

Environment & Climate Change Department  
1 Cottage Road

Report of: Executive Member for Environment, Air Quality and Transport

Meeting of: Executive

Date: 14.3.2024

Ward(s): St Peters and Canalside

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**Appendices A, B and C to this report are exempt and not for publication.**

## Subject: Agreement of City Forum heat supply contract

### 1. Synopsis

- 1.1. The Bunhill Heat and Power network began operating in 2012, initially supplying heat to three council estates and two leisure centres from an energy centre (now known as Bunhill 1) on Central Street. This was followed by the Bunhill 2 expansion, which extended the network to the top of Central Street and involved building a world-first energy centre that uses waste heat from the London Underground tunnels to produce hot water for the network. Following recent works to the control system, the network is now functional.
- 1.2. One of the sites planned for connection is the City Forum development at 250 City Road. The Section 106 agreement with Berkeley Homes requires the site to connect to the network. This would add nearly 1,000 homes to the network, nearly doubling its size.
- 1.3. This report recommends that the council execute the heat supply agreement with Berkeley Homes for the City Forum development. The contract sets an agreed heat supply cost, standing charge and connection fee. The heat supply cost is tied to national electricity and gas prices, while the standing charge is tied to the Consumer Price Index. The connection fee will part-fund the connection to the Bunhill network, together with a grant from the government's Heat Network Investment Project (HNIP). Construction costs are fully funded, and the agreement is for an initial period of 20 years.

- 1.4. Connecting the City Forum development to the Bunhill Heat and Power network is in line with several council priorities. It creates a greener, healthier Islington by connecting nearly 1,000 homes to a low carbon heat network and contributes to community wealth building and creating a fairer borough through the council becoming a heat supplier to more residents. The connection to City Forum will also enable a connection to the Council's recent development at Telfer House.
- 1.5. A parallel review of the longer-term strategy for the network is currently underway and the outcomes will be reported to Executive at a later date.

## 2. Recommendation

- 2.1. To delegate authority to the Corporate Director of Community Wealth Building, following consultation with the Executive Member for Environment, Air Quality and Transport, to execute the heat supply agreement with Berkeley Homes.

## 3. Background

- 3.1. The Bunhill Heat and Power network began operating in 2012, initially supplying heat to three council estates and two leisure centres from an energy centre (Bunhill 1) on Central Street using a gas combined heat and power (CHP) unit to produce heat. Two new private housing developments were subsequently connected to the network by 2016.
- 3.2. A major expansion of the network (Bunhill 2) began in 2015, with a new energy centre built next to Kestrel House at the junction of Central Street and City Road. The new energy centre utilises waste heat from a London Underground vent shaft, which is converted to hot water using a large heat pump. This method of generating heat is less carbon intensive than using gas boilers or CHPs and has no local emissions.
- 3.3. The additional capacity created by this new energy centre was planned to enable the network to expand and supply the King's Square Estate, Moreland School, the council's Telfer House new build and the City Forum development being built by Berkeley Homes at 250 City Road. The King's Square Estate and Moreland School connections were delivered in tandem with the new Bunhill 2 energy centre, with the Telfer House and City Forum connections to be delivered separately at a later stage after the Bunhill 2 project was complete and the network fully operational.
- 3.4. The City Forum site was included in the planned expansion since the section 106 agreement between the council and Berkeley Homes, signed in August 2014, included a requirement to connect to a district heating network. This was subject to

the proposed connection charge and heat supply costs being reasonable and economically viable.

- 3.5. In early 2022 the council successfully applied for funding from the government's Heat Network Investment Project (HNIP) to construct connections to City Forum and Telfer House. The works will be match-funded by connection fees from Berkeley Homes and Telfer House. Both connections are part of the same funding agreement and cannot proceed separately, as the Telfer House connection is not financially viable as a standalone connection. This grant must be spent by 2028.
- 3.6. This extension of the Bunhill Heat and Power Network contributes to the council's Vision 2030 net zero strategy, which includes an objective to "*Look at opportunities to add new connections to the Bunhill Heat Network, both council and private.*" Currently the site uses gas boilers to provide heating. Connection to the network will reduce reliance on the boilers and reduce carbon and NOx emissions.
- 3.7. A 20-year heat supply agreement was negotiated between the council and Berkeley Homes, which will start after the connection and commissioning works are complete. The agreement is included as an exempt appendix to this report. Due to the size of the City Forum development and length of the agreement, the heat supply agreement is expected to result in a level of income that makes it subject to approval from the Executive.
- 3.8. The key financial elements of the agreement are:
  - A connection fee, which will contribute towards the cost of constructing the connection to the site from the network.
  - A fixed (standing) charge, which will increase in line with forecast occupancy levels and CPI.
  - A heat charge (per kWh of heat supplied), which is tied to electricity and gas prices. This de-risks the supply agreement from the council's perspective, as if gas costs increase, the heat charge will also increase, avoiding a situation where the council has to supply heat at a loss.
  - The potential to renegotiate the heat charge when the council replaces the heat supply equipment (for example, replacing gas CHP engines with heat pumps as part of its decarbonisation works).
  - A requirement for the site to use the heat network connection as its primary heat supply.
  - No penalties for failure to supply heat (if the network is non-operational), although the fixed charge will be waived during days of non-supply.
- 3.9. The connections to City Forum and Telfer House (neither of which can proceed without this heat supply agreement being signed) increase the projected annual surplus of the network, which will be reinvested in the network, saved for future

