

# Finance and Resources Committee

10.00am, Tuesday, 21 November 2023

## Award of Contract for Pre-Development Services for the proposed Granton Heat Network

Executive/Routine  
Wards

Executive  
4 - Forth

### 1. Recommendations

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- 1.1 It is recommended that Finance and Resources Committee:
  - 1.1.1 Approve the award of a contract to deliver pre-development services for the Granton Heat Network to Vattenfall Heat UK Ltd; and
  - 1.1.2 Note that the fee payable for pre-development services is £885,040. Should the pre-development works lead to a viable concession contract which is entered into with Vattenfall Heat UK Ltd, then this fee will be waived.

**Paul Lawrence**

Executive Director of Place

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# Finance and Resources Committee

## Award of Contract for Pre-Development Services for the proposed Granton Heat Network

### 2. Executive Summary

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- 2.1 The City of Edinburgh Council has completed a procurement exercise to identify the most economically advantageous bidder for the delivery of a proposed Granton Heat Network under a concession contract. The concession agreement consists of a first stage appointment for the successful partner to deliver pre-development services to support the Final Business Case prior to progressing to signing a concession agreement. Should the pre-development period conclude in a viable Final Business Case (FBC), but the Council chose not to progress to the concession agreement stage, the Council will be liable to pay £885,040 as payment for the pre-development services delivered. The most economically advantageous tenderer has been identified as Vattenfall Heat UK Ltd.

### 3. Background

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- 3.1 On the [5 October 2021](#), Policy and Sustainability Committee approved the Outline Business Case (OBC) for the Granton Waterfront Development. As part of this, Committee approved progressing the business case stages for a low carbon heat network that could serve the new development and provide the potential to connect to existing anchor loads within the area.
- 3.2 A Granton Waterfront Heat Network OBC was completed in March 2023 and is included at Appendix 1. This proposes a heat network utilising sewer source heat pumps with proposed connections to include existing facilities in the area (owned/operated by the Council, Edinburgh College, National Museums Scotland, and National Galleries of Scotland) and the new Council-led development at Granton Waterfront.
- 3.3 The OBC also concluded that the preferred route to delivering the heat network is a concession model on the basis this delivery structure brings private sector expertise along with achieving a high degree of risk transfer whilst retaining Council control over key aspects. Under this model, the Council would enter a 40-year design, build, operate, finance and maintain concession agreement with a private sector concessionaire. This model would involve transferring full delivery of the heat

network to the private sector including design, build, finance, operation, maintenance, metering, billing, sales and customer service. Full demand risk will be transferred with the operator's return on investment being achieved through heat sales but with the Council retaining control over key aspects including price controls and capped returns. The Council will also participate as a customer of the heat network and a facilitator of public sector connections. The Council anticipates that it will be possible to expand the network to connect more customers in the Granton Waterfront and surrounding areas and this will be the responsibility of the concessionaire.

- 3.4 Following completion of the OBC, procurement of a concessionaire commenced with the most economically advantageous tender to design, build, finance, operate and maintain the proposed low carbon heat network using a two-stage process.
- 3.5 The successful tenderer will initially be appointed to work with the Council and its Granton Waterfront Phase 1 pre-development partner for approximately a nine-month period under a pre-development contract. This will allow a FBC to be produced and presented to a future Finance and Resources Committee for approval to enter into a concession agreement and the delivery stage of the heat network. This approach has been devised as part of the Council's procurement strategy to reduce the burden of tendering as much as possible for tenderers and to encourage collaboration, innovation, risk apportionment, and partnership between the Council and the potential concessionaire.
- 3.6 This procurement includes the opportunity to supply heat from the low carbon heat network to the Council; other specifically named public sector bodies and any Registered Social Landlords with properties in the Granton Waterfront development or surrounding area.

## **4. Main report**

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- 4.1 On 18 January 2023, the Council published a Prior Information Notice (PIN) to commence market consultation to support the development of a procurement strategy for the delivery of the Granton Heat Network (the Network) under a concession agreement.
- 4.2 The market engagement consisted of market responses to a questionnaire and a follow up discussion. The aim of the market engagement was to identify if there was sufficient market appetite, capacity and experience and to identify the most appropriate route to market.
- 4.3 The market consultation identified that there was sufficient interest and a wealth of experience and knowledge in the Network, albeit this was limited, and a low number of responses were expected. The market also outlined a desire for the procurement process to be efficient and that creating early partnership with one organisation would be beneficial. The Council subsequently identified that the Competitive

Procedure with Negotiation and use of a pre-development period was the optimum strategy, and a Contract Notice was published.

