

# Key Decision Report

<b>Details of Leadership Team meeting and the earliest date the decision will be taken</b>	Shareholder Committee <b>Date of report:</b> 18/07/2022 <b>Date of decision (i.e. not before):</b> 18/07/2022	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
<b>Forward Plan ref:</b>	KD06235/22/B/A	
<b>Report title</b>	<b>First Shareholder Committee Meeting, 18 July 2022</b>	
<b>Reporting officer</b>	Dan Hawthorn, Executive Director, Housing and Social Investment	
<b>Key decision</b>	Yes	
<b>Access to information classification</b>	Public	
<b>Wards</b>	Notting Dale ward	

## 1. EXECUTIVE SUMMARY

- 1.1 The two existing heating networks at Lancaster West Estate are end-of-life and in urgent need of complete replacement. As landlord and freeholder, the Council is required to replace them to ensure heating and hot water services are provided to homes on the estate. The Notting Dale Heat Network business case, which has been part-funded by central government, confirms that a new modern heat network for the entire Estate is technically and commercially viable.
- 1.2 The new heat network will rely 100% on renewable heat sources and contribute toward the Council's carbon-neutral vision, providing affordable heating and hot water, whilst tackling fuel poverty.
- 1.3 [Leadership Team on 10 November 2022](#) agreed to establish:
  - A 100% Council-owned local energy company to design, construct, operate and maintain the Notting Dale Heat Network following the successful award, in August 2021, of HNIP grant funding.
  - The Company Board prior to the Financial Investment Decision, for the purpose of accepting the HNIP grant and committing to spend it by 31 March 2022, with the governance approach described in the Leadership Report.
- 1.4 All Leadership Team decisions relating to the Council's companies have been delegated to a new Shareholder Committee, which meets for the first time on 18 July 2022. The Shareholder Committee has 3 members based on relevant portfolios:
  - Cllr Johnny Thalassites, Lead Member, Finance & Customer Delivery (Chair)
  - Cllr Kim Taylor-Smith, Deputy Leader & Lead Member, Housing, Social Investment and Grenfell Recovery
  - Cllr Cem Kemahli, the new Lead Member, Planning, Place and Environment.

## 2. RECOMMENDATIONS

The Shareholder Committee is asked to note the Heat Network Programme update and is recommended to approve:

- 2.1 the final terms of the Shareholder's Agreement and Delegations Matrix.
- 2.2 a Combined Written Resolution authorising the change to Articles and approving the Heat Network Investment Project (HNIP) transactions
- 2.3 appointment of Susan Al-Safadi and Daniel Chin as two Resident Non-Executive Board Members,
- 2.4 appointment of a part-time interim Managing Director for 1 day/week from September 2022 in line with Delegations Matrix, which increases to 0.5FTE after Final Investment Decision and until the permanent Managing Director starts.

### **3 REASONS FOR DECISION**

#### **Shareholder's Agreement and Delegations Matrix**

- 3.1 As sole shareholder of the local energy company, the final terms of the Shareholder's Agreement need Council approval before the Shareholder's Agreement can be entered into.

#### **Combined Written Resolution**

- 3.2 On 8 February 2022 the Company Board approved for circulation to the Shareholder Committee a Combined Written Resolution authorising the syntax correction change to Articles and approving the HNIP Funding Agreement for funding of £1.116m grant towards construction of the Notting Dale Heat Network. This is shown in Appendix 2.

#### *Articles of Association*

- 3.3 A syntax error was included in section 1.2.4 of the Articles of Association for Notting Dale Heat Network Ltd when it was submitted to Companies House. A further update has been made to Section 21 of the Articles, Methods of Appointing Directors, to ensure consistency with the Shareholder's Agreement. This update has also been approved by the Company Board.

#### *Heat Network Investment Project Grant*

- 3.4 In August 2021 the Council was awarded £1.116 million grant towards construction of the Notting Dale Heat Network from the UK government's Heat Network Investment Project (HNIP).
- 3.5 Following successful negotiation with Triple Point (the Fund Manager), the amended Grant Funding Agreement was approved by the Executive Director, Housing and Social Investment Council on 23 December 2021. The Grant Funding Agreement was fully executed and sealed on 12 January 2022.
- 3.6 On 8 February 2022, the company directors confirmed their understanding of the HNIP Funding Agreement Documents, acknowledging that entry into the Funding Agreement had been approved by the Council as shareholder of the Company.
- 3.7 As the Shareholder Committee was only established in January 2022, for the sake of completeness, Bevan Brittan has advised that the new Shareholder Committee also approve the Grant Funding Agreement.

