
A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it contains information relating to the financial and business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet
Council

29th August 2023
5th September 2023

Name of Cabinet Member:

Cabinet Member for Jobs, Regeneration and Climate Change

Directors approving submission of the report:

Director of Business, Investment, and Culture
Director of Transport, Highways, and Sustainability

Ward(s) affected:

All

Title: Coventry Strategic Energy Partnership

Is this a key decision?

Yes - it has the potential to significantly affect residents or businesses in all wards of the City

Executive summary:

'Tackling the causes and consequences of Climate Change' is one of the Council's top three priorities for the city in the One Coventry Plan. The Council's Draft Climate Change Strategy and accompanying Net Zero Routemap, published earlier this year, sets out an ambitious vision for the city's journey to net zero to create a more sustainable and prosperous future for local people. To achieve this, major long-term planning and investment is required to decarbonise our city through a wide range of environmental and social projects.

The Council has a critical role to play as a leader, asset owner and source of local knowledge, but doesn't have sufficient capital, resource, or expertise to deliver net zero in isolation. Therefore, an industry Strategic Energy Partner (SEP) is to be procured to work with the Council to initiate, develop and deliver an extensive programme of projects that will generate significant environmental, social, and economic benefits to the city and help deliver our net zero goal.

Partnering with a world class private industry partner to deliver on our net zero goals will deliver huge benefits for the city's communities and businesses. The partnership will bring up to £2 billion investment to Coventry, helping to create local jobs, tackle the green skills gap through working with the local supply chain, businesses and educational institutions and deliver projects that will generate and supply energy, tackle fuel poverty, deliver energy security, create cleaner air and promote health and well-being.

The fifteen-year strategic partnership will see the Council working with the industry partner to initiate, develop and deliver innovative strategies, business models and plans that will drive the city towards net zero. By having a single strategic partner, projects and initiatives can be considered on a longer term, holistic basis such that the Council and its partner achieves a truly joined up approach to energy management and decarbonisation across the city. The use of five-year strategic plans complemented by annual specific action and budget business plans will ensure alignment and pace of decarbonisation progress.

The strategic partner is expected to have both internal resources and access to capital investment, but also the experience and capabilities to leverage third party funding to support projects. The successful strategic energy partner will be obligated to develop five anchor projects and progress the development of at least three further decarbonisation projects each year for the fifteen years.

Procurement is due to conclude in August 2023 with contracts entered in September 2023. Coventry will be only the second city in the UK to secure a SEP (behind Bristol which has a very different model) and the opportunities it will offer are significant, with up to £2billion investment and delivery of key anchor projects such as a 30MW solar farm, solar into schools, decarbonisation of our fleet, depots and estate and provision of energy security across the city to make the city more resilient. This ambitious partnership will further cement Coventry's aspirations to lead the UK's green industrial revolution.

Creation of social value is a key aspect of the partnership – demonstrating best practice within projects, and also broadening the scope of social value beyond the partnership is a critical success factor. The partnership is designed and contracted to incentivise such positive outcomes in our community with allocation of both resource and funding from the partners and the Council.

To facilitate the SEP, the Council are required to provide 2.5 FTEs to manage the SEP for the duration of the partnership. The 2.5 FTEs will be funded from existing budgets and resources. The SEP team will be co-located with the industry partner, with a requirement for the Council to provide 4 desks within Council officers for the team.

Recommendations to Cabinet:

Cabinet is recommended to:

- 1) Authorise the award of the Strategic Energy Partner contract to the Preferred Bidder (as detailed in the corresponding Private Report) for the delivery of the Strategic Energy Partner Project.
- 2) Delegate authority to the Director of Business, Investment, and Culture and the Director of Transport, Highways, and Sustainability, following consultation with the Chief Operating Officer (Section 151 Officer), the Chief Legal Officer, Cabinet Member for Jobs, Regeneration, and Climate Change and Cabinet Member for Strategic Finance and Resources, to undertake the necessary due diligence, finalise and complete the process of entering into the contract with the Preferred Bidder.

- 3) Note the role of the Coventry Shareholder Committee in the governance arrangement associated with the delivery of the Strategic Energy Partner project as set out in paragraph 1.8 of this report.

Cabinet is requested to recommend that Council:

- 1) Receive and note the decisions of Cabinet as outlined in recommendations 1) to 3) above.