- 4.4 The pre-development service requires the preparation of all surveys, design work, feasibility, consultation, statutory consents, identification and securing of customers and financial modelling associated with the Network. This will identify the financial viability of a successful heat network which presents best value to customers and a high-quality service provision associated with the operation, maintenance, metering, billing and management of the Network. Extensive consultation will be required with potential customers of the Network to ensure the financial viability which is highly reliant on other public and private sector partners purchasing heat from it.
- 4.5 The Contract Notice was published on 16 May 2023 via Public Contract Scotland inviting interested suppliers to submit the Single Procurement Document (SPD). The responses to the SPDs were assessed based on the tenderers experience, capacity, skills and qualifications, financial strength and their business ethics in relation to community benefits, sustainability and fair work practices. The top four scoring tenderers from this process were invited to tender.
- 4.6 The four tenderers were invited to tender based on a 70% quality, 30% price ratio. The ratio was determined as it was identified that the higher the quality of tender there was more opportunity to maximise on the delivery of a heat network that represents value for money heat tariffs for customers.
- 4.7 The Quality Award Criteria is contained within Appendix 2.
- 4.8 The Price Award Criteria consisted of a number of components: the cost payable to the tenderer by the Council should the pre-development period complete and the Council does not progress to a concession contract, a discount on the counterfactual heat tariff (in this case this is delivering low carbon through an alternative solution based on communal air source heat pumps), a score for the financial robustness and viability of their financial model and a score for their approach to raising the finance necessary to carry out the project.
- 4.9 The tender results, combining the quality scores and the price evaluation to derive an overall score for each supplier out of a maximum of 100, are:

<b>Tenderer</b>	<b>Price Score 1 (out of 15)</b>	<b>Price Score 2 (out of 15)</b>	<b>Quality Score (out of 70)</b>	<b>Total Score</b>
<b>Vattenfall Heat UK Ltd</b>	<b>8.09</b>	<b>11.50</b>	<b>54.25</b>	<b>73.84</b>
<b>Tenderer 2</b>	<b>15.00</b>	<b>9.00</b>	<b>46.50</b>	<b>70.50</b>
<b>Tenderer 3</b>	<b>8.36</b>	<b>8.00</b>	<b>47.00</b>	<b>63.36</b>
<b>Tenderer 4</b>	<b>7.62</b>	<b>6.00</b>	<b>36.50</b>	<b>50.12</b>

- 4.10 Price Score 1 consists of the score achieved for the submitted pre-development fee and the discount to the counterfactual heat tariff. Price Score 2 consists of the score achieved based on financial robustness and viability of the submitted financial model and a score for the tenderers approach to raising the finance necessary to carry out the project.
- 4.11 As Vattenfall Heat UK Ltd (Vattenfall) submitted the most economically advantageous tender, they are recommended for appointment.
- 4.12 The procurement process was a Competitive Procedure with Negotiation therefore the Council had the ability to undertake negotiation with the top three scoring tenderers based on the outcome of the tender process. It was deemed that best value had been achieved based on the outcome of the initial process and the content of the bids could not be improved in a manner which could justify a delay to commencing the pre-development period.
- 4.13 Vattenfall scored in the 'very good' to 'excellent' category for the response to all quality award criteria and the robustness and deliverability of its financial model. The financial response demonstrated that it had given detailed consideration to what costs would be incurred and how pricing structures would work. This was backed up by a robust financial model. Financing has been pre-arranged through Vattenfall's parent company.

## **5. Next Steps**

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- 5.1 Subject to Committee approval, the pre-development services contract will commence following a successful 10-day standstill period.
- 5.2 Once established, the contract will be managed by the Granton Waterfront Development team ensuring that effective contract management is delivered throughout the contract. A Contract Management and Handover Report, detailing the necessary steps and measures, will be produced and agreed.
- 5.3 It is envisaged that proactive contract management, to include robust monitoring of all appropriate management information, key performance indicators and budget/savings tracking will assist in the delivery of an effective and efficient service.
- 5.4 The output of the pre-development period will result in a FBC for the Heat Network which will be presented to Finance and Resources Committee alongside a Final Business Case for Phase 1 of Granton Waterfront regeneration, both of which are targeted for winter 2024/25.

