

Report of Chief Officer, Sustainable Energy and Air Quality

Report to Director of Resources and Housing

Date: 20th December 2019

Subject: Grant agreement for phase 2 of Leeds PIPES district heating network

Are specific electoral wards affected?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
If yes, name(s) of ward(s): Little London and Woodhouse	
Has consultation been carried out?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Will the decision be open for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, access to information procedure rule number: Appendix number:	

Summary

1. Main issues

- Good progress has been made with the HNIP grant application, with the council now announced as one of just 4 recipients of round 1 funding.
- A formal grant offer has now been received for £2.439m and a grant agreement finalised, which is now ready to be sealed.
- Works commenced on the Headrow on the 2nd September and good physical progress has been made subsequently, working in close collaboration with Connecting Leeds and other sections in the council.
- A further instruction is required to be issued to Vital Energi to instruct works up to £500,000 prior to the full scope of works being contracted via the phase 2 SPV.

2. Best Council Plan Implications (click [here](#) for the latest version of the Best Council Plan)

- The extension of the District Heating Network supports the aspirations set out in the Best Council Plan and the overall vision of becoming the best city and best council in the UK. In particular, the project helps deliver the Best Council Plan 2019/20 to 2020/21 priority on Sustainable Infrastructure with a focus on:
 - Improving air quality, reducing pollution and noise; and

- Promoting a more competitive, less wasteful, more resource-efficient, low carbon economy.

3. Resource Implications

- Additional early construction works of up to £500,000 for phase 2 of the DHN are required to ensure the network extension continues to align with the construction programme of the council's LPTIP project.
- These early works will be instructed through the phase 1 design and build contract to ensure the works take place under the terms of a robust contract. These costs will initially be funded through the phase 1 capital budget and will ultimately be funded through phase 2.

Recommendations

The Director of Resources and Housing is recommended to note the content of this report and:

- a) Approve further spend of up to £500,000 for early works to phase 2 of the Leeds PIPES DHN through issuing instructions via the phase 1 design and build contract with Vital Energi Utilities.
- b) Provide authority to accept the HNIP grant offer of £2.439m and to enter into the grant agreement with The Secretary of State for Business, Energy and Industrial Strategy.

1. Purpose of this report

- 1.1 To update the Director of Resources and Housing on progress with the phase 2 DHN and to provide authority to enter into the grant agreement with HNIP, on terms broadly the same as reported to Executive Board in April 2019.

2. Background information

- 2.1 Executive Board received a report in April 2019 covering the proposed phase 2 district heating network.
- 2.2 In December 2018 the government launched its Heat Network Investment Programme (HNIP), which made £300m available for the delivery of heat networks. The council applied for c£2.5m of grant funding to enable the phase 2 city centre extension. The council has since been in positive discussion with HNIP.
- 2.3 In order to avoid delays to the related Connecting Leeds works on the Headrow, the Director of Resources and Housing took a Significant Operational Decision in August 2019 to approve £1.015m of spend on early works, which commenced on the 2nd September 2019. A subsequent Significant Operational Decision was taken in October to agree to a further £500k of spend to continue these works.

3. Main issues

- 3.1 Following a lengthy delay, the council has now received a firm grant offer from HNIP for £2.439m (£50k, or 2%, less than our bid).

- 3.2 A draft grant agreement has been provided by HNIP which has been reviewed and revisions have flowing between the council's legal and delivery teams and HNIP. This has now resulted in an agreement that is satisfactory to both parties and now requires authority to be sealed by the Council.
- 3.3 The grant agreement requires the authority to establish a SPV to ultimately own and operated the SPV. The project team is working closely with legal and finance colleagues, with appropriate external advice, to establish the governance arrangements of the SPV. A separate decision report will be presented early in 2020 covering the establishment of the SPV and contracting with Vital Energi via the SPV.
- 3.4 The critical start on site date of 2nd September 2019 was achieved in order to ensure that the phase 2 district heating programme aligned with the Connecting Leeds programme Since then, phase 2 has made significant progress, with the majority of the work on the Headrow and Eastgate now complete.
- 3.5 Vital have worked closely with Connecting Leeds on the works and are sharing health and safety information, undertaking joint communications and regularly meet to discuss programme.
- 3.6 SEAQ have also recently agreed with Urban Traffic Control and Leeds Watch to use the DH trench to install telecommunication ducts and chambers for their use, in order to minimise future disruption and achieve capital savings to these teams. Discussions are also underway with City Fibre to include their ducts either via this contract or the Connecting Leeds contract.
- 3.7 Alongside the work on site, the project teams from the Council and Vital have been working together, using the terms agreed in February 2018 when the city centre work was paused, to create a new contract for signature by the SPV and Vital in due course.
- 3.8 In order to allow time to complete this contractual process, a further limited scope of works extension is required via another instruction to Vital under the terms of the phase 1 contract.

4. Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Positive discussions have taken place with HNIP, the Carbon Trust and Addleshaw Goddard in relation to the HNIP requirements.
- 4.1.2 Discussions with Vital Energi and Arup (as NEC project manager) and the council's Procurement and Commercial Service have also progressed regarding the approach to the commercial contract position for phase 2 of the network.
- 4.1.3 Engagement with the council's LPTIP team and their contractors have taken place over the last 15 months to coordinate works programmes, shared costs, and shared messages.
- 4.1.4 Leeds PIPES and Connecting Leeds have undertaken joint engagement work with local residents and businesses to alert them to the works and Leeds PIPES have commenced communications to local residents and business that are in areas beyond the scope of Connecting Leeds.

4.2 Equality and diversity / cohesion and integration

- 4.2.1 An equality impact assessment was completed as part of Phase 1 and this was updated for the proposed phase 2 extension as part of the report submitted to Executive Board in April 2019.
- 4.2.2 The DHN will have a positive impact on equality as it will support the compassionate city equality objective by reducing fuel poverty, helping to increase life expectancy, improving mental health and wellbeing and reducing health inequalities.

4.3 Council policies and the Best Council Plan

- 4.3.1 As presented to Executive Board in April 2019, the extension of the DHN supports the aspirations set out in the Best Council Plan and the overall vision of becoming the best city and best council in the UK. In particular, the project helps deliver the Best Council Plan 2019/20 to 2020/21 priority on Sustainable Infrastructure with a focus on:
- Improving air quality, reducing pollution and noise; and
 - Promoting a more competitive, less wasteful, more resource efficient, low carbon economy’.

Climate Emergency

- 4.3.2 Using waste heat generated at the council’s RERF, the DHN will contribute to a reduction in the city’s carbon footprint by replacing gas boilers that would ordinarily provide heat and hot water to residents and businesses in the city centre.

4.4 Resources, procurement and value for money

- 4.4.1 The business case for the phase 2 is based upon a capital investment of £5.681m, which is required to construct the 2.5km extension into the civic quarter and to connect a number of council-owned buildings to the network. The investment is based on a business model that generates revenue associated with the sale of heat to customers and includes £2.439m of HNIP grant funding.

4.5 Legal implications, access to information, and call-in

- 4.5.1 The grant agreement with HNIP has been reviewed by the Procurement and Commercial Services legal team who have discussed the terms with the project team. Overall the view is that the grant agreement can be sealed without incurring undue risk to the council. There are, however, some points to note:
- 4.5.1.1 The majority of the grant agreement is stated as being not legally binding, with a requirement for the LCC Section 151 officer to sign a ‘confirmation’ on how the grant will be used and that the terms of the agreement will be complied with. However, this does not affect the decision to accept the grant which rests with the Director of Resources and Housing. The obligation on HNIP to pay the grant is not legally binding. This is a similar position to other grant agreement terms which commonly say that the grant can be withdrawn or not paid for various reasons including non-availability of funds.

- 4.5.1.2 The grant agreement contains detailed and extensive conditions precedent to drawing down the grant which the council must meet by 28th February 2020. These have been reviewed jointly by the project team and HNIP and a list of evidence required has been agreed.
- 4.5.1.3 The grant agreement contains a clause which covers the eventuality that if the agreement is signed, but the Grant is then not disbursed, the costs would be recoverable. As the council has a single drawdown profile, this risk is viewed as minimal.
- 4.5.1.4 The grant agreement contains ongoing obligations in relation project delivery which if breach may result in clawback of some or all of the grant.
- 4.5.2 The decisions within this report are Significant Operation Decisions as they are consequential to precious Key Decisions and are therefore not subject to call in.

4.6 Risk management

- 4.6.1 Now that works have commenced on phase 2 and HNIP have formally announced that the council will be a round 1 grant recipient, the risk of stopping work is considered to be significantly higher than continuing with the early works. If district heating works are stopped, either the Connecting Leeds programme would be delayed, with increased capital costs and disruption to the city, or the early works undertaken to date would need to be written off. Neither of these is better than continuing work.

5. Conclusions

- 5.1 Given the pre-existing Executive Board approvals, successfully securing external grant funding and the criticality of continuing works in order to avoid delaying the Connecting Leeds works, it is essential that another instruction is issued to Vital Energi to continue early works until the full phase 2 contract has been signed with them. Similarly, it is essential that the decisions taken in the April 19 Exec Board report are enacted in order to accept the grant.

6. Recommendations

- 6.1 The Director of Resources and Housing is recommended to note the content of this report and:
 - 6.1.1 Approve further spend of up to £500,000 for early works to phase 2 of the Leeds PIPES DHN through issuing instructions via the phase 1 design and build contract with Vital Energi Utilities.
 - 6.1.2 Provide authority to accept the HNIP grant offer of £2.439m and to enter into the grant agreement with The Secretary of State for Business, Energy and Industrial Strategy.

7. Background documents¹

¹ The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

7.1 None