Rotherham Metropolitan Borough Council

Public Report with Exempt Appendices
Cabinet

Committee Name and Date of Committee Meeting
Cabinet – 29 July 2024

Report Title
Council Building Decarbonisation Programme

Is this a Key Decision and has it been included on the Forward Plan?
No, but it has been included on the Forward Plan

Strategic Director Approving Submission of the Report
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Ward(s) Affected
Boston Castle

Report Summary

The report aims to update and request approvals around three key areas:

- The delivery of Public Sector Decarbonisation Scheme (PSDS) Project on Council buildings.
- The conversion of heating systems within Council buildings, through PSDS, to accept a District Heat Network (DHN) connection.
- The outcome of the Procurement of a supplier to provide heating through a DHN.

In the Cabinet Report of 18 September 2023, Cabinet approved a programme of decarbonisation projects funded by PSDS and the Council as well as the overall approach to procure a supplier of heat via a DHN. The approved programme specified five Council buildings (Riverside House, Civic Theatre, Clifton Park Museum, Orchard Centre and the Town Hall). As well as the Energy Conservation Measures (ECM's) the works included a series of enabling works in preparation to connect to DHN.

To facilitate the connection to a DHN, Cabinet also approved in the September report, the overall approach to procure a supplier of heat via a DHN.

Cabinet approved that following completion of these works and the procurement, a report would be submitted to Cabinet detailing the outcome of the procurement, its financial feasibility and recommendations for heat delivery for the five buildings. If financially feasible, and following a return to Cabinet for approval, the Council could then enter into a heat delivery contract to provide the heat to these buildings upon final connection.

This report therefore provides an update on this scheme, summarises the challenges experienced, and presents a proposed approach to decarbonise the five buildings affected and presents four further sites for future decarbonisation.

Recommendations

It is recommended that Cabinet:

1. Approve the further use of the Council's Decarbonisation Capital Budget for the original five buildings to a total value of up to **£2,321,985.** This could be reduced if the project moves at a greater pace than expected.

2. Approve a further allocation of up to **£1,000,000** for the connection costs of the District Heat Network to Council buildings from the Council's Decarbonisation Capital Budget, should Officers not agree and finalise funding via PSDS.

3. Approve entering into negotiations, with the organisation which submitted a bid, within the parameters of procurement law to achieve the best value for money with the intention to connect the five buildings to a heat network and subsequently enter into a supply agreement, if financially feasible.

4. Approve feasibility, scoping and costs estimate work to be carried out on the additional four buildings and to delegate authority to the Assistant Director of Property and Facilities Services in consultation with the Strategic Director, Finance & Customer Services and Cabinet Member for Transport, Jobs and the Local Economy to allocate necessary funds from the Capital Programme, subject to satisfactory feasibility and project review.

5. Delegate the authority for award and any necessary technical changes to the above scope of works of the nine buildings listed above to the Assistant Director of Property and Facilities Services in consultation with the Strategic Director, Finance & Customer Services and the Cabinet Member for Transport, Jobs and the Local Economy.

List of Appendices Included

Appendix 1 Exempt Financial Report
Appendix 2 Equalities Scoping Assessment
Appendix 3 Carbon Impact Assessment

Background Papers

Council Decarbonisation Programme - Cabinet Item 59 18/09/2023
Climate Emergency Annual Report - Cabinet Item 145 12/02/2024
Notice of Declaration of Climate Emergency - Council Meeting 30/10/2019

Consideration by any other Council Committee, Scrutiny or Advisory Panel
No

Council Approval Required
No

Exempt from the Press and Public
Yes
An exemption is sought for Appendix 1 Financial Report under Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A of the Local Government Act 1972 is requested, as this report contains (Commercial Confidential Information).

It is considered that the public interest in maintaining the exemption would outweigh the public interest in disclosing the information because the information could be used by private companies to influence future procurement negotiations.