## **6. Financial impact**

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- 6.1 There is no initial financial impact in relation to the contract related to pre-development services. The Council will be liable to pay £885,040 to Vattenfall should the pre-development period conclude in a viable FBC, but the Council chooses not to progress to the concession agreement. There is no cost to pay if the concession agreement is signed or following a gateway review (to be carried out six months from the commencement of the pre-development period), it is deemed the project will not produce a viable FBC. Should this cost fall to the Council, it will be met and contained from within the Phase 1 development budget as approved within the Granton Waterfront OBC. In this scenario, the Council will own the rights to any work undertaken in this period.
- 6.2 The viability of the heat network is dependent on securing grant funding from the Scottish Government's Heat Network Fund and on the Council's ability to secure government grant funding to cover the delivery gap on the wider Phase 1 regeneration costs. In relation to the former, the Council has submitted a bid for up to £19.9m of grant funding and this has received Heat Network Fund stage 1 panel approval. Confirmation of a finalised grant funding offer will be subject to further due diligence and approval of the FBC by the Heat Network Fund. On the latter, as set out in 8.4 below, the Council is addressing this through ongoing funding co-ordination discussions with Government Ministers and Officials.
- 6.3 The concession agreement, which will be subject to future Finance and Resources Committee approval as part of the FBC, will be for a maximum term of 40 years and will contract Vattenfall to construct, finance, operate, manage and maintain the Network through distributing and selling heat to customers of the network which will include Council tenants, public sector and private sector partners within Granton or the surrounding areas.

## **7. Equality and Poverty Impact**

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- 7.1 The Heat Network is proposed to provide financial savings to customers including Council tenants through reduced heat tariffs compared with an alternative low carbon counterfactual solution. Through this and a fabric first approach to Council-led housing delivery, tenants will live in well insulated, energy efficient homes which will support those facing fuel poverty.

## **8. Climate and Nature Emergency Implications**

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- 8.1 As the largest regeneration project of its kind in Scotland, Granton Waterfront represents a once-in-a-lifetime opportunity to transition towards a greener economy. Granton Waterfront will set the standard for sustainable growth and mark a step change in how development can positively influence how we go about our daily lives.

- 8.2 Through exemplar urban design it will champion low carbon transport, active travel, and net zero sustainable development, supporting the Council's commitment to build new affordable homes over the next 10 years, achieve net zero carbon by 2030 and address the emerging themes of the City Mobility Strategy and City Plan 2030. The Heat Network will provide a cost-effective mechanism for decarbonising the heat supply for existing and new residential and non-residential buildings at Granton Waterfront.

## **9. Risk, policy, compliance, governance and community impact**

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- 9.1 Vattenfall have committed to delivering the following community benefits during the pre-development period:
- 9.1.1 Work experience for pupils in S4-S6: A minimum of four work experience placements for school pupils or unemployed people during the pre-development period;
  - 9.1.2 promote opportunities locally including hosting at least three meet the buyer events to promote opportunities for local companies and/or SMEs;
  - 9.1.3 development of a placemaking strategy including wider activities to enhance greenspaces;
  - 9.1.4 host community engagement consultation events; and
  - 9.1.5 community consultation activity that is accessible and in existing community facilities with a purpose of strengthening community relations.
- 9.2 Vattenfall have committed to paying the Real Living Wage.
- 9.3 Vattenfall will appoint a Principal Designer who is responsible for planning, managing and monitoring the pre-construction phase of the project. The Principal Designer will work with other designers, contractors and the Council to consider the health and safety risks, and plan how to eliminate or control them.
- 9.4 The main risk to the project is the Council's ability to secure government grant funding both for the delivery of the heat network and to cover the delivery gap on the wider Phase 1 regeneration costs. This is because the initial viability of the heat network will be dependent on Phase 1 of Granton Waterfront regeneration building out over the next 6 to 7 years. This risk is being addressed through ongoing funding co-ordination discussions with Government Ministers and Officials which seeks to secure a funding solution through the use of existing allocations.

## **10. Background reading/external references**

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- 10.1 None.

## 11. Appendices

11.1 Appendix 1 – Granton Waterfront Heat Network Outline Business Case.

11.2 Appendix 2 - Summary of Tendering and Tender Evaluation Process.

### Appendix 2 - Summary of Tendering and Tender Evaluation Process

<b>Contract</b>	Award of Contract for Pre-Development Services for the proposed Granton Heat Network	
Contract period (including any extensions)	9 months	
Estimated Contract Value (including extensions)	£N/A	
Procurement Route Chosen	Competitive Procedure with Negotiation	
Tenders Returned	4	
Name of Recommended Supplier(s)	Vattenfall Heat UK Ltd	
Price / Quality Split	<b>Price (30%)</b>	<b>Quality (70%)</b>
Evaluation Criteria and Weightings	<b>Question</b>	<b>Weighting</b>
	Delivery Methodology	12.5%
	Design Philosophy & Innovation	12.5%
	Sub-contracting and Supply Chain	5%
	Operations Methodology	10%
	Presentation	5%
	Proposed Team	5%
	Fair Work Management Information	Not scored
	Fair Work Practices	10%
	Community Benefits	10%



Evaluation Team	Programme Director, City of Edinburgh Council Principal Accountant, City of Edinburgh Council Senior Accountant, City of Edinburgh Council Accountant, City of Edinburgh Council  External Advisors – Brodies LLP & Ramboll
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