
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) and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services. The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Cabinet

4th October 2017

Name of Cabinet Member:

Cabinet Member for Jobs and Regeneration – Councillor O’Boyle

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected:

St Michael’s

Title:

Extension of the Heatline Network

Is this a key decision?

Yes - The transaction will result in expenditure greater than £1m

Executive Summary:

The Council awarded a contract in 2013 to Coventry District Energy Company (CDEC) to build, and operate a district heating network (Heatline) to heat existing Council buildings and other buildings that connect to the network. The aim of the project was to utilise waste heat supplied by the Energy from Waste (EfW) plant, maximise CO² savings for the City and extend its reach in the City Centre. Heatline provides heating to a number of Council buildings in the city centre, Herbert Art Gallery, Fairfax Street Sports Centre and the Cathedral.

The contract includes an obligation on the Council to maintain a minimum floor area of heated buildings. Should the floor area fall below this level, it would trigger a review of charges to the Council to ensure the operator is no worse off and that we meet our existing contractual obligations.

With the Council moving from Civic Centres 1-4 to Friargate and from Fairfax Street to the City Centre Destination Leisure Facility (CCDLF), a floor area review will be triggered and charges to the Council would increase. Extending Heatline to Friargate and CCDLF is the most cost

effective way of minimising this impact and achieves the original aim of expanding the reach of Heatline to its offices and throughout the City Centre. Negotiations have therefore been ongoing between CDEC, Friargate and the Council to extend the network to the Council's new building at Friargate, the wider Friargate development and the CCDLF.

The cost of extending the network is £2.795m.

It is recommended that the Council contribute £1.23m to this project from resources already approved for the Friargate and CCDLF projects as the most cost effective solution for the Council. This will not result in a call for any further monies from the City Council because the revenue costs of the capital funding have already been built into the Councils budgets. The balance of the cost will be met by Friargate LLP and CDEC respectively.

There will be a short term revenue impact until the infrastructure is built in 9-12 months, which will be managed through normal budgetary control.

Recommendations:

Cabinet is asked to approve:

- (1) The use of Heatline to provide heating to the Council's building at Friargate and the City Centre Destination Leisure Facility.
- (2) The investment of £1.23m reallocated from existing resources within the Friargate and City Centre Destination Leisure Facility programmes towards the capital investment costs for a Heatline connection to these two buildings.
- (3) Delegate authority to the Deputy Chief Executive (Place) and Director of Finance and Corporate Services to sign all necessary commercial contracts with Coventry District Energy Company and Friargate LLP in relation to the provision of the heating to the Council's building at Friargate and the City Centre Destination Leisure Facility

List of Appendices included:

None

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

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

No

Will this report go to Council?

No

Report title: Extension of the Heatline Network

1. Context (or background)

- 1.1 The Council awarded a 25 year Concession to Coventry District Energy Company (CDEC) to build and operate a district heating network (Heatline) to heat Council buildings and other buildings that connect to the network. CDEC is managed by Engie, who also operate the district heating schemes in Leicester, Olympic Park and Birmingham.
- 1.2 CDEC installed a network of insulated pipes and infrastructure to deliver heat from the Energy from Waste (EfW) plant at London Road to end users. Heatline provides heating to a number of Council buildings in the City Centre, the Herbert Art Gallery, Fairfax Street Sports Centre and the Cathedral. At the end of the Concession Agreement the infrastructure is handed back to the Council.
- 1.3 The aim of the project was to utilise waste heat supplied by EfW and to maximise CO² savings for the City and expand its reach further into the City Centre. Utilising waste heat in this way has a number of benefits, it reduces CO² emissions, conserves natural resources, reduces carbon taxes, and improves the carbon footprint for individual participants and the city as a whole.
- 1.4 The Council is due to vacate Civic Centres 1-4 and Fairfax Street Sports Centre both of which are connected to the Heatline scheme and this would trigger a pricing review if no other buildings are connected to the scheme within 6 months of vacating these buildings.
- 1.5 The contract includes a profit share arrangement for the Council to benefit from the expansion of the Heatline scheme to new customers.
- 1.6 CDEC, the Council and Friargate LLP have been in negotiation to agree the route and capital expenditure required to expand the heating network to the Friargate development, including the Council's building and the CCDLF.
- 1.7 Terms have been agreed between the parties to extend the Heatline network to the Council's buildings at Friargate and the CCDLF and for the network to be subsequently extended by CDEC to service future developments on the Friargate development at their risk. The total costs for expansion to the Friargate development and the CCDLF is estimated to be £2.795m.

