

Report for: Cabinet – 17 June 2025

Item number: 17

Title: Strategic Heat Energy Network Update on Delivery
Report authorised by: Barry Francis, Director of Environment and Resident Experience

Lead Officer: Joe Baker – Head of Carbon Management

Ward(s) affected: All

**Report for Key/
Non Key Decision:** Key decision

1. Describe the issue under consideration

- 1.1 The Council approved Outline Business Cases (OBCs) for strategic heat networks (formerly referred to as Decentralised Energy Networks (DENs)) in North Tottenham in 2017 and in Tottenham Hale and Wood Green in 2021. For the Tottenham Hale and Wood Green (TH/WG) strategic heat networks it was awarded £27.8m from the government's Heat Networks Investment Programme (HNIP) to enable delivery through a mix of £12.6m of grants and £15.2m in low interest loans.
- 1.2 The ambition expressed in the OBCs in 2021, was to deliver the projects through a wholly owned Council subsidiary. Under this model the Council would fulfil two roles:
- **The Sponsor for the project.** The Sponsor's role is to coordinate the project. The Sponsor does not deliver the project but has a key role in coordinating and shaping the project to create an opportunity.
 - **Delivery and management role.** This would set up, finance, own and then manage the delivery vehicle for the implementation of the project. This delivery vehicle was an Energy Services Company (ESCO), which would have been wholly owned by the Council and operated at arms' length.
- 1.3 The total funding required for ESCO to deliver the TH/WG projects was estimated at around £80m. While this was to be part funded by the governments HNIP grants/loans and private developer contributions, the project relied on substantial finance from the Council to the ESCO which would have meant the Council borrowing around £50m.
- 1.4 Since the TH/WG OBC was approved, there have been wider changes in the macro-economy, which have impacted on the project economics. This review highlighted the cost of borrowing, increasing capital costs involved in the

development of a heat network of this nature, and a fluctuating energy market. Whilst the review suggested that the projects remain viable in some form, to continue in the manner set out in the OBCs would place the Council at risk, in view of its wider financial situation.

- 1.5 Given the impact that the macro-economy changes have had on the Council, the Council is no longer in a position to fund the project to the level previously agreed in the December 2021 Cabinet Paper “Decentralised Energy Networks (DEN) Outline Business Case (OBC).” The risks associated with this have been added to by delays in the development at High Road West (North Tottenham DEN approved in Cabinet Paper in 2017), which promoted connection to a strategic low carbon heat network. Which would have supported the strategic delivery.
- 1.6 The Council will now engage with the Government Funders (HNIP / Triple Point) to consider next steps.

2. Cabinet Member Introduction – Cllr Mike Hakata

- 2.1 The global economic landscape has shifted dramatically since we first embarked on our journey to deliver strategic heat networks across Haringey. Our vision of establishing a Council-owned energy company was bold and ambitious, yet the harsh realities of the cost of living crisis, unprecedented inflation and profound uncertainties in global energy markets have forced us to make difficult but necessary decisions.
- 2.2 We must recognise that our financial responsibilities to residents require prudent management in these challenging times. The brave step to scale back our original ambition of becoming both a major infrastructure developer and energy provider demonstrates our commitment to responsible governance during economic turbulence.
- 2.3 Throughout this process, our team has built a formidable body of knowledge regarding district energy and heat networks. This expertise represents valuable intellectual capital for our borough. I firmly believe we must harness and leverage this knowledge so that Haringey can maintain its position as a regional leader in decarbonisation, whilst also retaining our influence to shape the borough's energy future.
- 2.4 This strategic repositioning presents an opportunity to explore a spectrum of delivery models that could fulfil our climate ambitions without placing unsustainable financial burdens on our Council. The path forward requires us to consider how we might protect public assets whilst enabling crucial infrastructure development, position Haringey within the emerging regional heat network landscape, and respond effectively to government and GLA expectations whilst safeguarding local interests. This isn't merely a tactical retreat but a thoughtful recalibration of how we might achieve our goals through different means.

- 2.5 Our team will return to Cabinet with a clear set of options in the autumn, enabling this administration to make informed decisions about the future direction of heat network delivery across our borough. This pause in our original strategy is not a retreat from our climate ambitions, but rather a pragmatic recalibration in challenging circumstances.

