

Agenda



Special Meeting of Infrastructure, Regeneration and Economic Development Committee

Date: Wednesday, 17 January 2018

Time: 14:00

Venue: Committee Room 3, Council Offices,
Garshake Road, Dumbarton

Contact: Nuala Quinn-Ross, Committee Officer
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Dear Member

ITEM TO FOLLOW

I refer to the agenda for the above meeting which was issued on 4 January 2018 and enclose a copy of the undernoted report which was not available for issue at that time.

Yours faithfully

JOYCE WHITE

Chief Executive

Note referred to:-

3 REGENERATION FUND - QUEENS QUAY DISTRICT HEATING NETWORK, ENERGY CENTRE LAND PURCHASE (pages 3 - 9)

Submit report by the Strategic Lead – Regeneration:-

- (a) seeking approval to use the Council’s Regeneration Fund to acquire land for the Queens Quay District Heating Network Energy Centre; and
- (b) seeking approval to enter into a commercial agreement with Clydeside Regeneration Limited (CRL) which will ensure the successful delivery of the District Heating Network and its future operation.

Distribution:-

Councillor Iain McLaren (Chair)
Councillor Diane Docherty (Vice Chair)
Councillor Gail Casey
Councillor Karen Conaghan
Provost William Hendrie
Councillor Caroline McAllister
Councillor David McBride
Councillor Jonathan McColl
Councillor Marie McNair
Councillor John Mooney
Councillor Lawrence O’Neill
Councillor Martin Rooney

All other Councillors for information

Chief Executive
Strategic Director of Regeneration, Environment and Growth

Date of Issue: 12 January 2018

WEST DUNBARTONSHIRE COUNCIL

Report by the Strategic Lead, Regeneration

Infrastructure, Regeneration and Economic Development Committee:

17 January 2018

Subject: Regeneration Fund - Queens Quay District Heating Network, Energy Centre land purchase.

1. Purpose

1.1 The purpose of this report is to seek approval to use the Council's Regeneration Fund to acquire land for the Queens Quay District Heating Network Energy Centre, and to seek approval to enter into a commercial agreement with Clydeside Regeneration Limited (CRL) which will ensure the successful delivery of the District Heating Network and its future operation.

2. Recommendations

2.1 It is recommended that Committee:

- (i) approves funding of £0.9m plus legal transaction fees from the Regeneration Fund to purchase land on the Queens Quay site and fund the development management of the District Heating Energy Centre and network;
- (ii) approves the commercial terms between CRL, the Council, and the Energy Supply Company (ESCO) as narrated in Paragraph 4.5 and 4.6 of this report;
- (iii) authorises the Strategic Lead, Regeneration to conclude negotiations; and
- (iv) authorises the Strategic Lead, Regulatory to conclude the transaction on such conditions as considered appropriate.

3. Background

3.1 On 28 October 2015 Council agreed to the creation of the capital Regeneration Fund with £12.4m being identified. The Fund's key operating principles and allocations to specific projects were then agreed by the Infrastructure, Regeneration and Economic Development (IRED) Committee on 16 March 2016 with further updates on 14 September 2016 and 16 August 2017.

3.2 The Scottish Government Low Carbon Infrastructure Transformation Programme (LCITP) project was approved by Council on 23 November 2016

with the Council providing up to £6m towards the £12.1m District Heating Network project being delivered at Queens Quay, Clydebank. The £6.1m LCITP funding includes £0.1m towards advisory expertise but the funding does not allow the fund to be used to acquire land. The LCITP project requires the establishment of an Energy Centre. A site has been identified (see red lined site Appendix 1) at Queens Quay.

- 3.3** At Council on 23 November 2016 when the LCITP project was approved. It was proposed that an Energy Supply Company (ESCO), (fully owned by the Council) would tender and procure a Design, Build, Operate and Maintain Contractor (DBOM) which would have the functional responsibility for the detailed design and construction of the energy centre and distribution network. Following advice, this role is being split between two providers: an Energy Centre Operator and a Network Operator. At this stage the ESCO has not been established and it is planned that the ESCO will be formed prior to commencement of operation. In order to progress the project the Council will instruct the necessary contracts, in some cases through the auspices of CRL, and will transfer all contractual rights and responsibilities to the ESCO on its establishment.
- 3.4** A report to the IRED Committee of 21 June 2017 provided an update to Members on progress with projects that had received a notional funding allocation from the Regeneration Fund.
- 3.5** At IRED Committee on 22 November 2017 a report on the potential purchase of land required for the District Heating Energy Centre was withdrawn by Committee after it was explained by officers that it would be necessary and beneficial to all parties to include all commercial aspects of an agreement with the landowners CRL, instead of a piecemeal approach to negotiations to establish a District Heating Network at Queens Quay.
- 3.6** The project received full planning approval in December 2017.