Council is recommended to receive and note the decisions of Cabinet to:

- 1) Award of the Strategic Energy Partner contract to the Preferred Bidder (as detailed in the corresponding Private Report) for the delivery of the Strategic Energy Partner Project.
- 2) Delegate authority to the Director of Business, Investment, and Culture and the Director of Transport, Highways, and Sustainability, following consultation with the Chief Operating Officer (Section 151 Officer), the Chief Legal Officer, Cabinet Member for Jobs, Regeneration and Climate Change and Cabinet Member for Strategic Finance and Resources, to undertake the necessary due diligence, finalise and complete the process of entering into the contract with the Preferred Bidder.
- 3) Note the role of the Coventry Shareholder Committee in the governance arrangement associated with the delivery of the Strategic Energy Partner project as set out in paragraph 1.8 of this report.

List of Appendices included:

None

Background papers:

None

Other useful documents

One Coventry Plan 2022-2030
Draft Climate Change Strategy 2023
Coventry Net Zero Routemap 2023
Economic Development Strategy
Social Value Action Plan

Has it or will it be considered by Scrutiny?

Yes

Has it or will it be considered by any other Council Committee, Advisory Panel, or other body?

No

Will this report go to Council?

Yes - 5th September 2023

Report title: Coventry Strategic Energy Partnership

1. Context (or background)

- 1.1. The Council has recognised the importance and critical role that local authorities play in tackling the causes and consequences of climate change and reaching net zero, which is a One Coventry priority. The Council's draft Climate Change Strategy and accompanying Zero Carbon Routemap sets out the scale of the challenge and the Council's vision to deliver a low carbon economy and sustainable city for the future.
- 1.2. The draft Climate Change Strategy has recently been out to consultation and will be updated to reflect feedback before being taken to Cabinet for approval later this year. 80% of respondents to the survey consider climate change to be an important issue and want to see the Council taking action, particularly around the issues of transport and home energy efficiency, which combined are the city's two biggest sources of carbon emissions.
- 1.3. The Net Zero Routemap for Coventry was produced by consultancy 'Your Climate Strategy', led by Professor Andy Gouldson, a government advisor on climate change and economics. The Routemap established Coventry's baseline position and reviewed over 700 measures to reduce the city's emissions towards net zero. The report estimates that the city's energy bill for 2023 will be £635 million, putting significant pressure on residents, businesses, and public services. Currently over 20% of the population is in fuel poverty. The options considered in the report identified opportunities to reduce the city's energy bill by up to £185 million per year, which would have a significant benefit for residents, businesses and organisations across the city and help tackle fuel poverty.
- 1.4. To be able to realise the opportunities set out in the Net Zero Routemap, a fundamental change is needed to the way the city delivers on decarbonisation. Current government policy and the piecemeal nature of funding is a barrier to long-term planning and a different approach is needed. One that is holistic and provides the opportunity to produce strategic long-term planning, backed by significant investment in order to drive and deliver transformational change.
- 1.5. The Council does not have sufficient expertise and access to the required capital to deliver its net zero ambition and as such it is recognised that a strategic long-term partnership with industry is required, enabling a strategic partner can work together with the Council to develop strategies, business models and plans that will drive the city towards net zero and then have the capabilities to deliver these plans.
- 1.6. The Council is procuring a Strategic Energy Partner (SEP) to work as its long-term partner in a strategic energy partnership, formed through a contractual joint venture commitment. The SEP will work with the Council to identify, define, develop, establish social, environmental, and commercial business cases, and then execute any number of projects that are intended to contribute to the Council's overall strategic purpose of net zero. The strategic partner is expected to have both internal capability, capacity, resources, and access to capital, but also the experience and capabilities to leverage 3rd party funding and supplier capabilities.
- 1.7. The fifteen-year strategic partnership will see the Council working with the industry partner to initiate, develop and deliver innovative strategies, business models and plans that will drive the city towards net zero. By having a single strategic partner, projects and initiatives can be considered on a longer term, holistic basis, enabling a truly joined up approach to energy management and decarbonisation across the city. The use of five-year strategic plans complemented by one-year specific action and budget business plans will ensure alignment

and pace of decarbonisation progress. The Strategic and Business Plans will require approval by the Shareholder Committee as part of the gateway process.

