

CABINET

19 March 2019

Title: B&D Energy Ltd Business Plan 2019/20	
Report of the Cabinet Member for Finance, Performance and Core Services and the Cabinet Member for Regeneration and Social Housing	
Open report with Exempt Appendix (relevant legislation: paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972)	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Simon Woodward, Technical Energy Manager	Contact Details: E-mail: simon.woodward@lbbd.gov.uk
Accountable Strategic Leadership Director: Graeme Cooke, Director of Inclusive Growth	
Summary <p>The report seeks approval for the 2019/20 Business Plan for the Council's Energy Services Company (ESCo), B&D Energy Limited.</p> <p>Building on progress since the approval of B&D Energy's original business plan in 2016, the core proposition in this updated plan is the creation of what the GLA have designated as a 'Strategically Significant District Energy Network' providing heat to nearly 8,000 homes and around 60,000m² of commercial floor area in Barking Town Centre. This will create a new low carbon energy network in Barking comparable with those already developed in major cities across the UK such as Birmingham, Southampton, Sheffield and Nottingham. The 2019/20 Business Plan is at Appendix 1 in the exempt section of the agenda as it contains commercially confidential information relating to the business activities of B&D Energy Limited, which is exempt under paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 (as amended), and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p> <p>Connecting all of these developments onto one local energy network offers a unique opportunity to decarbonise Barking Town Centre, by transitioning over time from the initial low carbon heat sources to large scale and fully renewable energy sources. This is fully aligned with the GLA's target of a Zero Carbon London by 2050. The Scheme will also deliver fairly priced heat to residential customers, underpinned by market leading Guaranteed Standards of Service from B&D Energy Limited.</p> <p>The business plan requires a total of £31.5m to deliver made up of upfront investment from the council, via on lending of £27.2m (including £1.7m already approved in the 2016 Business Plan) to deliver a return of £6.9m by 2028, dependent upon a £5m capital grant from the Department of Business Energy and Industrial Strategy (BEIS) Heat Network Investment Project (HNIP). Delivery of the projected IRR (Internal Rate of Return, which is a measure of the return on the investment made by the Council in the project) of 5.84% is dependent upon obtaining the HNIP grant.</p>	

If adopted, and with the benefit of grant, this Scheme will generate a long-term financial return for the Council. If not progressed, the opportunity could be lost to a multitude of other national energy suppliers and service companies given the planning requirement for all new developments to provide a heat network.

To enable delivery of the necessary infrastructure and connections, the report also seeks approval for the Council to enter into the necessary long-term leases (20 years or longer) with B&D Energy Limited for the land on which the new Energy Centre and long leases for the utilisation of the energy centers and substations located at the Abbey and Becontree Leisure Centres. B&D Energy Limited is already operating equipment at these locations and supplying energy to the leisure centers under a Connection & Supply Agreement with the Leisure Centre operator in line with the Business Plan 2016. The existing Commercial Supply Agreement will be updated to reflect the 50m pool and associated infrastructure at Becontree Leisure Centre.

Recommendation(s)

The Cabinet is recommended to:

- (i) Approve the B&D Energy Limited Business Plan for 2019/20, as set out at Appendix 1 to the report;
- (ii) Approve the creation of a Strategically Significant District Energy Network across Barking Town Centre (“the Scheme”), subject to the receipt of grant funding from the Department of Business Energy and Industrial Strategy (BEIS) Heat Network Investment Project (HNIP) and as generally set out in the Business Plan;
- (iii) Agree the submission of an application to the BEIS for HNIP grant funding in the sum of £5m;
- (iv) Agree, subject to the receipt of HNIP grant, to the Council borrowing £27.2m (including £1.7m approved via the 2016 Business Plan) and on-lend to B&D Energy on state aid compliant terms to fund the balance of the project capital costs of the Scheme;
- (v) Delegate authority to the Director of Inclusive Growth, in consultation with the Finance Director, the Director of Law and Governance, the Cabinet Member for Finance, Performance and Core Services and the Cabinet Member for Regeneration and Social Housing, to negotiate terms and agree the corporate loan(s), shareholder agreement, and all associated contract documents in a manner compliant with state aid rules to fully implement and effect the Scheme and the Business Plan;
- (vi) Delegate authority to the Director of Inclusive Growth, in consultation with the Finance Director, the Director of Law and Governance, the Cabinet Member for Finance, Performance and Core Services and the Cabinet Member for Regeneration and Social Housing, to negotiate the final terms and enter into long leases (for 20 years or longer) in respect of the new Energy Centre and energy centre/substations at Abbey and Becontree Leisure Centres, subject to a valuation pursuant to the requirements as to disposals in section 123 of the Local Government Act 1972 and state aid principles being complied with; and

- (vii) Delegate authority to the Director of Law and Governance to execute all of the legal agreements, contracts, loans, shareholder agreement, long leases in respect of the Energy Centre and Becontree and Abbey Leisure Centres and any other documents required for the delivery of the Scheme or the Business Plan on behalf of the Council or B&D Energy Limited as may be applicable.