#### **Appointment of 2 Resident Board Members**

- 3.8 The two Resident Board Members have been recruited through a fair, transparent and equitable process. To encourage residents without previous board experience, non-executive director training was offered to residents on Lancaster West Estate. Ten residents attended the all-day training session.

- 3.9 The non-executive director training and role were advertised digitally and on local notice boards within Lancaster West Estate. The application pack provided information to applicants about Notting Dale Heat, the company structure, and remit of the non-executive director role. The pack was reviewed by Plain English and achieved Crystal Mark standard, to ensure the accessibility of the document to lay persons.
- 3.10 The 2 Resident Board Member roles were each advertised at a salary of £1,200 per year. This is in line a horizon scan of sector best practice. Independent Members of Council Committees are currently paid between £1,455 and £2,230.

### **Additional Board Recruitment**

- 3.11 The Lancaster West Neighbourhood Team, in partnership with the Resident Board Members, will recruit 2 Industry Board Members ahead of the third company Board meeting in Autumn 2022.

### **Managing Director**

- 3.12 The Council should only recruit and appoint the company's permanent Managing Director after Final Investment Decision, once there is certainty that the company will be designing, building, operating and maintaining Notting Dale Heat. The rest of the company Board also needs to be in place to recruit the permanent Managing Director, with the Industry Board Members only scheduled to be recruited by Autumn 2022.
- 3.13 In the meantime, an interim Managing Director is needed to:
- Lead development and present the Company's Business Plan as a registered Company Director. This is in line with good governance. With the input of the new Notting Dale Heat Board, the company Business Plan needs to be approved by the Shareholder Committee ahead of Final Investment Decision in March 2023.
  - Provide assurance that Notting Dale Heat is focussed on delivering a successful Phase 1 scheme at Lancaster West Estate, as well as expansion into Notting Dale ward and beyond.
  - Be the face of the company with potential commercial customers. This includes the stakeholder workshop, which is a key deliverable with the Cross Borough Energy Masterplan that is due to be delivered by December 2022.
- 3.14 The appointment of one part-time member of the Executive in September 2022 is proportionate to the stage of heat network development, 6 months ahead of Final Investment Decision. Only once the Council has given the green light for construction of the core scheme at Lancaster West, will the local energy company be fully resourced in line with the company's new Business Plan, which is being developed and will be presented in draft form for review at the next Shareholder Committee.

## 4. BACKGROUND

- 4.1 The Stage 3 concept design for the Notting Dale Heat Network has recently been updated with the vision to deliver the UK's most reliable heat network. As a result, the updated design uses a combination of a larger Air Source Heat Pump located on the roof of Kensington Leisure Centre, an electric boiler at Camelford Court Energy centre and a large thermal store (water battery) in a new building outside the leisure centre. Emergency back-up will be provided by the existing gas boiler in the leisure centre's plant room and temporary gas boilers if required.
- 4.2 In addition to improved reliability, the Notting Dale Heat Network will supply zero-carbon heating and hot water to homes and non-residential buildings across Lancaster West Estate from first 'Heat On' in 2024, which is 6 years earlier than planned.
- 4.3 Following two well attended Bidder's Days and extensive soft market testing, the heat network team is developing the tender packs for the project's two main procurements:
  - 1) Design and Build of the energy centre and primary network, together with Operations and Maintenance of the entire heat network
  - 2) Design and Build of the secondary and tertiary heat network inside residential blocks and homes at LancWest Estate
- 4.4 Section 20 Leaseholder consultation is due to start in July 2022, with the tender packs then issued.
- 4.5 Work to develop the Outline Business Case for Phase 2 expansion of the Notting Dale Heat Network into Notting Dale ward started in May 2022 and is on track to finish by the end of the year.
- 4.6 In parallel, the heat network team has worked with colleagues in both Kensington and Chelsea Council, and Hammersmith and Fulham, to develop the scope of works for a Cross Borough Energy Masterplan. This will help prioritise future heat network expansion opportunities and is currently being procured through a mini-competition from the GLA's Local Energy Consultancy Framework. This is again due for completion by the end of the year, ahead of Final Investment Decision.
- 4.7 Resident co-design of the Notting Dale Heat Network continues, with the project significantly benefitting from active resident input. Over 200 residents and 25% of Lancaster West Estate having been actively engaged through events and a resident heating survey. A Heat Network Roadshow was held across the Estate in May 2022.

