	Cabinet 19 January 2026
	Report from the Corporate Director Neighbourhoods and Regeneration
	Lead Member – Cabinet Member for Climate Action and Community Power (Councillor Jake Rubin)

South Kilburn District Heat Network – Tender Outcome & Financial Model Report

Wards Affected:	Kilburn
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	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)"
List of Appendices:	Four Appendix 1: (Exempt) Name of Contractors Appendix 2: Tender evaluation grid Appendix 3: Equalities Impact Assessment Appendix 4: Glossary
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Neil Martin, Head of Capital Delivery 020 8937 4203 neil.martin@brent.gov.uk Oliver Myers, Head of Environment Strategy & Climate Action 020 8937 5323 oliver.myers@brent.gov.uk

1.0 Executive Summary

1.1 This report concerns the approval to enter preferred bidder stage for the design, build, operate and maintain (DBOM) contract for the South Kilburn District Heat Network ("the SKDHN") Main Contractor preferred bidder.

1.2 The South Kilburn district heating procurement strategy, as approved by Cabinet in May 2023, comprises a council-owned and operated district heat

network (DHN) powered by large scale Air Source Heat Pumps (ASHPs). This proven technology is the only viable, planning compliant heat strategy for the homes, school, and other buildings within the South Kilburn Regeneration area and will deliver reliable, resilient, low carbon and affordable heat to all heat customers across the Estate.

1.3 The SKDHN remains integral to the realisation of the full benefits of the South Kilburn Regeneration Masterplan. The estimated gross development value (GDV) of the sites to be offered under partnering agreement is estimated to be circa £1 billion. The council's £36 million investment in the SKDHN enables developers, including the new Single Delivery Partner, to focus on delivering non-monetary community benefits, including affordable housing, place shaping and other social value.

1.4 This report summarises the procurement process leading officers to recommend the SKDHN Main Contractor preferred bidder.

1.5 The report also sets out the financial modelling of the DBOM contract over its 15 years lifespan and its subsequent required funding. The project is not expected to have any impact on revenue budgets. All interest costs from borrowing will be financed by income generated by the scheme.

2.0 Recommendation(s)

That Cabinet:

2.1 Approves the selection of Vital Energi Utilities Limited as the SKDHN Main Contractor preferred bidder for the contract value of £37,768,947 following the completion of the DBOM contractor procurement process set out in this report.

2.2 Approves an increase in the total capital budget for the SKDHN of £36,000,000. The funding for this budget is set out in paragraph 5.3 and includes £12,000,000 of external borrowing.

2.3 Notes that there will be a preferred bidder stage as set out in paragraph 3.2.31 following satisfactory completion of the standstill period.

2.4 Delegates authority to the Corporate Director Neighbourhoods and Regeneration in consultation with the Lead Member for Climate Action and Community Power to finalise the contract and to award the contract to the SKDHN Main Contractor preferred bidder as required by Contract Standing Order 88 following satisfactory completion of the preferred bidder stage.

2.5 Delegates authority to the Corporate Director Neighbourhoods and Regeneration, in consultation with the Lead Member for Climate Action and Community Power, for approving agreements with off-takers for bulk (building-level) and retail (consumer-level) heat supplied by the SKDHN in perpetuity.

2.6 Delegates authority to the Corporate Director Neighbourhoods and Regeneration, in consultation with the Lead Member for Climate Action and Community Power, to change the allocation of Strategic Community Infrastructure Levy and Carbon Offset Fund according to available balances.

3.0 Detail

3.1 Cabinet Member Foreword

3.1.1 Brent's commitment to tackling the climate and ecological emergency continues to be a top priority for this administration, as reflected in the 'Cleaner, Greener Future' theme within the Borough Plan (2023-2027). This includes commitments to create 'a climate friendly and sustainable borough' and to ensure that 'sustainability is central to the growth of our borough and local economy'.

3.1.2 The proposed works and services to be delivered through the SKDHN Design Build Operate and Maintain (DBOM) Contract will enable the council to comply with London Plan requirements and deliver low carbon, affordable heat and hot water to circa 3,000 dwellings and several non-residential buildings.

3.2 Background

Heat networks policy and context

3.2.1 London Planning Authorities are required to include DHNs in masterplans for growth areas as detailed in the London Plan policies GG6, SI3, and S14.

3.2.2 DHNs supply heat and hot water generated from a central source via a network of underground pipes carrying hot water to multiple buildings, both residential and commercial. In densely populated areas, a DHN is the optimum low carbon way to provide heating and hot water at an affordable price.

