

# Report to Cabinet

**15 January 2025**

<b>Subject:</b>	West Bromwich Heat Network – Progress and Next Steps
<b>Cabinet Member:</b>	Cabinet Member Regeneration & Infrastructure Councillor Peter Hughes
<b>Director:</b>	Executive Director - Place, Alan Lunt
<b>Key Decision:</b>	Yes Financial Value
<b>Contact Officer:</b>	Strategic Energy Manager - Mark Taylor mark_taylor@sandwell.gov.uk

## 1 Recommendations

For the reasons set out in the report, it is recommended that Cabinet:-

- 1.1 note and endorse that the Council has formally entered a Memorandum of Understanding with the Department for Energy Security and Net Zero in relation to Green Heat Network (GHNF) grant funding totalling £4,939,421 and in relation to the West Bromwich Heat Network project;
- 1.2 delegate authority to the Executive Director, Finance and Transformation in consultation with the Executive Director of Place and the Cabinet Member for Regeneration and Infrastructure to make all necessary decisions in relation to the use and disbursement of the grant funding described in paragraph 1.1 above;
- 1.3 delegate authority to the Executive Director Place in consultation with the Executive Director of Finance and Transformation, the Monitoring

Officer and Assistant Director Legal and Assurance and the Cabinet Member for Regeneration & Infrastructure, to:

- (a) assess and determine the most appropriate delivery model (with suitable delivery and/or investment partners should opportunities arise) to deliver the Project;
- (b) undertake and approve the procurement of all goods, works and services required to deliver the Project, including without limitation the commissioning of suitably qualified and experienced external consultants to deliver the Commercialisation stage of the Project;
- (c) accept tenders, award and enter contracts to successful tenderers following successful procurement exercise(s) described in paragraph (b) above;
- (d) enter into any arrangements and/or agreements as may be necessary to give effect to the proposals in this report;
- (e) establish and resource appropriate governance arrangements, including without limitation a project management team within the Council, to be funded from grant resources;
- (f) approve all necessary operational decisions associated with delivering the Project, including without limitation signing of agreements in relation to the connection of relevant Council buildings, including high-rise blocks, to a heat network (subject to consultation and feasibility) and signing of heat connection agreements with customers.

1.4 Require further reports be brought for approval in relation to the selected Business Model and implementation plan.

## **2 Reasons for Recommendations**

2.1 The recommendations are necessary to effectively expedite delivery of the Project, including the appointment of consultants to develop the GHNf business case development process and the defrayal of GHNf grant funding in accordance with timescales and requirements of the Department for Energy Security and Net Zero (DESNZ).

### 3 How does this deliver objectives of the Council Plan?

Living in Sandwell	<p>Heat derived from an Energy from Waste facility should provide energy at a reasonable cost, with less likelihood of price fluctuation to traditional fossil fuels, which will help to address fuel poverty, allowing vulnerable residents to enjoy more comfortable lives.</p> <p>Connection to Sandwell General Hospital and potentially the Midland Metropolitan University Hospital, along with a leisure centre and various educational facilities, will ensure a secure and resilient low-carbon heat supply.</p> <p>Heat networks could decrease reliance on conventional energy supplies via national gas and power networks. Energy generated from a low carbon source within the community may help to form cohesive relationships within neighbourhoods as connected households will have a mutual interest in heat derived from the same supplier.</p> <p>Less reliance on gas boilers will enable the removal of gas supplies to Council-owned high-rise residential buildings, resulting in improved safety standards for residents and a reduced level of risk to the Council.</p> <p>Energy generated from a low-carbon source will help satisfy planning regulations and address Climate Change priorities. There will be less reliance on gas boilers and therefore fewer maintenance costs and less boiler servicing requirements.</p>
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<p>Thriving Economy in Sandwell</p>	<p>Involvement with heat networks will provide evidence of Sandwell's commitment to embracing new technologies and should attract specialist companies that work in this sector.</p> <p>The potential to reduce or mitigate future energy costs would support business and make more money available to be spent within the local economy.</p> <p>The establishment of a local energy business and the associated capital investment will bring direct and multiplier economic benefits. Working with an established Energy from Waste facility will demonstrate a joined-up approach.</p> <p>This initiative will demonstrate Sandwell as a forward-thinking authority that is prepared to look at modern alternative arrangements for the supply of heat. Whilst not currently part of this project, there may be an opportunity to install both communication and power cables for electric vehicles as part of the project.</p>
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## 4 Context and Key Issues

- 4.1 At its meeting of 12 July 2023, Cabinet approved the progression of a bid for Green Heat Network Fund (GHNF) resources and development of a proposal to implement a Heat network, based on a 50/50 Joint Venture arrangement.
- 4.2 Since this time, there have been significant changes in leadership and governance within the organisation. The new Leadership Team has as a result, re-visited the preferred delivery option, reflecting the Council's current financial position and appetite for risk.
- 4.3 In its present form the proposed Joint Venture (JV) arrangement requires the Council to make a significant capital contribution towards the cost of delivery of the new Heat Network. Successful implementation would lead to a potential for future dividend returns and generate income for the Council which would be determined by the Board of the JV. However, the significant estimated outlay is at risk if sufficient customers cannot be signed-up to receive the benefits of the Heat Network.
- 4.4 The alternative low risk arrangement is to grant fund a private sector partner to develop the proposal. The risk would be borne by the third party with no risk of clawback of GHNF grant from the Council in the

event of the failure to deliver a commercially viable network. This model does not prevent the Council from becoming a customer of the Heat Network and thus benefiting from the provision of heat from a low-carbon source.