Council Building Decarbonisation Programme

1. Background

1.1 On 30 October 2019, Rotherham Council declared a Climate Emergency and set out a plan of action to reduce carbon emissions generated by the Council, businesses, other organisations, and individuals across the Borough. The following targets were set at its Cabinet meeting on 20 March 2020 to reduce carbon emissions across the Borough:

- The Council's carbon emissions to be at net zero by 2030.
- Rotherham-wide carbon emissions to be at net zero by 2040.

1.2 Since then, the Council has annually produced a Climate Change Action Plan, which sets out how these targets will be met and covers eight themes including, Energy, Housing; Transport; Waste; Built & Natural Environment; Adaptation; and Influence and Engagement.

1.3 The Council has committed capital funding of £6.4m in order to deliver a programme decarbonisation of its buildings, which will play a fundamental role in progressing the achievement of the Council's net zero target.

1.4 In 2023, the Council was successful in securing £3.147m of external funding through the Public Sector Decarbonisation Scheme (PSDS) with a contribution (£400k) required from the Council. This bid was designed to decarbonise the following buildings:

- **Riverside House**
- **Town Hall**
- **Civic Theatre**
- **Museum, Clifton Park**
- **Orchard Centre**

1.5 The project was approved at Cabinet in September 2023. The approved small decarbonisation works, or Energy Conservation Measures (ECM's), included Photovoltaic (PV/Solar), LED lighting, insulation and other energy efficiency works alongside. In addition, the project included the removal of gas boilers being replaced with a new plant and systems that would be able to be connected to a future District Heat Network (DHN), albeit that these works would be reliant on Government in partnership with the private sector putting in place infrastructure through a DHN.

1.6 The Council has now reached year 2 of the delivery of this project, and a summary of budgets, spend to date and grant allocation is included in Appendix 1 (exempt) of this report. The requirements of the PSDS funding are to have all works completed no later than March 2025.

1.7 Public Sector Decarbonisation Scheme Project

1.7.1 It was agreed at Cabinet on 18th September 2023 that the following works were to be carried out to five of the Council's operational buildings, to reduce their carbon impact and make them ready for connection to a Heat Network and enable the removal of gas boilers. The work was all subject to carrying out reasonable due diligence and

surveys on the sites to ensure they were compatible and viable. The provisional programme consisted of the following works:

Town Hall

- Replace heating & hot water system with a low carbon alternative.
- Cavity Wall Insulation
- LED - New Fittings

Riverside House

- Replace heating & hot water system with a low carbon alternative.
- Additional Solar Panels

Civic Theatre

- Replace heating & hot water system with a low carbon alternative.
- LED - New Fittings
- Solar Panels
- Building & Energy Management Systems (BEMS)
- Time Switches
- Double Glazing

Clifton Park Museum

- Replace heating & hot water system with a low carbon alternative.
- LED - New Fittings
- Solar Panels
- Building & Energy Management Systems (BEMS)
- Double Glazing

Orchard Centre

- Replace heating & hot water system with a low carbon alternative.

1.7.2 The installation of ECM's and enhancements are under way with LED lighting to be the first to be completed by the end of August 2024, with LED works already completed at Clifton Park Museum and Civic Theatre.

1.7.3 Table 1: Cost of smaller enhancement works already in the pipeline for completion.

Work	**Cost (£)**
LED's	139,026
PV	283,270
TOTAL	**422,296**

1.7.4 An officer delegated decision was published in April 2024 to move the funding for solar PV from the Civic Theatre and Clifton Park Museum, due to site constraints, to enhance and extend the planned works at Riverside House. As a result, procurement activities are now underway to install a PV canopy in the outside carpark and completion is expected by March 2025. These works are expected to be contained within the budget set out in the September Cabinet report.

1.7.5 Table 2: Works expected to be completed by March 2025 utilising the PSDS fund.

Work	Cost (£)
BEMS's	70,813
Building Fabric	38,463
Surveys and Design	267,473
TOTAL	**376,749**

1.7.6 The total projected cost of the works that can feasibly completed by March 2025 is £799,045 and is intended to be funded via the Public Sector Decarbonisation Scheme (PSDS) grant.

1.7.7 There has been further spend on the project relating to external legal advice and internal charges, through the Building Services Design Team, totalling £23,814. This is expected to increase throughout the next year and is expected to be picked up by the PSDS funding.