Reason(s)

To assist the Council in achieving its corporate priorities that will support the Council's economic development and low carbon and renewable energy objectives.

1. Introduction and Background

- 1.1 B&D Energy's original business plan, which was approved by Cabinet in June 2016, identified a number of possible work streams for B&D Energy to develop. These were:
- District and communal heating (based on the seven district energy opportunity areas that were identified at that time)
 - Solar PV
 - Wind and water turbines
 - Energy Performance Contracting (energy savings funded investment in non-residential properties)
- 1.2 Having delivered the objectives of the Business Plan 2016, the Becontree District Heating Network is already operational, supplying energy to the existing leisure centre, the recently built 50m swimming pool and the scheme's first 170 residential units. This is funded through a £1.075m HNIP grand fund, with the balance of circa £2m being part funded from the £3m capital approved in 2016.
- 1.3 Since that time fiscal support for technologies such as PV and Wind have been dramatically reduced by the Government, making the ability to generate financially viable projects much harder. In this Business Plan we have therefore narrowed our current focus to those options where B&D Energy can make the most significant and rapid impact on delivering the Council's strategic energy infrastructure vision in a financially viable manner, which are:
- The development of District Energy Networks (specifically in Barking Town Centre)
 - Energy Performance Contracting
- 1.4 We plan to progress Energy Performance Contracting towards the end of this coming year once we have progressed the development of our key strategic project of a Barking Town Centre wide low carbon heat network (the Scheme) as set out in the Business Plan. We will keep monitoring the viability of those other technologies such as PV and Wind and if we can find future projects that are viable, we still aim to progress them. In the meantime, £1.5m has been set aside within the HRA budget for 2019/20 to fund energy efficiency and energy generation opportunities as part of the stock investment programme (including solar PV).

1.5 Therefore, the primary focus of this Business Plan is to set out and seek approval for the creation of a Strategically Significant heat network to supply a large number of developments with low carbon heat across Barking Town Centre (the Scheme). The Scheme will be the primary goal of B&D Energy over this coming year as the opportunity for a local authority to lead on decarbonisation project in its town centre, which could also generate return on investment, does not exist anywhere else in London.

2. The Proposed Scheme

2.1 The core proposition is to construct a district energy scheme which will initially connect nearly 8,000 homes and around 60,000m² of commercial floor area onto one low carbon district energy network in Barking Town Centre.

2.2 We will achieve this by:

- installing approximately 2 km of buried district heating pipework around the Town Centre, as we have recently installed at Becontree
- building a new strategic scale energy centre in the North West of the Town Centre to house our main source of low carbon generation (gas fired CHP units)
- linking this new energy centre via the heat network to the existing low carbon energy centre on the Gascoigne East development

2.3 Together this energy generation plant and heat network will allow B&D Energy to deliver supplies of low carbon heat to all connected homes and businesses across Barking Town Centre.

2.4 Such a scheme has been considered many times over the last 10 years in various studies, including a study commissioned by the Council. However, the timing of the development opportunities that exist today and the structures that are in place with the Council's own energy company already formed and providing heat supplies in Barking Town Centre Gascoigne East estate means that this vision can finally be realised.

2.5 This Scheme has also been identified by the GLA as being Strategically Significant, reflecting the scale of the energy infrastructure.

2.6 This Scheme will create a new low carbon energy network in Barking comparable with those already developed in major cities across the UK such as Birmingham, Southampton, Sheffield and Nottingham.

3. The Reasons for Creating the Scheme

3.1 A number of strong reasons support the business case for B&D Energy creating this Scheme as set out in the Business Plan, but the key ones are:

3.1.1 Connecting all feasible developments into one local energy network offers a unique opportunity to deliver the wholesale decarbonisation of Barking Town Centre, by transitioning over time from the initial low carbon heat sources to large scale renewable energy sources. This is fully aligned with the GLA's target of a Zero Carbon London by 2050.