## Resident Co-Design Progress to date



### Engagement

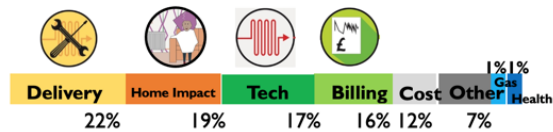
<b>Household Survey</b>	96 Residents
<b>Resident Working Group</b>	10+ Residents
<b>Resident Poll</b>	47 Residents
<b>Focus Group &amp; Webinars</b>	50+ Residents
<b>2030 Price Promise</b>	3 resident focus groups
<b>Energy Centre Roadshow</b>	50+ Residents
<b>Bramley House Webinars</b>	

### Next Steps

- Resident purchasing panel** - to appoint Phase 1 contractors.
- Local Energy Company** – appoint 2 Resident Board Members
- Extending Phase 2 engagement**

### Comment tracker

Over 200 comments and questions received from residents. Analysis: March 2022



- 4.8 The Council will also work closely with residents to design the local energy centre for the new local energy company as part of the new Neighbourhood Vision, helping to create a true community heat network that is council-owned.
- 4.9 A resident poll undertaken in summer 2021 has established that 86% of residents are in favour of a new renewable heat network, with 10% of residents on the estate already having responded to the survey so far.
- 4.10 The network will be a key strategic asset that could be expanded and replicated across the borough to support the Council’s net-zero carbon objective. Continually expanding the network and operating at scale will improve the operational efficiency of the network and help maintain affordable energy bills for residents.
- 4.11 ‘Notting Dale Heat Network Ltd’ was incorporated at Companies House on 31 January 2022. This local energy company will design, build, operate and maintain the Notting Dale Heat Network, and is 100% owned by the Council. It will trade as ‘Notting Dale Heat.’
- 4.12 The appointment of two Council Board Members was through nomination by Full Council on 26 January 2022, confirming appointment of:
- Liam McCusker, senior accountant at Kensington and Chelsea Council. One of the key reasons local energy companies have failed links to inadequate financial scrutiny. The company’s Financial Controller will attend all Board meetings, but not to vote. This enables the Council Board Member to constructively challenge all financial advice from the company accountant.

- Terry Oliver, the Council’s Director of Cleaner, Greener and Cultural Services. Terry leads the Council’s sustainability agenda and was appointed as interim Chair at the first Board meeting in January 2022.

4.13 The first Board meeting was held on 8 February 2022 at Baseline Studios, Lancaster West Estate, North Kensington. The two Council Board Members were appointed. Terry Oliver was also elected as interim Chair. The details of the first two directors had been entered into the Company’s Register of Directors.

4.14 Recruitment was successfully undertaken in May and June 2022 for two Resident Board Members, who are potential heat network customers.

4.15 Significant interest was expressed by Lancaster West residents in the 2 Resident Board Member roles. 10 residents attended Board Member training that was offered to resident in Notting Dale and beyond. A field of resident applicants were subsequently shortlisted for interview. 50% were women, and 62% were BAME. The interviews confirmed a really strong field of candidates living on the estate, many with significant relevant transferable skills and expertise.

## How will the heat network be managed?

Notting Dale Heat will have its own budget and be overseen by a management board. The board will include two residents. The board can make operational decisions independently, to ensure smooth day-to-day running of the heat network.

A Shareholder Committee will provide strategic oversight of the Notting Dale Heat Network. The Shareholder Committee will be a public meeting.



4.16 The Council’s Shareholder Committee was established in January 2022: [Creation of a Leadership team Shareholder Committee](#). Its purpose is to look after the Council’s interests and keep appropriate control and scrutiny of the Council’s companies. At this stage, the Council’s only company is its local energy company, Notting Dale Heat Network Ltd.