- 1.8. The use of a five-year Strategic Business Plan complemented by specific actions in an Annual Business Plan plus a social value action plan will ensure alignment and pace of decarbonisation progress. The governance process will ensure these plans receive the required scrutiny and approvals. The Strategic Business Plan and Annual Business Plan would be approved by the Council's Contractual Joint Venture Board and Steering Group (sub-set of Cabinet). Project progress (the gateway process) is also approved by the Contractual Joint Venture Board, provided it meets requirements set out in the approved Annual Business Plan. Any deviation from the Annual Business Plan is to be approved by the Contractual Joint Venture Board and Steering Group (e.g., greater draw on funds than anticipated). Any Council capital investment (equity or loan) requirements would be approved by Cabinet as per corporate governance, which will be required at final business case stage, and factored into the Council's Medium Term Financial Strategy as necessary.
- 1.9. The Strategic Energy Partner is expected to have both internal resources and access to capital investment, but also the experience and capabilities to leverage third party funding to support projects. The successful strategic energy partner will be obligated to develop five anchor projects, which include:
 - 30MW solar farm
 - Solar into schools
 - Fleet and depot decarbonisation
 - Public sector buildings (our own occupied estate) decarbonisation
 - Energy security across the city

The benefits of these projects will be significant. The solar farm has the potential to power up to 7650 homes. The Council already piloted solar panels on six schools which has generated an annual saving of £72,000 to energy bills, the SEP provides an opportunity to significantly scale this up. The decarbonisation projects will generate significant carbon, fuel and energy bill savings, whilst strategic energy security planning will benefit the city through providing resilience to service delivery and low carbon back up options.

- 1.10. In addition, the partner will be obligated to initiate and progress the development of at least three further decarbonisation projects each year for the 15-year partnership duration. These will be presented to Cabinet via the Annual Business Plan.
- 1.11. It's important to emphasise that the model will not take competition out of the market. The partner will be incentivised to deliver best value throughout the lifetime of the partnership, the governance has been developed to support this with the introduction of a number of gateways that the Council will oversee jointly with the partner. Further competition is undertaken by the partner as required and where projects are being delivered directly benchmarking will be undertaken to demonstrate best value is being delivered.
- 1.12. Creation of social value is a key aspect of the partnership – demonstrating best practice within projects, and also broadening the scope of social value beyond the partnership is a critical success factor. The partnership is designed and contracted to incentivise such positive outcomes in our community with allocation of both resource and funding from the partners and the Council.

Procurement process undertaken and evaluation

- 1.13. The procurement process has been designed to enable the Council to identify the right partner but to do so with relative pace, avoiding excessive delays or costs. Thus far the programme has been delivered on time and within budget. The work that the Strategic Partnership will deliver is directly linked to the One Coventry Plan; including tackling the causes and consequences of climate change, delivering economic growth, and tackling inequalities. Given the importance of this work there is a desire to keep moving at pace from both the Council and the bidders currently engaged in the process. The engagement work which took place to design the procurement including learnings from other local authorities, consulting internal colleagues and a soft market test exercise, supports this approach.
- 1.14. Procurement of the SEP is due to conclude in August 2023 with contracts entered in September 2023. It has attracted a lot of interest and the Council are currently in the final stages of the process, in which three very engaged bidders remain.
- 1.15. The SEP procurement is already attracting interest from other Local Authorities across the UK, with Coventry being seen as a trailblazer. Bristol is the only other city to procure a Strategic Energy Partner – the Bristol Local Area Energy Partnership. However, Coventry's procurement, commercial and governance model is significantly different from Bristol, which took a number of years procure based on a pre-agreed list of project and outputs. The Coventry model has taken 18 months to procure, and whilst includes anchor projects has maintained a much more flexible approach to delivery to provide opportunity for the programme to be shaped through the partnership.
- 1.16. Please note the details of the evaluation process and Preferred Bidder are contained within the Private Report.

