

Council

24 May 2023

Acceptance of Green Heat Network Fund

Report of: Peter Skates – Acting Executive Director of Place

Report Reference No: C/06/23-24

Ward(s) Affected: Handforth

Purpose of Report

- 1 To agree the acceptance of a Green Heat Network Fund grant of £2,604,059 as required by the constitution of Cheshire East Council, and to deliver the Commercialisation phase of the project.

Executive Summary

- 2 The Council's Corporate Plan 2021-25 sets out our vision for a more open, fairer, greener Cheshire East and at the full Council meeting on 22 May 2019, members approved a Notice of Motion relating to Climate Change, and committed to "work with all businesses, residents and organisations in Cheshire East to reduce their carbon footprint by reducing energy consumption and promoting healthy lifestyles". The Council also has since signed up to the UK100 target to become net-zero as a borough by 2045.
- 3 As part of these commitments, the Council is committed to the sustainable development of the North Cheshire Garden Village at Handforth, and as part of this development the Council has sought to deliver a heat network to provide low carbon and secure heat through the use of ground source heat pumps. This was included within the approved Supplementary Planning Guidance for the site and the recent planning application.
- 4 The Council has successfully applied to the Green Heat Network Fund from the Department for Energy Security which provides capital grant support for the development of new and existing low and zero-carbon heat networks. The offer of funding to support this project is £2,604,059

over 2023/24 and 2024/25. This grant funding is part of the £13.7m allocation for the heat network in the Medium Term Financial Strategy.

- 5 The grant consists of £680,000 commercialisation funding to establish the deliverability of the project in 2023/24. This is 100% funded by the Green Heat Network Fund and would not be subject to clawback if used for eligible expenditure should the project not be deliverable after this stage.
- 6 If deliverable, then a further £1,924,059 of capital has been awarded for the initial construction as gap funding. This will be utilised alongside the existing supplementary capital estimate in the Medium-Term Financial Strategy.

7 This funding is outlined below:

	2023/24 (£)	2024/25 (£)	Total (£)
Grant for Commercialisation	680,000		680,000
Grant for Construction		1,924,059	1,924,059
Total	680,000	1,924,059	2,604,059

- 8 The funder requires that both elements are accepted at this stage, so the purpose of the decision is to accept the funding under the conditions which have been reviewed by legal services, in order to progress the Commercialisation phase to determine the viability of the scheme.
- 9 Once viability has been established through Commercialisation, the scheme will be subject to further approval through the Economy & Growth Committee prior to spend of the Construction grant. A full detailed report of the Garden Village project will be presented to Economy & Growth Committee in the autumn later this year.

RECOMMENDATIONS

Council is recommended to:

1. Authorise the Section 151 Officer to accept and spend a grant from the Green Heat Network Fund of £2,604,059 towards the development of a heat network to support the Garden Village at Handforth, and the creation or amendment of a supplementary capital estimate as required.
2. Approve the procurement, contracting and award of £680,000 of the Green Heat Network Fund grant for the commercialisation phase of the project.

Background

- 10 This project meets the corporate objective for an open, fairer and greener Cheshire East. It contributes directly to the delivery of the Environment Strategy and the Carbon Neutrality Action Plan, following on from the Council motion on 22 May 2019 to commit Cheshire East Council to be carbon neutral by 2025, and the UK100 objective for the borough to be net-zero by 2045.
- 11 The proposal is a district heat network which could eventually cover the entire Handforth Garden Village site, served primarily by a ground source heat pump (GSHP) located in an energy centre in the village centre. The scheme will be developed in three phases to correspond with the site build out. The Green Heat Network fund only relates to the first phase, and the delivery of this phase is not contingent on delivering the other two phases. These could be delivered separately through building level solutions.
- 12 The project will directly benefit the delivery at Handforth Garden Village and reduce project risk. The government are planning for gas boilers to be phased out for all new development from 2025. Therefore, a heat network should provide an economic and deliverable solution to provide heat on site. It is the purpose of the commercialisation phase, of this funding, to determine if there is a viable business case for the heat network.
- 13 Internal stakeholders have been engaged throughout the development of the project. In particular, the Economic Development Service, plus legal and procurement. Input has also been gained from the Heat Network Delivery Unit of BEIS and experienced external consultants to ensure that the assumptions within the proposal are realistic and deliverable.
- 14 A critical part of the commercialisation phase will be to engage with developers and the market, to clarify assumptions in the business case, and ensure that the project is deliverable prior to construction. This is alongside any consideration of the wider Garden Village delivery, including the delivery vehicle of the heat network.
- 15 This proposal will have a significant benefit towards the Council's approach to the Climate Emergency through enabling the delivery of low carbon heat at one of our strategic housing sites, and through the stimulation of heat networks across the borough.

- 16 A full His Majesty's Treasury (HMT) Outline Business Case has been developed for the proposal.

Consultation and Engagement

- 17 The heat network has been a part of the consultation on the Garden Village at Handforth including through the Supplementary Planning Guidance and the recent planning application. A full detailed report on the Garden Village Project will be presented to Economy & Growth Committee this autumn.

Reasons for Recommendations

- 18 The Council's Constitution states that accepting an external grant of over £1,000,000 must be approved by full Council.
- 19 The delivery of the heat network is an integral part of the sustainable development of the garden village, and the grant funding will enable the initial Commercialisation to assess the viability of the project.
- 20 The project aims to deliver a financial return for the Council, have significant benefits to the delivery of the Garden Village at Handforth, and also deliver other benefits in stimulating the low carbon economy, improving health, and delivering inward investment and reputational benefits. The specific objectives of the project are:
- Tackle the climate emergency and support the Council to achieve carbon neutrality for the borough by 2045.
 - Improving the attractiveness of Cheshire East and Handforth as a location for new investment, living and employment.
 - Reduce harmful air emissions and heating bills to improve health and well-being and help desirability of living and working in the village.
 - Support the development of local energy and low carbon businesses.
 - Support secure, decentralised and locally sourced energy.

