

EXECUTIVE BOARD – 17 March 2015

Subject:	District Heating Network Replacement Programme		
Corporate Director(s)/ Director(s):	John Kelly, Corporate Director Communities Andy Vaughan, Strategic Director of Neighbourhood Services		
Portfolio Holder(s):	Councillor Alan Clark, Portfolio Holder for Energy and Sustainability		
Report author and contact details:	Chris Keane, Head of Highway & Energy Infrastructure 0115 8761363		
Key Decision	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Subject to call-in	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Reasons: <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision			<input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital
Significant impact on communities living or working in two or more wards in the City			<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Total value of the decision: £6.293m			
Wards affected: Citywide	Date of consultation with Portfolio Holder(s): 27 February 2015		
Relevant Council Plan Strategic Priority:			
Cutting unemployment by a quarter			<input type="checkbox"/>
Cut crime and anti-social behaviour			<input type="checkbox"/>
Ensure more school leavers get a job, training or further education than any other City			<input checked="" type="checkbox"/>
Your neighbourhood as clean as the City Centre			<input type="checkbox"/>
Help keep your energy bills down			<input checked="" type="checkbox"/>
Good access to public transport			<input type="checkbox"/>
Nottingham has a good mix of housing			<input type="checkbox"/>
Nottingham is a good place to do business, invest and create jobs			<input checked="" type="checkbox"/>
Nottingham offers a wide range of leisure activities, parks and sporting events			<input type="checkbox"/>
Support early intervention activities			<input type="checkbox"/>
Deliver effective, value for money services to our citizens			<input checked="" type="checkbox"/>
Summary of issues (including benefits to citizens/service users):			
<p>This report outlines the requirements for the City Council to replace its district heating network; the Council is in a privileged position to own its own district heating network, providing a green heating solution to a significant number of households and businesses.</p> <p>The district heating scheme is at the heart of public service provision, supporting our role as a leading Energy City, meeting the needs of citizens and commercial customers who rely on district heating for the provision of heat and hot water provision.</p> <p>Enviroenergy has been through a radical transformation over the last 2 years from previously operating at a loss to providing the City with significant income following a successful insourcing programme and management leadership under Commercial & Neighbourhood Services. This not only contributes to the Medium Term Financial Plan (MTFP) but provides opportunity to invest in this essential asset.</p> <p>The City has a contractual obligation to maintain its assets to a satisfactory standard and in order to do so an effective asset management strategy has been developed with the introduction of quality survey data combined with operational expertise and local knowledge. The end result is targeted maintenance in order that spend is best placed in order to minimise service failure and disruption to our domestic and commercial customers.</p>			

The report proposes that the Council invests £6.293m over the next five years to undertake the necessary mains renewal programme, with the Council being reimburse for the costs of these works by Enviroenergy through an agreed repayment plan. The report identifies works and seeks approval to agree a 5 year programme (2014/15- 2018/19) in the sum of £6.293m.

An assessment of the network identifies immediate essential works required to be completed in-year with significant risk of potential service failure over the 2015-16 winter period should these works not take place. This would have an adverse impact on citizens and businesses. In addition an indicative forward programme of investment is identified based on asset condition surveys and further investigatory inspections.

Delivery of the programme will be managed by Highway & Energy Infrastructure Team, core to this service is great service delivery and in-house delivery supporting the creation of local jobs, training opportunities, further stimulates the local economy through these activities. This will be demonstrated through skilling up in-house delivery teams and supporting the 2015 apprenticeship scheme.

Exempt information: None

Recommendation(s):

- 1** To approve a 5 year forward capital works programme provision of £6.293m as described in the report, and to delegate authority to the Portfolio Holder for Energy and Sustainability to commit expenditure over the five years.
- 2** To approve the management and delivery of all construction works through the Highway & Energy Infrastructure in-house delivery teams supported by specialist sub-contractors (under approved framework) as required.
- 3** To delegate authority to the Strategic Director of Commercial & Neighbourhood Services to award contracts for specialist work activities under the established OJEU (Official Journal of the European Union) compliant Highway Procurement Framework supporting the delivery of this programme.

1 REASONS FOR RECOMMENDATIONS

- 1.1 A continual investment programme in district heating will improve the overall condition and life expectancy of the Council owned asset. A comprehensive maintenance programme will reduce risk of service failure and the dependency on reactive maintenance resources to respond to network failures.
- 1.2 The recommendations support the Council's strategic Energy Strategy objective to provide affordable heating, the Carbon Management Plan's commitments to reduce Council CO₂ emissions by 31% by 2020, and the Council's priority of job creation

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 Nottingham's district heating scheme services approximately 4,500 homes in St Ann's plus approximately 100 key commercial premises within the City Centre. The original pipe network was installed some 40 years ago in the early 1970s and in places is reaching the end of its useful life. A 5 year forward programme of replacement is essential to ensure continuity of service provision of essential heating and hot water to a substantial citizen and commercial customer base.