4.17 The Shareholder Committee will annually approve Notting Dale Heat’s 3-Year Rolling Business Plan. This company Business Plan is being drafted by the heat network team and will be presented to the Company Board on 27 July 2022. It will be updated based on feedback received and presented to the second Shareholder Committee meeting in Autumn 2022 for review.

4.18 The Business Plan will be brought back to the Company Board and Shareholder Committee for approval later in the calendar year, prior to the Council’s Final Investment Decision in the Notting Dale Heat Network in March 2023.

## 5. OPTIONS, ANALYSIS AND PROPOSALS

### Shareholder's Agreement and Delegations Matrix

- 5.1 Good governance for the local energy company ensures timely and robust decision making, as well as transparency for both taxpayers and heat network customers. Practical governance measures include: Memorandum and Articles of Association, Delegations Matrix, a Rolling 3-Year Business Plan, a Performance Guarantee, Financial Accounts and appropriate Local Energy Company Internal Policies and Procedures.
- 5.2 The Articles of Association define the local energy company's purpose as to:
- Design, build, operate and maintain the Notting Dale Heat Network and any other heat networks that the Company develops or assumes responsibility for;
  - Deliver affordable and zero-carbon heating, energy and hot water services to benefit the Company's customers;
  - Carry on all or any of the businesses of owning and operating the Notting Dale Heat Network, the generation of energy and to buy, sell, manufacture, repair, alter and exchange, let on hire and on hire purchase, export and import, and deal in articles and things of all kinds which may be required for the purposes of the said businesses, or any of them, or which may seem capable of being profitably dealt with in connection with any of such businesses or likely to be required by customers of or persons having dealings with the Company;
  - Carry on all or any of the businesses referred to in clauses above in such a manner that delivers benefits to the customers of or persons having dealings with the Company, including by providing excellent customer service, affordable energy to help tackle fuel poverty and conducting the said businesses reliably and in a manner that supports the decarbonisation and carbon-neutral targets for social housing stock in the Council's borough and of the Council's borough more widely;
  - Consider opportunities to expand the Notting Dale Heat Network within the Council's borough, into additional London boroughs or otherwise;
  - Remain sufficiently flexible to ensure the Council has the freedom to reinvest surplus profits generated by the Company in line with the Council's strategic objectives.
- 5.3 The 'Shareholders' Agreement' in Appendix 1 is a contractual agreement between the Council and Notting Dale Heat, where it is 100% shareholder. It sets the legal framework for the Council to look after its interests, setting out Shareholder Rights to protect the Council's investment in the local energy company and establish an appropriate division of responsibilities between the Council as shareholder and the company's Board. Such rights include for the Council to receive regular performance reports from the local energy company's executive and have access to underlying data. By so doing, this will enable the Council to undertake its own governance processes over and above any monitoring role the Council's appointees to the local energy company Board may perform.
- 5.4 The Delegations Matrix is included within Shareholder's Agreement. It ensures the Council retains control over any significant decisions that may affect the local



energy company, by retaining these for shareholder approval, whilst allowing the company's Board and Executive adequate freedom to be able to efficiently manage its day-to-day operations. It balances shareholder control with the need for operational flexibility, which is a key lesson learned in Section 12.5. The balance between Board and Shareholder powers is defined to ensure the Board cannot inappropriately influence decisions about long-term ownership of the company; or the level of Council subsidy in the Resident Price Promise (and associated funding requirement from the Council).

- 5.5 There is no separate written resolution approving entry into the Shareholder's Agreement as this approval is not required to be in the form of a written resolution (unlike the amendment to Articles and approval of HNIP transactions). Rather, this can simply be approved by a show of hands at the Shareholder Committee meeting.

### **Articles of Association**

- 5.6 The Memorandum and Articles of Association define what the local energy company will be allowed to do, and not do, both now and in the future. The Articles ensures the Council retains appropriate control over the company's Board through:
- The right for the Council, as shareholder, to approve in advance the company's Business Plan for each forthcoming year.
  - The right for the Council to appoint the majority of voting directors to the company Board.
  - The ability to influence the level of reporting to the Council as shareholder.
  - The right to reserve key decisions for shareholder approval, such as, any proposal for the Heat Network to be extended or whether to refinance in accordance with the Delegations Matrix.

