Coventry City Council

Briefing note

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 refers to information relating to an individual and information relating to the financial or business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services.

To: Business, Economy and Enterprise Scrutiny Board (3)

Date: 26th November 2025

Subject: Heatline District Heating Update

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1 Purpose of the Note

1.1 Business, Economy and Enterprise Scrutiny Board (3) has requested an update to be provided on the funding of Heatline to date, its historic performance and the forward plan for the network.

1.2 This briefing note provides a summary of the following in relation to the existing heat network:

- Existing Concession Contract Details
- Breakdown of Funding Sources for Heatline
- Financial Performance of Heatline to Date
- Current Expansion Activities for the Heat Network
- Social Value Impacts from Coventry District Energy Company
- Impact of Forthcoming Legislation

2 Recommendations

2.1 The Business, Economy and Enterprise Scrutiny Board (3) are recommended to:

1) Note the information provided about the current status of the Heatline District Heat Network.
2) Note the forthcoming changes to the context of heat networks in the UK.
3) Support the proposed extension of the Concession Contract to 2043 to enable grant support to be maximised.

Background and Information

3 A Summary of Heatline

3.1 The Coventry Heatline district heat network currently supplies recovered heat from the Energy from Waste (EfW) Facility on London Road to 9 city centre buildings including 3 Offices, 2 sports facilities, a Museum, a Hotel, the Cathedral and a Student Accommodation Block via its 4km network of underground pipework.

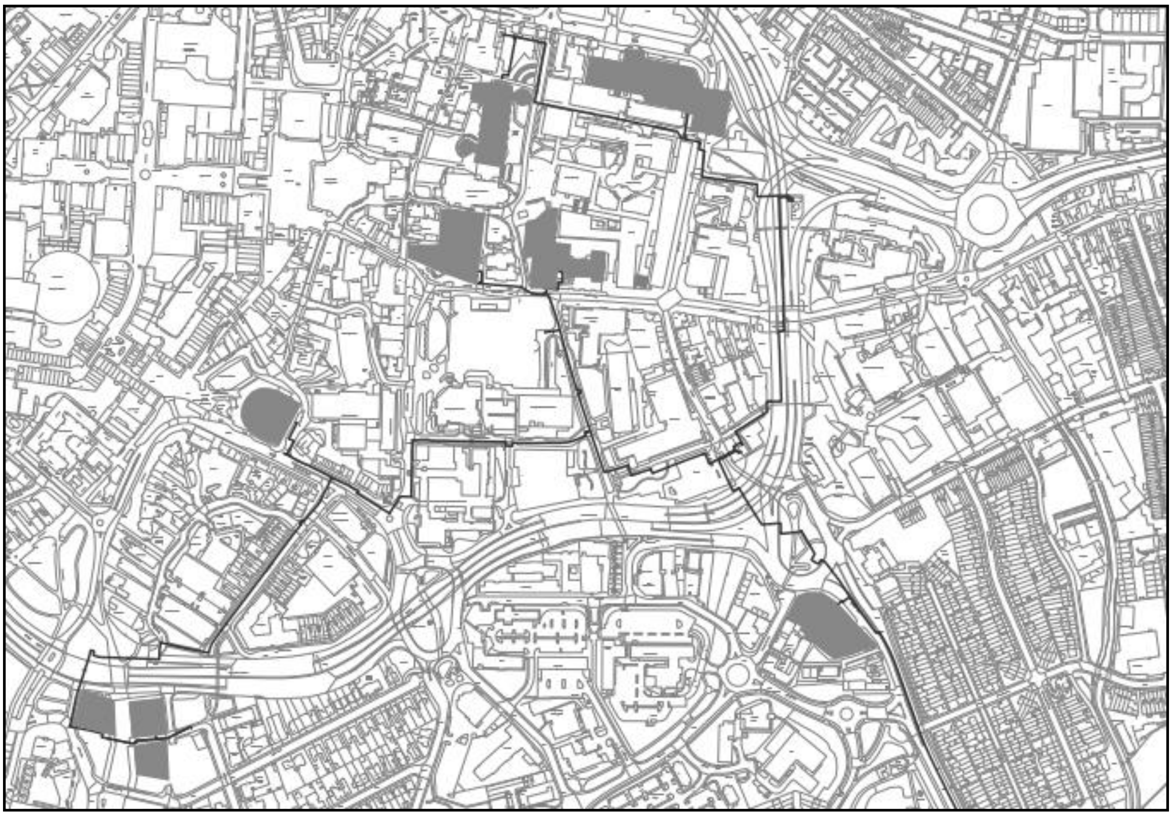

Figure 1 - Current Locations of the Heatline Heat Network and its Customers.