2. Options considered and recommended proposal

- 2.1 The private report which accompanies this report identifies three options which have been carefully considered by officers based on the level of capital investment required, by whom the investment is to be made and the revenue consequences of those differing levels of investment on the Council.
- 2.2 The recommended option is for the Council to fund £1.23 million towards the capital cost of this extension which represents the most cost effective way for the Council to secure the extension to its building at Friargate and the new City Centre Destination Leisure Facility (CCDLF).
- 2.3 This will not result in a call for any new resources from the Council because capital resources from the already approved Friargate and CCDLF projects will be used and the

revenue consequences of that capital has already been built into the Councils approved revenue budgets.

- 2.4 The other options considered have increased revenue consequences for the Council and would require additional resources to be identified.

3. Results of consultation undertaken

- 3.1 No consultation has been undertaken on this proposal.

4. Timetable for implementing this decision

- 4.1 The timetable for implementing this decision will take 9-12 months to construct the Heatline extension.

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

Capital implications

The Council funding capital investment of £1.23m is the most financially viable option for the Council. The Council's contribution will not result in a further call for Council resources as it can be funded through reallocating existing resources already allocated to the Friargate and CCDLF programmes. The contingency allocated within the Friargate programme will be used to fund £0.8m of the cost and £0.43m cost will be resourced from funds within the CCDLF programme allocated for heating/utility costs.

Whilst there is no additional revenue cost to the Council, there is a lost opportunity of applying the £0.8m to any other Council priorities, with an estimated potential capital financing cost of £0.05m per annum over 20 years.

Revenue implications

There is likely to be a delay of 9 -12 months between vacating Civic Centres 1-4 and the permanent Heatline connection to the Council's building at Friargate. The disconnection from Civic Centres 1-4 will trigger the floor area clause in the Heatline contract and will require the Council to make a payment of up to £0.09m (full 12 months payment) spread over 2017-18 & 2018-19. It is unlikely to be a full year's payment and this can be funded through normal budgetary control.

5.2 Legal implications

This report seeks authority to make a capital investment into the provision of further infrastructure which will provide heating to a number of Council owned buildings as well as delegated authority for the Deputy Chief Executive (Place) and the Legal Services Manager to proceed with the implementation of this additional element of the District Heating Scheme in accordance with the recommendations set out in this report.

The Council should ensure robust procedures and monitoring processes are put in place during the implementation of the Scheme. Any contracts and agreements will need to comply with the Council's procurement regulations as well as State Aid legislation and also

with European Union procurement regulations and the Council will need to obtain legal advice throughout the next stages of the Scheme as it progresses.

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

The project will contribute to the aims of the Council Plan by extending the infrastructure for the City to grow and thrive, by making the most of our assets and by creating a cleaner and greener City.

6.2 How is risk being managed?

The key risks are contractual, delivery programme and development build out. The terms of the Heatline extension to the Councils buildings needs to be documented in contracts in which the Council will be legally represented.

The programme risks involve the construction of the extension from the existing City Centre network to Friargate. These risks have been mitigated as far as possible by advance tendering of the works, doing in depth services surveys and discussions with highway engineers about the working methods to deliver the extension.

The speed and extent of the Friargate build out (and any other extensions) will determine the level of commercial success for the partners involved.

6.3 What is the impact on the organisation?

The impact on the organisation will be the short term project management requirement to co-ordinate the extension of the Heatline network to Friargate and the CCDLF.

The infrastructure extension route will be from Much Park Street - St Johns Street – Little Park Street – New Union Street – Friars Road – Friargate – with a spur from New Union Street – Greyfriars Road to CCLDF.

6.4 Equalities / EIA

There are no equalities impacts resulting from the extension of the Heatline network to Friargate and CCDLF.

6.5 Implications for (or impact on) the environment

The Heatline source of heat is a low carbon heat source as it utilises recovered heat from the Energy from Waste facility at London Road. It has already saved in the region of 1500 tonnes of carbon per annum from the existing Council buildings, and by extending the network to the Councils new buildings carbon savings will continue with the potential for more savings as new connections on the Friargate development occur.

6.6 Implications for partner organisations?

The Heatline extension has involved organisations that the Council is working in partnership with, CDEC to extend District Heating in the City and Friargate to provide heat to the Councils buildings and in future to the Friargate development at large.

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