4. Main Issues

- 4.1** One of the District Heating Network proposal's main advantages is that it can be integrated into the rest of the infrastructure works being carried out on Queens Quay. The system also relies on technology which extracts and returns water to the Queens Quay basin. The most suitable locations for the Energy Centre and the position to extract and return water to the basin, within the LCITP timeframe for delivery, are on land owned by CRL. CRL are entitled to expect some financial consideration for both of these.
- 4.2** It is also in the best interests of the District Heating Network if take up of the supply by new housing developments is maximised. Negotiations with specific housebuilders in relation to new housing developments on Queens Quay will be a matter for CRL, and it is important to ensure that it is in all parties' interests to promote the District Heating Network as part of this role.

- 4.3** As the delivery of the District Heating Network has to be integrated into the other infrastructure works on Queens Quay and the timescale for delivery of the energy centre is challenging, the most efficient solution is to have the energy centre and District Heating Network delivered as part of the same contracts. As the District Heating Network project post dates the original Queens Quay agreement, these represent additional development management responsibilities for CRL and have to be funded.
- 4.4** The intention is ultimately to expand the District Heating Network beyond Queens Quay and to increase the extraction from the basin. The exact scale of that expansion cannot be determined at this point, but it is reasonable for CRL to expect some return for that expanded use of their asset.
- 4.5** After negotiations with CRL the following commercial terms are put forward for approval by committee:
- 1. Land Price**
A headline purchase figure of £450,000 for the land on which the Energy Centre will be located, as per the approved planning application. The headline figure will also cover all necessary rights to install, maintain, repair and replace district heating and other required pipework within the Queens' Quay site to serve all the development plots.
 - 2. Incentive Payment**
As they are developed, a one-off payment of £400 per house connected to the network will be payable for all residential plots, 6 monthly in arrears by the ESCO to CRL.
 - 3. Plot Sales**
The ESCO will levy a connection charge for each housing unit of £2,000 which CRL have agreed represents a normal cost for a House Builder for connecting to such a system.
 - 4. Development Management**
In respect of the work being undertaken to procure, manage and deliver the Energy Centre, trunk heating and cooling pipe network, associated abstraction structures and co-ordination of the anticipated fitting out contract, CRL will receive a Development Management fee of £450,000 in instalments as follows:
 - One third on conclusion of missives;
 - One third when the fit out contractor takes access; and
 - One third when the Energy Centre is commissioned.
 - 5. Abstraction Rights/Basin**
An annual fee of £25,000 will be paid to CRL for 40 years by the ESCO for the rights to abstract river water from and return it to the basin in perpetuity for Queens Quay and all other projects the Council / ESCO

may choose to develop. At the end of this period, the ESCO will have unrestricted rights to continue to utilise the basin without further payment.

6. All other potential users

CRL may receive a further one-off payment from the ESCO of £400,000. This payment is dependent on all of the following being achieved:

- A requirement of at least 9,000kWh of heat off-take each year outwith Queens Quay;
- CRL having delivered at least 90% of the Housing connections at Queens Quay; and
- CRL granting and/or procuring from any third party owner of the land immediately to the (west) of Queens Quay, wayleave rights in favour of WDC/ESCO to lay, maintain, repair and replace the District Heating Network pipework.

- 4.6** Approval is being sought to spend £900,000 plus legal transaction fees (anticipated to be no more than £10,000) from the regeneration fund to acquire land and development management as outlined at 4.5 for the District Heating Network Energy Centre.
- 4.7** The Council will enter into an agreement with the Council's ESCO, once established in June 2018, to secure the full repayment of the £900,000 capital sum over a period of 20 years as originally forecast in the District Heating Network business model.
- 4.8** The LCITP project is at a critical stage in its development and securing the site for the Energy Centre is an important next step. Ensuring the Council and the Scottish Government investment in the District Heating Network is achieved within the timeframe and we are able to produce heat by late 2018. This requires the delivery of an Energy Centre and securing agreement of the commercial terms as outlined at section 4.5.
- 4.9** Additional commercial opportunities which may occur on the Queens Quay site such as office/retail development which do not feature in the existing ESCO operating model will provide further potential partnership working with CRL in future.