- 4.5 It may be possible for the Council to enter a JV with Golden Share (in its broadest sense, a golden share refers to a share that gives the holder special powers that other shareholders do not have, as set out in a company's articles of association), and will allow the Council some control, but with much reduced financial and reputational risk.
- 4.6 Following completion of Detailed Project Development, the next stage is to go through what is known as a Commercialisation Process. This will build on existing work completed around the network route and location of an Energy Centre and seek to reinforce the commitment made from all stakeholders, including both the prospective heat supplier and potential heat off takers.
- 4.7 We will also review delivery model ownership and funding arrangements to report back to Cabinet with details of a preferred delivery option and route to selection and appointment of a suitable partner.
- 4.8 To complete the Commercialisation Process specialist techno-economic assistance will be needed, together with external specialist legal assistance. We have identified external specialist providers, Greenfield Nordic (techno-economic) and Womble Bond Dickinson (legal) and we propose to utilise existing Frameworks, available to the Council, to procure their services. This will provide a compliant route to market with the additional advantage of reduced timescales (which are a consideration given timelines imposed by the grant funding arrangement).

## **5 Alternative Options**

- 5.1 There are no other ways forward if the Council wishes to make use of Green Heat Network funding.

## 6 Implications

<b>Resources:</b>	<p>The Council has been allocated £939,421 revenue grant and £4m capital grant, none of which has been spent to date. The revenue grant is intended to be spent on commercialisation (staffing, consultancy costs etc), which it is envisaged will be spent by 31/3/26. There is a risk that, if the council were to commit any of the £4m capital grant, which is expected to be spent on construction costs, and then the project does not go ahead, that the capital grant may have to be repaid. The Grant Administrators have assured us, however, that should an event happen that renders the project unviable, no clawback will be required (failure to agree connection a major heat customer for example). Full feasibility assessment will be completed during the commercialisation stage to establish the best option for capital spend.</p> <p>Should the Heat Network itself be delivered via a Joint Venture ESCO, there may be some debt interest costs incurred due to the need for borrowing for equity investment. This will depend on the Joint Venture delivery model chosen, the degree of risk taken and the amount of financial input. The Heat Networks project is not currently within the council's capital programme, and therefore there is no budget set aside for such borrowing costs. Before being added to the capital programme, a full appraisal would be undertaken on the proposed project, including establishing any borrowing costs required, to ensure that the project is financially viable.</p>
<b>Legal and Governance:</b>	<p>When procuring goods, works and/or services pursuant to this report, client officers must ensure all applicable procurement regulations (including utilities regulations if these apply) and all energy sector regulations are complied with. In addition, client officers must ensure that the Council's internal governance is adhered to (including its Contract Procedure Rules). Client officers will need to seek legal advice throughout the process of implementing the recommendations contained in this report.</p> <p>Any contracts required will need to be drafted to include the intended deliverables. In addition, where relevant, contracts must have regard to any grant funding conditions as imposed on the Council under the GHNF.</p> <p>Wherever the Council grants a benefit to any undertaking, that benefit may constitute a subsidy as defined in the Subsidy Control Act 2022. Again, client officers will need to</p>

	<p>seek legal advice to ensure no subsidy is granted when implementing the recommendations in this report; or, where a proposed measure to be taken by the Council meets the criteria of being a subsidy, and it is not either specifically permitted or exempt, that the Subsidy Control Principles are satisfied.</p> <p>With regard to delivery models and funding arrangements, we understand such information and recommendations will subsequently be presented to Cabinet for approval.</p>
<b>Risk:</b>	<p>The Corporate Risk Management Strategy (CRMS) will continue to be complied with throughout, identifying and assessing the significant risks associated with this strategic proposal. This includes (but is not limited to) political, legislation, financial, environmental and reputation risks. Based on the information provided it is the officers' opinion that for the initial risks that have been identified at this stage, arrangements are in place to manage and mitigate these effectively. Some of the more significant risks moving forwards are noted below:</p> <ul style="list-style-type: none"> <li>• Ability to spend GHNH funding.</li> <li>• Suitable location and land for Energy Centre and utility connections</li> <li>• Assured performance/continuity of heat supply</li> <li>• Heat price comparison to existing arrangements (gas/electricity)</li> <li>• Level of stakeholder (consumer) buy-in</li> <li>• Any change to surety of heat supply</li> <li>• Changes in law or Gov't policy</li> <li>• The parameters of the Prudential Code prevent local authorities from borrowing in order to invest in yield generating investments. Local authorities must not borrow to invest primarily for financial return.</li> </ul>
<b>Equality:</b>	<p>An Equality Impact Assessment screening exercise has been carried out and a full Equality Impact Assessment is not required.</p>
<b>Health and Wellbeing:</b>	<p>Progression to construction and operation of a heat network should have the following benefits:</p> <ul style="list-style-type: none"> <li>• discounted energy will help residents to save money on fuel bills.</li> <li>• Improved living conditions could help to ease the pressure on the NHS by reducing hospital admissions.</li> </ul>
<b>Social Value:</b>	<p>Progression to construction and operation of a heat network should have the following benefits:</p>

	<ul style="list-style-type: none"> <li>• Jobs will be created initially to cover construction and afterwards to deal with maintenance.</li> <li>• The development of this scheme will support investment in businesses, people, and jobs.</li> </ul>
<b>Climate Change:</b>	Energy generated from a low-carbon source will help satisfy planning regulations and address the Council's Climate Change priorities. In addition to the main Energy from Waste heat supply, there is potential to use wasted heat from the electricity generation process to supply a heat network. This would increase the Climate Change benefits of the Energy from Waste plant as this heat would otherwise be vented to the atmosphere.
<b>Corporate Parenting:</b>	There are no implications for corporate parenting.

## 7. Appendices

Equality Impact Assessment

## 8. Background Papers

Cabinet decision 12 July 2023 - West Bromwich Heat Network – Approval for final development – (Cabinet - minute No. 91/23)