

ABERDEEN CITY COUNCIL

COMMITTEE	Capital Programme Committee
DATE	15 September 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Torry Heat Network
REPORT NUMBER	RES/22/194
DIRECTOR	Steve Whyte
CHIEF OFFICER	John Wilson
REPORT AUTHOR	Bill Watson
TERMS OF REFERENCE	1.1

1. PURPOSE OF REPORT

The purpose of this report is to update the Committee on the progress of the Torry Heat Network.

2. RECOMMENDATION(S)

That the Committee:-

2.1 Notes the current on-going work leading to the anticipated completion of the construction of the approved phase of the Torry Heat Network by late 2023, depending on weather and availability of materials world-wide.

3. CURRENT SITUATION

3.1 During 2016 it was recognised that a district heating infrastructure project in Torry might be viable, given that heat (reserved by a SEPA license for a heat network) was expected from the EfW project.

3.2 The extent of the proposed infrastructure within the phase of the Heat Network that was approved by the City Growth and Resources Committee on 28 October 2020 is:

- a Heat Distribution Facility (containing controls, valves, heat buffer tanks and back-up boilers and other equipment required to effectively operate and supply heat to the district heating network). It is proposed that this facility will be located within the former Waste Transfer Station building, Greenbank Crescent, Tullos (i.e. immediately adjacent to the EfW site);
- the main spine heat distribution pipes from the Heat Distribution Facility (routed underneath the Aberdeen to Dundee railway line) so as to connect with the existing heating network in Torry) to supply heat for 146 homes (to the 3 high rises) and 3 public buildings (Deeside Family Centre, Provost Hogg Court and Balnagask House): sufficient for the future district heating needs of Torry, and a potential future connection to the city centre network;
- new internal installations, heat metering and heat supply pipes to Tullos Primary School and Torry Social Work office; and
- new internal installations, heat metering and heat supply pipes to an additional (circa) 150 homes to Balnagask Circle, Balnagask Court and the Farquhar Road stub blocks, i.e. that upon completion of this phase of the Network, circa 296 homes will be provided with heat from the EfW plant.

3.3 The Council has received an offer of £5.787m as a capital funding grant from the Scottish Government's Low Carbon Infrastructure Programme (LCITP) towards the approved first phase of this Network.

3.4 The Scottish Government, in addition, invited the Council to apply for a second grant, so as to assist with the delivery of a further phase of this Network. The City Growth and Resources Committee, on 28 October 2020, approved the use of the budget for the project (that is not required for the first phase of works) being used as match-funding against a future grant application. This second grant application was submitted by end of September 2021. This application has now resulted in an offer of a further circa £5.6m grant to the Council.

It is proposed that a report will be presented to City Growth and Resources Committee on 21st September 2022, seeking instructions as to the potential development of a Phase 2 of this Network.

Project Progress

3.5 The Council have appointed specialist Engineers and Solicitors to assist with the various aspects of the project, including: design, specification, and contracts.

3.6 Network Rail have entered a Basic Asset Protection Agreement (BAPA) with the Council. Network Rail have granted the Council a Deed of Servitude. Network Rail have granted the Council full Engineering approval for the construction of an Under Track Crossing. The Council has, in addition, put in place the insurance

policies recommended by its insurance broker, taking into account the specialist nature of these works.

3.7 The Council has appointed Barhale to construct this access route (under the rail track) from Tullos Primary School playing fields to Greenwell Road, in preparation of the district heating pipes being pulled through in autumn/winter 2022/23.

3.8 The Council has appointed Vital Energi as its Main Works district heating contractor. The construction and commissioning of the main infrastructure of the approved phase is currently programmed for completion in Spring 2023. The progress of the construction works remains consistent with this being achieved. It is planned this will then be followed by the noted (item 3.2) additional house connections throughout the rest of 2023.

3.9 It is noted that the Main Works contract was procured through a framework mechanism, so as to facilitate rapid commencement of subsequent phases of works, e.g. should a future City Growth and Resources Committee instruct that Phase 2 works be undertaken.

3.10 The Council has commenced the first stage of procuring an Operations Contractor. It is intended that there will be an extended soft landing from the Main Works contractor to the Operations Contractor.