2. Options considered and recommended proposal

- 2.1. **Option 1: Do nothing** – this would mean the Council does not conclude the procurement process and enter a Joint Venture Partnership. This would mean the Council would need to continue activities to achieve net zero objectives itself. It has been identified the Council lacks the resources, expertise, and funding to do so at any pace or in a holistic way. In addition, it would require individual procurements for each project adding additional time and expense. **This is not the preferred option.**
- 2.2. **Option 2: Council enter into a Strategic Energy Partnership with the Preferred Bidder** this option is for the Council to enter into a partnership with a private sector company to deliver on decarbonisation at pace and scale. Endorsing this option will enable the Council to enter into contract with the preferred bidder and begin project development and delivery at the earliest opportunity. This would provide the preferred bidder with exclusivity (under conditions) for the development and delivery of five anchor projects alongside development of a Strategic Business Plan to set out a wider pipeline of projects that the SEP could deliver, which would be developed in detail through an Annual Business Plan and project governance process. This option would avoid the need for going out for individual procurements for each project, saving time and money to enable more efficient delivery of the Council's decarbonisation programme. **This is the preferred option.**

3. Results of consultation undertaken

- 3.1. To design the procurement process advice was sought from a range of sources:

- 3.1.1 Bristol City Council undertook a similar process in recent years. A successful outcome was achieved, and a partner appointed but the approach took several years and was high cost. The Council engaged colleagues within the Bristol City Council and external contractors who worked on this engagement to learn from this process and understand how we could replicate desired outcomes but reduce timeframes and costs.
- 3.1.2 Internal engagement took place within the Council to talk to colleagues from across a range of services areas. Including those more directly involved in net zero related activity such as transport and waste and those from areas less focussed on this such as Adult and Children’s services. This resulted in a broad range of outcomes and objectives for the partnership which will focus not only on carbon reduction but also on wider economic and social value benefits.
- 3.1.3 Before launching the procurement process, a soft market test exercise took place in October 2022. This allowed the Council to test interest in the proposition and to meet with interested bidders, to discuss and refine the process. The level of interest suggested the approach was welcomed and a few refinements were made related to procurement dates and including ‘anchor’ projects within the contractual details to give bidders more confidence in the opportunity.
- 3.1.4 Alongside this, continuous updates have been provided to a SEP Steering Group and to the Green Futures Board to update on project progress and consult on the design of the procurement and contracts.
- 3.1.5 The Council’s Draft Climate Change Strategy consultation has shown strong support across the city for acting on climate change, which the SEP will help to deliver.

4. Timetable for implementing this decision

4.1. The timetable for contract signature is as follows:

| | |
|--|-------------------|
| Scrutiny – Chair of SCRUCO attendance at Cabinet | 29 August 2023 |
| Cabinet decision | 29 August 2023 |
| Notification of preferred bidder | 29 August 2023 |
| End of 10-day standstill period | 10 September 2023 |
| Contract signature | 12 September 2023 |

- 4.2. In order to meet the requirements of the timeline, in accordance with the Constitution, the Chair of Scrutiny Co-ordination Committee (or his nominee) has been invited to attend this meeting of Cabinet to agree the need for urgency such that call-in arrangements will not apply. The reason for urgency is that the procurement timeline currently shows the date by which the Council will enter into contract with the preferred bidder as being 12th September 2023. In order to achieve this, the notification letter to all the bidders stating the award of the contract to the preferred bidder and commencement of the mandatory 10-day standstill period needs to commence on [1st] September 2023. Failure to issue these letters on that date would mean a delay to the ability of the parties to enter into a contract on 12th September 2023 and therefore could also delay the implementation of the Joint Venture arrangements.
- 4.3. Subject to Cabinet approval, the award notification letters will be issued to bidders following the Cabinet meeting, followed by a mandatory ten-day standstill period. The decisions will be implemented on 12th September when contracts are due to be signed with the preferred bidder.

4.4. Thereafter the financial commitments will be managed through the partnership governance process which includes a Contractual Joint Venture Steering board for reporting. In addition, an Annual Business Plan is required at each new financial year which will update on any changes to delegations required for approval.

5. Comments from the Chief Operating Officer (Section 151 Officer) and the Chief Legal Officer

5.1. Financial Implications

5.1.1. Further detail of the financial implications of the recommendations can be found in the private element of this report.

5.1.2. Funding for projects and any related returns will be designed on a project-by-project basis. These opportunities will be brought back to Cabinet or Full Council as appropriate where such decision is required under the Council's Constitution.

5.2. Legal Implications

5.2.1. Section 1 of the Localism Act 2011 provides a "general power of competence" for local authorities, defined as "the power to do anything that individuals generally may do" and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area. The Council has the power to enter into a joint venture contract.