- 3.1.2 The Scheme delivers fairly priced heat to residents across Barking Town Centre underpinned by market leading Guaranteed Standards of Service from B&D Energy Limited
- 3.1.3 Through B&D Energy Limited the Scheme generates an income and financial return for the Council which if not progressed, would be lost to a multitude of other national energy suppliers and service companies given the requirement for all new developments to provide a heat network that meets planning requirements.

4. Options Appraisal - Impact if Scheme is not Progressed

- 4.1 If the Scheme is not progressed then as a result of planning obligations each of the new build developments that B&D Energy is proposing to connect will have to install their own on-site low carbon heat generation plant feeding their individual on site heat network. This would be a huge missed opportunity to decarbonise the heat source over time, to provide a high-quality energy services offer to residents, and to generate a long-term return to the Council.
- 4.2 Recent changes in Energy Policy by the GLA means that from 1st January 2019 these local on-site energy heat generation solutions would have to meet future carbon targets. This would drive developers toward energy systems and technologies which are not tried and tested and will have an uncertain impact on development costs and heat charges to residents. This would clearly impact BeFirst developments. Due to the Strategically Significant nature of the proposed Scheme B&D Energy has obtained dispensation from the GLA's planning team to initially progress with tried and tested and viable gas fired CHP technology and over time move to these lower carbon renewable sources once they are fully investigated and proven viable.
- 4.3 The Government has accepted the findings of a recent investigation by the Competition and Market Authority that the heat network sector should be regulated by OFGEM. B&D Energy with its established systems and procedures and market knowledge is well placed to meet this impending regulation. If this Scheme did not exist, then each developer would have to understand and assess the impact and meet the obligations as set out in this impending regulation. This will clearly impact BeFirst and their developments.
- 4.4 Without B&D Energy the services standards and pricing of heat across all the developments will not be set using B&D energy's carefully thought through policies and structure and will be left to each developer (only subject to future regulation).

5. Company structure and governance

- 5.1 The business plan sets out proposed changes to the management and operational structure of the company, to enable the plan to be delivered, as well as steps to strengthen and clarify the governance and accountability arrangements underpinning the relationship between the Council and B&D Energy.
- 5.2 These arrangements will be reviewed upon adoption of the business plan, based around the following key changes:

- Replacing the Chief Operating Officer with an alternative senior officer as Company Director, to avoid any conflicts of interest. As the company continues to develop, consideration will be given to recruiting additional non-executive directors, potentially including individuals external to the council.
- Putting in place a Shareholder Agreement between the company and the council, clarifying the legal relationship between LBBB and B&D Energy. This would be based on similar agreements between the Council and its other wholly owned subsidiaries; enabling the shareholder to hold the company to account for key financial and business plan performance.
- Agreeing a commissioning mandate between LBBB and B&D Energy, establishing the outcomes, strategic developments and performance expectations for the company. This would locate B&D Energy within the 'family' of key entities commissioned by LBBB's core Inclusive Growth function to deliver the council's LBBB's long term, strategic ambitions (as embodied in the Borough Manifesto). Accountability for key performance outcomes would run through this commissioning process.

5.3 This review and resulting changes will be put in place over the coming 12 months.

6. Key Financial Issues

- 6.1 Developing such a network requires significant capital investment of £31.5m. In addition, £1.7m of working capital agreed as part of the 2016 Business Plan is also required to support the delivery of the Scheme by B&D Energy and will be subject to a loan agreement on commercial terms between the Company and the Council.
- 6.2 A detailed analysis of the investment opportunity for BTC demonstrates that it can deliver the Council's target IRR (Internal Rate of Return which is a measure of the return on the investment made by the Council in the project) of 5.84% if the project is supported by a BEIS HNIP grant of £5m.
- 6.3 The Business Plan analyses the potential for receiving such a grant and finds that this is a realistic opportunity with a high chance of success, based on the Council's previous experience of obtaining a £1M HNIP grant for the Becontree scheme.
- 6.4 The balance of funding of £27.2m will be met by the Council subject only to the award of this HNIP Grant.

7. Consultation

- 7.1 The draft Business Plan and report were considered and endorsed by the Corporate Strategy Group at its meeting on 21 February 2019.

8. Financial Implications

Implications completed by: David Dickinson, Investment Fund Manager

- 8.1 Section 10 of the Business Plan contains an outline of the cashflows, funding requirements, Internal Rate of Return and underlying assumptions. These have been checked and agreed by WSP Finance and provide a prudent assessment of

the ESCO proposal. Although the proposals are prudent, there could still be issues around each energy Centre, both during the construction and the operational phase that could adversely impact the forecast returns.