equipment replacements, or used to reduce heat supply costs to connected sites. Telfer House does not require a heat supply agreement as it is a council block and will have the same financial arrangements as existing council connections. Details of the financial modelling for the new connection are included in an exempt appendix to this report.

3.10. Other key elements of the agreement include:

- A requirement to complete the connection works by 31 January 2025. However, this is negotiable if both parties agree to an extension.
- While there are no financial penalties for failure to supply heat after the connection works are completed (as the development is capable of supplying its own heating needs via on-site boilers), the contract grants the right to Berkeley Homes to terminate the heat supply agreement in the event of a persistent failure to do so and failure to remedy within 40 days.
- Berkeley Homes have the ability to assign the contract to a management company that runs the site. This would transfer the liability of paying the fixed charge and heat charges.

3.11. The main risks to the council and associated mitigations are:

- Failure to complete the connection by the January 2025 deadline and an extension not being agreed, which would result in the connection fee not being payable. The likelihood of this however is low since it is more likely that an extension will be agreed in this case.
- Failure to complete the connection by 2028, after which the HNIP grant must be repaid to DEZNZ unless agreement can be reached to extend the deadline based on reasonable cause. The risk of this happening will be mitigated by providing DESNZ with regular updates on the project.
- Additional unforeseen costs during the build phase, for example caused by underground services in Dingley Road making pipework excavation more complex. This will be mitigated by carrying out desktop and ground-penetrating radar surveys of the road.
- Termination of the contract by Berkeley Homes within the first five years due to persistent breach of the non-supply clause, which would result in the connection charge having to be repaid on a pro-rata basis (one fifth of the charge for each of the first five years remaining). This will be mitigated by prioritising supply to the City Forum development.
- Delaying the project, which would likely lead to construction costs increasing, reducing or eliminating the contingency within the project budget. It is highly unlikely that additional grant funding or increased connection fees could be agreed if the council were to cause the delay, but at this stage there is no reason to materially delay the project.

- The relocation/replacement of the Bunhill 1 energy centre as part of the Finsbury Leisure Centre project could mean a period where the Bunhill heat network has lower heat generation capacity. However, to avoid contractual issues of non-supply during this period, the network could be set up with City Forum as a preferential demand point on the network, with other sites reverting to using their gas boilers.
  - Cancellation of the project could increase the cost to the council. Central government plans to introduce heat network zoning in 2025, which would require sites such as City Forum and Telfer House to connect to heat networks within a certain timeframe. However, the HNIP grant may not be available at the point these sites are required to connect. This could mean the council having to fund the Telfer House connection itself and partially fund the City Forum connection.
  - Cancellation of the project would mean Telfer House failing to meet its on-site carbon reduction obligations, resulting in additional costs to deliver the measures required.
- 3.12. After the council and Berkeley Homes finalised the heat supply agreement in August 2022, Berkeley Homes undertook a dispensation process with their leaseholders, which concluded in November 2022 with no objections being raised.
- 3.13. An external consultant was appointed to deliver the outline design and performance specifications as part of the tendering documents for the main contractor. This was completed in October 2023. The next stage will be to appoint the main contractor. The procurement strategy for this, which involves using the Fusion 21 Framework, was approved in December 2022.
- 3.14. Without this heat supply contract signed, the connection is unable to move forward to the construction phase, as signing the heat supply agreement is a condition of the HNIP funding to allow the connection to proceed to the build stage.
- 3.15. This decision delegates authority to the Corporate Director of Community Wealth Building to execute the heat supply agreement. A wider review of the longer-term strategy for the Bunhill heat network is underway and the recommendation to enter into a heat supply agreement is consistent with the anticipated outcomes of this review. These outcomes will be reported to Executive at a later date.