5.2.2. The Council have followed a procurement process in line The Public Contracts Regulations 2015.

5.2.3. There is no subsidy control implications for the contractual joint venture as it has been procured in accordance with The Public Contracts Regulations 2015.

5.2.4. The Council will be entering into a contractual joint venture with successful bidder which legal services have supported and advised upon.

5.2.5. Governance and Constitution - CCC will enter into Contractual joint venture agreement will govern how decisions are made about the SEP. Contractual joint venture will have reserved matters for approval by both shareholders that are consistent with the Terms of Reference set out in the Constitution for Shareholders Committee. CCC's Shareholder Committee will form part of the governance for Contractual joint venture going forward which deals with how decisions are made for the Council's wholly owned and joint venture companies.

6. Other implications

6.1. How will this contribute to the One Coventry Plan? (<https://www.coventry.gov.uk/strategies-plans-policies/one-coventry-plan>)

The Strategic Energy Partnership has the opportunity to contribute to all three core aims of the One Coventry Plan:

- The core focus is achieving net zero which contributes directly to tackling the causes and consequences of climate change.
- The required infrastructure development to achieve the above and related jobs and supply chain implications will support economic growth. As will related support to local businesses to achieve their own carbon reduction objectives.

- Social value is a key driver for the partnership and all projects will have a strong focus on improving outcomes and tackling inequalities within our communities.

In addition to the above, the partnership will help support the enabling outcomes of the One Coventry Plan. The economic returns from projects and bolstering of resource through the partner will directly support the financial sustainability of the council. The partnership is a direct demonstration of the Council as a partner, leader and enabler and will likely lead to further partnering opportunities.

6.2. How is risk being managed?

The main risks identified through the procurement relate to areas of IP, financial liabilities, termination rights, reputation, and procurement. The process has involved lead officers in Legal, Procurement, Finance and Commercial, as well as support from external advisors. As risks have arisen, appropriate discussions and decisions have taken place to manage risks and changes to draft contractual arrangements made if required. In addition, the SEP Steering Board has been kept informed of the process. The Council's Green Futures Board will maintain an oversight of performance of the SEP, including risk management.

It should be noted that the SEP contract (the contract Joint Venture) governs projects up to start of implementation. The primary risk is in the abortion of projects at any stage in their development due to investment criteria not being met. This is governed and mitigated by a clear gateway process that limits expenditure between decisions, ensuring material project development investment only takes place as certainty risk decreases. This is as much a risk to the Council as it is to the JV partner.

The project risks (such technical risk, planning, construction, etc) will be project specific, will be defined, and managed through the development stages, such that any investment decision and final business case contemplates such risks and puts in adequate measures to mitigate or compensate for the same. Future governance over the specific projects will contemplate and manage such risks.

6.3. What is the impact on the organisation?

The partnership contractual agreement includes 2.5FTE officers to support delivery (1 Project Manager, 1 Project Officer and 0.5 Finance). This is the creation of new roles that will be open to internal employees. In addition, project development will require engagement from a cross-section of employees so further upskilling opportunities exist whilst working with the partner. The contractual agreement also provides for up to 4 desk spaces within Friargate to facilitate partnership working.

6.4. Equalities / EIA

An EIA was completed during the procurement process to recognise any specific social value aspects which might be achieved through the partnership. Positive outcomes can be achieved for a wide range of Coventry citizens through the partnership:

- Projects which seek to improve domestic energy efficiency will reduce fuel poverty in the city.
- Increased use of renewable energy sources has the potential to lower fuel costs including for the Council which improves financial sustainability for other service areas. For citizens and businesses this improves home and business finances
- Transport related projects will have benefits for air quality and wider health impacts through more active lifestyles.

6.5. Implications for (or impact on) climate change and the environment?

The key driver for the partnership is supporting the Council to achieve net zero ambitions and tackle the causes and consequences of climate change. The partnership will enable the Council to develop long-term holistic energy solutions that not only meet these aims but also deliver related outcomes such as improved health outcomes for citizens and increased biodiversity.

6.6. Implications for partner organisations?

The partnership will initially focus on Council held assets such as improvements to our own buildings or development projects on Council held land. There is a wider opportunity for the Council and the Strategic Energy Partner to work with a range of organisations across Coventry to widen the benefits of the approach, or specific projects, to other partner organisations, businesses, and communities.

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