1.8 District Heat Networks (DHN's)

1.8.1 The government is investing £288m of capital funds UK wide in the support of new low and zero carbon DHN's through the Green Heat Network Fund. This investment in heat networks is intended to develop the UK's heat network market and decarbonise the heat sector.

1.8.2 District Heat Networks provide a low carbon alternative to the carbon intensive gas heating systems which are currently the UK's primary heat source. They may also provide a more affordable option than individual air source heat pumps to heat single buildings. Heat networks therefore form part of the Government's plan to decarbonise the UK's heating provision with a view to reaching net zero by 2050 whilst also improving energy resilience and independence from global markets.

1.8.3 Councils, and other public bodies across the UK, play an important role in the decarbonisation of their local areas. They are able to support the delivery of key net zero interventions, such as DHN's, through collaboration and partnership working.

1.8.4 Council and Public Bodies play a key role in leading the transition towards a net zero society by acting as key customers or off takers of the supply and ensuring that, at an early stage, the investment made by Government and the private sector in infrastructure, is successful whilst not forgoing value for money, affordability. and the additional value in enabling the transition towards the Council's Net Zero Borough by 2040 target (NZ40).

1.8.5 DHN have been identified as a way of significantly reducing the direct reliance on gas and are seen as a low carbon option and, in some cases, a zero-carbon option dependant on how the heat is created. In 2022/23, gas heating accounted for 1,766 tCO_2e (tonnes of carbon dioxide equivalent) or 22% of all greenhouse gas emissions within scope of the Council's 'Net Zero by 2030' (NZ30) climate change target.

1.8.6 To facilitate the connection to a DHN, Cabinet also approved in the September report, the overall approach to procure a supplier of heat via a DHN. Following the completion of the ECM works and the procurement, Cabinet requested that a report

to be submitted detailing the outcome of the procurement, its financial feasibility and recommendations for heat delivery for the five buildings, named in paragraph 1.4 of the report. If financially feasible, and following a return to Cabinet for approval, the Council could then enter into a heat delivery contract to provide the heat to these buildings upon final connection.

1.8.7 The Council undertook market engagement in respect of a DHN (supply), advertising its potential requirements using a Prior Information Notice (PIN) throughout November-December 2023. Following this initial engagement, the market suggested that there was more than one supplier that could provide the Council with a low carbon heat network. To ensure the Council acted in a manner compliant with procurement legislation, an open tender procurement exercise was conducted for delivery of enabling, connection and supply of low carbon heat, but only one bid was received. Given the commercially sensitive nature of the results from this procurement exercise, further detail is available in Appendix 1 (exempt).

1.8.8 The commercial delivery of a DHN relies on local demand and economic sustainability. Whilst the Council is not responsible for the delivery or construction of the network, onboarding of additional customers is essential to ensure the network is financially sustainable. This demonstrates one of the complexities of achieving a net zero borough where several confounding variables affect larger scale decarbonisation projects such as this.

1.8.9 With this in mind, the Council has several other buildings which may be appropriate for connection which would assist with “anchor” demand, and therefore make the project much more likely to proceed. These sites are detailed below, and this report proposes that the initial technical works are started utilising funds from the Council’s decarbonisation budget in preparation for future funding bids.

1.8.10 The proposed additional sites, beyond the identified 5 buildings, are as follows:

- Chatham Villas - Doncaster Gate, 1-3 Chatham Street, Clifton, Rotherham, S65 1DP
- Fusion - Magna BIC, Magna Way, Templeborough, Rotherham, S60 1FE
- Eric Manns Building, 45 Moorgate Street, Rotherham, S60 2EY.
- Clifton Park - Garden Building, Clifton Park, Clifton Lane, Rotherham, S65 2AA

1.8.11 It should be noted that Eric Manns Building is currently having a new boiler fitted, however the proposal is to prepare the building for future connection at a point when viable and economically feasible to do so.