### **Heat Network Investment Project Grant**

- 5.7 On 9 June 2021 the Leadership Team agreed to apply to the UK government's Heat Network Investment Project (HNIP) for an additional funding for the Notting Dale Heat Network and approve the use of any successful grant award to meet HNIP's spend deadline of March 2022.
- 5.8 In July 2021 the Council applied to HNIP for £1.116 million grant in Round 10 for the Notting Dale Heat Network. Through a competitive process, the Council was successful and was notified on 20 August 2021 that government was minded to offer £1.116 million grant (100% of what the Council asked for).

### **Appointment of 2 Resident Board Members**

- 5.9 The Shareholder Committee need to approve the appointment of the 2 Resident Board Directors, who have been selected following advertisement and a formal selection process.

## Appointment of Managing Director

5.10 Waiting to recruit a permanent Managing Director after Final Investment Decision is an option but creates a risk. An interim Managing Director is needed to:

- Lead development and present the Company's Business Plan. This is in line with good governance. With the input of the new Notting Dale Heat Board, the company Business Plan needs to be approved by the Shareholder Committee ahead of Final Investment Decision in March 2023.
- Provide assurance that Notting Dale Heat is focussed on delivering a successful Phase 1 scheme at Lancaster West Estate, as well as expansion into Notting Dale ward and beyond.
- Be the face of the company with potential commercial customers. This includes the stakeholder workshop, which is a key deliverable with the Cross Borough Energy Masterplan that is due to be delivered by December 2022

## Additional Board Recruitment

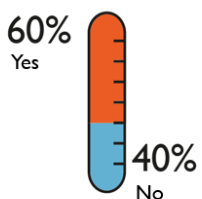
5.11 After Final Investment Decision in March 2023, the Shareholder Committee will be asked to approve recruitment of a third Industry Board Member as Independent Chair at a salary of £5,000 per year. This is in line with current market rates and recognises the need for a senior person within the heat network industry to chair and lead the company Board, paid at a higher level than the other Board Members.

## 6 CONSULTATION AND COMMUNITY ENGAGEMENT

6.1 The Notting Dale Heat Network has been co-designed with its residents and dedicated a Heat Network Engagement Officer, with over 200 residents and 25% of Lancaster West Estate actively engaged through events and resident heating surveys. 93 surveys were completed in 2021, outlining the following as priorities for residents:

### Resident priorities – initial surveys

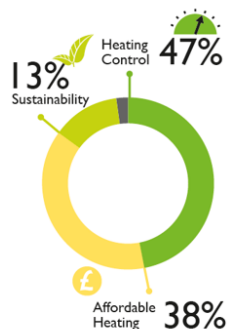
Do you heat your home to the level you would like?



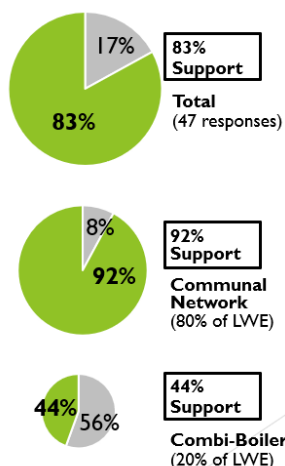
Why residents said no... over-heating, under-heating and lack of heating controls

Who said no...  
 24% Hurstway Walk  
 24% Testerton Walk  
 18% Clarendon Walk  
 12% Barandon Walk

Thinking about heating, what is your priority?



Do you support the heat network overall?



- 6.2 As the Business Case for Phase 2 expansion in Notting Dale ward is developed, residents beyond Lancaster West Estate will be consulted. The Council intends to again use the 'Resident Co-Design' model, which has helped strengthen the project at Lancaster West and engage the local community.
- 6.3 Ward Councillors for Notting Dale (Cllr Claire Simmons, Cllr Mona Ahmed and Cllr Marwan Elnaghi) have been engaged and briefed via the Lancaster West Refurbishment Programme Board, and separately.
- 6.4 The Lancaster West Residents Association (LWRA) have been engaged as part of the Resident Co-Design in 2021 and are supportive of the aims of project. The heat network team has obtained signed Heads of Terms with Kensington Aldridge Academy and is about to do the same with Kensington Leisure Centre, as the second large anchor load for Phase 1 of the heat network.