5. People Implications

- 5.1** There are no people implications as a result of this report as the project will be taken forward and managed from existing staff resources.

6. Financial and Procurement Implications

- 6.1** The report of 16 August 2017 identified the Regeneration Fund allocation of £7m across a number of projects which together with a requirement for a further £0.9m being sought for the Energy Centre land, would leave £4.5m unallocated from the original £12.4m budget.

- 6.2** The Council will recover the £900,000 expenditure plus legal transaction fees and interest incurred during the first 20 years of the District Heating Network through the operating income generated by the ESCO. The ESCO will be 100% owned by the Council.
- 6.3** All other financial aspects of the proposed commercial agreement as detailed at 4.5 above are funded through the financial operating model which has been developed for the ESCO. Taking account of all the commercial terms put forward within this report, the projected operating model for the ESCO shows a positive financial return through its 40 years of operation. Therefore the commercial terms are deemed affordable.
- 6.4** Should the ESCO expand the District Heating Network beyond Queens Quay and generate an additional 9,000kWh of heat off-take per annum and CRL satisfy the other elements highlighted at section 4.5 point six then the payment of £400,000 can be made to CRL from the ESCO either through the ESCO seeking a loan from the Council or from other financial markets. These loan repayments would be based upon the affordable returns made from the District Heating Network model expansion.

7. Risk Analysis

- 7.1** A risk register has been developed and is managed by the management board of the District Heating (LCITP) project. The Energy Centre forms an important part of the risk register, in particular the risk of not meeting the delivery timeframe which is ambitious and being pursued by officers.
- 7.2** There is a risk that the return on investment for the District Heating Network over the first 20 years does not return the Regeneration Fund £900,000 invested. Every effort will be made to ensure through robust modelling and effective delivery of the District Heating Network that a positive financial return is made.
- 7.3** In addition, the creation of the energy centre and the securing of the extraction rights create the platform from which the District Heating Network can be further expanded, should viable opportunities arise. Every effort will be made to realise these and thus enhance the returns from this initial investment.

8. Equalities Impact Assessment (EIA)

- 8.1** An Equality Impact Screening did not indicate any further action required in relation to any recommendations.

9. Consultation

- 9.1** The District Heating Network Energy Centre has progressed and secured planning permission with relevant consultation forming part of this process. The financial modelling and report have been scrutinised and agreed by

Strategic Lead – Resources who, along with the Strategic Lead – Regulatory, have no concerns or issues regarding this report.

10. Strategic Assessment

10.1 At its meeting on 25 October 2017, the Council agreed that its five main strategic priorities for 2017 - 2022 are as follows:

- A Strong local economy and improved employment opportunities;
- Supported individuals, families and carers living independently and with dignity;
- Meaningful community engagement with active empowered and informed citizens who feel safe and engaged;
- Open, accountable and accessible local government; and
- Efficient and effective frontline services that improve the everyday lives of residents.

10.2 This proposals within this report are in line with the Council’s strategic priorities as stated above.

Jim McAloon
Strategic Lead, Regeneration
Date: 11 January 2018

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Appendices: Appendix 1 - Energy Centre land -red-line map

Background Papers: Equalities Impact Assessment Screening, Report to IRED Committee, 16 August 2017 entitled, “Regeneration Fund- Project Proposals for Dumbarton Waterfront Pathway and Balloch Village Square Projects”
Report to IRED Committee, 21 June 2017 entitled, “Regeneration Fund Update”
Report to Council, 23 November 2016 entitled, “District Heat Network for Queens Quay and Clydebank”
Report to IRED Committee, 14 September 2016 entitled, “Regeneration Fund”
Report to IRED Committee, 16 March 2016 entitled, “Regeneration Fund”

Wards Affected: 1 and 3.

Appendix 1 Red-Line site of Queen Quay District Heating Energy Centre

