

Finance Monitoring Report – August 2023

To:	Environment and Green Investment Committee
Meeting Date:	12 October 2023
From:	Executive Director of Place and Sustainability Executive Director of Finance and Resources
Electoral division(s):	All
Key decision:	No
Outcome:	The report is presented to provide the Committee with an opportunity to comment on the August position for 2023/2024.
Recommendation:	The Committee is recommended to: <ul style="list-style-type: none">a) Note the current position regarding the budget performance for the Place and Sustainability directorate with regards the functions that are within the scope of the Committee; andb) Recommend to the Strategy, Resources and Performance Committee to approve an additional £3.2m capital allocation for connecting homes to the Swaffham Prior Community Heat Network, funded by prudential borrowing.

Officer contact

Name: Sarah Heywood

Post: Strategic Finance Manager

Email: sarah.heywood@cambridgeshire.gov.uk

Tel: 01223 699714

1. Background

- 1.1 This report provides an update to the Committee on the financial position of the Place and Sustainability Directorate. It provides information on the forecast pressures and underspends across the different services and an explanation for any variances.
- 1.2 The Finance Monitoring Report, attached at Appendix 1 of the report, provides the financial position for the whole of the Place and Sustainability Directorate, and as such, not all of the budgets contained within it are the responsibility of this Committee. Members are requested to restrict their questions to the lines for which this Committee is responsible.

2. Main Issues

- 2.1 This month the FMR includes the Quarter 1 savings tracker (Appendix 4) and the technical appendix (Appendix 5) which details the earmarked reserves schedule, grant income and virements.
- 2.2 The format of the Finance Monitoring Reports (FMR) has been updated to separate out gross and net revenue budgets to ensure the scale of both is clear. Also, any mitigations (transfers from reserves, new grants, etc) are now shown against the bottom line rather than the respective policy line, to increase transparency around the application of one-off funding. The impact of this is visible in respect of the Waste Service, which is now showing a forecast pressure of £1.845m, which is offset by the £1.845m transfer from earmarked reserve (as approved in the Business Plan). The position has not changed since last month, but the application of the one-off funding is made clear.
- 2.3 Revenue: Across Place & Sustainability as a whole, there is a forecast overspend of £2.641m, which is an improvement of £1.1m since the last report. There is a pressure on Energy Services income of £3.9m across all its projects. Income against these projects has been budgeted to be received in 2023, however owing to delays to commencing these contracts the income will now be on a different profile than that assumed in the budget. An update on the projects is provided below.
 - The St. Ives Smart Energy Grid project is on track to be energised and will commence generating clean electricity by the end of September 2023. This is the first smart energy micro-grid for Cambridgeshire and the outcomes from this project will inform future approaches to local energy supply.
 - The second micro-grid which is under construction is at Babraham Park and Ride. This is a three-phase construction programme, with the first phase nearing completion but the overall programme has been delayed owing to the poor performance of one sub-contractor and current onsite challenges with existing street lighting column bases and their electricals. The target for completion is spring 2024.
 - Steady progress is being made towards the energisation of the North Angle Solar Farm, with the next phase of works to start before the end of the year, progressing over the winter. Plans are in development to manage the weather-related risks over the winter build. The bulk of the income reprofiling relates to this project.

- Swaffham Prior Community Heat Network is operational and supplying decarbonised heat and hot water to customers. By October, approximately 60 homes will be connected to the system ahead of its first winter, when final system performance tests can complete. Further customers will be connected from Spring 2024. The number of homes physically being connected is slower than was originally forecast, due to a number of challenges including supply chain, but this will be caught up during 2024.
- The Renewable heat Incentive (RHI) has been approved by Ofgem for the heat network and income from RHI will be paid for each Kwh of heat generated. However, there is a substantial backlog on payments with Ofgem hence a revised forecast and reprofiling of income starting in 2024.
- The Stanground Solar and Battery Project is still in development.