- 2.2 To date there has been much success in the improved position of Enviroenergy and the management of its essential assets needs to be prioritised. Through 2015/16 Business Planning process this will be built upon through asset management strategy, operational improvements, financial transparency and effective communications.
- 2.3 A forward maintenance programme has been established by Highway & Energy Infrastructure and approved in principle by the Company Board of Directors as part of an overall investment strategy in district heating. Annual programmes and specific schemes delivered per annum will be by agreement with the Board.
- 2.4 This report seeks to approve funding through the Council's Capital Programme between 2014/15 to 2018/19.
- 2.5 This investment will be funded through prudential borrowing. The City Council will implement a separate legal agreement to recognise the use of the asset by Enviroenergy. A commercial charge will be levied that reflects the commercial benefit of the use of the asset by Enviroenergy.
- 2.6 The investment will be funded through prudential borrowing.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

- 3.1 Do not have a planned forward maintenance programme. This option was rejected, as it is essential some works be completed in-
- 3.2 Do not progress with planned works. This option was rejected, as it would increase the risk of more costly emergency works, cause increased disruption to road users, and risk service failure, particularly over winter periods.
- 3.3 Do nothing. This option was rejected, as it would offer no contribution to the policy commitments or energy strategy.

4 FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)

- 4.1 Capital Expenditure – The Capital Programme will be updated to include £6.293m for the 5 year programme. The forecast expenditure profile is as included in the table below:

Prioritised Schemes	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Abbotsford Drive	0.355	0.000	0.000	0.000	0.000	0.355
Huntingdon St	0.000	0.080	0.000	0.000	0.000	0.080
Glasshouse St	0.339	0.000	0.000	0.000	0.000	0.339
Canal St	0.000	0.150	0.000	0.000	0.000	0.150
Hungerhill Rd	0.633	0.000	0.000	0.000	0.000	0.633
London Rd Railway Bridge	0.499	0.350	0.000	0.000	0.000	0.650

Substation Replacement*	0.000	0.400	0.400	0.400	0.400	1.500
Secondary Mains Replacement*	0.000	0.500	0.500	0.500	0.400	1.900
Tertiary Mains Replacement*	0.043	0.086	0.086	0.086	0.086	0.347
District Heating Capital Programme	1.869	1.566	0.986	0.986	0.886	6.293

* Schemes to be identified based on asset condition survey

- 4.2 Capital Finance - The programme will be financed from prudential borrowing (assumed 10 years based on asset life).
- 4.3 MTFP Implications - The average annual repayment on borrowing £6.23m (based on a PWLB rate of 2.46%) is £0.717k, of which £88k is interest. The cost of this is to be included within the charge for the use of the assets levied on Enviroenergy. The charge will be at a commercial rate and will be made in accordance with transfer pricing legislation to ensure tax compliance.
- 4.4 Financial Risks - There is a potential risk that the charge levied on Enviroenergy may not cover the costs of any substantial future works that may be required on the district heating network. Ensuring that the agreement is set up to allow regular reviews should help to mitigate this risk. Enviroenergy is a wholly owned company of Nottingham City Council, therefore, any risks associated with Enviroenergy not meeting its contractual obligations in relation to the agreement are deemed to be minimal.

5 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS AND CRIME AND DISORDER ACT IMPLICATIONS)

- 5.1 The Highway & Energy Infrastructure team within Commercial and Neighbourhood Services is responsible for identifying, managing and mitigating the programme and associated risks. These are managed in line with the corporate risk management framework and mitigated through effective programme management and partnership working.
- 5.2 There are no significant legal issues arising from the report. The proposed action is to ensure that the Council complies with its contractual obligations and its assets are protected and maintained.
- 5.3 As works are undertaken legal advice should be sought as appropriate with regard to any contracting arrangements particularly those falling outside of the scope of the Highways Framework arrangement jointly procured between Nottingham City Council and Derby City Council.
- 5.4 Much of the delivery of essential works identified is to be undertaken in-house with no procurement implications. For specialist works this will include utilisation of the established Highway Procurement Framework, compliant with procurement regulations.

- 5.5 Legal Services will advise Highway & Energy Infrastructure on appropriate terms and conditions of contract with preferred contractors and associated documentation for the programme.
- 5.6 A continual investment programme in district heating will improve the overall condition and life of the Council owned asset. Further reduce risk of service failure and the resources to respond.
- 5.7 Highway & Energy Infrastructure have an established delivery model and through this broadened work scope to actively support the Councils “Make or Buy” Policy including mechanical & electrical works. This in turn has resulted in local work opportunity and a supported apprenticeship programme.
- 5.8 Procurement comments - I understand that all of the improvement works identified under the 5 year programme are to be managed by the in-house Highways and Infrastructure team, where necessary supported by external contractors utilising the Highway Procurement Framework. This framework is EU compliant and approved for use by NCC. There are therefore no significant procurement concerns with this decision.

6 SOCIAL VALUE CONSIDERATIONS

- 6.1 The recommendations will help to provide affordable heating, reduce CO₂ emissions, and create local employment opportunities.

7 REGARD TO THE NHS CONSTITUTION

- 7.1 Not applicable

8 EQUALITY IMPACT ASSESSMENT (EIA)

- 8.1 An EIA has not been completed, because it does not relate to new or changing policies, services or functions.

9 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

- 9.1 None

10 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

- 10.1 None

11 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

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