3.2 Heatline is operated under a Concession Agreement by Coventry District Energy Company (CDEC) which is now a wholly owned subsidiary of Bring Energy. The original concession was awarded to Cofely who set up CDEC, but this entity has subsequently changed ownership several times before the current owners Bring Energy.

3.3 They buy the heat from the EfW and resell it to customers on the network. They are also fully responsible for the operation and maintenance of the buried network and above ground infrastructure. At the end of the Concession term, the heat network and all of its assets will transfer to Coventry City Council (CCC) or its future appointed operator.

4 Existing Contract Arrangements

4.1 The existing Concession contract with CDEC was entered into in 2012 and had an initial operational term of 25 year. It is currently due to expire in 2038. The original procurement process allowed for a maximum contract term of 400 months enabling CCC to grant extensions of the contract term to 2045 should such an extension be required to attract new customers to the network.

4.2 Under this arrangement, CDEC is to meet the full operating and maintenance costs for the heat network. A profit share mechanism was included to ensure that financial returns over and above a pre-agreed acceptable rate of return were shared between CDEC and CCC. The intent of the concession contract was to de-risk the capital investment needed from the private sector whilst ensuring there was protection against future “super profits” being generated.

4.3 The capital contributions from the public sector and the rates set for CCC offtake of heat under the original concession intended to derisk the initial build out of the network by providing a baseload of heat sales from day 1.

4.4 In 2017, the contract was revised to allow for the replacement of the Civic Centres and Fairfax Street Sports Centre with One Friargate and the Wave.

5 Breakdown of Heatline Funding Sources

5.1 The original network construction cost ~£5.6m. This was funded using £2.2m of Homes and Communities Agency (HCA) grant funding with the remainder financed by CDEC through its parent company.

5.2 The network expansions to date have cost an additional ~£3.6m. This was funded using £850k developer contributions from Friargate Coventry LLP and £1m of CCC capital investment with the remainder financed by CDEC through its parent company.

5.3 Therefore, to date the investments in Heatline have been as follows:

Funding Source	Investment Value (£m)	Investment Proportion (%)
HCA Grant	2.2	24%
CCC	1.00	11%
Friargate Coventry LLP	0.85	9%
CDEC	5.15	56%
Total	9.2	100%

5.4 The public sector has therefore to date funded 35% of capital costs of Heatline with the remainder coming from the private sector. CDEC has been the biggest investor in the development of Heatline so far.

6 Financial Performance of Heatline to Date

6.1 A review on financial performance of Heatline has been undertaken comparing actual revenues and cost to the end of 2024 (the last completed year) with the forecast performance from the 2012 Financial Model.

6.2 The original Financial Model for Heatline was based on the original network connections and set an expectation that, by the end of the concession, CDEC would have achieved a positive Net Operating Profit to deliver a modest return to the operator for their initial capital investment. Coventry City Council was not expected to receive income from the venture unless there was significant increase in either the utilisation of the network or the energy market price over the duration of the concession. At this mid-point of the concession, it was expected that CDEC would still have a negative cumulative Net Operating Profit.

6.3 Overall revenues have been lower than forecast whilst costs have been higher than forecast in the original Financial Model. This operational deficit combined with the additional capital investment in expanding the networks means that currently Heatline’s cumulative Net Operating Profit is lower than originally forecast for this stage in the Concession.

6.4 The following sets out the different elements and underlying drivers for the financial performance observed within CDEC.

P&L Aspect	Actual vs Forecast	Drivers
Heat Sales	-2%	Heat Price inflation lower than forecast with exception of 2022-2023 energy crisis. Lower Consumption than forecast following energy efficiency improvements in buildings
Heat Costs	+3%	Heat Cost increase in 2022-2023 energy crisis outweighs lower costs in other years. Issues at Bar Road requiring higher cost temporary Energy Centres.
Fixed Revenue	-12%	CPI and Labour inflation has been consistently lower than in the Financial Model. Currently 20% lower but has been as much as 32% lower.
Fixed Costs	+19%	Significant repairs to the heat network spine at Bar Road.
Overheads	+78%	Overheads are related to costs and therefore higher costs have resulted in higher than expected overheads.

6.5 The three biggest factors negatively affecting the financial performance of Heatline have been:

- Lower inflation in prices compared to the Financial Model
- Slower than expected build out of Friargate Business District, and
- Unexpected maintenance costs with the Bar Road section of the network.