3. Recommendations

- 3.1 It is recommended that Cabinet:

- a) Agrees that the Council will no longer work to deliver the strategic heat network projects as originally envisaged in the approved OBCs and agreed in December 2021 (Cabinet report entitled “Decentralised Energy Networks (DEN) Outline Business Case (OBC)”). Specifically, this means the Council will undertake no further work on delivering an energy company to construct and manage heat networks in Energy Services Company (ESCO), or on developing a Full Business Case (FBC) for investment by the Council in respect of Tottenham Hale and Wood Green;
- b) Agrees that the Council revisit the Tottenham Hale and Wood Green OBCs as referred to at (a) above to determine a new way forward;
- c) Agrees that in considering a new way forward, the Council will proactively engage with Heat Networks Investment Programme (HNIP) managed by Triple Point on behalf of the Department for Energy Security & Net Zero. This would take place over the summer to identify options for the best course of action regarding the funding that the Council has been allocated for this project.
- d) Agrees that once options have been explored with HNIP / Triple Point, that officers report back to Cabinet on the next steps and a recommended course of action. This is expected to be early Autumn 2025.

4. Reasons for decision

- 4.1 In December 2021, the Council was awarded £12.6m of grants and £15.2m of low-cost loans to deliver strategic heat networks in Tottenham Hale and Wood Green. Of this, £2.05m was for commercialisation and c.£25.8m for construction.
- 4.2 As agreed in the award, the Council has spent some of the commercialisation grant on working towards a FBC as originally envisaged, and some of the construction grant on early works required to safeguard the scheme. In addition, it had to start repayment of some of the loans **Error! Reference source not found.** It therefore now has £8.6m of grant money remaining (of which £0.75m is for commercialisation), and £14.8m of loans.
- 4.3 In late 2023, an in-flight review of the Council’s Strategic Heat Network proposals (covering TH/WG) was undertaken in the light of major changes in the macro-economy and in the Council’s financial position. The outcome of

that review was that although the projects remain viable, they come with considerable risk which the Council is not in a position to take. The Council's borrowing capacity is also significantly reduced and allocated capital budget for this project was removed from the capital programme in 2024.

- 4.4 Due to the scale of changes seen in the financial and economic environment since 2022, the Council considers the risk and cost of delivering heat networks as previously planned is too severe for the Council to undertake.
- 4.5 As a consequence, the Council needs to make a decision on how to proceed. The Council will engage with Government funders as to next steps and possible options for the future delivery of heat networks, before reporting back to Cabinet to agree a way forward.

5. Alternative options considered

Council fulfils both Sponsor and Delivery Roles as originally agreed in 2021

- 5.1 Under this option, officers would continue to work on a Full Business Case (FBC) for strategic heat networks in Tottenham Hale and Wood Green to be delivered by a wholly owned Council subsidiary, HESCO, as per the original Outline Business Cases agreed in December 2021.
- 5.2 This option has been rejected due to the level of risk entailed and the financial circumstances of the Council as laid out in this paper and is not considered further.

The Council decides on how to use the funding secured on other decarbonisation projects.

- 5.3 Under this option, the Council would use the remaining commercialisation grant to identify and deliver other projects within the borough.
- 5.4 The repurposing of government funding from HNIP for other decarbonisation projects is not within the funding agreement. HNIP is specifically for the development and delivery of heat network projects. It has therefore been rejected as an option.
- 5.5 Any change in approach and use of funding must first be agreed by the Government before the Council is able to consider and agree to any spend.

6. Background information

Development of Council projects to date and status update

- 6.1 The Council has been investigating and developing strategic heat networks for a number of years. The motivation has been to decarbonise heating in the borough in line with the Government's recommended decarbonisation route for cities, the GLA's position, and the Council's climate change ambitions. Heat networks can reduce heating costs to residents in the longer term and

from a technical perspective require reduced intervention at a domestic level vs. many other decarbonisation strategies.

