

**RECORD OF EXECUTIVE DECISION**

**TITLE:** Pre-order of materials, in advance of Contract Award for District Energy extension to Gateshead Leisure Centre cluster

**DELEGATED:** Delegation of authority to the Strategic Director of Communities and Environment, in consultation with the Strategic Director, Corporate Resources, was given in 13<sup>th</sup> December 2016 cabinet meeting, to agree the detailed terms, scope and costs of the contract awards

**POWER:**

**DECISION:** It is proposed to order materials (plastic district heating pipe) through Balfour Beatty, in advance of entering a full Contract, to enable the programme of works to remain on target with delivery timescales set out within the related ERDF grant agreement.

The value of the order is £407,838 (ex VAT) and relates to all of the required plastic district heating pipework require for the main district heating section between the Civic Centre and the Leisure Centre cluster.

The Council has yet to receive a full contract proposal from Balfour Beatty, but initial cost plan received for the full scheme is £3.3m (excluding items being negotiated, around delay damages, but including a 10% client contingency).

The cost of the network has increased compared to the approved budget of £2.5m (within 2016/17 - 2017/18 capital programme). The original scheme cost was based on contractor prices procured on the District Energy Scheme (mid 2016, Clancy Docwra) which we now know are not reflective of market rates. Quarterly monitoring updates since Nov 2016 have advised that scheme cost could be closer to £2.9m.

The contractor has now submitted an initial price of £2.9m. However, with internal fees, and inclusion of a 10% client contingency, the current project scheme cost is £3.3m, as per the table below. The ERDF grant towards the district heating element remains at £0.86m, and cannot be increased. Total cost to Council, after grant funding, is estimated at £2.46m.

£000s	Total	DH split	PW split
Works	2,666	2,133	533
Stage 3 design costs	260	220	40
Internal Fees	75	-	75
NPG substation purchase	20	-	20
Contingency, at 10%	302	235	67
<b>Total</b>	<b>3,323</b>	<b>2,588</b>	<b>735</b>
Grant funding	-863	-863	0
<b>Cost to Council</b>	<b>2,460</b>	<b>1,725</b>	<b>735</b>

The scheme is still projected to generate both savings (to energy costs at Council sites), income from sales to customers (Prince Consort Road and Shipley Art Gallery), as well as potential increased dividends and concession charges from Gateshead Energy Company, subject to them successfully being procured as the heat supplier for the new mini heat network to the leisure centre. A 25 year business case projects the following savings/income:

(25yr cumulative figures)	Previous scheme (£2.5m)	Current scheme (£3.3m)
Net savings / income from mini network	£1.6m	£1.5m
Private wire concession charge	£1.5m	£1.9m
Increased dividends from GEC	£4.5m	£3.8m
Total savings/income	£7.6m	£7.2m
Borrowing costs for over 25 yrs	£3.0m	£4.6m
Net Surplus	£4.6m	£2.6m

Purchasing the pipe ahead of contracting allows the contractor to commence works during the Summer period, to minimise highways disruption around the Civic Centre / Prince Consort Road / High St West. The alternative is to wait until the contract is in place, which could take a further month, and potentially risk delaying the project by a similar time, which would also risk the claim of grants in 2017, as DCLG has indicated they would not approve moving grant from one calendar year into the next.

Subject to contractual agreement by mid-August 2017, the contractor is proposing to start on site early September, and complete the on-site works by Spring 2018.

CONSULTATION: Agreed with consultation of Strategic Director of Corporate Resources

FILE REF:

APPROVED BY: Paul Dowling

Signed Paul Dowling  
Dated 19/7/17

CONSULTATION CONFIRMED: Darren Collins

Signed Darren Collins  
Dated 19/7/17