3.2.3 DHNs offer the scale to install large heat pumps which are highly efficient at extracting the heat that would otherwise be wasted from various sources. DHNs differ from 'communal' heat networks (CHNs). CHNs describe an individual building which has its own energy centre serving only the dwellings within that building. CHNs are far less efficient, reliable and resilient than DHNs in terms of grid power infrastructure and capacity factors, heat generation and heat storage, and space requirements, and therefore involve higher capital costs and higher heat charges to end users.

3.2.4 In this context, Brent considered renewable heat options technically, economically and commercially viable to be used to supply the entire South Kilburn Estate Regeneration Masterplan, nearby schools and small businesses. Centralised air source heat pumps with gas boilers and thermal storages for peak demand were chosen because they are a proven and tested technology, the heat source is renewable and freely available, and their efficiency meets carbon reduction targets required by policy and funding streams. This technology was selected over a number of alternative heat source options

which did not meet policy, technical viability, and service reliability requirements: individual air source heat pumps at each building level, closed and open loop ground source heat pumps, heat pumps with heat recovered from the HS2 vent shaft, wastewater source heat pump, gas-fired Combined Heat and Power (CHP), electric boilers, gas boilers, biomass boiler, Hydrogen fuel cell CHP.

3.2.5 Under the Energy Act 2023, since April 2025 heat networks have been subject to regulations to ensure that heat customers enjoy the same consumer protections as those in gas and electricity markets. From January 2026, Ofgem will have the power to investigate and intervene where heat prices seem unfair. Furthermore, the Energy Ombudsman will have the same powers to handle complaints and make legally binding decisions as they do for gas and electricity consumers. The heat metering and billing arrangements for all dwellings served by the SKDHN are being designed to meet the 'fair and transparent' requirements of the regulations.

3.2.6 DHNs are set to increase in number in Brent. Under the Energy Act 2023, local authorities will soon have additional powers to designate a geographical zone where DHNs are expected to be the lowest cost solution for decarbonising heat. Brent will become a 'Heat Zoning Coordinator' and define the zone, liaise with stakeholders, develop a prospectus, let the concession and manage the ongoing development of the heat network, including all new buildings, existing communal heating schemes and non-domestic buildings over a certain size.

The South Kilburn Masterplan

3.2.7 The SKDHN forms part of the vital infrastructure in the delivery of the South Kilburn Regeneration Programme. Over the past two decades the programme has delivered nearly 2,000 new homes, with a further 1,600 planned across seven future development sites which will be delivered through a new long-term Partnering Agreement with a Single Delivery Partner (SDP).

3.2.8 The estimated gross development value (GDV) of the sites to be offered under this partnering agreement is estimated to be circa £1 billion. GDV represents the total projected sales revenue encompassing the value of all residential units and commercial space, once sold. It is a measure of the project's potential income that the developer will realise, from which it will then deduct all of the construction, financing and development costs.

3.2.9 The SKDHN is being delivered to serve the totality of the regeneration area, providing affordable low carbon heat and hot water to both new and existing homes and non-residential uses. The works will entail initial energy centre and primary pipework installed to coincide with the start of development on Hereford & Exeter, the first site to be brought forward by the SDP. This sequencing will enable new homes to connect immediately to the network and that subsequent phases can be supplied in line with the phasing.

3.2.10 In addition to the residential sites, the SKDHN will connect and be integrated with other council-led and community assets within South Kilburn, supporting

delivery of the new South Kilburn School, the Carlton Vale Boulevard public realm, Queens Park Gyratory improvements and new open spaces. Together these schemes form a single, integrated programme of investment in homes, infrastructure and climate action – transforming South Kilburn into a trailblazing greener, healthier and more connected neighbourhood. The SKDHN will provide an affordable and sustainable energy supply for residents.

Procurement Strategy

3.2.11 In May 2023, Cabinet approved the business case for the SKDHN to be fully council-owned and agreed the pre-tender considerations for the procurement of a DBOM contractor. The Council owning the network, and requiring the contractor to design, build, operate and maintain the network, significantly derisked the project compared to alternative options, such as setting up a private company to own the network, or splitting the design and build from the operation and maintenance. Specialist technical, commercial and legal heat network advisers informed our approach during the feasibility and procurement process.

