

Report to: **Cabinet**

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Towards Zero Carbon Development in the West End

Report summary:

This report provides an update on progress towards the delivery of zero carbon development carbon development in the West End of the District. This follows the submission of a funding bid to the Government's Heat Network Investment Programme. Subject to the outcome of this bid, the report outlines the next steps that will be required including in terms of framing the role for the Council and the associated decision making.

Recommendation:

It is recommended that Cabinet;

- Endorses the bid that has been made to the Heat Network Investment Programme
- Receives a further report when the outcome of the bid is known, further technical work has been completed and a detailed investment proposal has been developed

Reason for recommendation:

To ensure that there is a clear pathway for achieving large scale zero carbon development in the West End of the District.

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Portfolio(s) (check which apply):

- Climate Action
- Corporate Services and COVID-19 Response and Recovery
- Democracy and Transparency
- Economy and Assets
- Coast, Country and Environment
- Finance
- Strategic Planning
- Sustainable Homes and Communities

Financial implications:

The report outlines how this project can deliver on key priorities for the Council. There is an investment opportunity for the Council that could make a reasonable return and be a scheme that the Council would feel comfortable in investing in. Further report/s will continue to explore this as an opportunity. Reports will also come to Cabinet and Council in respect of this project to agree its progress and funding mix; at this stage the report is for information and to inform members that a bid to HNIP as been made.

Legal implications:

There is are no specific legal implications requiring comment at this time.

Equalities impact Low Impact

Climate change High Impact

The vision for Cranbrook to develop as a zero carbon town is clearly stated in the Cranbrook Development Plan Document. This project has the potential to secure carbon savings in the order of 20,000 tonnes per year across the West End of the District. This equates to around two thirds of the Council's own carbon emissions and represents the project with the greatest potential to deliver large scale carbon savings in the District.

Risk: High Risk. This is a complex project involving a wide range of different actors, both public and private. The role for the Council is potentially multi-faceted, from regulatory through to becoming a potential investor. The application to the Heat Network Investment Programme includes to secure funding for technical support, such as legal and financial advice, to ensure that all relevant risks can be identified and managed going forward.

Links to background information

[Zero Carbon Development in the West End, Cabinet Report July 2019](#)

[Cranbrook Development Plan Document](#)

[The Future Homes Standard: changes to Part L and Part F of the Building Regulations for new dwellings](#)

[Cranbrook Heat Networks Detailed Feasibility Study](#)

[Towards Zero Carbon Development in the West End, Cabinet Report September 2020 item 14](#)

[Procuring Finance for Heat Networks: Government guidance](#)

Link to [Council Plan](#):

Priorities (check which apply)

