

<b>Decision maker:</b>	<b>Assistant Director for Regulatory, Environment and Waste Services</b>
<b>Decision date:</b>	<b>Monday 18 February 2019</b>
<b>Title of report:</b>	<b>Hereford Heat Network - Detailed Project Development</b>
<b>Report by:</b>	<b>Principal Energy &amp; Active Travel Officer</b>

## **Classification**

Open

## **Decision type**

Non-key

## **Wards affected**

Central & Widemarsh

## **Purpose and summary**

This report seeks approval to accept a successful funding application made to the Department of Business Energy & Industrial Strategy (BEIS) and to commission a detailed project development (DPD) study for a heat network in Hereford City.

The funding offer from BEIS is for £151,500 which will be matched with £49,500 from existing budgets.

An additional funding bid has been submitted to the Marches LEP's project development fund for match funding of £20,000. If successful, this report also seeks approval to accept this funding to reduce the required match from the council.

## **Recommendation(s)**

**That:**

- (a) Herefordshire council accept the grant funding from BEIS;
- (b) The study be commissioned as per the application form at appendix 1;

- (c) Existing budgets be used as match funding at a cost of no more than £49,500, and
- (d) That if successful, Herefordshire Council accept the grant funding from the Marches LEP's development fund;
- (e) The Energy & Active Travel Manager be authorised to take all operational decisions necessary to implement the scheme including determination of grant applications in accordance with scheme criteria

## **Alternative options**

1. Not to accept the grant funding. This is not recommended as without financial support from BEIS this project will not proceed, resulting in a lost investment opportunity to develop a local low carbon, low cost district energy scheme in Hereford.

## **Key considerations**

2. Heat Networks, and District Energy Schemes can provide financial opportunities, energy and carbon savings and security of energy supply to development sites. They do, however, need to be incorporated into the outset of developments in order to avoid significant retrofitting costs. Timing for this project is therefore critical, buildings and developments are entering planning along station approach and if we do not take this opportunity to continue the heat network study it would be most likely too late to invest in this technology after the area has fully developed.
3. In 2016 Herefordshire Council led a Marches wide Heat Mapping and Master Planning study, with grant support from BEIS and the Marches Local Enterprise Partnership, which identified a potential heat network project in Hereford City.
4. Further to the success of this first study, in 2017/18 Herefordshire Council utilised further funding from BEIS to carry out a feasibility study for a Heat Network along the link road, Station Approach. This study refined the design of the scheme and confirmed the outline business case, and indicated that the proposed project is financially and environmentally feasible.
5. This feasibility study, carried out by Vert Energy Associates, has identified the hospital as a key existing heat anchor load with a further eight heat loads included in the study that make up a low temperature hot water requirement of 6,576MWh.
6. The techno-economic appraisal screened numerous network and supply options for the whole network and indicated that either a gas or biomass combined heat and power system (CHP) could provide a 40 year internal rate of return (IRR) in the region of 8-9%.
7. This funding opportunity would enable Herefordshire Council to carry out the detailed project development for the city centre, which is identified in the previous works as having good potential for a district heat network.
8. The DPD will provide the design of a robust heat network for the station approach area, select the best technology to power the network and identify a location for the energy centre.

9. This will provide Herefordshire Council with investment options and models of governance taking the project forward including fully public, joint venture and fully privately led options.
10. A specification will be written in conjunction with BEIS guidance if the application for the grant is successful. The study will take up to one year to complete.
11. Herefordshire Council will act as the commissioner of the feasibility study and the procurement will be undertaken in line with the council's contract procedure rules, with support from the Commercial Team.

## **Community impact**

12. A successful district heat network will offer reduced cost, low carbon energy to local businesses and residents which will help to reduce energy costs and deliver affordable warmth.
13. This study will inform a potential development that would support the delivery of Herefordshire's countywide carbon reduction strategy, the Marches LEP Energy Strategy and the delivery of the council's carbon management plan by supporting investment in new low carbon district energy scheme.
14. The project that this study will enable supports the following priorities of the corporate plan. Cleaner energy will provide residents with better quality of lives and cheaper energy costs will support work to reduce fuel poverty. A heat network would provide an investment opportunity and support the growth of the local economy and supply chains.

## **Equality duty**

15. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

  - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
16. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. Our providers will be made aware of their contractual requirements in regards to equality legislation.

## **Resource implications**

17. The total project value is £201,000 with a match funding cost to Herefordshire Council of £49,500 which will be funded through existing revenue budgets.

18. The funding proposal includes provision for a 100% grant towards project management support in order to support the delivery of this project. This will be supported by in-kind officer time through the project team.

<b>Funding streams (indicate whether base budget / external / grant / capital borrowing)</b>	<b>2019/20</b>	<b>Future Years</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Revenue grant funding from HNDU (BEIS)</i>	<b>151.5</b>	<b>0</b>	<b>151.5</b>
<i>Existing budget (C07487)</i>	<b>49.5</b>	<b>0</b>	<b>49.5</b>
<b>TOTAL</b>	<b>201.0</b>	<b>0</b>	<b>201.0</b>

19. An additional funding application for £20,000 has been submitted to the Marches LEP's project development fund. Here this project strongly contributes towards the delivery of the Marches Energy Strategy. If this application is successful it will reduced the match funding by the Council.

## Legal implications

20. The council has powers to secure this grant funding under s1-4 Localism Act 2011. The legal implications of delivering a district heat network project would need to be fully scoped but since this report is only seeking approval to secure funding for feasibility works, there are no significant legal implications which need to be considered at this stage.
21. In June 2018 the council entered into an overarching agreement with Engie Regeneration Ltd, to deliver, for between 10-20 years, a development and regeneration programme within the county. The council could choose to commission energy services, including a district energy scheme and heat network, from Engie under the overarching agreement.

## Risk management

22. Heat Networks and District Energy Schemes can provide financial opportunities, energy and carbon savings and security of energy supply to development sites. They do however need to be incorporated into the outset of developments in order to avoid significant retrofitting costs. Timing for this project is therefore critical: buildings and developments are entering planning along station approach and if we do not take this opportunity to continue the heat network study it would be most likely too late to invest in this technology after the area has fully developed.
23. Whilst led by the Energy & Active Travel Team, the Delegated Grants team will be providing support on governance and compliance.
24. Heat network opportunities such as these are time sensitive as they are extremely expensive to completely retrofit. Not proceeding with this funding opportunity to carry out a detailed feasibility of the project before the sites are developed will likely result in these being financially unfeasible.

Risk / opportunity	Mitigation
Opportunity to carry out 'DPD'	Accept grant funding from BEIS and use existing budget as grant funding
Risk of developments around Station Approach completing before a heat network can be implemented	Proceed with DPD now whilst opportunity is available and timescales are suitable
Risk of council investing in a heat network that is not financially viable	Working with BEIS we are looking to undertake the 3 <sup>rd</sup> study in a series of 4 studies to ensure that any heat network that proceeds is technically, financially and environmentally viable

25. Working on the assumption the recommendations are approved the risks will be managed at the services level.

## Consultees

26. Ward members were consulted and no objections were received,
27. Wye Valley NHS Trust has been consulted on the project and have provided a letter of support outlining their interest in joining a future heat network and willingness to engage in the detailed project development study. This letter of support has been submitted to BEIS as a part of the application.

## Appendices

- The application made to BEIS is attached as Appendix.1.

## Background papers

- None Identified