3.2.12 The Critical Success Factors for the SKDHN procurement strategy/project are set out below, together with a summary of how they are being met following the successful procurement process:

a. **Ensures affordable low carbon heat to all residents in South Kilburn buildings which are connected to the network:**

- The SKDHN is based on tried and tested technology and is designed to be reliable and resilient to guarantee continuity of supply, with incentives and penalties in the DBOM contract to mitigate any noticeable outages to heat users.
- Across all connected properties, the DHN is forecast to deliver an overall reduction in resident energy costs of approximately 69% relative to existing heating systems. The impacts do vary however by property type and existing system, but where a direct comparison with existing systems is possible, an estimated 99% of those homes are expected to see the same or lower annual energy bills following connection.
- For the remaining 1% of homes included in this analysis, short-term cost increases are forecast, affecting only 4-bed homes with individual gas boilers. However, this outcome reflects a comparison based on current energy prices, at a point when gas remains relatively inexpensive compared with electricity. As gas prices are expected to increase relative to electricity over time, the efficiency advantage of heat pumps versus gas boilers is expected to translate into increasingly lower costs for the DHN customers versus existing systems across all properties.
- Residents will be given a choice between credit and prepayment (pay-as-you-go) billing, with credit billing being the default method. This choice will not impact what residents are charged – they will pay the same heat tariffs regardless. This approach protects both vulnerable

residents who might struggle with prepayment and residents who prefer budgeting control via prepayment.

- Regardless of which billing system is chosen, we will be providing support to residents to help minimise their risk of either going into arrears on their heating and hot water bills or going without heat (self-disconnection). Remote monitoring of heat meters will allow us to monitor resident's bills and accounts on an ongoing basis to identify whether there may be users who are either under, or overusing heat compared to anticipated usage. In such cases, we will be offering free advice and support via the Brent Well and Warm scheme, as well as appropriate payment support and plan options.

b. **Provides low carbon heat to developments in South Kilburn in order to help enable them to comply with the energy requirements of the London Plan**:

- The SKDHN is the only viable, planning compliant technological solution for the South Kilburn Estate Regeneration Masterplan.

c. **Provides a service which residents believe is satisfactory and value for money**:

- The council will have control over heat tariffs which will be fair and transparent, aligned to the provisions of the Energy Act 2023, and residents will have recourse to the Energy Ombudsman for any disputes.
- There are KPIs within the DBOM contract linked to response to issues and accurate billing which will contribute towards providing a good quality, value for money service.

d. **Provides carbon emission savings contributing to the Council's aspiration to be carbon neutral by 2030**

- The estimated average annual carbon savings from this project are 980 tCO2e per annum, with cumulative savings of 39,200 tCO2e over the project lifetime (assuming 40 years).

e. **Delivers an employment and training programme to enable local residents to work on the installation and management of the project:**

- The DBOM contractor will deliver employment and training opportunities to local residents as part of its social value commitments. This will be set out in their social value action plan and monitored throughout the lifetime of the contract.

3.2.13 This report sets out the tender process followed, the outcome of the tender process as well as the proposed funding of the DBOM contract. The SKDHN Main Contractor will design, build and then operate and maintain (DBOM) a low carbon 2,400 kW centralised generating system and a network of 2.7km buried pipes distributing heat and hot water to 32 points of connection into the building-level heating systems in South Kilburn.

The Tender Process

3.2.14 The SKDHN was tendered using the Competitive Dialogue Procedure. This procurement has been conducted in accordance with The Public Contracts Regulations 2015 (the Regulations).

3.2.15 The Project Team was made up of a panel of Council staff across the lead service, legal, finance and procurement departments and external advisors appointed to support the Council in the delivery of this Project.

3.2.16 Interested parties were invited to submit a Selection Questionnaire (SQ), followed by receiving an Invitation to Participate in Dialogue (ITPD), and finally, an Invitation to Submit Final Tender (ISFT).

Stage 1 – Selection Questionnaire (SQ)

3.2.17 Invitations to Tender were advertised on the London Tenders Portal on 28 March 2024 to seek initial expressions of interest. A Contract Notice was placed on the Find a Tender Service, Contracts Finder service and the London Tenders Portal also on 28 March 2024. Bidders were provided with details of the tender approach and invited to complete the published Selection Questionnaire (SQ) using the Council's Electronic Tendering Facility. Bidders were also provided a selection of draft tender documents relevant to the ITPD stage such as the specification, quality/method statements, payment mechanism, a social value action plan and contract terms. Three valid SQs were received.

3.2.18 Shortlisting was carried out on 24 May 2024 on the basis of the contractors' financial viability, technical ability, and a selection of Project Specific Questions focusing on:

- Experience of design and construction of heat network projects
- Experience of retrofit installation of thermal substations into existing building to facilitate network connection
- Experience of working with developers to install thermal substations in new developments to facilitate network connection
- Experience of operation and maintenance of heat networks,
- Experience of heat network metering and reporting services,
- Experience of designing, installing, operating and maintaining heat pump
- technology for heat supply, and
- Cost and Client Value.