1.8.12 There are also several existing residential district heating sites which operate from a central boiler house utilising either biomass or gas fuel to heat the homes on the localised network. Biomass, whilst considered to be a lower carbon fuel due to the carbon taken up during its production, will not allow the Council to achieve its net zero targets as carbon is still emitted as part of its combustion. Asset management will continue to work with Housing to consider the feasibility of these sites for future connection to the heat network.

1.8.13 Further information about this project is included within Appendix 1 (exempt).

2. Key Issues

2.1 Whilst the Council has made good progress with delivering the ECM's within the allocated buildings, it is now looking likely that the upgrade to the heating and hot water systems, in the form a district energy internal system, cannot be delivered in line with the time frames to meet the funding requirements of PSDS, that being completion of the works no later than March 2025.

2.2 A fundamental reason for this is that the design of enabling works to make buildings suitable for a DHN cannot be undertaken until the specific heating solution (supply) is confirmed as different heat network types require different preparatory works. These issues, as well as having to ensure the Council has followed a lawful procurement route, means the earliest realistic heat network connection will be 2027, at the earliest. In short, the supply connection needs to align with the internal connection and equipment within the buildings.

2.3 Due to the delays to the Heat Network development, the remaining elements of the project to upgrade the Council buildings to enable connection to a Heat Network, if approved, will now be required to be funded from the existing Council Decarbonisation Programme capital budget of £6.4m

2.4 As part of the procurement work to identify a supplier, it was felt that the contractor installing the internal heating system should be one and the same, ensuring that the meeting of the two connections was coordinated and workable. Despite several interested parties coming forward at market testing stages, the Council only received one bid. Whilst the bidder is keen to move forward there are a number of issues that need to be resolved, which are highlighted in Appendix 1. However, two main issues are around the timeline around placing infrastructure into and around the Town Centre and the certainty of supply beyond the already identified Council buildings.

2.5 It is therefore proposed that the Council continues discussions with the bidder and considers the technical feasibility of connection of a further 4 sites (as mentioned in 1.8.10) to a heat network in the future. The Council did include these additional sites in its procurement exercise as potential future options, subject to relevant approvals, but wanted focus on the PSDS sites at this stage. It is essential that the Council continues to follow a lawful procurement route as well as achieve the outcomes required to decarbonise Council buildings via DHN in a way that ensures sustainability and reliability.

2.6 In addition to these buildings there are also several boiler houses which form part of the Housing Revenue Account (HRA) portfolio which may be suitable for connection in the future. The Climate Change Team and Property Services will continue to work with housing to explore opportunities to connect housing-managed assets to the heat network in the future.

2.7 As a result of the above, it will mean that £2,321,985 (the amount of allocated funding for the internal heating system) of the Public Sector Decarbonisation Scheme grant is highly unlikely to be spent within the timescales required by the grant offer. The

issues articulated above and those contained within the appendices, means the earliest realistic DHN connection will now be 2027.

2.8 The Council has attempted to extend the timeline with the grant funding via PSDS and Salix but due to HM Treasury restrictions this has not been possible. Salix are unable to extend the spend timeline. However, Officers have negotiated that the remainder of the funding for the ECM's (£823k) will still be allocated to the Council (subject to completion of the works), despite this originally being linked with the overall project works, including the DHN.

2.9 The £2,321,985 covers all elements of infrastructure required to connect to a DHN, there are further costs associated with connection, which were included in the PSDS bid and agreed funding, this equated to c.£1m. Officers will continue dialogue with PSDS and Salix and make every effort to secure the original funding amount.

2.10 It should be understood that the move to be Net Zero, in the main, can have an impact on the revenue position of the Council. However, as technology moves forward and the demand for new, sustainable heat and energy sources increases the cost of supply and generation is likely to fall.

2.11 The following table provides a simple comparator of the current financial impact of gas boilers to the Council based on current rates and projected rates at the time when the proposed Heat Network would go live. These rates can then be compared with the projected annual costs of a Heat Network and Air Source Heat Pump, noting that these are estimates at this point.

