerning a potential cross-border heat network opportunity in the Smethwick (Sandwell) and Icknield Port (B'ham) areas. The outcome of this study suggests there could be potential for a network around the Grove Lane area of Smethwick, within proximity to the new Birmingham Metropolitan Hospital, using heat from the canal network as a heat source.
- 3.7 The next step will be to undertake a Detailed Project Development (DPD) plan for the networks outlined above and. There are many factors still to determine and we will need to commission specialist external support to help us better understand the commercial opportunities and risks involved.

- 3.7.1 One of the main outputs from the DPD will be an options appraisal that will consider the degree of council involvement and commitment to delivery and ownership of one or more heat networks. There are various models available and the council could choose to have as much or as little involvement as it wishes. At the lower end of the scale the council could simply help facilitate planning and construction, as it would for any major investment project in the borough. At the higher end of the scale the council could construct, own, manage and maintain a network itself. The risks associated with each option identified will be explored in more detail through the DPD phase.
- 3.7.2 The DPD process will also consider funding options to support capital investment. There is further government funding available through HNDU's £320m Heat Networks Investment Project (HNIP) capital investment programme which is expected to support up to 200 projects by 2021 through grants, loans and other mechanisms. The aim of the fund is to lever in up to £2bn of wider investment whilst reducing bills, cutting carbon and forming a key part of wider urban regeneration nationally. Applications to be submitted by October 2021.

4 THE CURRENT POSITION

- 4.1 Successful funding applications were submitted to the government's Heat Networks Delivery Unit to take both the West Bromwich and Smethwick schemes through DPD (including funding for external Project Management).
- 4.2 Financial appraisals of the funding applications have been undertaken by Strategic Finance, which recorded a satisfactory level of assurance. Submission of the external funding applications were approved by the Council's Section 151 Officer in November 2019.
- 4.3 The Council has been awarded the sum of £45,000 to fund 100% of the cost of external project management for each project (total of £90,000) and the sum of £100,500 each (total of £201,000) as 67% towards the cost of Detailed Project Development. The Council will need to fund the remaining 33% of Detailed Project Development to the sum of £49,500 per project (total of £99,000) which will be sourced from the Housing Revenue Account.
- 4.4 Cabinet approval to move to the DPD stage and to procure external services for both external project management and Detailed Project Development was given at Cabinet on 26th February 2020. Minute number 52/20 refers.

- 4.5 Having appointed Anthesis UK Ltd to undertake project management, a fully compliant procurement process has now been undertaken utilising the Decentralised Energy Enabling Project (DEEP) Framework established by the Greater London Authority (GLA) to appoint a company for delivery of DPD.
- 4.6 In response to an opportunity to the companies in the appropriate Lot on the DEEP Framework to participate in a tendering exercise, three completed tenders were received.
- 4.7 Following evaluation of the returned tenders in accordance with the published award criteria in terms of price and quality, the highest scoring tender was received from Greenfield Nordic Ltd, with a tender value of £279,023.

5 CONSULTATION (CUSTOMERS AND OTHER STAKEHOLDERS)

- 5.1 At this stage consultation has been limited to members, major stakeholders and Council officers.

6 ALTERNATIVE OPTIONS

- 6.1 Should Cabinet decide not to appoint a contractor to complete DPD, then we would have to return grant funding to the government. If, however, following completion of DPD, Cabinet were to decide not to continue any further with heat network studies, there are no risks of claw back on the funding set out in para 4.2

7 STRATEGIC RESOURCE IMPLICATIONS

- 7.1 The Council has been awarded the sum of £45,000 to fund 100% of the cost of external project management for each project (total of £90,000) and the sum of £100,500 each (total of £201,000) as 67% towards the cost of Detailed Project Development. The Council will need to fund the remaining 33% of Detailed Project Development to the sum of £49,500 per project (total of £99,000) which will be sourced from the Housing Revenue Account.
- 7.2 We do not anticipate the need for any additional staffing or strategic resources to deliver Detailed Project Development.