3.2.19 Following the evaluation of the Selection Questionnaire, the ITPD advised that the Council would invite up to 3 Bidders to progress through to the Dialogue Process, based on the highest-ranking compliant response. Two contractors were invited to the Invitation to Participate in Dialogue (ITPD) stage.

Stage 2 - Invitation to Participate in Dialogue (ITPD)

3.2.20 The Council's intention was to hold a minimum of three rounds of meetings with shortlisted Tenderers. The Council reserved the right to add additional rounds of meetings where it considered it necessary to do so. This stage was not evaluated. These dialogue rounds were held from June 2024 through to March 2025.

3.2.21 The tendering instructions stated that the contract would be awarded on the basis of the most economically advantageous offer to the Council and that in evaluating tenders, the Council would have regard to the following criteria:

Criteria	Level 1 Weighting	Level 2 weighting
Quality - made up of:	50%	
Technical 1: Energy Centre Plant and Equipment		14%
Technical 2: Heat Network		14%
Technical 3: Building Connections		7%
Technical 4: Retrofit of Plant into Existing Energy Centre Building		12%
Technical 5: Buried Heat Network Installation		12%
Technical 6: Building Connections Installation		7%
Technical 7: Project Management		7%
Technical 8: Heat Network Cleaning, Testing and Commissioning		7%
Technical 9: Operation and Maintenance		12%
Technical 10: Metering Data Collection		3%
Circular Economy Q1		1%
Circular Economy Q2		1%
Sustainability		3%
Commercial/Risk	5%	100%
Social Value	10%	
Best Start in Life		20%
Thriving Communities		30%
Prosperity and Stability		50%
Price	35%	100%

3.2.22 Invitation to Submit Final Tender was published on 17 April 2025. The contract will be let using contract terms issued with the ISFT. ISFT tender responses had to be submitted electronically no later than 2 June 2025, 1pm. Two valid tenders were received.

3.2.23 The tender evaluation for this stage was carried out by a panel of officers from Neighbourhoods and Regeneration supported by the Council's Technical and Legal advisors. The panel met between 25 June – 04 July 2025 for moderation and the submission was marked by the whole panel against the award criteria to reach a final consensus score. The Council's external advisors attended the moderation session, enabling the evaluation panel to draw on their expertise as part of the moderation process, as required.

3.2.24 The names of the tenderers are contained in Appendix 1. The scores received by the tenderers are included in Appendix 2. Officers recommend the award of the preferred bidder to Vital Energi Utilities Limited. Vital Energy Utilities Limited's final tender pricing is £37,768,947, including £30,104,997 capital for

the eight years of construction works and £7,663,950 revenue costs for the fifteen years of operation and maintenance services to 2041-42.

3.2.25 This cost of the contract is greater than the expected value proposed when the pre-tender considerations were approved by Cabinet in May 2023. Since then, there have been external factors affecting the works cost such as the Ukrainian conflict, continued high construction inflation and changes in trade agreements due to Brexit that led to higher-than-expected import costs for specialist steel pipework.

3.2.26 Additionally, an element of the higher costs can be explained by too few experienced suppliers active in the UK Heat Network market further accentuated by the Department of Energy Security and Net Zero (DESNZ)'s introduction of the "Golden Share Delivery Model" where by contractors are asked to do detailed feasibility work for the client meaning that these are more attractive to the contractor market. Furthermore, some costs were higher than anticipated as identified during dialogue.

3.2.27 There is still uncertainty around when all the buildings will connect as it will depend on the timescale for the buildings being developed as part of the South Kilburn Single Delivery Partner (SDP) approach. This means that there will likely be multiple phases or sections of work required as and when the buildings are completed. This will require deployment of work teams to complete civil works via multiple separate mobilisation/demobilisation exercises rather than one continuous work stream from start to finish which would be more cost effective as would require only one site set up, mobilisation and demobilisation. Further, it was advised that a greater trench depth and more specialist welding would be needed to install steel pipe bends within some congested areas of the South Kilburn Estate.

3.2.28 Despite the cost being more than the pre-tender estimate based on the reasons above, officers and the appointed external advisors have reviewed alternative delivery methods but it was determined that the approach set out in the tender process is the most appropriate. Further, during the tender process and competitive dialogue sessions, the team has challenged the bidders and evaluated the pricing submissions and believe that they reflect current market cost for this type of project. Therefore, it is recommended that Vital Energi is confirmed as the preferred bidder.

3.2.29 Subject to Cabinet approval, the Council will issue tender evaluation outcome letters to both bidders. After successfully completing the ten-day standstill period, an anticipated six-week preferred bidder stage will follow.