Figures based on proposed 5 Council Buildings	**23/24 Gas Heating Costs**	**Estimated Gas Heating 26/27**	**Estimated Gas Heating 27/28**	**Heat Network estimated costs 27/28**	**Air Source Heating estimated costs 27/28**
Annual cost of energy usage	£453,439*	£176,795	£166,435	£314,965	£272,539
Service & maintenance Costs	£8,600	£43,740	£43,740	Incl. in annual cost above	£92,594
Total cost	**£462,039**	**£220,535**	**£210,175**	**£314,965**	**£365,133**
Increase in cost compared to estimated 27/28 Gas Heating cost				**£104,790**	**£154,958**

**23/24 is high due to residual impact of high gas prices. Following years are predicted to be lower due to falling prices and stability within the market.*

2.12 Based on these projections the annual revenue impact of a movement to a Heat Network would be an estimated increased revenue cost of **£104,790** per annum. Future year estimates were asked for in the tenders (10 year fixed), however these were not available due to Heat Networks following the same methodology for pricing as that of the Energy Markets, therefore prices will fluctuate over the period of supply and/or contract. Therefore, the Council's energy budget remains vulnerable to external market pressures outside of its control. The delay of the Heat Network project itself makes the above projections less reliable.

2.13 To estimate the impact over 10 years of energy supply costs for a DHN, Officers have worked with Cornwall Insights, an independent energy research, analytics and consulting firm, to forecast the additional cost of supply via a DHN. Based on the 5 buildings in paragraph 1.4, this is estimated to be £1,165,263 over the 10-year period from connection.

2.14 Although some dates and deadlines have been changed, Government is looking to slowly reduce the availability of Natural Gas over the coming years, legislation is already in place which removes the installation of gas boilers in new builds by 2025 and then replacement of existing boilers by 2030. It is expected that as the Government moves away from gas there will be increases in levies raised against gas costs, but this has not been confirmed nor is a timeline in place. The Council will only be able to place greater reliability on revenue projections once the negotiations with the potential third party provider are complete though it must be understood that the Heat Network will operate just like the wider utility market and so will fluctuate.

2.15 Connection to a heat network will significantly reduce the carbon emissions from buildings, emitting approximately 59g CO2 per kWh versus 228g CO2 per kWh of heat. This is estimated at savings of 468tonnes CO2 per annum. Carbon emissions from ASHP depend on the electricity source and will gradually decarbonise with the grid (2023 grid electricity is 207g CO2 per kWh). This then linked with the wider ECM's will play a significant role in achieving Net Zero and decarbonisation of the Councils estate, as well as the wider businesses and residences with the Town as we aim to move to a borough wide Net Zero by 2040.

2.16 Due to the commercial nature of the works and procurement activities around the delivery of the schemes, Appendix 1 provides more specific key issues and budget breakdowns for consideration.

2.17 Based of the above, if the Council wishes to progress the DHN internal works to its buildings as part of the wider decarbonisation and move towards Net Zero 2030, it will now need to fund the works directly from the existing Council Decarbonisation Programme capital budget.

3. Options considered and recommended proposal

3.1 Option 1 (recommended): Continue discussions with the organisation which submitted a bid with a view to developing a strategic approach to supporting a heat network in Rotherham Town Centre.

3.1.1 This comprises the following recommendations:

1. Approve the further use of the Council's Decarbonisation Capital Budget for the original five buildings to a total value of up to **£2,321,985**. This could be reduced if the project moves at a greater pace than expected.

2. Approve a further allocation of up to **£1,000,000** for the connection costs of the District Heat Network to Council buildings, should Officers not agree and

finalise funding via PSDS.

3. Approve entering into negotiations, with the organisation which submitted a bid, within the parameters of procurement law to achieve the best value for money with the intention to connect the five buildings to a heat network and subsequently enter into a supply agreement, if financially feasible.

4. Approve feasibility, scoping and costs estimate work to be carried out on the additional four buildings and to delegate authority to the Assistant Director of Property and Facilities Services in consultation with the Strategic Director, Finance & Customer Services and Cabinet Member for Transport, Jobs and the Local Economy to allocate necessary funds from the Capital Programme, subject to satisfactory feasibility and project review.

