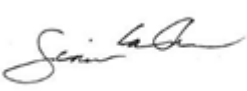




|  |  |              |               |
|--|--|--------------|---------------|
| <b>Report to:</b>                      | Opportunity Sutton Limited Sub-Committee   | <b>Date:</b> | 9 May 2016    |
| <b>Report title:</b>                   | Sutton Decentralised Energy Network Business Performance Update  |              |               |
| <b>Report from:</b>                    | Mary Morrissey, Strategic Director – Environment, Housing and Regeneration   |              |               |
| <b>Ward/Areas affected:</b>            | Borough Wide   |              |               |
| <b>Chair of Committee/Lead Member:</b> | Councillor Simon Wales, Chair of Opportunity Sutton Limited Sub-Committee and Councillor Jayne McCoy, Chair of Housing, Economy and Business Committee                               |              |               |
| <b>Author(s)/Contact Number(s):</b>    | Mandy Cherrington, Head of Economic Renewal and Regeneration<br>020 8770 5530  |              |               |
| <b>Corporate Plan Priorities:</b>      | <ul style="list-style-type: none"> <li>● An Open Council</li> <li>● A Green Council</li> <li>● A Fair Council</li> <li>● A Smart Council</li> </ul>                                  |              |               |
| <b>Open/Exempt:</b>                    | Open with the exception of Appendix B (Sutton Decentralised Energy Network Risk Register) which is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. |              |               |
| <b>Signed:</b>                         |   | <b>Date:</b> | 27 April 2016 |

## 1. Summary

- 1.1 This report presents for noting the update contained in the Sutton Decentralised Energy Network performance report and presents for approval the risk register for Sutton Decentralised Energy Network Limited.

## 2. Recommendations

- 2.1 That the Opportunity Sutton Limited Sub-Committee notes the performance update contained in the Sutton Decentralised Energy Network Performance report in Appendix A.
- 2.2 Approves the amended Sutton Decentralised Energy Network risk register as attached in Appendix B (exempt).

## 3. Background

- 3.1 Following the Council's decision in July 2014 to establish an Energy Services Company (ESCO), a detailed business model was prepared to demonstrate the commercial viability of the proposed company. The initial business plan was approved by the OSL Sub-Committee on 4



August 2015, along with the Shareholding Agreement, enabling Sutton Decentralised Energy Network Limited to be established.

- 3.2 Since the approval of the business plan at OSL Sub-Committee progress has been made on both Phase 1 and Phase 2 of the network.

#### **Performance Update**

- 3.3 The performance update is attached at Appendix A – Sutton Decentralised Energy Network Performance Report dated March and April 2016.

#### **4. Risk Register: Revisions**

- 4.1 The changes to the SDEN Limited risk register are as agreed by the previous Opportunity Sutton Limited Sub Committee. Former risk 2 "Failure to follow the statutory guidance on the trading power issued by the DCLG" has been removed because Sutton Decentralised Energy Network Limited has now been formally set up. In addition there have been minor amendments to the mitigation of risk 21.

#### **5. Impacts and Implications**

##### Financial

- 5.1 In July 2013, the London Borough of Sutton's Strategy and Resources Committee (S&R) approved the Conceptual Business Case for the development of a district heating network in Sutton, with funding of £4.5m.
- 5.2 A detailed Financial Model has been prepared for the Phase 1 Scheme and this demonstrates positive cash flow of £1.54m from delivery of the scheme.
- 5.3 The interest rate being charged by the Council to the Company will be at a commercial rate to ensure compliance with state aid regulations. The Council will borrow the money and incur interest at the Public Works Loans Board rate which will be lower than the commercial rate charged to the Company. The interest margin charged by the Council is estimated to achieve additional income of around £1m over the life of the loan.

##### Legal

- 5.4 The recommendations which are before the Sub-Committee do not give rise to any specific legal implications.
- 5.5 With reference to Risk 2, as set out in the Risk Register, the external lawyers who are advising on relevant matters in relation to SDEN have advised that the "dominant influence" which the Council will retain over SDEN is sufficient to bring SDEN within the scope of the Utilities Contracts Regulations 2016 ("UCRs 2016). Consequently, in purchasing activities in respect



of the district heat network, SDEN will for the most part need to comply with the UCRs 2016. These Regulations set out a procurement regulatory framework in compliance with EU law.

## 6. Appendices and Background Documents

| Appendix letter | Title  |
|-----------------|--|
| A               | Sutton Decentralised Energy Network Limited Performance Report   |
| B               | Sutton Decentralised Energy Network Limited Risk Register, exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. |

| Background documents |
|----------------------|
| None                 |

| Audit Trail                      |       |                     |
|----------------------------------|-------|---------------------|
| Version                          | Final | Date: 29 April 2016 |
| Consultation with other officers |       |                     |
| Finance                          | Yes   | Lyndsey Gamble      |
| Legal                            | Yes   | Sheila Saunders     |

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