## **7 LEGAL IMPLICATIONS**

- 7.1 The Council set up Notting Dale Heat Network Ltd as a wholly owned subsidiary using its powers under the Local Government Act 2003 and under Section 1 of the Localism Act 2011, to set up a trading company to provide heating primarily to the residents in its housing estates.
- 7.2 The Leadership Team has set up a Shareholder Committee and delegated it the Council's decision-making powers to oversee the functioning of its wholly owned companies, including Notting Dale Heat Network Ltd.
- 7.3 The Shareholder Committee is authorised to approve on behalf of the Council the Shareholder's Agreement which clearly stipulates the prior approvals required from the Council by its wholly owned company in terms of strategic decisions and reserved matters.
- 7.4 The Shareholder Committee is authorised to approve the proposed recommendations on behalf of the Council for smooth functioning of Notting Dale Heat Network Ltd, including obtaining the grant funding from HNIP and formal appointment of the Directors on its Board.

## **8 FINANCIAL, PROPERTY, IT AND ANY OTHER RESOURCES IMPLICATIONS**

- 8.1 The report proposes appointing a part-time interim Managing Director, 2 Resident Board Members and an Independent Chair. The costs of these appointments will need to be met by the Company, which in turn is being funded through a combination of Council and external grant funding.

## **9 HUMAN RESOURCES IMPLICATIONS**

- 9.1 Notting Dale Heat will develop its own set of company policies, including policies on Recruitment and Equalities. In this interim period, Council Policies are being

applied, as the Notting Dale Heat Network Programme is being delivered by the Lancaster Neighbourhood Team.

- 9.2 The investment in a state-of-the art zero-carbon heat and hot water network will create opportunities to develop green skills and jobs in the local area, including longer-term job opportunities in the repair and maintenance of the heat network.

## **10 EQUALITIES IMPLICATIONS**

- 10.1 An Equality Impact Assessment of the Lancaster West Refurbishment has already been published and is monitored on a quarterly basis. It is publicly available online here: <https://www.wearew11.org/en/page/56075>.
- 10.2 The assessment identifies the positive impacts of the proposals. For example, high energy bills currently disproportionately impact larger more overcrowded households, which are more likely to be BAME on Lancaster West Estate. Combined with the deep retrofit of Lancaster West's blocks, the heat network will ensure that inequality and inequity of heating charges across different blocks on the estate is tackled with a consistent and equitable unit price for heating and hot water.
- 10.3 The heat network assessment also identifies a number of risks to people with particular protected characteristics arising from the proposed approach, along with a clear action plan to mitigate those risks as the programmes progress.

## **11 SUSTAINABILITY IMPLICATIONS**

- 11.1 The Notting Dale Heat Network core scheme would mean that 75,000 tonnes of carbon emissions will be saved over 40 years. Zero-carbon heating and hot water will enable the council to make significant progress towards its ambition to becoming net-zero by 2030 and the ambition for the Lancaster West Estate to also become net-zero by 2030.
- 11.2 When combined with the fabric-first approach being adopted by the Refurbishment Programme and the connection of the 'BREAAAM Excellent' Kensington Aldridge Academy, the Notting Dale Heat Network provides a model for the wider roll-out of residential and non-residential deep retrofits combined with a zero-carbon heat network.
- 11.3 There is a significant opportunity to use the Notting Dale Heat Network as a model approach to decarbonise both the borough's housing stock, and major developments in Kensington and Chelsea.
- 11.4 Decarbonising the borough's housing stock is inherently difficult for any local authority. The Notting Dale Heat Network provides the opportunity to make 100% renewable heating and hot water a reality for a significant part of the council's housing operations in the medium to long-term.

