



**Decision of Deputy Leader and
Cabinet Member for Finance,
Resources & Reform**
24 November 2022

**Report from the Corporate Director
Finance and Resources**

**Application to Green Heat Network Funding round 3 for
external grant funding**

Wards Affected:	Kilburn
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Part Exempt – Appendix 1 is exempt as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	Appendix 1 – Outline Business Case
Background Papers:	None
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1.0 Introduction

- 1.1 The Green Heat Network Fund is a capital grant fund administered by the Department for Business, Energy and Industrial Strategy (BEIS) that aims to support the development of new and existing low and zero-carbon heat networks.

- 1.2 Brent would like to submit an application to round 3 of GHNF funding for the procurement of a contractor which will Design Build Operate and Maintain the low carbon district heating network in South Kilburn under direct management by Brent Council Energy Team. More details about the scheme and how it is intended to be managed is included in the Outline Business Case in the Appendix to this report.
- 1.3 The GHNF round 3 competition launched in September 2022. In order to be considered for funding, Brent will need to submit its application in advance of the grant funding deadline on Friday 25th November.

2.0 Recommendations

- 2.1 That the Deputy Leader and Cabinet Member for Finance Resources and Reform in consultation with the Leader agrees to the submission of this application for grant funding from the Green Heat Network Fund for the procurement of a contractor which will Design Build Operate and Maintain the low carbon district heating network in South Kilburn.

3.0 GHNF Round 3 Key Aims and Objectives

- 3.1 The Green Heat Network Fund ("GHNF") builds on the progress and development made by the Heat Network Investment Project (HNIP) and the Green Heat Network Fund Transition Scheme that opened in July 2021.
- 3.2 The current GHNF opened in March 2022 and will support the procurement and delivery of capital projects until end of 2025. Funding will be allocated on a first come first served basis.
- 3.3 BEIS is placing emphasis on developing and growing the low carbon heat network UK market. The GHNF capital grant is a key element of the Government's Heat Network Transformation Programme and aims to deliver the following:
 - 3.3.1 Affordable Heat: Domestic and micro-businesses must not be offered a price of heat greater than an appropriate low carbon benchmark for new buildings and a gas/oil benchmark for existing buildings.
 - 3.3.2 Carbon: Deliver to residents a maximum carbon intensity of 100gCO₂e/kWh.
 - 3.3.3 Value for Money: Not exceeding 4.5 pence of grant per kWh delivered over 15 years.
 - 3.3.4 Scale: Fundable schemes need to confirm deliverability to a minimum end customer demand of 2GWh/year.
 - 3.3.5 Develop the UK Low Carbon Heat Network Market: Procurement practices and best practice that will enable Heat network projects to be a considerable investment in communities and an opportunity to leverage greater social and economic market benefits. Additionally, upskilling local and UK employment market.

4.0 GHNF Grant Criteria

- 4.1 Funding is available to cover revenue costs that will be incurred in the implementation of a capital project after a firm commitment to delivering a low carbon scheme design. These costs are called 'commercialisation' costs and include external and internal support through the procurement, up to contractual close with a Design Build Operate

and Maintain contractor. A 100% grant is offered by GHNF for requests of commercialisation from projects that are successful securing the construction grant.

- 4.2 The heat network design brought to the market for delivery must meet the GHNF's carbon, value for money and affordable heat objectives.
- 4.3 Funding for construction will cover all aspects of building a heat network – from accessing sources of low-carbon heat, construction of energy centres and thermal stores, laying of pipes and installation of heat interface units, metering and controls in premises.
- 4.4 A maximum of 49% construction capital funding can be granted from GHNF, BEIS having preference for requests that amount to a smaller percentage of the total capital costs.

