

ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	21 st September 2022
EXEMPT	The report is not exempt but the appendices are exempt as follows:- Appendix 11.1: Financial Implications: Para 8: estimated expenditure on contracts Appendix 11.2: Investment Grade Business Case: Para 8: estimated expenditure on contracts Appendix 11.3: Business Case, update Aug 2022: Para 8: estimated expenditure on contracts
CONFIDENTIAL	N/A
REPORT TITLE	Torry Heat Network – Fourth Progress Report
REPORT NUMBER	RES/22/204
DIRECTOR	Steve Whyte
CHIEF OFFICER	John Wilson
REPORT AUTHOR	Bill Watson
TERMS OF REFERENCE	1.1.2, 1.1.7, 2.1.1, 4.1

1. PURPOSE OF REPORT

- 1.1 This report updates the Committee on the progress made with the construction aspects of the Torry Heat Network project and seeks approval of a number of recommendations.

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 approves the proposed scope for the next phase (Phase 2) of the Torry Heat Network project detailed within section 3.1 of this report;
- 2.2 approves expenditure on this project being increased, as described in exempt appendix 11.1, following receipt of the noted grant offer of £5.617m from the Scottish Government, towards the next phase (Phase 2) of the Torry Heat Network project;
- 2.4 subject to the associated expenditure in recommendations 2.2 being approved, approves the conclusion of call-off contracts with the Council's framework Contractor for the design and build of Phase 2;
- 2.5 authorises the Chief Officer Corporate Landlord to enter into commercial discussions with Grampian Housing Association with regard to the potential

supply of heat to their proposed mixed-use re-development of the former Victoria Road school, and report the outcome to a future meeting of this committee; and

- 2.6 authorises the Chief Officer Corporate Landlord to enter into commercial discussions with Ark Housing Association with regard to the potential supply of heat to their Balnagask Court premises, and report the outcome to a future meeting of this committee.

3. CURRENT SITUATION

- 3.1 The extent of the proposed infrastructure within Phase 2 of the Torry Heat Network is:

- extend the main spine heat distribution pipe network by connection with the heating network being delivered under the previously approved Phase 1 Torry Heat Network project to be capable of supplying heat to:
 - an additional (circa) 500 homes;
 - the new Torry Primary School and Community Hub;
 - Grampian Housing Association's Victoria Road School site (circa 50 homes); and
 - Ark Housing Association's Balnagask Court premises (17 homes).
- new internal installations, heat metering and heat supply pipes to the new Torry Primary School and Community Hub; and
- new internal installations, heat metering and heat supply pipes to an additional (circa) 500 homes.

- 3.2 The Council has received an offer of a capital funding grant to the value of circa £5.617m from the Scottish Government's Heat Network Fund towards this next phase of this Network. This offer has been accepted by the Council, utilising delegated powers.

- 3.3 Should the recommendations in this report be approved, work will continue/commence on a number of workstreams:

- 3.3.1 The supply, construction and installation of the network infrastructure is to be contracted out. The works will be procured in accordance with the Council's Procurement Regulations via a call-off from a pre-existing bespoke framework agreement for this project;

- 3.3.2 Road closure consents and planning permission are to be obtained, via the usual application processes; and

- 3.3.3 The assistance of the utility suppliers, who have services running in the vicinity of the proposed district heating network infrastructure, is to be obtained.

4. FINANCIAL IMPLICATIONS

4.1 The financial implications relating to this report are outlined in an exempt appendix attached to this report.

5. LEGAL IMPLICATIONS

5.1 The proposed investment by the 'state' (Aberdeen City Council) to create a heat network is considered to be a low subsidy control compliance risk due to the clear compliance with Scottish, UK and EU policy with regard to the creation of low carbon heat networks. Legal advice was obtained at the outset of this project (under EU State Aid rules) and the proposals have been designed to ensure that this risk remains low.

5.2 The proposals have been developed in a manner which takes into account current and proposed regulations for the suppliers of heat. This includes the Heat Networks (Scotland) Act 2021 (in so far as it is currently developed, further detail on the scheme is being introduced in stages, but a fully functioning regulatory regime is not expected until early 2024) and the Heat Networks (metering and billing) Regulations 2014.

5.3 With the exception of calls from the Scottish Government for the UK government to urgently bring forward its proposed market framework for heat networks in order to put in place the much needed consumer protection in the sector, there is no other relevant legislation, foreseen at present, that needs to be accounted for.