- Outstanding Place and Environment
 - Outstanding Homes and Communities
 - Outstanding Economic Growth, Productivity, and Prosperity
 - Outstanding Council and Council Services
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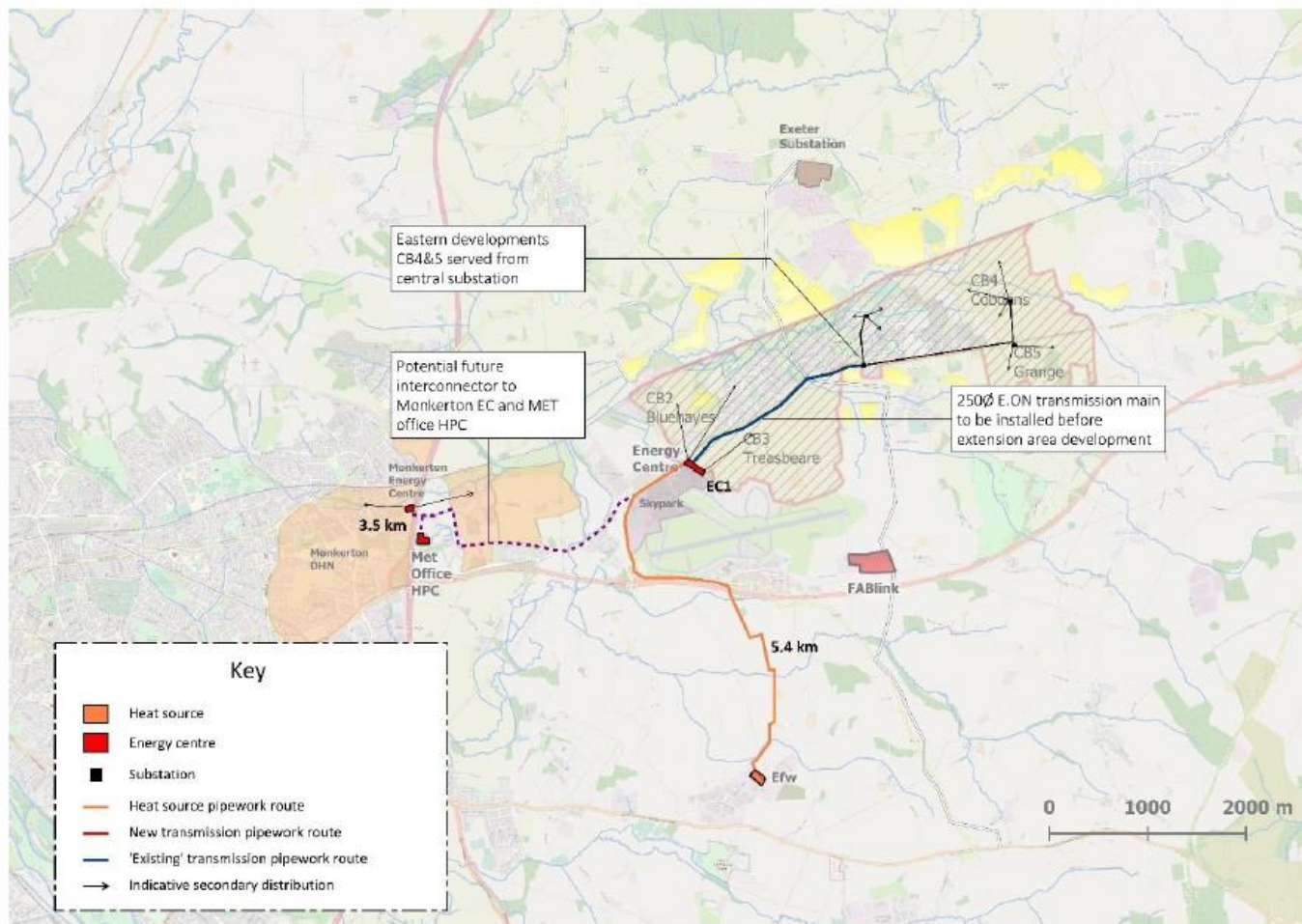
1. Background and context

1.1 Cabinet has received two previous reports setting out the context for the delivery of zero carbon development in the West End of the District. The most recent of these was in September 2020. As well as setting out the policy background, this report presented the results of a recent feasibility study that had considered a range of possible heat sources. This demonstrated that it was possible to secure large scale carbon savings by utilising alternative technologies to the biomass solution that was originally negotiated a decade ago. This would equate to around an 80% reduction relative to using gas boilers which, critically, would also ensure compliance with the forthcoming Future Homes Standard.

1.2 Since the September report a project team including representation from BEIS, EON, University and City and County Councils has been meeting weekly to work up a detailed proposal. This has been based on the preferred option arising from the feasibility study, namely utilising waste heat from a forthcoming Energy from Waste (EfW) plant at Hill Barton that is due to start construction during the summer of 2021 and be operational by the summer of 2023.

2. Heat Network Investment Programme Application

2.1 The Department for Business, Energy and Industrial Strategy's Heat Networks Investment Programme (HNIP) is a £320m capital programme designed to support the roll out of district heating networks. The deadline for applications to Round 8 of the programme was the 4th January. A proposal was submitted based on securing a connection from the EfW plant to both the Cranbrook/Skypark and Monkerton networks. This would take the form of a trunk heat main carrying hot water under pressure. The proposed alignment is set out on the plan below. This will enable connections to the two existing concession agreement totalling circa 8,000 homes and 2m sq ft of commercial space as well as the potential to serve the Cranbrook expansion areas (an additional 4,000 homes).