- 8.2 Prior to proceeding with the BTC energy scheme there are two main conditions that need to be met, including:
- i. obtaining at least £5m of grant to enable the scheme to provide a return in excess of the borrowing cost hurdle rate of 4.5%.
 - ii. obtain certainty over the number of secondary district heating networks that will connect to the BTC Energy Centre to ensure that there is sufficient income generated to fund the development costs.
- 8.3 Failure to achieve either of these will prevent the BTC proposal from progressing, although the Becontree and Gascoigne Energy Centres, which are nearing completion, will continue under the funding agreed at the June 2016 Cabinet.
- 8.4 A key consideration within the business plan is around the engagement of Be First, who manage the development of a number of the sites that are likely to connect to the various energy centres. It is essential that Be First are involved and agree to the development time frames and the costs for the schemes where they are the development manager. It is also essential that the energy centre does not delay any of the Be First schemes as delays caused by the energy centre requirement will then impact the ESCO, Be First and the Council's financial returns.
- 8.5 Reputational risk is one of the main risks associated with energy centres and Council owned energy centres, both in terms of bad publicity reflecting badly on the Council, but also in compromising the ability to attract new schemes to connect to the energy centres. The energy centres do provide a very attractive option for new developments within Barking Town Centre to connect to but a poor reputation for maintenance, billing, the quality of the build and the contract negotiations will impact the number of schemes that agree to connect. It is essential that the ESCO is sufficiently resourced and managed, both directly and through its suppliers and contractors, to ensure that its reputation is maintained and is attractive to developers.
- 8.6 Pricing, both as far as charging customers and purchasing gas, is another key risk and these risks and how they will be mitigated are covered in detail in section 8.2 of the Business Plan. Members are asked to be aware of how the pricing will be calculated for residents.
- 8.7 The internal rate of return for Becontree and BTC is a key financial indicator, with both returning over 5.5% net of grant. This return will both provide a positive cashflow after interest costs at 4.5% are paid but will also repay the £27.2m loan over a 20-year period after the initial 7-year development period is completed. Currently the cost of borrowing to the Council is below 3% and therefore, in addition to the net profit generated there will also be a funding margin that will be paid to the Council. This funding margin will provide additional protection to the Council in the event that the income from the Esco is not sufficient to cover its costs over a period.

- 8.8 A final consideration is that, generally this type of company is viewed as secure in terms of cash-flow generation once it is fully operational. When sufficient operational stability has been achieved such companies have a relatively high enterprise value and, depending on market conditions at the time, could be sold to third party investors for a level of enterprise value that would be acceptable to the private equity industry.
- 8.9 The cashflow in 10.1 of the Business Plan identifies the first year that operational profits, paid as a dividend to the Council, will be generated is in 2021, with a return to the Council of £372k. Losses in 2019 of £317k and losses of £81k in 2020 will be covered by the working capital loan. Taking into account these losses, the Esco is forecast to provide an accumulative profit in 2022 of £180k.
- 8.10 Annual operational profits increase to £1.8m in 2025 but this decreases to a small profit of £149k in 2028 as loan repayment start. The cashflow forecast then does show a steady growth in profits, net of debt and interest repayments from 2029 onwards.

9. Legal Implications

Implications completed by: Suzan Yildiz, Deputy Head of Legal Services
(Commercial)

Legal Powers / Provisions

- 9.1 The report proposes the approval of a new Business Plan 2019/20, which includes development of new infrastructure, namely a District Energy Network (the Scheme) with the potential to decarbonise the provision of heat in the Barking Town Centre. The delivery of the Business Plan and the Scheme is intended to be funded primarily through borrowing and on-lending by the Council, and part funded through HNIP funding which is yet to be obtained. The financial implications note that a minimum of £5 million of grant is required to ensure that the Scheme remains viable after factoring in debt financing. As such, if B&D Energy are not successful in obtaining at least £5 million of debt funding, the decision to borrow to build the facility should be reconsidered and taken back to Cabinet.
- 9.2 B&D Energy already exists and is operational as a company (of which the Council is a 100% shareholder), having delivered and connected its energy centre to the Becontree and Gascoigne development schemes. The general power of competence under Section 1 of the Localism Act 2011 (GPC) enables the Council to operate an energy company which produces and sells energy. In exercising the GPC power, the Council is subject to its general public law duties, such as exercising the power for a proper purpose and complying with its fiduciary duties to rate payers and residents, i.e. the Council must act prudently in managing and expending public funds (including borrowing).
- 9.3 Section 11(1)(d) of the Local Government (Miscellaneous Provisions) Act 1976 also provides a discretionary power which permits local authorities to produce and sell electricity. A discretionary power permits the Council to provide services which it is not statutorily required to. Except in prescribed cases, section 11(3) specifies that a local authority must not sell electricity which is produced 'otherwise than in

association with heat'. The Scheme only proposes to provide decarbonised heat to local developments and properties, therefore, fits within this exception.