- 2.4 Appendix 1 details the financial tables for the main revenue budgets and Appendix 2 explains the significant variances.
- 2.5 Capital: The budget relating to works to comply with environmental requirements at Waterbeach will not be spent this financial year and will be re-profiled into next financial year, but until this goes through the governance process it is being shown as an underspend. Appendix 3 of the Finance Monitoring Report details the forecasts for individual schemes. Across Place & Sustainability as a whole, the capital programme variation is £28m.
- 2.6 Swaffham Prior Community Heat Network: This is an exemplar project which is aimed at retrofitting housing in a rural village with low carbon heating and hot water via a heat network. The investment in this project is based on the costs being covered from the project whilst generating a small return to the Council. It is a community led project, supported by the Council and the Government, and was developed to highlight the challenges of decarbonising rural off-gas communities.
- 2.7 The construction of the energy centre and primary heat network was completed in late 2022. The scheme is now in the process of connecting homes to the heat network. The first five homes were included in the original construction contract for the energy centre and connections to the remaining homes sit outside of this contract to allow for more time for existing homes to connect to the network. The first phase of the home connections began in May 2023 and this first phase of connections is due to conclude with the start of the heating season in November.
- 2.8 Based on the costs of delivering the first five connections, an estimate of £3.2M is requested to cover the costs of connections. The anticipated future costs are based on averages from the first tranche of connections. The upfront funding of home connections is included in the business case. Please note, these costs are paid back over time through the revenue generated from future heat sales and included in the table below under the total return over asset life. This shows a small positive benefit to the project remains even after all the home connection costs.

The table below shows how the forecast additional costs for end customer connections impacts the business case: The Net Present Value has reduced by c£3.7m as a result of an additional uplift in capital of c£3.2m and increased interest costs for the project life of c£500k. However, the total return over asset life remains positive. In addition, the business case needs to be considered in the context of the wider energy market changes and its volatility.

Metric	Previous (June 2023)	Proposed
Capital budget	£10,965k	£14,140k
NPV	£1,093k	-£2,755k
ROI	108.04%	50.86%
Total return over asset life	£11,847k	£7,206k
Payback period	38 years (out of total 60 year project life)	48 years (out of total 60 year project life)

- 2.9 The increase cost is due to a number of factors including significant increases in labour and material costs. Adding to this is an immature supply chain, with no incentive to invest in upskilling to deliver low carbon technologies, therefore limiting competition.
- 2.10 Each home connection involves significant engineering expertise. The route for the pipework from the primary heat network in the road to the home is bespoke to each property, as is the location of the Heat Interface Units within the home, all of which needs to be agreed with the homeowner along with re-instatement works for patios, gardens and driveways. For some connections, this has necessitated easements with neighbours to allow pipework to reach homes. This all adds to the complexity of connections along with the architectural variety in Swaffham Prior.
- 2.12 As more customers sign up, a more efficient approach to home connections is being developed to reduce time and cost relating to street permits, reduce the need for easements and deliver more direct pipe routes. A key feature of our phase 2 approach for end customer connections will be to go area by area to achieve efficiency improvements. In addition, the Council is seeking to attract additional funding via existing grant schemes to support the home connections.

3. Alignment with ambitions

- 3.1 Net zero carbon emissions for Cambridgeshire by 2045, and our communities and natural environment are supported to adapt and thrive as the climate changes.

There are no significant implications for this ambition.

- 3.2 Travel across the county is safer and more environmentally sustainable.

There are no significant implications for this ambition.

- 3.3 Health inequalities are reduced.

There are no significant implications for this ambition.

- 3.4 People enjoy healthy, safe, and independent lives through timely support that is most suited to their needs.

There are no significant implications for this ambition.

- 3.5 Helping people out of poverty and income inequality.

There are no significant implications for this ambition.

- 3.6 Places and communities prosper because they have a resilient and inclusive economy, access to good quality public services and social justice is prioritised

There are no significant implications for this ambition.

- 3.7 Children and young people have opportunities to thrive.

There are no significant implications for this ambition.

4. Significant Implications

- 4.1 Resource Implications

This report details the financial position across Place & Sustainability.

- 4.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications within this category.

- 4.3 Statutory, Legal and Risk Implications

There are no significant implications within this category.

- 4.4 Equality and Diversity Implications

There are no significant implications within this category.

- 4.5 Engagement and Communications Implications

There are no significant implications within this category.

- 4.6 Localism and Local Member Involvement

There are no significant implications within this category.

- 4.7 Public Health Implications

There are no significant implications within this category.

4.8 Climate Change and Environment Implications on Priority Areas

There are no significant implications within this category.

5. Source Documents

5.1 None