



## OFFICER DECISION NOTICE

10 DECEMBER 2024

<b>REPORT TITLE:</b>	<b>BIRKENHEAD DISTRICT HEAT NETWORK – PROCUREMENT OF A PRIVATE SECTOR PARTNER</b>
<b>REPORT OF:</b>	<b>ASSISTANT DIRECTOR - CHIEF REGENERATION OFFICER</b>

### REPORT SUMMARY

The project comprises development of a new heat network serving a mix of buildings including new build residential, existing residential, new build commercial and existing commercial. The project forms an integral part of Birkenhead 2040 Regeneration Framework - one of the biggest brownfield redevelopment sites in the UK. This regeneration of Birkenhead will take place across nine areas providing 21,000 new homes and almost 1,000,000m<sup>2</sup> square metres of employment space over the next 20 years.

Within this regeneration, there are 8 catalytic projects, one of which is the Birkenhead Heat Network (BHN). In terms of actual building developments, the following projects will form the core heat loads of the BHN:

- Hind Street Urban Garden Village – over 1,000 new homes;
- Dock Branch Park – the development linking the south of Birkenhead with Wirral Waters;
- Birkenhead Commercial District – new offices and new market; and
- East West Cultural Axis – existing Birkenhead Town Hall and surrounding area

Under the proposals within this report the Council will act as enabler, helping to facilitate connection of these new developments to the BHN in conjunction with its preferred private sector investor.

The report seeks authority from Director of Finance to commence a procurement exercise, to select a private sector partner to design, build, finance, operate and maintain a district heat network for Birkenhead.

The report supports the Council Plan: Wirral Working Together 2023-27 specifically the Protecting our Environment, People-Focussed Regeneration and Safe, Resilient and Engaged Communities themes.

The decision affects the Birkenhead and Tranmere ward and is a Key Decision.

**RECOMMENDATION:**

That the Director of Finance authorise the commencement of a procurement exercise, to select a private sector partner which will ultimately be responsible for the design, build, finance, operation and maintenance of a district heat network within Birkenhead town centre, such process to be conducted through a concessionaire (evergreen) approach, via a competitive dialogue process.

## **SUPPORTING INFORMATION**

### **1.0 REASON FOR RECOMMENDATION**

- 1.1 The Chancellor's 2019 Spring Statement and Future Homes Consultation sets the commitment that fossil fuel heating will no longer be permitted in new homes from 2025. The UK Government estimates that around 18% of UK heat will need to come from heat networks by 2050 if the UK is to meet its carbon targets cost effectively. Heat Networks supply heat from a central source to consumers via a network of underground pipes carrying hot water.
- 1.2 On 15 July 2019, Wirral Council declared an Environment and Climate Emergency at a meeting of full Council, and through this committed to action to address the ecological and climate crisis. The Environment and Climate Emergency Policy recognised the importance of:
- achieving 'net zero' carbon emissions;
  - promoting sustainable regeneration;
  - managing our use of energy, water, and resources as efficiently as possible;
  - promoting a wider shift to non-fossil fuel clean energy sources.
- 1.3 Wirral's Cool 2 Climate Change Strategy 2019 includes an objective to generate and/or source all our local energy needs from zero carbon and renewable sources by around 2041 and commitment to progress heat networks. Provision has been made within the Local Plan to support the heat network through safeguarding of energy centre and mandating suitable buildings for connection to a heat network. Birkenhead Heat Network is listed as 1 of 8 catalyst projects in the Birkenhead Regeneration Framework.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options have been considered given the specialist nature of this commission.

### **3.0 BACKGROUND INFORMATION**

- 3.1 DESNZ Heat Network Delivery Unit (HNDU) has funded the Wirral Heat Mapping and Master planning study (2019) and Wirral Heat Network Feasibility Study (2020). The feasibility study looked at heat pump (air, ground, water, wastewater) geothermal, waste heat, biomass and gas combined heat and power technologies were assessed as options. A combination of open water from docks, tunnel water from Shore Road Pumping Station and wastewater from Birkenhead wastewater treatment works was identified as the priority option to serve planned new and existing development in Birkenhead.
- 3.2 Following this HNDU awarded grant funding and Liverpool City Region Combined Authority awarded match funding for the engagement of an external Project Manager and a Detailed Project Development study and OBC preparation.

- 3.3 Following the submission of the Outline Business Case (OBC) for the BHN earlier in the year, the Council were successful in securing additional funding from Department for Energy Security and Net Zero (DESNZ) via Green Heat Network Fund, to support the following activities to take the project through to commercialisation:
- Project development and financial /commercial advice & support
  - Technical advisor support
  - Legal advisor support
- 3.4 In July 2024 a procurement process was initiated via the Crown Commercial Services Demand Management & Renewables Framework – RM6314 (Lot 5) and as a result in October, The Carbon Trust under NEC3 Professional Services Contract, were appointed for a total sum of £348,311.00 to take forward the first two bulleted items in para 3.3 above.
- 3.5 Alongside this, Womble Bond Dickinson LLP were appointed to provide the relevant specialist legal advisor support to the project at a cost of £160,000, having been appointed via Crown Commercial Services, the provision of Public Sector Legal Services framework - RM6240 (Lot 1(a)).
- 3.6 An integral aspect of these respective commissions will be to prepare the detailed procurement and associated legal documentation to go to the market, to secure a private sector partner to deliver the scheme. Prior to initiating the formal tendering of the project, the Council recently undertook an exercise to raise market awareness of the project and the planned implementation approach, as well as to identify any factors which the market considers would prevent successful implementation of the planned approach. This piece of work was completed in November, which supported the development and agreement of the delivery strategy. As a result, the outline procurement programme is expected to be as follows:

Initiate procurement process for private sector partner	February 2025
Pre-qualification of private sector partner bidders	Spring 2025
Invitation to participate in dialogue	Spring 2025
Dialogue period	Spring - Autumn 2025
Bidder responses to submit final solutions	Autumn 2025
Final Business Case using information from procurment process	Winter 25/26
Selection of private sector partner	Winter 25/26
Signature of concessionaire agreement	Spring 2026

- 3.7 The detailed programme for development of the project will be prepared by the selected private sector partner. However, construction is currently envisaged to begin in late summer/early autumn 2026 with the initial network.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 The commercialisation and legal costs associated with the project, including the procurement aspects are being met from an award of £887,000 from Green Heat Network Fund which has now been received by the Council from DESNZ.

- 4.2 Financial modelling conducted for the OBC indicated that the scheme could achieve private sector investor return levels applying competitive tariffs. The project will be delivered through the authority procuring a private sector partner, (Energy Services Company - ESCo) via a concession route. The concession agreement will be between the Council and the appointed ESCo. Under the concession agreement the ESCo will be provided with the right to design, install, operate and maintain the network. Furthermore, in adopting evergreen approach, this will place all future financial and operating liabilities on the preferred ESCo in perpetuity.
- 4.3 As part of the concession agreement, the ESCo will take most of the risk and benefits from the building and running of the network. The ESCo will be required to source all capital funding for the project. Potential private sector partners will be required to set out their funding plan and the robustness and deliverability of this funding plan will be an important bidder evaluation measure.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 It is anticipated that the project will be procured under the Competitive Flexible Procedure under the Procurement Act 2023. The process will be developed so that it follows a structure similar to the current Competitive Dialogue Procedure.
- 5.2 A legally binding agreement between Wirral Council and the preferred private sector partner will be entered into and this will be managed by the Council's Legal Services.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 Existing staff resources from Regeneration and Place Directorate, Finance, Law & Corporate Services will be used support the appointed consultants to facilitate this piece of work.
- 6.2 There are no other direct staffing or ICT implications arising from this report.

## **7.0 RELEVANT RISKS**

- 7.1 Failure to proceed with the tender opportunity would have significant impact on the Council's ability to achieve the objectives set out in Wirral's Cool 2 Climate Change Strategy 2019 - to generate and/or source all our local energy needs from zero carbon and renewable sources by around 2041. Allied to this there is a risk of potential clawback from DESNZ through their Green Heat Network Fund investment.
- 7.2 There is a risk that the procurement exercise fails to identify a suitable private sector delivery partner, however we believe this risk to be low as there is strong interest in the project, as evidenced by attendance at the recent online Market Engagement event the Council facilitated in conjunction with The Carbon Trust.
- 7.3 Other potential risks include failure of the private sector delivery partner to secure planning consent and or the inability to secure an anchor load for the network. As part of the feasibility study, extensive consultations have already been undertaken with potential heat takers to identify demand levels. Planning colleagues have also been involved in the development of the Outline Business Case for the DHN and are

currently embedding planning obligations within any emerging regeneration schemes in Birkenhead, to prepare for connection to the network.

- 7.4 The governance of the project will enable the escalation and management of risks and issues. All risks and issues will be managed using risk and issues logs and the process will be supported by the Council's Corporate Risk Management structure and Project Management Office.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 The successful delivery partner will be expected to undertake significant consultation and engagement with potential off-takers (heat network customers). Planning consent will be required as the project develops, which will necessitate future consultation with a variety of statutory and non-statutory stakeholders.

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 The potential impact of the heat network programme has been reviewed with regard to equality and links to the existing EIA conducted for Wirral's Climate Emergency Action Plan and no amendments have been made. Therefore, the original EIA is still valid.

<https://www.wirral.gov.uk/communities-and-neighbourhoods/equality-impact-assessments/equality-impact-assessments-2017/delivery>

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

- 10.1 Heat networks will be vital to making net zero a reality in the UK. In recognition of their importance to the future energy mix, the Committee on Climate Change have estimated that around 18 per-cent of UK heat will need to come from heat networks by 2050, if the UK is to meet its carbon targets cost effectively.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

- 11.1 Heat networks are a proven, cost-effective way of providing reliable, efficient, low carbon heat at a fair price to consumers, while supporting local regeneration.
- 11.2 As part of the procurement process, potential delivery partners will be expected to demonstrate within their submission, how their proposal will derive social value within the borough.

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## **APPENDICES**

None

## **BACKGROUND PAPERS**

Wirral's Cool 2 Climate Change Strategy 2019  
The Chancellor's 2019 Spring Statement and Future Homes Consultation  
Wirral Heat Mapping and Master planning study (2019)  
Wirral Heat Network Feasibility Study (2020)

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
Officer Decision Notice	17 September 2024
Economic Regeneration & Housing Committee	22 January 2024