Other Options Considered

- 21 The Council could refuse acceptance of the funding. This would require additional borrowing by the authority to deliver the heat network, or the cessation of delivery which would not be in line with the Council's climate emergency commitment.

Implications and Comments

Monitoring Officer/Legal

22 Legal has been supplied with copies of the grant documentation which takes the form of a Memorandum of Understanding to be entered into between the Secretary of State for Energy Security and Net Zero (described as “the Authority”) (1) and the Council (2) (“MoU”) and has reviewed the same. The MoU provides for payment of the following amounts:

Instalment Period	Maximum Grant Sum Payable (£)
Year 1 (1 April 2022 – 31 March 2023)	0.00
Year 2 (1 April 2023 – 31 March 2024)	680,000.00
Year 3 (1 April 2024 – 31 March 2025)	1,924,059.00
Year 4 (1 April 2025 – 31 March 2026) indicative only, not currently contemplated within GHNF.	0.00
Year 5 (1 April 2026 – 31 March 2027) indicative only, not currently contemplated within GHNF.	£0.00

The MoU is drawn up on what could be considered as standard terms so as to ensure that the funding is utilised for the purposes for which the funding has been awarded. This translates itself into clawback provisions the “headline” terms of which provide:

26.1 The Authority may exercise its rights set out in paragraph 26.2 if any of the following events occur:

26.1.1 the Grant Recipient or the Project:

- (a) does not satisfy any part of the Eligibility Criteria by the fifth anniversary of the commencement of Commercial Operations; or
- (b) having satisfied any part of the Eligibility Criteria, ceases to meet such part of the Eligibility Criteria thereafter at any time during the Reporting Period;

26.1.2 the Grant Recipient (or any Investment Vehicle) uses the Grant for a purpose other than the Funded Activities;

26.1.3 the Grant Recipient fails to comply with any obligation under this MoU, which is material in the opinion of the Authority;

26.1.4 where delivery of the Funded Activities does not start within one (1) month of the Funded Activities Start Date and the Grant Recipient fails to provide the Authority with a satisfactory explanation for the delay, or fails to agree a new date on which the Funded Activities shall start with the Authority;

26.1.5 the Grant Recipient (or any Investment Vehicle) uses the Grant for Ineligible Expenditure;

26.1.6 the Grant Recipient fails, in the Authority’s opinion, to make satisfactory progress with the Funded Activities and in particular, with meeting the Milestones set out in Annex 6: Milestones (but a breach solely of this paragraph 26.1.6 shall not enable the Authority to claw back already spent Grant pursuant to paragraph 26.2.3);

(The rights in para 26.2 are the rights to suspend; reduce amounts advanced; or clawback monies.)

On enquiry it has been confirmed that clawback would not apply to the Year 2 monies (£680k) noted above (also referred to as eligibility expenditure) if the same are correctly expended but a halt is called to the project before it proceeds to commercialisation. The MoU obliges the Council to ensure that any utilisation of the sums advanced comply with the provisions of the subsidy control regime.

Section 151 Officer/Finance

- 23 The recommendation is to accept external grant funding applied on the terms upon which it has been granted and to authorise spend on the first tranche of £680,000 which will focus on the commercialisation and viability of the scheme.
- 24 There is current provision within the MTFs to reflect the development and building of the heat network i.e. beyond the initial commercialisation and viability stage. This equates to over £13m made up of grant funding, external third-party contributions and Council prudential borrowing. This in itself is part of the wider Garden Village project and as such decisions need to be taken with that wider project in mind.
- 25 That decision on the development and construction phase will need to be considered through a further decision-making process which will determine whether the second element of the grant, £1.924m, should be utilised.

Policy

- 26 The Corporate Plan 2021-25 includes the vision for an Open, Fair and Green Cheshire East. The corporate plan includes delivery of the actions in the carbon action plan, including reducing emissions and providing support to a wider borough to reduce their carbon use.

A thriving and sustainable place
Aim: Green
Priorities:
Reduce impact on the environment
Be a carbon neutral Council by 2025

Equality, Diversity and Inclusion

- 27 As part of the delivery of the heat network the Council will ensure that the standards of the Heat Trust are met which provides support for customers in vulnerable circumstances.

Human Resources

- 28 No implications.

Risk Management

- 29 The project utilises the Council's approach to risk management and risk logs are maintained in line with best practice from the Programme Management Office. The project will be overseen by a specific working group and the Strategic Housing Programme Board.

Rural Communities

- 30 No direct implications.

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

- 31 No direct implications.

Public Health

- 32 Climate change is one of the most important public health issues we face, and the delivery of this project will assist with mitigating that impact. In addition, the application of Heat Trust standards for the heat network will require the Council to meet supplier obligations and support vulnerable customers to ensure they have adequate heating.

Climate Change

- 33 The project will directly contribute towards the Council's commitment to respond to the Climate Emergency and deliver boroughwide net-zero by 2045 through reducing carbon emissions from housing.

Access to Information	
Contact Officer:	Dan Griffiths, Programme Manager dan.griffiths@cheshireeast.gov.uk 07971 603093
Appendices:	n/a

Background
Papers:

Technical information is available on demand.