- 6.2 The primary outputs of this work were the approval by Cabinet of Outline Business Cases (OBCs) for two projects. Both projects envisaged delivery via a wholly owned Council subsidiary and required some investment by the Council (i.e. Council taking on roles of both Sponsor and Delivery). These were:
- a) **North Tottenham DEN (January 2017):** Cabinet approved an OBC for a heat network based around the Council's High Road West (HRW) development,¹ linking to neighbouring sites including local schools, the Tottenham Hotspur Football Club stadium and nearby future council housing renewal projects.
 - b) **Tottenham Hale and Wood Green DEN (December 2021):** Cabinet approved two OBCs for a larger (£70+m) programme to extend a heat network from Enfield (via North Tottenham) through to Tottenham Hale and Wood Green.
- 6.3 At the same time as approving the TH/WG OBCs in December 2021, Cabinet approved acceptance of c.£27.8m of capital funding from the governments' Heat Networks Investment Programme (HNIP) including £2.05m for commercialisation and c.£25.8m for construction.
- 6.4 Following drawdown of the funds in March 2022 and until summer 2023, Officers worked to develop the projects with the aim of submitting a Final Business Case to Cabinet for approval in late 2024.
- 6.5 Due to rapidly evolving changes in Council finances and the wider economy, this work was paused in late 2023 to undertake an in-flight review. This review was done in part by an independent third party and in part by Council officers and reported in early 2024.
- 6.6 Following the review, in November 2024, the Council reviewed its financial position and determined that it was likely Exceptional Financial Support (EFS) from the Government would be needed to balance its budget. As such, a review of all spending was conducted to minimise the amount of EFS required and all capital funding budgeted for Council delivery of strategic heat networks was removed from the MTFS and the remaining commercialisation funding was transferred to the revenue budget.
- 6.7 Government was notified of the likely change of direction in 2024 and agreed that a proposal for the Council to design, deliver and own an ESCO was no

¹ Note that there is an interface between the North Tottenham DEN OBC and the development agreement that the Council signed with Lendlease in December 2017 for High Road West. This agreement committed the Council and Lendlease to deliver a sitewide heat network for HRW in line with the planning requirements. With the Tottenham Hotspurs Stadium site connecting to the Energetik Network, it is likely to remain a Heat Network based solution. Any changes in strategy will be reviewed by Cabinet as and when necessary.

longer viable. They agreed that there was likely to be interest from other investors and that the Council could revisit the TH/WG OBCs to determine a new way forward.

Financial and economic changes since 2022

- 6.8 Since award of the government funding, there were significant changes in the wider macro-economy, some are positive and some negative, including:
- Construction cost inflation
 - Energy cost inflation and increased volatility
 - Increase in borrowing costs
- 6.9 It was these changes that prompted the review of the strategic heat network projects referred to in para. 6.5. The in-flight review in 2023 concluded that the projects were still viable because the inflationary impacts on revenues effectively outweighed the increased construction and borrowing costs, but highlighted risks including significant development costs; a lack of adequate risk sharing between the Council and its energy supplier; and high unit costs of electricity set against inflationary assumptions based on gas unit prices.
- 6.10 Over the same period, the Council's financial situation worsened significantly due to increased demand for services and a major increase in the cost of borrowing. As of December 2024, the Council was facing a £37m deficit in its budget for 2025/26.
- 6.11 It is this key factor which has driven the need for a more fundamental review of the delivery of the TH/WG strategic heat network projects as described in this paper.

Regulatory environment for heat networks

- 6.12 While the Council has reviewed options around delivery of this project, the Government has brought forward new legislation and policies related to Heat Networks and how they will be delivered and managed.
- 6.13 The Energy Act 2023 became law in October 2023, appointing Ofgem as the regulator and establishing a framework for regulation for heat networks via secondary legislation. The first elements of consumer protection are due to come into force in early 2025.
- 6.14 The Government has committed to introducing Heat Network Zoning (HNZ) and is actively consulting on the detail of the regulatory framework. HNzs will be areas where heat networks are expected to provide the lowest-cost, low carbon heating solution. Processes are to be put in place whereby Local Authorities, acting as sponsor but in a new formal role known as Zone Co-ordinator (ZC), appoint a heat network developer (Zone Developer) to develop the zone in their area.
- 6.15 The consultation proposed that the ZC role would be assigned to Local Authorities. The recent English Devolution White Paper (Dec 2024) suggested

the role of ZC would fall to Strategic Authorities (the GLA in London). Government has said there will be funding available to LAs and / or regional bodies undertaking the ZC role but the extent of that is to be confirmed.