- 9.4 The sale of electricity is heavily regulated through the Sale of Electricity by Local Authorities (England and Wales) Regulations 2010 (the "2010 Regulations"), which were made under section 11(3) of the 1976 Act, and prescribe various circumstances. The 2010 Regulations confirm that local authorities are permitted to sell electricity (otherwise than in association with heat) which is produced from wind, solar, aerothermal, geothermal, hydrothermal and ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogas sources.
- 9.5 Section 4(1) of the Electricity Act 1989 (the Electricity Act) makes it a criminal offence for any person to generate, transmit, distribute or supply electricity and/or provide smart meter communication services without either a licence or an exemption to hold such a licence. The relevant licensing exemptions applicable to B&D Energy are the Electricity (Class Exemptions from the Requirement for a Licence) Order 2001 as amended by the Electricity (Class Exemptions from the Requirement for a Licence) (Amendment) Order 2005 (the "2001 Order"). It is understood from officers leading on B&D Energy that at the time of this report, other than the Gascoigne which is within the relevant exemptions, the Business Plan 2019/20 does not propose to transmit or supply electricity to other schemes.
- 9.6 Whilst the new Scheme does not propose to generate and supply electricity, it is noted that the extant B&D Energy company is already supplying energy to the Gascoigne and Becontree schemes. Therefore, in approving the Business Plan and before proceeding with borrowing to deliver the new Scheme, officers and decision makers must ensure that its operations will remain within the 2010 Regulations and the exemptions available particularly in relation to supplying both heat and energy to the Gascoigne and Becontree schemes (or any others) which are already being supplied with electricity through its private wire distribution network.
- 9.7 If the Council or B&D Energy fall outside the thresholds for generation, distribution and/or supply of electricity they could be in violation of the section 4(1) of the Electricity Act, which makes it a criminal offence to generate, distribute and/or supply electricity without a licence.
- 9.8 The Council should also consider that under certain circumstances, and in particular where a specific customer of B&D Energy requests a change of its electricity supplier, the Council will be required to open up its private wire distribution network to other third-party electricity suppliers and let them supply electricity to consumers on the Gascoigne estate. This was confirmed in the ruling of the European Court of Justice in 2008 in the Citiworks case. These third-party access requirements are now covered under the Electricity and Gas (Internal Markets) Regulations 2011. Decision makers and officers should also note the commercial risk with respect to the rules on setting maximum prices for distribution and supply of electricity.
- 9.9 **Heat and Hot Water Supply** - In December 2014, in response to the EU Energy Efficiency Directive, the Government introduced the "the Heat Network (Metering and Billing) Regulations 2014" to govern the generation and supply of hot water for space heating and domestic hot water. These regulations are already impacting on

any existing schemes within the borough and do not present an onerous burden on B&D Energy.

- 9.10 **Procurement & State Aid Implications between Council & B&D Energy** - Any support the Council gives B&D Energy (such as use or supply of its property, assets, staff or services, must be provided at arms' length and on market normative terms/cost as if B&D Energy were any other arm's length private undertaking to ensure compliance with state aid rules. The Council cannot subsidise the Company, which must operate on a level playing field. The cost of support services (e.g. finance, legal and human resources) and any facilities which will be necessary during the Business Plan 2019/20 period should be contained within the proposed working capital loan envelope, which is also intended to capture past expenditure.

Expenditure

- 9.11 Officers must be confident that expenditure to date and projected costs during the Business Plan 2019/20 period e.g. staffing costs, procurement, support services, and external legal spend) will be contained within the working capital loan.
- 9.12 Currently loan arrangements are being put in place, to ensure that B&D Energy is not in a state aid environment.