6.6 CCC has not been exposed to any of this financial underperformance due to the concession contract and has benefited from lower heat costs than were initially predicted.

6.7 It should be noted that the impact of the 2 new buildings in the Friargate Development (Indigo Hotel and Two Friargate) have yet to come through in annual financial reporting. These new connections should help to improve the financial performance in 2025.

6.8 The relatively low customer base for the scale of the private investment put into the scheme is an underlying factor for the current financial performance of the network.

7 Current Activities to Address Financial Performance

7.1 The main activity that will address the financial performance of Heatline will be to increase the number of customers using the network. Since Bring Energy has taken over operational control of CDEC in early 2024, significant renewal of efforts to expand the network have been undertaken. CCC and CDEC have worked together to secure the connection of 11 Coventry University buildings to the Network. This work is currently taking place with connections expected to be fully completed in 2026. This will see a significant increase in the revenue from heat sales without significantly affecting the fixed costs of the network. This expansion has been funded by Coventry University and the Public Sector Decarbonisation Scheme (PSDS).

7.2 The Ministry of Justice (MoJ) has also secured PSDS funding to support the connection of the two courts buildings to the network. These connection opportunities are currently being assessed by MoJ but are anticipated to be completed by 2028. These connections would be funded by MoJ and PSDS.

7.3 In addition, CCC has utilised the flexibility of the WMCA Retrofit Pilot funding to enable 6 new public sector connections to be brought forward in Hillfields. This additional anchor load further enabled CDEC to secure funding to support connections to a further 12 buildings bringing the total to 18 new potential connections. These connections are still subject to detailed design and final contracting but are anticipated to be also completed by 2028. In order to maximise the grant support that CDEC can attract into the scheme, an extension of the Concession contract extension to 2043 has been requested by CDEC. Without the contract extension, CDEC would not be able to offer the new customers a commercially viable heat price and the expansion would not take place. The overall expansion will be funded through a combination of customer contributions, grant funding and CDEC investment.

7.4 Figure 2 below shows the extent of the proposed expansions above. Shading indicates whether a building is already contracted, part of CCC’s proposed pipeline for the WMCA Retrofit Pilot or part of other CDEC expansion schemes. It also shows the City Centre South and Friargate regeneration areas which are also expected to connect as they build out.