8 LEGAL AND GOVERNANCE CONSIDERATIONS

- 8.1 There are no specific immediate legal or statutory implications arising from the proposal outlined in this report. Any issues that arise during the DPD process will be addressed fully in accordance with legal requirements.
- 8.2 The DPD contractor has tendered to supply the services on a consortium basis. The consortium includes legal services. Owing to the privileged nature of legal advice, the Council might be required to enter into a separate contract with the legal services provider; outside of the consortium arrangements. The Council's own legal team are being consulted on the most appropriate form of contract. This will not have an impact on the overall cost for these services. Cabinet is requested to delegate authority to award a supporting contract for legal services if this is recommended by the Council's own Legal team.

9 EQUALITY IMPACT ASSESSMENT

- 9.1 An Equality Impact Assessment screening exercise has been carried out and a full Equality Impact Assessment is not required.

10 DATA PROTECTION IMPACT ASSESSMENT

- 10.1 This report does not relate to the collection of personal information and therefore a privacy impact assessment is not required.

11 CRIME AND DISORDER AND RISK ASSESSMENT

- 11.1 There are no crime and disorder issues relating to this project.
- 11.2 A risk register has been compiled and will be reviewed and updated on a regular basis. Arrangements are in place to effectively manage and mitigate the risks identified. Major risks are identified below:
- 11.2.1 Inability to meet conditional target dates/outputs prescribed by HNDU for procurement process.
 - 11.2.2 Procurement - Inability to engage suitable DPD contractor
 - 11.2.3 Changes to political environment/internal governance could cause project to stall.
 - 11.2.4 COVID19 – Further lockdowns will make stakeholder engagement difficult resulting in delays.

12 SUSTAINABILITY OF PROPOSALS

12.1 The proposals contained in this report are entirely commensurate with the Council's climate change priorities and will help to support:

- Reduced carbon and greenhouse gas emissions
- Reduced waste and landfill materials
- The Circular Economy
- Inclusive economic growth

13 HEALTH AND WELLBEING IMPLICATIONS (INCLUDING SOCIAL VALUE)

13.1 Following completion of Detailed Project Development, progression to construction and operation of one or more heat networks should have the following community benefits:

- Discounted energy will help residents to save money on fuel bills.
- Improved living conditions could help to ease the pressure on the NHS by reducing hospital admissions.
- Jobs will be created initially to cover construction and afterwards to deal with maintenance.
- By connecting to a network, residents will be actively contributing towards addressing Climate Change.

14 IMPACT ON ANY COUNCIL MANAGED PROPERTY OR LAND

14.1 At this stage, there are no anticipated impacts on the Council's asset management plan or any land or property in Council ownership.

15 CONCLUSIONS AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

15.1 Whilst the concept of heat networks is relatively new to the UK, they have been utilised in some European countries for decades. Driven by an oil crisis during the 1970's and a lack of natural resources, countries such as Denmark looked to heat networks as a solution to ensure that homes and businesses could continue to function with a reduced supply of oil.

15.2 For Sandwell, this initiative clearly supports the current drive towards a greener, low-carbon economy and a need to address Climate Change priorities.

15.3 In conclusion, acceptance of the proposals contained within this report, will have the following effect:

- Demonstrate Sandwell MBC as a leader in this field amongst the Black Country Local Authorities.
- Promote the Council's reputation as being serious about climate change and the move towards a carbon-neutral economy.

In addition to the above, should Detailed Project Development result in construction of one or more heat networks, the following effects should be realised:

- Creation of employment opportunities
- Contribute towards the Inclusive Economy
- Reduction of carbon emissions
- Help to alleviate fuel poverty
- Attract new businesses into the borough

15.4 As part of the DPD process, the Council will need to decide what the key drivers are for development of one or more heat networks. Whether this is financial benefits to the authority, community benefits, fuel poverty, climate change priorities, or something else. The key drivers will influence key decisions regarding the most appropriate business model to move this forward. There will be further discussions with members about this as part of the DPD process.

16 **BACKGROUND PAPERS**

16.1 West Bromwich Heat Network Feasibility Study
Greater Icknield & Smethwick Heat Network Feasibility Study
HNDU Funding Applications for Detailed Project Development

17 **APPENDICES:**

17.1 None.