Governance / Decision Making

- 9.13 The Articles of B&D Energy provide that quorum of two directors is needed, the company has a single member, in which case quorum is one). Presently, the ESCO has a sole director, being also the Council's Chief Operating Officer (which was a matter of convenience when the Company was set up). To avoid conflicts between the functions of COO and director of B&D Energy, the governance arrangements at section 5 of the report propose to appoint a new sole director of B&D Energy. The business plan identifies the appointment of key officers required for essential functions. This should be kept under review to ensure the efficacy of the business plan. To meet the operational / governance needs of B&D Energy as the company delivers the Energy Centre and grows its customer base, it may prove necessary to bring in non-executive directors with specialist expertise (e.g. energy, finance and procurement expertise).
- 9.14 A shareholder agreement for B&D Energy does not exist at present but is recommended to ensure the company operates at arm's length and any positive cashflows are accounted for to the Council as shareholder. A delegation to Inclusive Growth Director and Director of Law to approve a shareholder agreement is included to allow a suitable document to be drafted and negotiated post Cabinet approval. The Agreement would be broadly on similar terms to those negotiated for the present group of Council companies.

Grant of Leases

- 9.15 To facilitate the delivery of the requisite energy infrastructure, connections and supplies, Cabinet is requested to approve the grant of long leases (in excess of 20 years):
- (i) in respect of the Energy Centre to be constructed and

- (ii) to rationalise the operations of energy centers and substations located at the Abbey- and Becontree Leisure Centres, which are already operational pursuant to the 2016 Business Plan.

- 9.16 The terms for these leases have yet to be substantially agreed. It is recommended that approval of final terms be delegated to the Director of Inclusive Growth, in consultation with members
- 9.17 The Council's disposal powers are contained in section 123 of the Local Government Act 1972 (LGA 1972). Section 1 of the Localism Act 2011 can also be relied on.
- 9.18 Under Section 123 LGA 1972, the Council has the power to dispose of land in any manner that it wishes providing that the disposal is for the best consideration reasonably obtainable or there are ministerial consents, or the disposal furthers local well-being. The Council proposes to grant B&D Energy long leases (exceeding 20 years). In accordance with the Constitution, Part 4, Chapter 4 (Land Acquisition and Disposal Rules), Section 2.2 (Control by the Cabinet), the disposal of all property either long-lease (over 20 years) or by the sale of the freehold must be approved by the Cabinet.
- 9.19 Negotiation of the final lease terms is being delegated to the Director of Inclusive Growth subject to appropriate consultations with relevant members and directors. In agreeing the rent and final terms, the Director of Inclusive Growth must obtain a valuation opinion supporting the terms and should ensure that rents associated with the leases are factored into the operating costs of the Business Plan. A delegated report is expected to deal with those matters.

10. Other Implications

10.1 Risk Management

- 10.1.1 It is important to note that this business plan includes a number of assumptions, and whilst these are based on commercial industry norms, there is risk in the operation of any business that these assumptions are not matched in project delivery. To mitigate this, the following development period and operational factors need to be rigorously managed to ensure delivery of business plan assumptions. These are:

- Plant which is designed to be aligned with the assumptions in the model;
- That plant is commissioned and then operated to match or exceed these commercial assumptions. This will include a process of intense plant monitoring and continual feedback and improvement which will need to be built into the ESCOs operational, management and risk control systems;
- Where practical, delivery by in house teams is acceptable but where this is not appropriate then the utilisation of a framework of contractors procured to deliver a high-quality service delivery coupled with lowest cost, should be established.

- 10.1.2 Another key risk is that HNIP funding cannot be secured which is required to meet the IRR hurdle rate, i.e. the rate of return required to make this an investable

project. Based on an assessment of the prequalification requirements of the HNIP program and the fact that B&D Energy already successfully received similar funding for its Becontree project under the HNIP pilot programme, this risk is minimised.

10.2 **Contractual Issues**

10.2.1 Build contracts exceeding the relevant procurement thresholds will be procured in line with public sector procurement rules.

10.2.2 Professional services will be procured using appropriate frameworks, where available.

10.2.3 The five-year Operation and Maintenance (O&M) contract is in the final stages of negotiation at the time of this report. It is being procured using the Competitive Procedure with Negotiation procurement procedure and in line with OJEU requirements.

10.3 **Staffing Issues** - Key members of staff are being procured directly by B&D Energy, with some support services, for example, finance, being bought from the Council.

10.4 **Property/Asset Issues** - Appropriate leases to be put in place where LBBD properties are leased to B&D Energy.

Public Background Papers used in Preparation of the Report: None

List of Appendices:

Appendix 1 - B&D Energy Business Plan 2019/20 (exempt document)