5. Delegate the authority for award and any necessary technical changes to the above scope of works of the nine buildings listed above to the Assistant Director of Property and Facilities Services in consultation with the Strategic Director, Finance & Customer Services and the Cabinet Member for Transport, Jobs and the Local Economy.

3.1.2 This option proposes that the Council continue discussions with the organisation which submitted the bid under Regulation 32 of the Public Contracts Regulations 2015. The Council requires further detail and clarity in some areas and continued discussions would allow for this to ensure the Council is fully informed and can confidently recommend a decision to award. The final decision of award pending a suitable final offer being received be delegated to the Assistant Director of Property and Facilities Services in consultation with the Strategic Director, Finance and Customer Services.

3.1.3 Since a number of other buildings may be suitable for connection and will provide a portion of the additional heat demand required for commercial viability by the Borough wide network (along with other key customers), this option also proposes that Cabinet approve the overall approach to connect these sites to a heat network provided this can be funded from current or future grant funding and/or within the Council's allocated decarbonisation budget. Budget implications are available at Appendix 1.

3.1.4 The authority to amend the scope of works (should a heat network become financially or technically unfeasible) and award contracts for construction and supply is recommended to be delegated to the Assistant Director of Property and Facilities Services, in consultation with the Strategic Director, Finance and Customer Services.

3.1.5 This option supports both the Council's Net Zero by 2030 target and allows the Council to act as leaders in support of developing a Net Zero Borough by 2040. As well as the benefits to the climate, there are also co-benefits associated with a transition away from gas heating systems including improved respiratory health and resilience by moving away from foreign gas markets and supporting a local economy for renewable heat.

3.1.6 In addition, this option also increases the likelihood that the £25million Green Heat Network investment, awarded to the organisation which submitted a bid, is leveraged into the borough.

3.1.7 Social Value requirements will form part of the procurement activities as well as working with the supplier to identify any other opportunities for delivery of social value in the Borough, which may be an outcome or requirement of the Green Heat Network award.

3.1.8 This is the recommended option.

3.2 Option 2: Do nothing.

3.2.1 This option would require suspending work to decarbonise the five affected buildings once the LED and solar PV works are commissioned; works have already been underway to add LED lighting and procurement is ongoing for the application of solar PV to a canopy at Riverside House. This would require the Council to return the £124,990 already claimed of Public Sector Decarbonisation Funding to Salix, though the measures completed have good return on investment, hence their inclusion at the start of the project despite the risks identified.

3.2.2 However, taking no action would not result in the decarbonisation of the Council's estate by 2030 or support the Council's Net Zero borough by 2040 target. Additionally, the existing boilers at the Museum, Town Hall and one at the Civic Theatre are at end of life and will require capital investment to replace. The estimated cost of these works is £240,000.

3.2.3 A comparison of costs against options 1 and 2 is included in Appendix 1 (exempt).

3.2.4 This option is therefore not recommended.

3.3 Option 3: Progress with Air Source Heat Pumps (ASHPs) on each site.

3.3.1 In this option the Council could continue to decarbonise the five buildings and undertake new surveys and designs to progress with ASHP on individual sites. This option would require additional allocation from the existing Councils Council Decarbonisation Programme capital budget and would have additional revenue requirements as ASHP's are generally more expensive than heat networks to run.

3.3.2 The Council would not be able to use the existing PSDS grant funding for this work. Therefore, it would need more allocation from the existing Councils Council Decarbonisation Programme capital budget to deliver this option or apply for a future PSDS funding round for the boilers that are at the end-of-life and haven't had to be replaced. A further compliant procurement process would also be required given the change in scope to what was originally advertised.

3.3.3 This option would support the Council's Net Zero 2030 target but is more expensive than the heat network option and would not support the delivery of a town centre heat network or the achievement of the Net Zero Borough by 2040.

3.3.4 This option is therefore not recommended.

4. Consultation on proposal

4.1 There has not been any public consultation on this proposal.

4.2 Consultation will be required as part of the planning requirements for delivery of a Borough wide heat network. This will be the responsibility of the supplier.