## 4. Implications

### 4.1. Financial implications

- 4.1.1. The heat supply agreement in the exempt appendix includes further details on the connection fee and associated standing charge and heat supply cost once City Forum is connected to the Bunhill Heat Network. The total construction cost

(excluding contingency) to connect City Forum and Telfer House is estimated to be £1.345m funded through HNIP, connection fees, and the HRA/General Fund (see exempt appendix).

4.1.2. The Council's revenue budget includes an annual income target of £0.092m in relation to the sale of heat and electricity from the Bunhill Heat Network and this was agreed by Full Council on 3 March 2022 (£0.061m) and 2 March 2023 (£0.031m).

4.1.3. Based on 2023 energy prices and modelling, the connections to City Forum and Telfer House are forecast to increase the annual surplus of the network.

#### 4.2. **Legal implications**

4.2.1. The council has a general power under Section 1 of the Localism Act 2011 to do anything that an individual may generally do provided it is not prohibited by other legislation and the power is exercised in accordance with the limitations specified in the Act which enables the Council to allocate or spend the HNIP funding as set out.

4.2.2. The council have an obligation under the HNIP funding agreement to enter into a heat supply contract before being able to proceed to the construction phase.

4.2.3. The council are obliged to procure any above-threshold construction contracts pursuant to and in compliance with the Public Contract Regulations 2015 and the council's procurement rules which will enable the council to meet its transparency and value for money objectives.

4.2.4. The proposed contract terms for the heat supply contract are considered appropriate in light of the nature of the supply and includes adequate contractual terms to protect the council's interests and mitigate risk.

#### 4.3. **Environmental implications and contribution to achieving a net zero carbon Islington by 2030**

4.3.1. Signing the heat supply agreement will allow the connection to proceed to the construction stage. This will have environmental impacts in terms of materials and being used, construction waste being generated (including the requirement to remove and dispose of earth extracted to put in pipework), construction-related transport and potential nuisance issues such as noise and dust. As set out in the environmental implications of the procurement strategy for the main contractor, these will be mitigated through requirements placed on the design and build contract.

4.3.2. However, the long-term aim of the connection is to reduce the environmental impact of the City Forum site by displacing heat from its gas boilers with heat from

the Bunhill network, which is generated by lower carbon technology. Connecting the site to a district heating network is likely to be the most viable and equitable option for fully decarbonising it in the long term and this is recognised by the government in their heat network zoning plans (which in their current form would make it a legal requirement for the City Forum site to connect to a heat network due to its size), and the council's net zero strategy, which includes adding new connections to the Bunhill network is as an objective.

#### 4.4. **Equalities Impact Assessment**

4.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

4.4.2. An Equalities Impact Assessment has been completed. The main findings are:

- Main beneficiaries are the Telfer House and City Forum residents, in which they benefit from low carbon heating from the heat network extension in the long run.
- The short-term adverse impacts on residents, service users, local communities and visitors of surrounding area include temporary road closure/traffic diversion and noise disruption.
- Residents of the blocks will not experience any disruption to their heating system as all work will be in the communal boiler room.
- Mitigation actions as per detailed in the Equalities Impact Assessment will be in place if necessary to ensure old people, young people and disabled people will not be affected by the construction works.
- The temporary adverse impacts are far outweighed by the long-lasting positive impacts on the well-being of the residents.

4.4.3. The full Equalities Impact Assessment is appended at Appendix B and a redacted version for publication at Appendix D.

## 5. Conclusion and reasons for recommendation

5.1. Connecting the City Forum development to the Bunhill Heat Network will provide a benefit to both the network (through increased revenue) and the local environment (through reduced emissions from the gas boilers at City Forum). A proposed heat supply agreement has been agreed between the council and Berkeley Homes for

the connection to go ahead and funding has been secured from central government to deliver the connection.

- 5.2. Delivering the extension of the network to City Forum and Telfer House is subject to this heat supply agreement being signed. It is therefore recommended that the council execute the agreement to allow the connections to both sites to go ahead.

**Appendices (exempt):**

- Exempt Appendix A: Heat Supply Agreement with Berkeley Homes
- Exempt Appendix B: Equalities Impact Assessment
- Exempt Appendix C: Financial modelling
- Appendix D: Redacted Equalities Impact Assessment for publication

**Final report clearance:**

Approved by:

Executive Member for Environment, Air Quality and Transport

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