Preferred Bidder Stage

3.2.30 The preferred bidder process includes three weeks of preferred bidder negotiations and three weeks of contract completion. During dialogue stage, Brent agreed with bidders under competitive tension which issues will be negotiated during preferred bidder stage. This process is expected to take three weeks based on other DBOM contracts of similar nature, complexity and size.

The preferred bidder stage will be done in accordance with procurement regulations, namely that negotiations will be “light touch” and will not materially modify essential aspects of the tender or the procurement.

3.2.31 Once the contract negotiations are successfully completed, there is a three-week allowance to complete and execute the contract. Officers recommend that Cabinet delegates authority to the Corporate Director Neighbourhoods and Regeneration in consultation with the Lead Member for Climate Action and Community Power to finalise the contract and to award the contract to the SKDHN Main Contractor preferred bidder subject to the successful outcome of this preferred bidder stage.

Alternative Heat Delivery Options

3.2.32 There is no alternative, planning compliant option to deliver heat to South Kilburn buildings. Natural gas boilers are no longer permitted for Major developments in London. The only other technically viable option, providing communal ASHP heat networks (CHN) for each building on the site has been discounted as it does not align with GLA and Brent planning policies (London Plan policies GG6, SI3, and S14). Further, CHNs are far less efficient than DHNs in terms of grid power infrastructure and capacity factors, heat generation and heat storage, and space requirements, and therefore involve higher capital costs and higher heat charges to end users.

3.2.33 The decision not to proceed with establishing an Energy Services Company (ESCO) to deliver the SKDHN were set out in the May 2023 Cabinet report. The current approach of a council owned and operated network delivers advantages over an ESCO including local authority exemptions in regard to business rates, corporation tax and payroll taxes as well as greater control over heat tariffs charges to residents.

SKDHN Off takers

3.2.34 In parallel to the competitive dialogue procurement process, the Council has been progressing agreements with off-takers for bulk (building-level) and retail (consumer-level) heat supplied by the SKDHN in perpetuity. Officers are currently in discussions with 12 properties to agree the Heat Supply Agreements with these property owners / building operators. Off takers include the London Diocese, Countryside Vistry, Warwick Estates, Home Group, the Tabot Centre, and Brent Housing.

3.2.35 Officers recommend that Cabinet delegates the authority of approving these agreements to the Corporate Director Neighbourhoods and Regeneration in consultation with the Lead Member for Climate Action and Community Power.

SKDHN Strategic Community Infrastructure Levy (SCIL) Funding

3.2.36 The May 2023 Cabinet report set out the proposed funding strategy for the DBOM based on the estimated costs of the contract at the time. Following on

from the outcome of the tender process described above, that funding strategy is no longer able to meet the costs of the contract.

3.2.37 Part of this revised funding mechanism is the request to use Strategic Community Infrastructure Levy (SCIL) funding. The SKDHN meets the prioritisation criteria set out for SCIL investment.

3.2.38 **Strategic Alignment:** There are a number of strategies and policies that the SKDHN meets which supports the use of SCIL for this project. These include:

- Brent Borough Plan 2023 – 2027: Strategic Priority 2 – A Cleaner, Greener Future: The SKDHN will provide low carbon heat to thousands of homes and properties, reducing the Council's carbon footprint.
- Brent Climate & Ecological Emergency Strategy 2021-2030: Reduces carbon emissions through low carbon heat technology.
- South Kilburn Estate Regeneration Masterplan & SDP.
- Brent Local Plan 2019 – 2041: POLICY BSEGA1 South Kilburn Growth Area: These policies aim to increase residential density while improving and expanding physical and social infrastructure to support this growth.
- Brent Council's Local Housing Strategy's vision to create a borough where housing, environmental sustainability, and resident engagement intersect seamlessly, ensuring that all residents have access to safe, affordable, and energy-efficient homes while contributing to Brent's ambitious goal of carbon neutrality by 2030.

3.2.39 The SKDHN contributes towards the Council's strategic objectives to reduce carbon emissions and promote green technologies. It is set out in the South Kilburn Estate Regeneration Masterplan and forms part of the South Kilburn Growth Area as set out in the Local Plan. South Kilburn is also one of two development-led Green Neighbourhoods in the borough, which this project supports through the provision of low carbon heat infrastructure.

3.2.40 The estimated average annual carbon savings from this project are 980 tCO2e per annum, with cumulative savings of 39,200 tCO2e avoided over project lifetime (assuming 40 years).

