

CABINET MEETING – 14TH APRIL 2010

EXECUTIVE SUMMARY SHEET

Title of Report:

Electricity Supply for the Low Carbon Economic Area in Washington

Author(s):

Chief Executive and Director of Financial Resources

Purpose of Report:

To seek Cabinet's approval to a proposed financial contribution by the Council towards the cost of providing new electrical infrastructure in the Washington area.

Description of Decision:

Cabinet is requested to:

- a) agree to a Council contribution of £1 million towards the cost of the provision of new electrical infrastructure in the Washington area, matched by a £1 million Single Programme Grant from One North East (ONE).
- b) authorise the Chief Executive and the Director of Financial Resources to agree suitable contract terms with the Council's delivery partner, Nissan, in relation to the procurement of the infrastructure

Is the decision consistent with the Budget/Policy Framework?

***Yes/No**

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

The City Council has consistently placed a high priority on economic prosperity in the city and has for many years invested in infrastructure developments to enable business expansion and jobs growth.

The need for an additional electricity supply capacity of 14MVA in the Washington area has been established through a survey commissioned by ONE of existing and future electricity requirements in the area. The proposed facility will meet the anticipated future electricity needs of the local area as identified in the survey in order to support future development in the locality and also facilitate the expansion plans of Nissan and other private sector organisations, which will create further job opportunities for Sunderland residents in the current difficult economic environment.

Alternative options to be considered and recommended to be rejected:

Not to provide the infrastructure would mean that the established need for additional electricity supply to the Washington area in order to facilitate future development in the area would not be met. Accordingly the option of not investing in the requisite electrical infrastructure is not recommended. In addition, the option of procuring this electrical infrastructure separately and not through a joint venture with Nissan has also been rejected as this would not achieve the same economies of scale as the proposed collaborative procurement.

Is this a “Key Decision” as defined in the Constitution? Yes	Relevant Scrutiny Committee: Management
Is it included in the Forward Plan? Yes	

ELECTRICITY SUPPLY FOR THE LOW CARBON ECONOMIC AREA IN WASHINGTON

REPORT OF THE CHIEF EXECUTIVE AND DIRECTOR OF FINANCIAL RESOURCES

1. PURPOSE OF REPORT

- 1.1 To seek Cabinet approval to a proposed financial contribution by the Council towards the cost of providing new electrical infrastructure in the Washington area.

2. DESCRIPTION OF DECISION

- 2.1 Cabinet is requested to:
 - a) agree to a Council contribution of £1 million towards the cost of the provision of new electrical infrastructure in the Washington area, matched by a £1 million Single Programme Grant from One North East (ONE).
 - b) authorise the Chief Executive and the Director of Financial Resources to agree suitable contract terms with the Council's delivery partner, Nissan, in relation to the procurement of the infrastructure.

3. BACKGROUND

- 3.1 Cabinet will be aware that modern manufacturing activity can require substantial amounts of electricity to support state of the art production techniques.
- 3.2 In anticipation of increasing demand for electricity likely to be generated by businesses in the Low Carbon Economic Area, particularly in Washington, a survey of both existing and anticipated future supply and demand was carried out by One North East (ONE).
- 3.3 The survey showed that the current electricity supply in the Washington area is operating close to maximum capacity. As a consequence, in order to meet anticipated future demand a new substation providing a supply of up to 14 MVA needs to be provided in the local area within the next two years. In addition to this, Nissan require a further 12 MVA supply as a result of their own expansion plans. Accordingly the proposal is to co-ordinate the delivery of the additional 14MVA facility required for the local area and the 12MVA required by Nissan through one project to achieve economies of scale and the construction of one new facility to supply 26 MVA for the benefit of all businesses and users in the Washington Area.

4. CURRENT POSITION

- 4.1 Late last year discussions regarding the potential project were held between the Council and ONE with Nissan, who is likely to need an increased supply to service the recently announced battery manufacturing facility, to determine a way forward for the provision of additional capacity.
- 4.2 As a result of these discussions, ONE sought indicative costs from potential suppliers. Following receipt of these indicative costs ONE`s consultant advised that the likely cost for the provision of the 14 MVA facility through a joint venture model with Nissan is £2 million.
- 4.3 The current proposal is that funding for the provision of the 14 MVA facility will comprise a contribution of £1 million from the City Council and £1 million Single Programme Grant Funding from ONE. The contribution from ONE will be in addition to that already agreed for current Single Programme Investment Plan projects.
- 4.4 The proposal is that the new sub-station with a capacity of 26MVA at a total cost of £5.5million will be located on Nissan`s existing site and as a consequence will be procured by Nissan on behalf of both itself and the public sector. This will require a Project Agreement to be completed with Nissan. The Council`s maximum financial contribution to the project will be the £2million funding as described in paragraph 4.3 above, which includes £1million additional Single Programme funding to the Council from ONE, in consideration for the procurement by Nissan of the 14MVA facility for the benefit of the local area. This procurement of the 14MVA facility through Nissan is below the EU threshold for works contracts and the amount of funding to be provided by the Council under the proposed agreement will not exceed 50% of the total project costs.

5 REASON FOR DECISION

- 5.1 The City Council has consistently placed a high priority on economic prosperity in the city and has for many years invested in infrastructure developments to enable business expansion and jobs growth.
- 5.2 The need for an additional electricity supply capacity in the Washington area has been established through the survey of existing and future electricity requirements in the area commissioned by ONE. The proposed facility will meet the anticipated future electricity needs of the local area as identified in the survey in order to support future development in the locality and also facilitate the expansion plans of Nissan and other private sector organisations. This will enable the creation of further job opportunities for Sunderland residents in the current difficult economic environment and is therefore considered to

be a proper exercise of the Council's wellbeing powers under section 2 of the Local Government Act 2000.

6. ALTERNATIVE OPTION

- 6.1 Not to provide the infrastructure would mean that the established need for additional electricity supply to the Washington area in order to facilitate future development in the area would not be met. Accordingly the option of not investing in the requisite electrical infrastructure is not recommended. In addition, the option of procuring this electrical infrastructure separately and not through a joint venture with Nissan has also been rejected as this would not achieve the same economies of scale as the proposed collaborative procurement.

7. FINANCIAL IMPLICATIONS AND RISK ASSESSMENT

- 7.1 A Council contribution of £1 million towards the cost of a new substation to service the Low Carbon Economic Area in Washington is required. The Council has received confirmation from ONE NE that its contribution of £1 million will be payable to the council through Single Programme Grant funding.
- 7.2 Provision for the Council's contribution is included in the Capital Programme. The contribution will be funded from 'one off' resources identified through the budget setting process for 2010/2011.
- 7.3 Failure to invest in the provision of additional electricity capacity required to facilitate future development in the local Washington area could result in the loss of job opportunities for local residents and the loss of the spending capacity of those jobs to the local economy.

In addition it could have an adverse impact on the City's image, to other potential inward investors, as a vibrant local economy.

- 7.4 In the current economic conditions, the Council would not wish to be seen as unresponsive to the provision of new development, further jobs and investment.

8. BACKGROUND PAPERS

- 8.1 Company File