5. Timetable and Accountability for Implementing this Decision

5.1 Grant funding requires work to be completed on site by 31 March 2025, after which any capital works outstanding will have to be funded from the Council's allocated decarbonisation budget.

5.2 The accountability for implementing this decision and the delegation of subsequent contract award associated with delivery of this project and future changes to the technical delivery of this project is proposed to sit with the Assistant Director of Property and Facilities Services.

6. Financial and Procurement Advice and Implications

6.1 The procurement context is that a local area is only ever likely to be served by one heat network because it does not make economic or technical sense to have two pipe networks serving the same locality. The Government recognises this locally monopolistic position and is addressing this through regulation brought in as part of the Energy Act 2023.

6.2 The current organisation which has submitted a bid has been successful in being awarded a significant Government grant of £25 million for the Rotherham heat network. This suggests that the organisation would be the only entity capable of providing low carbon heat in the area, because very few networks are economically viable without grant. The Council published the PIN referred to above to validate this position. However, two responses were received and for this reason, the Council embarked on a full formal procurement process utilising the open procedure as part of the Public Contract Regulations 2015.

6.3 Only one bid was then received in the procurement process. As a result, procurement law permits the Council to negotiate with the organisation that submitted a bid within certain parameters to conclude the contracts set out below for enabling and connection works and for the supply of low carbon heat. If Cabinet approves Option 1, then the Head of Procurement (and legal advisors as necessary) will be consulted to ensure that both any negotiations and any subsequent award are within the required procurement parameters.

6.4 It is noted that any required decision under paragraph 69 of the Council's Finance and Procurement Procedure Rules will be sought as appropriate and in accordance with those Rules before any award of any contract is made.

6.5 The financial implications associated with this report are included within the exempt Appendix 1 (exempt). As a result of delays to the Heat Network development, grant funding deadlines will not be met, so therefore if the Council is to progress this proposal, additional Council capital funding will be required from the approved Capital Decarbonisation budget. In addition, there are ongoing revenue implications if this proposal is accepted.

7. Legal Advice and Implications

7.1 Once an award can be made, the Council would conclude connection agreements and heat supply agreements with the relevant organisation.

7.2 The connection agreements include enabling works to the Council buildings to better insulate them and prepare them to receive heat from a heat network, for example by installing larger radiators. They also include all the works and pipe installation necessary on Council land from the boundary of the property up into the heat network equipment installed in the building, often in the old boiler room.

7.3 Connection agreements have reasonably standard terms within the market and officers will negotiate, with guidance from the Council's solicitors, acceptable terms which allocate risks appropriately between the supplier and the Council, within the parameters permitted by procurement law. Usually, the terms for connection agreements include the supplier taking the risk in the majority of instances for time or cost overruns associated with the works.

7.4 Heat supply agreements would be entered into with the supplier to regulate the obligations to provide the heat and how much the Council will be charged for it. Once again, officers would negotiate acceptable terms with the supplier with appropriate legal support. These are long term agreements which compel the Council to purchase heat over a minimum of 20 years, but which 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 would benefit from the new suite of protections under the Energy Act 2023, which is highly likely to include protection for the Council from disproportionate pricing, poor customer service and poor reliability. The proposals are for OFGEM, the new regulator of heat networks, to step in where any operator is not performing to the minimum standards required. The new protections have not yet been set out in draft regulations, but it is anticipated that the new regime might have some positive impact compared to the proposed risk profile under the contracts. It is anticipated, but not guaranteed, that the measures to increase protections for heat network customers have cross party support so is likely to pursued by whichever party or parties form the Government after the general election.

8. Human Resources Advice and Implications

8.1 There are no identified human resources implications of this proposal.

9. Implications for Children and Young People and Vulnerable Adults

9.1 There are no identified implications for Children, young people, or vulnerable adults.

10. Equalities and Human Rights Advice and Implications

10.1 There are not expected to be any significant implications for equalities and human rights as the works relate to Council properties.