3.2.41 **Statutory Obligations:** The proposal to utilise SCIL for the SKDHN meets the requirement for the SCIL to be spent on infrastructure to support development. The project will deliver a DHN that will allow existing buildings and developments to connect as well as future schemes as proposed in the South Kilburn Single Delivery Partner (SDP) agreement that is currently being procured. The DHN is part of the South Kilburn Estate Regeneration Masterplan and meets heat network requirements as set out in the London Plan.

3.2.42 **Demand and Demographic Changes:** This project addresses the demands that development places on the Kilburn area and reflects the priorities of the Council for growth and its aim to do all reasonable in its gift to aim for carbon neutrality by 2030. As the South Kilburn area is a growth area as set out in the Council's Local Plan, the DHN allows for connection of not just the existing buildings and developments but future developments which will be part of the

SDP. This allows for future growth of the area to be provided heat via the network for the next 40 years.

3.2.43 In summary, the SKDHN meets CIL regulations (2010); its critical success factors were developed based on evidence of community backing. This project addresses the demands that development places on the Kilburn area and reflects the priorities of the Council for growth and achieving carbon neutrality by 2030. Further, this scheme is a one-off project that meets additional revenue funding needs through income generated from operation. In addition, this infrastructure benefits diverse Brent communities and offers value for money compared to each site providing its own communal network or heat system(s). Therefore, Cabinet is requested to approve the use of up to £10m of SCIL in the proposed funding mechanism for the SKDHN.

3.2.44 Officers are working with external partners and funding organisations to seek additional funding routes and provision and therefore, it is recommended that Cabinet delegates authority to the Corporate Director, Finance and Resources and Lead Member for Climate Action and Community Power to finalise the funding model for the DBOM contract. This includes Brent's request for £2.5m additional grant funding.

4.0 Stakeholder and ward member consultation and engagement

4.1 Officers continue to engage with the building operators and management organisations of the existing blocks and developers currently constructing blocks in South Kilburn.

4.2 Officers continue to engage with Ward Councillors, South Kilburn Tenant Steering Group and residents to keep them updated on progress on the SKDHN project delivery progress. The engagement to date has included biannual updates and Q&A sessions with residents at the in person South Kilburn Tenant Steering Group, updates within the South Kilburn Newsletter as well as updates on the Brent website.

4.3 This will continue during the design and build phases of the DBOM contract, with details on planning applications, works commencement and logistics as the contractor delivers the scheme. There will also be engagement with the local community as part of the contractor's delivery of their social value commitments.

5.0 Financial Considerations

5.1 The capital budget for the scheme is £36.0m. This is comprised of the following expenditure items:

Element	Cost (£m)
Spend to 24/25	1.7
Design and Build elements of the DBOM contract	30.1
Professional Fees	1.0
Staff Capitalisation	0.4
Contingency	2.8
Total	**36.0**

5.2 The construction costs have increased significantly since the initial Cabinet approval. More details of the reasons are set out in 3.2.25-3.2.28.

Capital Financing

5.3 The capital budget will be financed by:

Funding Stream	£m
Section 106 contributions	7.50
Green Heat Network Fund (GHNF) Grant	8.30
Revenue Contribution from operating income less costs generated by SKDHN in first six years	1.50
Strategic CIL	5.55
Carbon Offset Fund	1.15
Borrowing	12.00
Total	**36.00**

5.4 Brent has commissioned external specialist heat network commercial advisors to produce a financial model for the energy network. This currently shows that up to £12.0m of prudential borrowing and a £1.5m contribution from the heat network revenue reserves would enable the network to have a positive net present value (NPV) at year 40. The NPV is the total estimated value of the project in today's money. It is calculated by adding all the cash outflows (upfront capital funded by borrowing and ongoing maintenance and administration) from the project and subtracting them from the future cash inflows (in this case energy tariff income) from the project. The future costs and cash inflows are reduced by a set % called the discount rate to reflect the impact of borrowing costs and the principle that £1 today is worth more than £1 tomorrow. A positive NPV implies that Brent will recover the costs of its investment funded by borrowing over 40 years and there will be no net adverse impacts on revenue budgets. Officers have reviewed the assumptions in the model including bad debt assumptions and tariffs charged to residents and consider them to be reasonable.

5.5 Officers have applied for a non-binding finance facility from the GLA's Green Finance Fund (GFF) which offers a significant discount compared to PWLB interest rates of 20 basis points (0.2%) plus any discounts at the discretion and approval of the GFF credit committee. Depending on the amount borrowed, officers anticipate this resulting in a revenue saving of in the region of £20k - £40k a year compared to Brent's normal borrowing rates for capital projects.