5.0 Brent's Application

- 5.1 The commercialisation and construction of the South Kilburn Estate Regeneration district heating network has been identified as eligible for GHNF capital support based on several factors, including:
 - over a 40 year period, the carbon intensity of this district heating network is 43g/CO₂e/kWh
 - alignment with the masterplan for the South Kilburn Estate Regeneration
- 5.2 The project intends to connect around 3,000 residential dwellings and a small number of public and commercial buildings to a centralised heating system based on Air Source Heat Pumps (ASHP).
- 5.3 The expected capital expenditure required by the project is £17.1m, including contingency to account for price uncertainty in the current market. An application to Round 3 of the Green Heat Network Fund (GHNF) would be for £5.7m which represents 31% of the initial capital cost and £0.41m of commercialisation costs. The balance is expected to be met through s106 receipts from new residential developments in the area and long term prudential borrowing by LBB.
- 5.4 If successful in receiving this grant funding, the project would be wholly owned and managed in house by the Council, rather than through a wholly owned but separate Special Purpose Vehicle (SPV) body. The Council would therefore procure and manage the Design Build Operate Maintain contractor.
- 5.5 As such there will be no Corporation Tax payable and application of the Subsidy Control Regime guidelines will apply to third party customer agreements rather than provision of funding to an external SPV.
- 5.6 The project shows a Real Pre-Grant Project IRR of 1.74% and a Real Post-Grant Project IRR of 11.98%. The project financial performance and viability has been assessed to remain cash positive after the initial investment period and for the lifetime of the project.
- 5.7 Equipment lifecycle replacement expenditure within the 40 year expected lifetime is covered by a sinking fund provision which is funded through the standing charge.

6.0 Financial Implications

- 6.1 The Green Heat Network Fund grant would provide a significant contribution towards the development costs of the proposed network.
- 6.2 The grant application is to fund 31% of the anticipated capital costs of development along with 100% of the expected commercialisation costs.
- 6.3 Any surplus derived from the operation of the network would be ringfenced and reinvested into the operation of the network, providing benefits to residents and businesses supplied within the operational area of the network.

7.0 Legal Implications

- 7.1 As set out in Recommendation 2.1, Officers wish to submit a bid for the Green Heat Network Fund. In accordance with paragraph 13 of Part 3 of the Constitution, submission of bids for additional resources from government and other bodies is a decision for individual Cabinet Members in relation to their portfolio area in consultation with the Leader. Subject to being awarded a grant, the Corporate or Operational Director has delegated authority pursuant to paragraph 9.5 and 9.7 of Part 3 of the Constitution and Financial Regulation 8.2.2 of Part 2 of the Constitution to enter into a grant funding arrangements. In doing so, the Corporate or Operational Director must ensure that the objectives of the grant agreement are consistent with the Council objectives and priorities in accordance with Financial Regulation 9.1.2 and must only exercise delegated powers to enter into grant funding arrangements where the Corporate Director, Finance and Resources approves entry into such arrangement.
- 7.2 The procurement would be subject to the Council's own Standing Orders and Financial Regulations in respect of High Value Contracts given the estimated value of the procurement. For High Value Contracts, the Cabinet approval will be sought to agree the pre-tender considerations and inviting of tenders.

8.0 Equality Implications

- 8.1 There are no equality implications at this stage of making the application for funding.

9.0 Any Other Implications (HR, Property, Environmental Sustainability - where necessary)

- 9.1 Funding from the GHNF would enable Brent to fully support the aspiration for growth and social economic benefits that the South Kilburn Estate Regeneration is set to deliver. The district heating network will supply affordable low carbon heat, upskill residents in some of the most deprived areas in the country and be operated and maintained with long term social gains in mind. The project is therefore directly aligned with our commitment to the Inclusive Growth Strategy and to the Climate and Ecological Emergency Strategy.
- 9.2 Developing the heat network sector is an integral part of the funding programme and every opportunity would be taken to use this project as a means of supporting market infrastructure, skills and innovation in Brent.

10.0 Proposed Consultation with Ward Members and Stakeholders

- 10.1 Engagement with the management of existing blocks and developers delivering blocks in the masterplan is ongoing.

- 10.2 Should the GHNF bid be successful we will refine our programme for ongoing stakeholder engagement accordingly.

Report sign off:

MINESH PATEL

Corporate Director Finance and Resources