2.2 The HNIP is a competitive programme. Key metrics by which applications are measured and evaluated are value for money and carbon savings. For the latter the proposals are expected to save 20,000 tonnes of carbon per year putting the project at the upper end of the scale for the projects that are coming forward nationally. Crucially the application has to be able to demonstrate a positive pre-intervention Internal Rate of Return (IRR). The application has been based on securing gap funding to raise the IRR to 8%.

2.3 The total capital expenditure for the scheme is £21m. The headline figures for the application are as follows;

Source	£
Contribution from EON in lieu of s.106 obligation	£6m
Enterprise Zone (to be confirmed)	£4m
Council/Third party finance	£4m
HNIP	£7.5m

2.4 Clearly these figures need to be finalised and confirmed including meeting all relevant decision making requirements. This includes consideration of who will provide the equity finance. There is a potential option here for the Council to invest through the Commercial Investment Framework. Alternatively a third party financier could be procured, potentially as a blended option in conjunction with Council investment, and a link to the guidance that would need to be followed in this respect is included in the background links.

2.5. The application to the HNIP programme includes both construction funding and circa £500k of technical support. The latter will include financial, procurement and legal support to ensure that a suitably constituted Special Purpose Vehicle (SPV) can come forward to facilitate the connection to the EfW plant.

2.6 The core purpose of the SPV would be to own the asset (the transmission main) and to enter in to a supply agreement to take bulk heat from the EfW plant that is being developed by Stuart Partners and to sell this to EON and whichever energy services company is selected to serve the Cranbrook expansion areas. It is important to emphasise that this would be a relatively simple contractual structure and there would be no supply agreements/contracts with individual households. Overall the heat main would be a strategic asset which is expected to have a functional life of up to 60 years.

4. Council Role, Decision Making and Next Steps

4.1 The Council has a key role to play in enabling the large scale delivery of low carbon development. There are three main aspects to this;

- i. Resolving the position in relation to the current s.106 obligation as the Local Planning Authority
- ii. Acting as the lead applicant for the HNIP bid
- iii. Becoming an investor in the scheme

4.2 It is important to emphasise that the submission of the HNIP bid does not bind the Council to playing a particular role other than the statutory role as the LPA. If the HNIP bid is successful and the technical work progresses then Cabinet will need to take a final decision as to whether the Council wishes to invest in the scheme.

4.3 In terms of timings it is expected that a decision on the application will be made in March/April next year. The further technical work would then take up to a further 12 months to complete. Subject to a satisfactory outcome to this work the actual construction would take a further 12 months. Overall these timescales broadly align with those for the construction and commissioning of the EfW plant.

4.4 It is clear that the project can deliver major carbon savings. Subject to the outcome of the further technical work, the project also has the potential to provide a reasonable rate of return. By also considering social benefits there is the potential to look at the scheme on a triple bottom line basis. Given the significant proportions of affordable housing at Cranbrook, Tithebarn and West Clyst there is the potential to consider how the investment can help to address fuel poverty in this respect. Dialogue is being opened with other local authorities who have approached investment in to heat networks with this as a leading objective.

4.5 It is a specific recommendation of this report that, if the HNIP bid is successful and the further technical work is completed, Cabinet consider a specific investment proposal. This will allow a decision to be taken to confirm what role the Council wishes to play.

4.6 The potential for investment from the Enterprise Zone programme has also been identified as part of the overall funding mix. The proposed heat network will support the delivery of three of the four EZ sites (Skypark, Science Park and Cranbrook Town Centre) and support the achievement of clean growth. Again any investment proposal through this programme will need to be considered by Cabinet.

5. Conclusion

5.1 The submission of the bid to the HNIP programme is a key milestone for supporting the delivery of low carbon development. Subject to the outcome of the bid a further report will be presented to Cabinet detailing the role that the Council can play including considering a detailed investment proposal. Given the potential to make a meaning a meaningful contribution to both the Climate Change Action Plan and the emerging Anti-Poverty Strategy, the intention is for this to be presented on a triple bottom line basis.