5.6 The Council has secured £8.3m in Green Heat Network Fund grant from central government. The terms of the grant require it to be used by the end of 2026/27. Officers have reviewed the schedule of payments with the external consultants and consider this achievable. The grant includes a £2.5m top up on the original award to help mitigate the cost increases following the procurement process, and £1.0m to cover professional fees.

5.7 Brent has collected £3.6m of Section 106 payments from the South Kilburn development so far allocated to this project. The remaining £3.9m Section 106 is dependent on the Single Delivery Partner progressing as planned and the partner agreeing to the payment schedule factored into the planning.

5.8 The remaining financing of £6.74m will be made up of £5.55m Strategic Community Infrastructure Levy (SCIL) and £1.15m Carbon Offset Fund. As at the end of October 2025, Brent has uncommitted SCIL balances of £54.7m and Carbon Offset Fund balances of £1.15m meaning these funding sources are available.

5.9 Should the Council generate additional Carbon Offset Fund in the future, officers may, in consultation with the Lead Member for Climate Action and Community Power, use this for the SKDHN and reduce the SCIL funding accordingly. SCIL can be used for a wider range of projects including those not linked to energy efficiency.

Revenue impact

5.10 The project is not expected to have any overall impact on revenue budgets. All interest costs from borrowing will be financed by income generated by the scheme.

5.11 For all properties, Brent will sell the bulk heat to the building operator. For the buildings that Brent owns and is leasing long term, the Head Lease will include acceptable heat supply services with key performance indicators about maintenance, reliability and transparency as well as a cap on any uplift applied (over and above the Heat Supply Charges to the Tenant by the operator of the SKDHN, in a scenario where the Tenant is responsible within the Lease for heat metering and billing services). The costs of supplying bulk heat and finalising contracts with off takers have been factored into the financial model. An apportionment of the costs of the team that manages regulatory requirements of all Brent's district and communal heat networks have also been built into the model.

5.12 Income generated from properties that Brent owns needs to be recognised in the HRA, whilst those owned by registered providers will need to be recognised in the General Fund. Brent will hold the asset within the General Fund and recharge the HRA for its contribution to interest rates and maintenance costs based on the number of Brent owned properties included in the scheme, to avoid any cross-subsidisation.

5.13 The external consultants have advised on suitable tariff levels. Heat bills affordability is a key objective of the project and a condition of the grant is that residents in a new development on a DHN are not paying more than they would with another source of low carbon heating. Paragraph 3.2.12a demonstrates that this will not be the case.

5.14 Net returns generated from the project will be held in an earmarked revenue reserve to fund repair and maintenance costs. These costs have been factored into the model.

6.0 Legal Considerations

6.1 The Climate Change Act 2008 (2050 Target Amendment) Order 2019 came into force on 27th June 2019 and increased the UK's 2050 net greenhouse gas emissions reduction target under The Climate Change Act 2008 from 80% to 100%.

6.2 In establishing a district heat network, the Council can rely on powers under section 111 (1) of the Local Government Act 1972 given that the supply of energy to Council tenants, RTB leaseholders, schools and the commercial tenants are reasonably incidental to the Council's housing function and duties, its LEA duties and its public health and shared social and health care duties.

6.3 Where the Council is relying on its subsidiary powers under section 111 (1) of the Local Government Act 1972 to authorise the provision of a service to facilitate the discharge of a specific function, the Council is permitted to charge for services and supplies provided by the district heat network under section 93(1) of the Local Government Act 2003 ("2003 Act") for that function related service by virtue of section 93(7)(a) of the 2003 Act. Section 93 of the 2003 Act only permits a local authority to recover the cost of supply but does not permit the generation of additional income. The local authority does however have some discretion in assessing what is covered by cost recovery and this may include the costs for provision of replacement equipment.

6.4 The value of the DBOM contract individually over its lifetime is in excess of the threshold for Works and Services under the Public Contracts Regulations 2015 (PCR 2015) and the procurement and award of the contracts is therefore governed by the PCR 2015, which was the governing regulations at the time of the procurement. The use of a Competitive Dialogue is permitted in accordance with Regulation 26 (4)(a)(iii) of the PCR 2015 on the basis that "the contract cannot be awarded without prior negotiation because of specific circumstances related to the nature, the complexity or the legal and financial make-up or because of risks attaching to them". The services in scope of the contract are sufficiently technically, commercially (in terms of cost and risk allocation) and legally complex to justify its use. As detailed in this report, the procurement process is in compliance with the PCR 2015.

6.5 The award of the DBOM contract is subject to the Council's own Standing Orders and Financial Regulations in respect of High Value Contracts given the contract is valued at more than £5 million. Part 3 of the Council's Constitution

state that contracts for works exceeding £10 million shall be referred to the Cabinet for approval of the award of the contract.