## 12 RISK MANAGEMENT

- 12.1 The recommendations in this report follow the principles of good governance and are based on lessons learned elsewhere.
- 12.2 The Shareholder's Agreement and Delegations Matrix provide a legal structure and clear delegation of powers, mitigating the risk of unclear roles and responsibilities.
- 12.3 The change in the Articles of Association doesn't materially change the risk profile for the Council or local energy company.
- 12.4 The Council and local energy company have already accepted the terms of the HNIP Grant Funding Agreement. Legal advice from Bevan Brittan is that for the sake of completeness, it is good practice for the newly established Shareholder Committee to accept these terms.
- 12.5 Recruitment of 2 Resident Board Members strengthens the company Board, ensuring customer voices are at the table when the company Board is making important decisions in line with the Delegations Matrix. One of the key lessons learned from other UK heat network projects, is that heat networks need to be designed with the final customers in mind. The Council's approach to Resident Co-Design exemplifies this approach, ensuring we put residents first.
- 12.6 Recognising the Council's need to manage risk, especially of a large infrastructure project in its early years, the two Resident Board Members have voting rights, but no majority vote.
- 12.7 In line with good governance, an interim Managing Director and registered Company Director is needed to both lead development and present the Company's Business Plan and provide assurance in focussing on Notting Dale Heat's heat network expansion. This ensures an appropriate balance between risk mitigation, opportunity development through expansion and value for money.
- 12.8 A large infrastructure project such as the Notting Dale Heat Network has inherent risks. An experienced team of heat network professionals was contracted to develop the Business Case for the Notting Dale Heat Network, using HM Treasury's Green Book guidance on how to appraise policies, programmes and projects. This independent methodology has ensured development of a robust business case, which will deliver against its project objectives.
- 12.9 The Council's successful HNIP application, provides external validation of a successful and robust Business Case, with appropriate risk management.
- 12.10 A review was undertaken in of existing heat network schemes delivered by other local authorities to help inform Leadership Team in June 2021 [Executive Decision Report \(rbkc.gov.uk\)](#). Since then we have undertaken further analysis into the governance of existing schemes to gain further insights into what aspects make for successful projects.

- 12.11 This has included significant success stories with Energetik, Gateshead Energy Company, and Aberdeen Heat and Power. We have also considered local energy companies that have not survived, namely EnviroEnergy, Robin Hood Energy and Bristol Energy, as well as heat networks with well-documented poor customer service (Myatt's Field). A total of 13 case studies have been produced.
- 12.12 As a result of these case studies, we have applied ten lessons learned to the Notting Dale Heat Network:
1. Clear Project Objectives agreed at the outset.
  2. An integrated technical, financial and commercial best practice design that allows for heat network expansion.
  3. Clear accountability with well-defined roles and responsibilities, and delegated authority.
  4. A ring-fenced budget with focussed management.
  5. Active risk management.
  6. The ability to use assets and revenue stream to secure debt financing for expansion.
  7. Establishes a Board Structure with industry expertise to prevent "Institutional blindness."
  8. Enshrine key objectives into the Articles of Association.
  9. Enables the Council as shareholder to provide strategic direction.
  10. Ensures day-to-day executive operations are led by experienced professionals.
- 12.13 This work has informed the recommended choice of a local energy company structure. The governance of the project from the Council's view as sole shareholder, is being set up in a way that is commensurate with the level of investment and the risk profile.
- 12.14 A comprehensive Risk Register has been developed to support and shape the project, with appropriate mitigation employed. This risk register is reviewed on a monthly basis, ensuring active management and control of project risks. This includes interdependencies with the estate's refurbishment programme and overall risk register.
- 12.15 Demand risk is a major risk for any heat network. As landlord and landowner, the council controls the ability to connect and can therefore manage this risk to create a strategic opportunity that delivers many themes and priorities within the Corporate Plan.

James Caspell  
**Neighbourhood Director**

**Local Government Act 1972 (as amended) – Background papers used in the preparation of this report: n/a**

**Contact officers:**

James Caspell, Neighbourhood Director, Lancaster West Neighbourhood Team, 07850 938972, [james.caspell@rbkc.gov.uk](mailto:james.caspell@rbkc.gov.uk)

**Mandatory clearance requirements for all Key and Executive Decision reports**

Cleared by Finance (officer's initials)	SM
Insert Cleared by <u>Corporate</u> Finance (officer's initials)	
Cleared by Director of Law	BM
Cleared by Communications (officer's initials)	KT

**Appendices:**

Appendix 1, Shareholders Agreement and Delegations Matrix

Appendix 2, Combined Written Resolution authorising the change to Articles and approving the HNIP transactions.