



ADUR & WORTHING
COUNCILS

**Record of Officer
Executive Decision** DforS&R/027/23-24

Date of Decision: 23 February 2024

If you have any questions about this decision please contact Democratic Services on 01903 221006 or email democratic.services@adur-worthing.gov.uk

Record of Decision: DforS&R/027/23-24 Worthing Heat Network : Letting of contract to design, build, fund, operate and maintain a low carbon heat network for Worthing Town Centre

Decision taken by: Director for Sustainability & Resources, in consultation with Cllr John Turley Cabinet Member for Resources, and Cllr Sophie Cox, Cabinet Member for Climate Emergency

Declaration of Disclosable Pecuniary Interests: I do not have a disclosable pecuniary interest, or conflict of interest.

Delegated authority: JSS-C(W)/70/22-23 (6 March 2023)

ii) Delegated authority to the Director for Sustainability & Resources, in consultation with the Cabinet Members for Resources and the Climate Emergency to:

i) Negotiate final terms and enter into the Concession Agreement on behalf of Worthing Borough Council

ii) Negotiate and enter into the Connection Agreement and Heat Supply Agreement for all Worthing Borough Council buildings listed at Section 4.25

iv) approved and authorised the appointment of Worthing Borough Council as the golden shareholder in the Special Purpose Vehicle as set out in this report and to authorise the Chief Executive Officer or their delegated nominee, in consultation with the Leader of the Council to take all actions and make all decisions required of the golden shareholder under the contractual arrangements with the appointed concessionaire.

Decision:

To award the contract for the delivery of the Worthing Heat Network, subject to Conditions Precedent, to Hemiko.

To enter into Connection Agreements and Heat Supply Agreements for the following buildings:

- Worthing Town Hall
- Assembly Hall
- Portland House
- Connaught Theatre and Studio

Key Decision: Yes

Reason For Decision:

As set out in the JSC and JSSC reports listed below, the delivery of the Worthing Heat Network is demonstrably the most affordable way for the council to decarbonise both its own buildings and those across the town and will be a key milestone in the progress to deliver on the council's 2030 and 2045 carbon targets.

The immediate impact of the project will be the significant reduction in carbon emissions from the Borough Council and Hospital buildings (up to 3,000tCO₂e/year), with the expectation that as the network grows this carbon saving will increase.

Once established, local residents and organisations will be able to secure an offer of low carbon heat from the heat network that is demonstrably cheaper than the alternative low carbon form of heating (in most cases, air source heat pumps).

The significant reduction of gas combustion in the town will also improve local air quality.

The project has been supported throughout by funding and expert support from the Department for Energy Security and Net Zero, both through the Heat Network Delivery Unit and Heat Network Investment Project. This funding has allowed the council to appoint a considerable technical, commercial and legal consultancy team to assist in the procurement of the contract.

The use of Conditions Precedent allows the project to proceed at pace, subject to satisfactory resolutions on outstanding issues.

Procurement

A Competitive Dialogue process was conducted, with bidders invited to participate in 4 online meetings with the project team to firm up their proposals. Final bids were received in December 2022 and evaluated according to the agreed methodology.

The winning bidder scored highest in five of the seven areas evaluated.

Concession Agreement

The structure proposed, whereby the council and Worthing Hospital act as public sector anchor loads that justify private sector investment into an infrastructure project, will deliver long term benefits for all within Worthing whilst insulating the council from the financial risk and burden of running the heat network.

The Concession Agreement is the overarching document through which the heat network operation is covered. It includes the 'Golden Share', which enables the council to retain elements of control over the operation of the heat network and, in certain circumstances, the ability to terminate the contract. Through Reserved Matters, Pricing and Carbon controls, the council will retain the ability to ensure that the heat network operator will continue to deliver value for money for the town.