3.11 Summary of anticipated Phase 1 programme:

Milestone	Indicative Timescale
UTX D & B Contractor appointment	August 2021
Second grant application submission	Autumn 2021
UTX design & Network Rail approval process	Autumn 2021 to Spring 2022
Main Works design & approval processes	Autumn 2021 to Spring 2022
Main Works D & B Contractor appointment	December 2021
Main Works infrastructure works commencement	Spring 2022
UTX works commencement	Summer 2022
Second grant application decision	Summer 2022
Phase 2 report to City Growth and Resources	Autumn 2022
UTX works completion	Autumn/Winter 2022
Main Works infrastructure works completion	Spring 2023
House connections commencement	Spring 2023
House connections completion	Winter 2023

UTX: Under Track Crossing, D & B Design & Build

3.12 It should be noted that there is still a significant risk that external impacts may continue to impact on the above anticipated delivery timeline and budget. Refer to Section 4. These are external impacts, such as, but not limited to;

- Impacts to the supply chain and on-site resource due to the sustained impact of COVID-19 and the emergence of new variants.
- Brexit
- A nationwide, built up demand for construction materials which has been evident throughout the industry since early May 2021.
- Construction inflation
- Further financial risks from the war in the Ukraine resulting in supply chain volatility, and rising inflation, to levels not seen for four decades.

4. FINANCIAL IMPLICATIONS

4.1 The Torry Heat Network forms part of both the General Fund Capital Programme and the Housing Capital Programme approved by Council on 7 March 2022. In addition, a first grant award has been made by the Scottish Government's Low Carbon Infrastructure Transition Programme.

Budget	
General Fund Capital Programme	£15.000m
Housing Capital Programme (2022-2024)	£3.804m
LCITP grant	£5.787m
Total of available budgets	£24.591m
Spend to date	
Total to end of Q1 2022/23	£5.754m

4.2 The current estimated capital cost of the approved phase is £14.5m.

5. LEGAL IMPLICATIONS

5.1 None at this time.

6. ENVIRONMENTAL IMPLICATIONS

6.1 Phase 1 will help reduce the City's carbon emissions by an estimated 32,692 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)	*Does Target Risk Level

			*taking into account controls/control actions	Match Appetite Set?
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 State Aid 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>Compliance with future Heat Network Regulations</p>	<p>External legal advice has been obtained and is to be followed.</p> <p>A significant programme allowance has been allowed against this risk, in this Report</p> <p>The specification and financial model allow for the additional costs that may arise from the legislation currently being considered by the Scottish Parliament</p>	<p>L</p> <p>M</p> <p>L</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

	An operator cannot be found to operate and maintain the district heating network.	It is intended that an operations contractor will be appointed prior to the acceptance of the tender for these installation works.	L	
Financial	<p>The bids received for the Construction and installation of the network are in excess of the reported budget costs.</p> <p>Revenue costs requiring further ACC funding</p>	<p>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 presented to Council for consideration.</p> <p>Once the majority of the envisaged customers have signed-up to these new heat supply arrangements it is envisaged that revenue independence will be secured. Until this has happened this project may require revenue support over a period of time. Proposals are be presented a future Committee with a view to managing this cashflow risk.</p>	<p>M</p> <p>M</p>	Yes
Reputational	Potential for non-delivery of Heat Network project	Proposals have been prepared, which deliver on this core requirement.	L	Yes

	Potential for cost of heat not to be lower than the alternatives	Heat charging proposals will be presented a future Committee with a view to the objective of lower cost heat being achieved.	L	
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.
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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 2021-22 to 2025-26, approved 10th March 2021

The Heat Network budget is listed under “Projects with indicative budgets” on page 118 of GF Appendix 2.

- 10.6 Housing Revenue Account budget 2021-22, approved 10th March 2021.
The Torry Heat Network aspects fall under section 3.3 of the appendix 2.1.
- 10.7 Items 9.9 and 14.3 Torry Heat Network - Third Progress Report; City Growth and Resources Committee; 28th October 2020
- 10.8 Item 8.9 Torry Heat Network; Capital Programme Committee; 22nd September 2021

11. APPENDICES

None

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