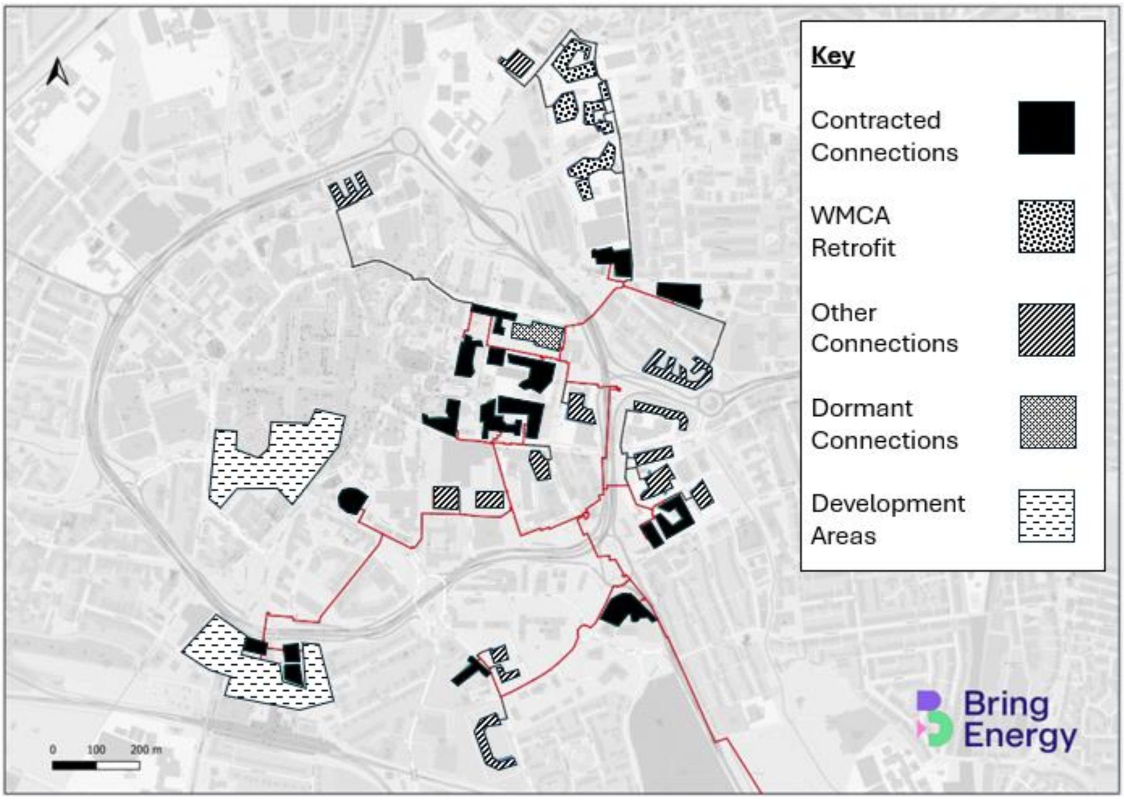

Figure 2 - New Connections Pipeline 2025-2028

7.5 Following the buildout of the proposed expanded networks, the investment breakdown for the Heatline network is expected to be as follows:

Funding Source	Investment Proportion (%)
Grant Funding	53%
CCC	2%
Friargate Coventry LLP	2%
Other Public Sector	13%
CDEC	30%
Total	100%

The ability to attract significant grant funding into the scheme over this phase of expansion is expected to rebalance Heatline's revenues and costs and bring the scheme back in line with original expectations over the moderately extended concession term.

8 Social Value Impacts from Coventry District Energy Company

8.1 The primary social value from Heatline is the avoidance of carbon emissions associated with the heat provided to the customers on the network. To date it is estimated that 14,176 tCO2 has been avoided through the use of Heatline. It is anticipated that successful expansion of the network as proposed above will result in avoided emissions of 7,305 tCO/yr.

8.2 CDEC is staffed using a shared regional workforce that also manages the Bring Energy heat networks in Birmingham and Leicester. As CDEC is the smallest of these operations, there is only 1 FTE permanently based within Coventry and none of the direct Bring Energy employees live locally. Bring Energy does currently have 2 apprentices supporting the heat network however, they are based in Birmingham. The recent engagement with Coventry University has seen Bring Energy offer 6 work experience opportunities over the summer to their students.

8.3 Overall, based on the Social Value Portal's Themes, Outcomes and Measures (TOMs) metrics, the CDEC Contract is expected to generate over £750k of social value this year and has delivered over £3.6m of social value since the start of the contract. This is largely because of the emissions savings delivered.

8.4 The current expansion works are delivering further social value for the wider WMCA region. The current works are using a specialist heat network civils contractor based in Solihull. They currently have 20 FTEs working on the CDEC expansion project some of whom are Coventry residents and, as capital intensive aspect of the works, represents a significant spend within the regional economy. The expansion works also support a large number of other jobs from outside the region and therefore indirectly support the local economy via spend on accommodation and subsistence during the works. Including this wider context of social value increases the expected impact this year by over £2.5m.

9 Impact of Forthcoming Legislation

9.1 New Heat Network Regulations are coming into effect in 2026. This will require Heat Network Operators in the UK to be regulated by Ofgem and comply with new codes of practice, consumer protection policies and reporting requirements. As CDEC is a wholly owned subsidiary of Bring Energy, CCC will not be responsible for complying with the new regulations in relation to Heatline.

9.2 Bring Energy is in the process of setting up internal processes and compliance systems to enable compliance and the reporting of relevant data to Ofgem as and when required. This includes:

- Current work to upgrade existing metering & billing processes to enhance compliance readiness across all Bring Energy schemes.
- Work to ensure that all contractual tariff reviews and pricing models are up to date as would be required by the new Ofgem regulations.
- Undertaking "technical due diligence" to ensure that all Bring Energy schemes meet the requirements of the proposed heat network technical standards.
- Assessing potential commercial and legal risk (for existing & new contracts) to determine if any of the proposed changes are sufficient to trigger 'Change in Law' provisions.
- Committing staff towards working on the preparation and reporting of any relevant data to Ofgem as required.

9.3 It is anticipated that Heat Network Zoning regulations will also come into effect sometime in 2026. This will introduce a new regulatory burden for Zoning Coordination that may either sit with Local Authorities or Combined Authorities. The principle is that they will be responsible for identifying and designating Heat Network Zones (much like setting a conservation area). Once designated the Zoning Coordinator will be responsible for procuring a Heat Zone Developer to build out and operate the heat networks in the zones. CCC is currently evaluating how existing procured contracts relating to Heat Networks will fit with this new requirement. The Zoning Coordinator would also be responsible for any oversight and enforcement requirements that apply to the designated zones. It is suspected that the long-term direction of Heatline will be significantly influenced by the final decisions the Government makes on the Heat Network Zoning regulations.

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