5.4 If agreements were to be entered into for heat supply to housing association owned blocks in the future, further advice shall be sought from the property legal team as to what legal rights need to be secured with regards to the installation of District heating network infrastructure within the boundaries of these sites.

6. ENVIRONMENTAL IMPLICATIONS

6.1 Phase 1 and 2 combined will help reduce the City's carbon emissions by an estimated 64,673 tonnes CO2e over 40 years.

7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
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Strategic Risk	Potential for non-delivery of Heat Network project, which would negatively impact on the development of a Low Carbon regional economy	Proposals have been prepared, which deliver on this strategic requirement.	L	Yes
Compliance	<p>Non-compliance with subsidy control rules</p> <p>Delay in securing legal rights to lay the Heat Network infrastructure over jointly owned property (including a right of access for operation and maintenance)</p>	<p>External legal advice was obtained at the outset of the project (under EU State Aid rules) and is to be followed.</p> <p>A significant programme allowance has been allowed against this risk, in this Report</p>	<p>L</p> <p>M</p>	Yes
Operational	The EfW plant becoming operational later than programmed.	It is proposed that the number of houses that are connected to this network are restricted, within this proposed phase, until the EfW plant is fully operational.	L	Yes
Financial	The bids received for the Construction and installation of the network are in excess of the reported budget costs.	A contingency sum has been allowed for (in this Report) so as to manage this risk. In the event that all bids come in over budget, a range of options would be	M	Yes

		presented to Council for consideration.		
Reputational	Potential for non-delivery of Heat Network project	Proposals have been prepared, which deliver on this core requirement.	L	Yes
Environment / Climate	Non-delivery of this project will have a significantly adverse impact on the City's carbon emissions.	Proposals have been prepared, which deliver on the core requirement of reducing the City's carbon emissions.	L	Yes

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN 2022-2023</u>	
	Impact of Report
Aberdeen City Council Policy Statement <u>Working in Partnership for Aberdeen</u>	This project will contribute towards: <ul style="list-style-type: none"> - maximising community benefit from major developments - the development of the non-oil and gas economic potential of the city.
<u>Aberdeen City Local Outcome Improvement Plan</u>	
Prosperous Economy Stretch Outcomes	The construction programme for this heating project will support the local economy, employment and training during a period of relatively subdued construction activity.
Prosperous People Stretch Outcomes	The Council is committed to improving the key life outcomes of all people in Aberdeen City. The availability of affordable heating contributes to this objective by providing choice and opportunities which would otherwise not be available
Prosperous Place Stretch Outcomes	The Council is committed to ensuring that Aberdeen is a welcoming place to invest, live and visit and

	operate to the highest environmental standards. The availability of low cost, low carbon heating contributes to this objective.
Regional and City Strategies	The proposals within this report support the desire for Aberdeen to be a sustainable and smart city which meets the needs of present and future generations.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required for this report. This will, however, be relevant to the future operating business case
Data Protection Impact Assessment	Not required for this report. This will, however, be relevant to the future operating business case
Other	

10. BACKGROUND PAPERS

- 10.1 Special Council meeting on 24th October 2016, decisions
- 10.2 Communities, Housing and Infrastructure Committee on 24th January 2017, report
- 10.3 Communities, Housing and Infrastructure Committee on 24th May 2017, report
- 10.4 Council, 4th March 2019, report Joint Energy from Waste Project Contract Award
- 10.5 General Services Capital budget 2022, approved 7th March 2022.
- The Heat Network budget is listed under “Fully Legally Committed Projects” on page 3.
- 10.6 Housing Revenue Account budget 2022, approved 7th March 2022.
- The Torry Heat Network aspects fall under section 3.3 on page 275 of the (Public Pack) Agenda Document for Council.
- 10.7 City Growth and Resources on 28th October 2020, “Torry Heat Network – Third Progress Report”

11. EXEMPT & CONFIDENTIAL APPENDICES

11.1 Financial Implications

11.2 "Torry Heat Network Phase 2, Investment Grade Business Case with Options Appraisal", WSP, September 2021.

11.3 "Torry Heat Network Phase 2, Business Case – Interim Update", WSP, August 2022.

12. REPORT AUTHOR CONTACT DETAILS

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