- 6.16 ZC's will then appoint a Zone Developer (ZD) who will design, construct and manage the heat network. The ZD will be able to develop and grow the network, while ensuring supply of low carbon heat to all connected buildings. Performance of the ZD will be monitored and managed by the ZC ensuring that issues such as affordability and supply of heat, and customer costs are fair and reasonable.
- 6.17 The GLA is actively working with the London Boroughs to work out the optimal way of coordinating / sharing the role across the capital. There is believed to be merit in ZCs being set up across multiple boroughs particularly where there is a major heat source such as the Energy from Waste plant (ERF) that could supply heat across multiple borough boundaries. If the ZC is managing a HNZ which covers more than one borough, the different boroughs within that zone may or may not participate formally in the governance and decision-making of the ZC.

A Review into the Project

- 6.18 As highlighted in para 6.5 and 6.9 the Council undertook a review of the deliverability of the programme and the work. This was delivered by Asteros, an independent company that has worked with the Government on large infrastructure projects including Heat Networks. They were tasked with assessing the viability of the programme considering changing technical aspects of the programme, the costs of delivery, and changes in government regulation. Asteros reported back that overall, the project was still viable and could deliver most of the benefits of the original project. It highlighted that resources would be required to deliver the project, such as increasing governance, but this could be funded by the secured grants that the Council had been awarded. And if the Council was unable to deliver this project as a public sector lead scheme, that the Council should explore alternatives with interested 3rd parties in both the public and private sector.

North London Heat Networks

- 6.19 Another relevant contextual factor is the rapidly developing situation regarding energy planning in the wider north London area, including:
- a) Cross-borough energy planning: the north London boroughs have been undertaking increasingly detailed area wide energy planning. There is an emerging consensus, supported by government's preliminary mapping of heat network zones, that a north London heat network taking waste heat from the ERF could provide significant carbon and cost benefits to the area. Hackney, Enfield, Islington, Barnet, and Camden have all recently been awarded GLA funding (Zero Carbon Accelerator Funding) to bring forward outline business cases and full business cases related to area wide heat networks.

- b) The GLA are convening a North London Heat Network Steering Group (lead by senior officers and political leaders) and North London Heat Network Working Group (made up of officers) to agree a vision of delivering a North London Network, ahead of Heat Zone Regulation. The first meetings of this are expected in Summer 2025.
- c) Enfield/Energetik: Enfield is working on finding new investors for its wholly owned subsidiary Energetik. Energetik are growing their network into Haringey and developing connection to Selby Urban Village, and to link into Tottenham Hotspur's developments.

Discussions with Government Funders

6.20 Following this decision by Cabinet, the Council will arrange a set of strategic meetings with Triple Point / HNIP and the Department for Energy Security & Net Zero to take place in July to discuss their views on the options for the funding that the Council has secured and the works that the Council has already undertaken. These meetings will be led by the Corporate Director for Finance and Resources, and the Corporate Director for Environment and Residents Experience.

6.21 This discussion with Triple Point / HNIP will be based around 6 options:

- a) Return the funding to HNIP / Triple Point.
- b) Identify a public body and award them the funding to take forward the project independent of the Council.
- c) Identify a private body and award them the funding to take forward the project independent of the Council.
- d) For the Council act as sponsor / heat zone co-ordinator for the project, and to manage the process having identified another public body to deliver on our behalf.
- e) For the Council act as sponsor / heat zone co-ordinator for the project, and to manage the process having identified a private body to deliver on our behalf.
- f) Options d) and e) could be explored as a joint venture.

Governance for the programme

6.22 The internal governance of the programme and decisions made in the delivery of programme will be overseen by the Wellbeing & Climate Board. This is chaired by the Corporate Director of Environment and Residents Experience and includes officers across the organisation who will be impacted (both positive and negative) by the potential delivery of this programme, including:

- a) Finance.
- b) Highways and Public Realm.
- c) Housing Services Team.
- d) Planning.
- e) Housing Delivery Team.
- f) Property Services.

- 6.23 The Wellbeing & Climate Board will consider and then bring forward recommendations for Cabinet to review and determine.

Next steps

- 6.24 Once possible options have been confirmed with Triple Point / HNIP this will be reported back to the Wellbeing and Climate Board who will then bring forward a recommendation for Cabinet for consideration. This will include discussions with the Corporate Leadership Team (CLT) and Cabinet Members. This work will take place over the late summer.

Following both the stakeholder discussions and internal arrangements, options for the future delivery of heat networks will be brought to Cabinet in the Autumn.