10.2 An initial equalities screening assessment is available at Appendix 2.

11. Implications for CO2 Emissions and Climate Change

11.1 The recommendations are expected to reduce the carbon emissions of the Council's operational estate and will therefore contribute to the Council's Net Zero by 2030 target. A low carbon heat network is defined as having a carbon intensity of <100g CO_2e/kWh. The heat network described as part of the tender exercise is estimated to have an intensity of approximately 59g CO_2e/kWh, with plans to be net zero by 2030.

11.2 Heat networks supply multiple buildings reducing the need for individual boilers in every building. The connection to a town-centre low carbon heat network will reduce carbon emissions, providing an alternative to high carbon gas boilers. This also presents an opportunity for others to connect with the potential for significant carbon emission reductions across the town centre.

11.3 If all gas heating systems in Council buildings were replaced by air source heat pumps or connections to low carbon heat networks, then greenhouse gas emissions from heating Council buildings could be cut to approximately 300 tCO_2e by 2029/30, due to the projected decarbonisation of UK electricity over the same period.

11.4 Emissions from gas heating in Council buildings are too great to be offset by tree planting. Net additional trees in woodland settings delivered under the Council's tree planting strategy will sequester approximately 20 tCO_2e per annum, by 2030.

11.5 In contrast, emissions from heating systems which are powered by electricity e.g., air source heat pumps, can be 'netted off' against renewable electricity purchased or generated by the Council.

11.6 It would therefore not be possible for the Council to achieve its Net Zero by 2030 climate change target, without replacing all existing gas heating systems in Council buildings with low carbon alternatives. This proposal forms part of this work.

11.7 A carbon impact assessment is available at Appendix 3.

12. Implications for Partners

12.1 There are not expected to be any implications for the existing Council's partners.

13. Risks and Mitigation

13.1 Risks are identified within the appendices of this report. In addition, a more detailed and specific risk assessment will be carried out as part of the overall feasibility and project development and delivery.

13.2 **Risk:** Rotherham-wide heat network project doesn't complete. There is a risk that if the project doesn't complete, i.e., a heat network is not delivered, HM Treasury will require the utilised capital grant funds to be returned. The actual construction and commissioning of the heat network itself is outside of the Council's control.

Mitigation: The decarbonisation fund is available if necessary to pay back Salix. The works undertaken to date include LED lighting and solar PV installation which are both energy efficiency and money saving interventions of benefit to the Council. The project was designed specifically in this way to account for the likelihood of grant clawback and was proposed in the original Cabinet paper in September 2023 as a risk reduction measure. This risk links with additional commercially sensitive risks and as such further detail is available in Appendix 1 (exempt).

13.3 **Risk:** Revenue costs for heat increase and cannot be effectively managed due to changes in heat network pricing methodology during the lifecycle of the supply contract. This is expected when the supplier achieves net zero carbon as the supplier's energy source may change, resulting in the need for additional renewable contracts which may be more expensive.

Mitigation: This can be mitigated to some extent through partnership working and inclusion of benchmarking clauses in contracts to ensure best value for money is achieved. Whilst this does not completely remove this risk, it allows for a more transparent and collaborative relationship with the supplier.

13.4 **Risk:** Government has passed legislation that stops the use of Gas Boilers in new buildings by 2025 and any overall replacement of boilers in existing buildings by 2030. This will mean that the Council will need to identify alternative "renewable" sources as part of its long-term planning. Due to the complexities of the estate, conservation matters, land ownership and planning restraints, many renewable alternatives are not adequate or deliverable at this stage, therefore leaving the Council with limited options to operate its buildings and services.

Mitigation: Ensuring effective plans are in place, categorising buildings for the best possible type of renewables that can be implemented in the most cost-effective way is required to mitigate. A significant element of this, and one heavily endorsed by industry and Government, and funded by Government, is the move to centralised District Heat Networks in Towns, Cities and Communities.

14. Accountable Officers

Kevin Fisher, Assistant Director Property and Facilities Services

Approvals obtained on behalf of Statutory Officers: -

	Named Officer	**Date**
Chief Executive	Sharon Kemp OBE	20/06/24
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	18/06/24
Assistant Director, Legal Services (Monitoring Officer)	Phil Horsfield	18/06/24

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