It is proposed that the Concession Agreement is signed with Conditions Precedent (CPs) in place. This enables further development of the project to continue (including the utilisation of Public Sector Decarbonisation Scheme funding for WBC buildings) whilst the

final contractual elements of the project are resolved. The Concession Agreement will not become 'live' until these CPs are resolved - hopefully by the end of March 2024.

The CPs to be included in the Agreement concern:

- Finance Documents are agreed by both parties
- Connection and Heat Supply Agreements are signed by initial WBC and NHS buildings
- A satisfactory conclusion to be reached regarding WSCC's 'Lane Rental Scheme', which currently proposes to levy a significant and unexpected cost burden onto the development of low carbon infrastructure in Worthing
- Energy Centre Lease and car park structural survey

Connection Agreement and Heat Supply Agreement

The Connection Agreement sets out the rights and obligations of both parties when making a connection to the heat network, essentially replacing (or supplementing) existing gas-network connections.

The Heat Supply Agreement acts as the ongoing transactional document between the offtaker and the heat network. This Heat Supply Agreement will have a minimum period of 14 years, after which the council can provide 12-months notice at any point to terminate the agreement and remove a building from the network.

Connection and Heat Supply Agreements are prepared for the following buildings:

- Worthing Town Hall
- Assembly Hall
- Portland House
- Connaught Theatre and Studio
- Worthing Museum

As noted in the JSSC in March 2023, Public Sector Decarbonisation Scheme funding will be used to part fund these connections and ongoing revenue costs have been included in future budgets.

The full list of contracts to be entered into shall be:

At execution of Concession Agreement

Concession Agreement

At Financial Close

Parent Company Guarantee

Equity Commitment Deed

On-Loan Agreement

On-Grant Agreement

Share Charge

Debenture

HNIP Amendment and Restatement

Connection Agreement x 5

Supply Agreement x 5

At Practical Completion of energy centre works

2 x leases at/next to car park

At Practical Completion of relevant pipe works

2 x pipeline leases at Homefield Park / Connaught Theatre

At Practical Completion of connection works (tbc subject to due diligence)

Pipeline lease at each connected building (x5)

Alternative Options Considered:

Extensive analysis was conducted prior to the launch of the procurement exercise that demonstrated that the provision of the heat network is the most affordable way to decarbonise heat for both the council and other stakeholders within the town centre.

Individual, building-level solutions are deliverable but place a considerable burden on each individual organisation (or resident) to procure and manage the installation - which, from both a capital and ongoing revenue perspective, will cost more.

Other Matters Considered:

Legal Advice and Issues	x	Financial Advice and Issues	x
Sustainability Issues	x	Equality Issues	x
Community Safety Issues	x	Human Rights Issues	x
Reputation	x	Risk Assessment	x
Health & Safety Issues	x		

Consultation:

Consultation has been ongoing with Cabinet Members, with a final consultation taking place on 21st February 2024, attended also by Catherine Howe, Chief Executive.

Considerable consultation has been conducted with officers internally, with Legal, Finance and Procurement colleagues all represented on the project board since its inception.

Additional internal consultation has occurred with:

- Planning
- Technical Services

- Place & Economy
- Major Projects
- Estates

Externally, University Hospitals Sussex NHS Foundation Trust has been a key partner throughout and they form the other half of the 'pioneer' connections to the network, having also secured Public Sector Decarbonisation Scheme funding.

Other external organisations consulted include:

- West Sussex County Council
- Davison School
- HM Courts and Tribunal Service
- Worthing Homes
- Environment Agency
- Sussex Police
- Greater Brighton Economic Board
- Roffey Homes
- St William Homes

Background Papers: Worthing Heat Network Letting of Contract
Carbon Neutral 2030 Worthing Heat Network Progress Update 16.3.22
Carbon Neutral 2030 Worthing Heat Network progress update 7.10.21

Contact Officer:

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Call-in: The call-in deadline for this decision will be 5:00pm on 1 March 2024

Date: 23.02.2024



Name:
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