7. Contribution to the Corporate Delivery Plan 2024-2026 High level Strategic outcomes'?

- 7.1 The Haringey Heat Network Project was designed to deliver existing waste and low carbon heat to the maximum number of homes at the lowest cost and simplest way to deliver the low carbon benefits at a household level. To ensure the value and income generated by this programme remained within the borough, the programme had the ambition to be owned by the Council. However, due to the global and national financial issues, this option is no longer open to the Council due to the cost of finance for the organisation. This shows that the Council will always deliver on its objective of financial stability for the organisation and our community.
- 7.2 As the project is the single largest project within the Corporate Plan to deliver carbon reduction, the Council is willing to discuss options about the future delivery of this network by another third party. This will deliver on the cross-cutting objective within the Corporate Plan to reduce carbon emissions in the borough.

8. Carbon and Climate Change

- 8.1 The Heat Networks Programme was a significant part of the Council's Net Zero Carbon ambition, with an expectation that it would deliver a reduction of around 5% in the borough's overall carbon footprint by replacing gas boilers. It was also a key strategy to decarbonise our social housing stock, by reintroducing community heating in to flat blocks, in the most cost effective, low carbon, and least intrusive manner.
- 8.2 The Council will be setting out its plans to deliver the borough's decarbonisation ambition, and this will include the strategy for its social housing stock around heat networks in line with emerging legislation.

9. Statutory Officers comments (Director of Finance (procurement), Head of Legal and Governance, Equalities)

Finance

- 9.1 The recommendations of the report are to cease the current process of creating a Council owned energy services company, and to engage with central Government to develop a preferred option, which in turn will be reported to Cabinet in due course.
- 9.2 In support of the current project the Council has received the following funding:

	Type	Award	Spent/Repaid	Remaining
Commercialisation grant	Rev	£2.05m	£1.3m	£0.75m
Construction grant	Cap	£10.58m	£2.8m	£7.778m
Low-cost loan	Cap	£15.21m	£0.4m	£14.81m
Total		£27.84	£4.5m	£23.338m

- 9.3 Currently this funding is within the Council's cash flow and is earning investment income of c£1m per annum. This income is assumed in the base budget.
- 9.4 It is not possible to model the financial implications of the 6 scenarios set out in 6.21 at this time, but the financial implications of the chosen option will be provided at the point of the decision.
- 9.5 The Council entered into a grant agreement with the Government for the construction grant. Subsequently the Council agreed with the Government that it could spend some of the construction grant in advance of the agreement of the FBC for a variety of reasons and amended the original grant agreement to that effect. In the revised grant agreement, there are provisions for the Government to clawback 50% of the grant. This is a risk and if it materialised there would be a c£2.8m payment due for which there is no budget.

Strategic Procurement

- 9.6 Strategic Procurement have been consulted in the preparation of this report. Strategic Procurement note the recommendation in section 3 is not a procurement related decision.
- 9.7 Strategic Procurement have no objections to the recommendations of this report.

Legal

- 9.8 This report seeks Cabinet approval to cease delivery of the Tottenham Hale and Wood Green strategic heat network projects as set out in Outline Business

cases approved by the Cabinet in December 2021, for the reasons set out in this report.

- 9.9 As a key decision this is the responsibility of the Cabinet to agree.
- 9.10 In order to deliver the Tottenham Hale and Wood Green strategic heat networks the Council was awarded £27.8m from the Government's Heat Networks Investment Programme (HNIP) through a mix of £12.6m of grants and £15.2m in low interest loans, with various funding conditions attached. Should the Cabinet agree to cease delivery of these strategic heat networks as previously set out in the OBCs, it will be necessary to determine next steps for the funding associated with these programmes.
- 9.11 As set out in the report, officers have been, and continue to be, proactively engaging with Heat Networks Investment Programme (HNIP) managed by Triple Point on behalf of the Department for Energy Security & Net Zero, as to next steps and possible options for the future delivery of heat networks with this funding. The outcome of these further discussions will be brought back to Cabinet in due course to agree a way forward.
- 9.12 Further legal comments are set out in Exempt Appendix A.

Equality

- 9.13 There are no equalities issues associated with the recommendations made in this report.

10. Use of Appendices

N/A

11. Background papers

1. Cabinet Report and associated appendices concerning North Tottenham Decentralised Energy Network
<https://www.minutes.haringey.gov.uk/mgAi.aspx?ID=51694>
2. Cabinet Report and associated appendices concerning Decentralised Energy Networks Outline Business Cases
<https://www.minutes.haringey.gov.uk/mgAi.aspx?ID=70583>

