

Please note Part 2 report is now confidential appendix.

London Borough of Enfield

Portfolio Report

Report of: Sarah Cary, Executive Director Place

Subject: GLA Grant Funding for Energetik

Cabinet Member: Cllr Nesil Caliskan

Executive Director: Sarah Cary, Executive Director Place

Ward: All

Key Decision: 5253

Purpose of Report

1. The Council has successfully obtained grant funding of £1.2m from the Greater London Authority ('GLA') for an extension of Energetik's pipe network, and a retrofit project which will act as a pilot to test the feasibility of retrofit capability. This will advance the general London decarbonisation agenda, as well as providing a revenue stream for the company, improving the profitability of its business plan.
2. It is proposed that the GLA grant funding be invested in the Lee Valley Heat Network Operating Company Ltd (trading as 'Energetik') in the form of equity purchase and grant funding.

Proposal(s)

That the Leader of the Council:

3. Exercise executive function to authorise the purchase of a £750,000 equity stake in Energetik utilising GLA grant funding, and delegate authority to the Director of Law & Governance to authorise necessary shareholder resolutions to enact the issue of shares in Energetik;
4. Authorise the remaining £450,000 GLA grant funding being passed to Energetik by way of a grant; and
5. Delegate to the Executive Director - Place the authority to approve the documentation needed to implement the above arrangements, including the Grant Funding Agreement with the GLA, and agreements between the Council and Energetik.

Reason for Proposal(s)

6. The investment will enable the progression of a retrofit pilot project as well as the construction of key pipework at no net cost to the Council.

Relevance to the Council's Corporate Plan

7. Retrofit projects would potentially open up existing properties as well as new developments to be able to connect to the Energetik network, thereby increasing the coverage of low carbon heat sources and contributing to reduction of carbon emissions in line with the climate emergency declared by the Council.

Background

8. Energetik was incorporated in 2017, to deliver heat networks across the borough, primarily through the Meridian Water development (later extended to include Joyce & Snells development within the 2019 business plan update). The company has also incorporated some satellite schemes around the borough.
9. To date all network connections or proposed connections for Energetik have been new developments. Energetik has not had a plan to connect existing homes to its network. This is more difficult than for other energy companies, as Energetik does not supply utilities through national infrastructure, but requires its own infrastructure to supply, therefore rendering it less likely to be financially viable to connect existing properties

Main Considerations for the Council

10. The available GLA grant funding is proposed to be utilised for two purposes:
 - a. a retrofit project in South Street, accounting for £450,000. The project will seek to retrofit private properties, including flats, for supply from the Energetik network.
 - b. to increase the pipe-size for the current pipe-work design between the Edmonton ERF and Fore Street, facilitating the expansion of the network to Haringey and Hackney, accounting for £750,000.
11. The grant funding will be paid to the Council, and it is proposed to pass the funding on to Energetik as follows:
 - a. £750,000 for the pipe network works to be via an equity injection (i.e. the Council will purchase £750,000 worth of shares in Energetik);
 - b. £450,000 for the retrofit works to be via a grant from the Council to Energetik.
12. The outcome of the retrofit project (as per Energetik's operating plan) will be a report and seminar which will consider the lessons learned in terms of the likely cost and challenges to a wider retrofit rollout, and whether such a rollout may be feasible and beneficial.
13. The GLA grant funding will fund the project without cash input or loans from the Council as shareholder. As this is grant funding, it can be passed on to the company in the form of an equity investment and grant, as opposed to on-lending, meaning the company does not have to factor in interest costs to utilisation.
14. There is no net cost to the Council of this option, however the Council is required to approve the purchase of shares in any company through the use of executive powers. The Council will also be required to approve the issue of shares in its capacity as shareholder. Previous exercises in this regard have been undertaken, and the Director of Law & Governance has signed a written shareholder resolution to effect this, under delegated authority.

Safeguarding Implications

15. There are no safeguarding implications

Public Health Implications

16. The grant funding provided by GLA to pilot a retrofit project is unlikely to have any Public Health implications in itself. However, the project will advance the decarbonisation agenda as the retrofit will increase the coverage of low carbon heat sources and will contribute to the reduction in emissions, which is in line with Council's Corporate Plan.
17. Climate Change has been described as the greatest threat to Public Health in the 21st Century. The pilot project has the potential to lead to a wider retrofit rollout, which would have significant air quality benefits and actively contribute to the council's response to the climate emergency.

Equalities Impact of the Proposal

18. There are assessed to be no equalities impacts.

Environmental and Climate Change Considerations

19. Carbon emissions from buildings made up 38% of the borough total in 2018 and that the Council's Climate Action Plan has a target to reduce overall borough wide emissions to net zero by 2040. This includes by increasing the number of properties connected to Energetik.
20. Investing in the Energetik network improves the climate change impact within Enfield; when the network is fully operational, in use carbon emissions for a property being connected to the Energetik network should reduce carbon emissions by around 80% compared to gas heating.
21. The funding for the proposed extension to Haringey and Hackney will be utilised to increase pipe size, resulting in an increase in the reach of the network in the amount of around 20,000 homes, or 20MW, within Haringey.
22. The retrofit project funding is linked to the retrofit of 30 properties – 10 houses and 20 flats – resulting in lower carbon emissions linked to those homes.

Risks that may arise if the proposed decision and related work is not taken

23. The Council would lose the opportunity to investigate the feasibility of Retrofit for private properties and flats at zero net cost. The Council would either have to risk its own funds to run the pilot project, or it would have to abandon the idea and therefore the potential benefits.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

24. The company may overspend on the pilot project or pipework, affecting its financial performance for the year. The company's financial position is monitored generally through quarterly updates that will identify if the overall position planned for the year is under threat.

Financial Implications

25. There is no net cost or income to the Council as a result of this decision.

Legal Implications

11. The Council has power under Section 1(1) of the Localism Act 2011 to do anything which individuals generally may do provided it is not prohibited by legislation and subject to public law principles (the 'general power of competence'). Further statutory powers exist to establish and invest in Energetik, and the recommendations detailed in this report are in accordance with legal justifications previously reported to Cabinet for establishing and implementing the business, and the decisions taken.
12. The Council as shareholder must comply with the requirements of the Companies Act 2006 with regard to the equity subscription.
13. As the Council will be the signatory to the Grant Funding Agreement with the GLA, it will be responsible for ensuring compliance with the terms and conditions of that Agreement. Accordingly, the obligations and requirements imposed on the Council should be mirrored and passed down via documentation between the Council and Energetik (including the share subscription agreement).
14. The documentation entered into the Council in order to implement these arrangements must be in a form approved by Legal Services on behalf of the Director of Law and Governance.
15. External financial and legal advice has been sought to ensure that the proposed arrangements are lawful under the new subsidy control regime (which replaced the EU state aid rules in the UK as from 1 January 2021).

Workforce Implications

26. There are no workforce implications.

Property Implications

27. There are no implications.

Other Implications

28. There are no other implications

Options Considered

29. The Council could decline the proposed funding and the projects not go ahead. Given that the proposal has no net costs to the Council, there is no compelling reason not to proceed.

Conclusions

30. The Council should utilise the available GLA grant funding, invested by means of an equity investment and grant, to fund the pipework and retrofit pilot project.

Report Author: Will Wraxall
Shareholder & Commercial Partnerships Manager
Will.wraxall@enfield.gov.uk
0208 379 1265

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Appendices

Confidential Appendix: Proposed Energetik Operating Plan 2021-22

Background Papers

The following documents have been relied on in the preparation of this report:

Confidential Appendix: Proposed Energetik Operating Plan 2021-22