6.6 The Council must comply with the PCR 2015 relating to the observation of a mandatory minimum 10 calendar day standstill period before the contract can move to preferred bidder stage. Therefore, once the Cabinet has determined which tenderer should be awarded the contract, all tenderers will be issued with written notification of the contract award decision. A minimum 10 calendar day standstill period will then be observed before the contract is concluded – this period will begin the day after all Tenderers are sent notification of the award decision – and additional debrief information will be provided to unsuccessful tenderers in accordance with the PCR 2015. After the standstill period ends, the successful tenderer will enter into preferred bidder stage discussions and completion of the DBOM contract.

6.7 As set out in recommendation 2.5 and information contained in paragraphs 3.2.34 and 3.2.35, the Council would conclude connection agreements and heat supply agreements with the relevant organisations. Connection agreements have reasonably standard terms within the market and officers will negotiate, with guidance from the Council's advisors, acceptable terms which allocate risks appropriately between the supplier and the Council, within the parameters permitted by procurement law. Heat supply agreements would be entered into to regulate the obligations to provide the heat and how much the Council will be charged for it. These are long term agreements that include certain protections if the supplier fails to meet its obligations. These protections include being able to withhold some of the charges (called "service credits"). In addition, the heat supply arrangements will contain protections under the Energy Act 2023, which prevents disproportionate pricing, poor customer service and poor reliability.

6.8 As mentioned in the previous Cabinet report, the Council was awarded funding from the Green Heat Network Fund. Officers have subsequently applied for further funding from the Green Heat Network Fund. The Corporate Director, Finance and Resources has delegated authority pursuant to paragraph 9.5 of Part 3 of the Constitution and Financial Regulation 8.2.2 of Part 2 of the Constitution to enter into such grant funding arrangements. If the Council is successful in the application and enters into further grant agreements, it must act in accordance with its grant conditions.

7.0 Equity, Diversity & Inclusion (EDI) Considerations

7.1 Pursuant to s149 Equality Act 2010 (the "Public Sector Equality Duty"), the Council must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act
(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it,

7.2 The Public Sector Equality Duty covers the following nine protected characteristics: age, disability, marriage and civil partnership, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

7.3 Having due regard involves the need to enquire into whether and how a proposed decision disproportionately affects people with a protected characteristic and the need to consider taking steps to meet the needs of persons who share a protected characteristic that are different from the needs of persons who do not share it. This includes removing or minimising disadvantages suffered by persons who share a protected characteristic that are connected to that characteristic.

7.4 There is no prescribed manner in which the council must exercise its public sector equality duty but having an adequate evidence base for its decision is necessary.

7.5 The procurement of the SKDHN itself has a neutral position / no impacts on protected characteristics groups (see Appendix 3 Equalities Impact Assessment). The initiative is expected to maintain overall annual energy costs at current levels at the very least for 99% of properties. However, some groups (e.g. older people, people with disabilities, pregnant people) may have higher heating needs. While this does not constitute a direct negative impact, it represents a potential affordability risk for high-consumption households. To mitigate this, residents will have the ability to monitor and control their own usage, and targeted support will be available where excess usage leads to affordability issues.

8.0 Climate Change and Environmental Considerations

8.1 This project supports the Council's Climate & Ecological Emergency Strategy (2021-2030) in reducing carbon emissions for a large number of dwellings in South Kilburn. As stated in the report, the estimated average annual carbon savings from this project are 980 tCO2e per annum, with cumulative savings of 39,200 tCO2e over the project lifetime (assuming 40 years). The SKDHN remains integral to South Kilburn's selection as one of Brent's Green Neighbourhood pilot areas.

8.2 The project requirements and procurement took into account specific objectives in-line with the Council's Sustainable Procurement policies reducing carbon both in operation and in construction and minimising the generation of other harmful gases and impacts.

9.0 Human Resources/Property Considerations (if appropriate)

9.1 There are no Human Resources implications as the contract will be delivered by an external organisation.

9.2 Officers are having discussions with the identified off takers (both Council owned and otherwise) with the intention to connect to the DHN upon

completion. This will involve wayleaves to provide access for installation works as well as heat supply agreements.

10.0 Communication Considerations

10.1 Local residents will be kept up to date with progress and this will be included in any estate wide publications and contractor newsletters as they progress the contract delivery.

10.2 Brent is committed to DESNEZ's Green Heat Network Fund Market Transformation Commitments including uploading updates onto the heat network exchange noticeboard.
https://www.heatnetworkexchange.co.uk/opportunities/

Report sign off:

Jehan Weerasinghe
Corporate Director of Neighbourhoods and Regeneration