AGENDA ITEM NO. 14

BRISTOL CITY COUNCIL
AUDIT COMMITTEE

28 September 2012

Report of: Strategic Director (Corporate Services)

Title: Grant Thornton's VfM reports

Ward: Citywide

Officer presenting report: Peter Robinson, Corporate Services Manager Finance and Section 151 Officer

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RECOMMENDATION

The Audit Committee note, and comment as appropriate, on Grant Thornton's value for money reports for 2011-12.

Summary

We expect to present an unqualified Value for Money Conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

We undertook detailed work to support our VFM conclusion. We have prepared separate reports in respect of this work and these are attached to this summary.

The five local reports were:

1. Bristol's Change Portfolio (Draft)
2. Implementation of Bristol's VfM Strategy
3. Arrangements for Securing Financial Resilience
4. ELENA application and supporting models, part 2
5. VfM Conclusion Follow-up of recommendations.

Policy

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. Grant

Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the Local Government Act 1999 with regard to best value and inspection.

Consultation

Internal: Grant Thornton consulted with Senior Officers and Directors before finalising reports.

External: not applicable.

1 Introduction

1.1 Grant Thornton is required to form an opinion on the Council's annual financial statements and to provide a value for money conclusion. These reports provide the Council detailed information and recommendations for those areas which were reviewed by Grant Thornton to support the 2011-12 VfM conclusion.

1.2 Grant Thornton, responsible for the City Council's audit, will be attending the Committee, and will be pleased to answer Members' questions.

Other Options Considered

Not applicable.

Risk Assessment

Not as a result of this report.

Equalities Impact Assessment

There are no issues arising from this report.

Legal and Resource Implications

None arising from this report.

Appendices:
Appendix 1: Bristol's Change Portfolio (Draft)
Appendix 2: Implementation of Bristol's VfM Strategy
Appendix 3: Arrangements for Securing Financial Resilience
Appendix 4: ELENA application and supporting models, part 2
Appendix 5: VfM Conclusion Follow-up of recommendations

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

Bristol City Council

Review of Bristol's Change Portfolio 2011-12

September 2012 – Draft for Audit Committee

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1 Our audit approach

Introduction and background

In 2010, as part of our 2010-11 audit programme we completed a review of the business change portfolio (change portfolio) at Bristol City Council (the Council). Our findings and recommendations were reported to the Council in September 2010.

In September 2011 we again reported to the Council concluding on the progress to date and identifying areas for improvement. We concluded that the change agenda continued to facilitate organisational change and deliver some cashable savings, but that the Council had yet to demonstrate that it could deliver significant change and benefits through the agenda.

The change portfolio remains the main way in which the Council intends to deliver its planned savings in 2012-13 and 2014-15, expected to be in the region of £21m for each year. As a result the Council has begun to develop a number of business change programmes, which include children's services, adult social care and landlord services.

Scope of audit work

This report includes the following:

- follow-up of progress and recommendations made in 2011.
- review of changes to the programme since our last review- particularly in respect of the governance arrangements;
- the revised picture of outcomes and benefits achieved thus far, and now being forecast; and
- the change programmes taking place within Adult Health and Social Care and Children and Young People's Services as tracer areas, to understand recent developments and the impact of the programme, in terms of delivering services more efficiently and effectively.

Code of Audit Practice

Under the Code of Audit Practice, we are responsible for issuing a conclusion on whether we are satisfied the audited body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our VfM conclusion for 2011-12 at the Council will be informed, in part, by this review.

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Use of this report

This report has been prepared to advise the Council of the matters arising from our work and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking its own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

Acknowledgements

We carried out this work through discussions with Council Members, Strategic Directors and officers, and by reviewing key documentation. We would like to record our appreciation for the assistance and co-operation provided to us during our work by Members of the Council and officers.

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2. Executive summary

The Council has continued to review and strengthen its governance arrangements both within and across Directorates. It has introduced the Portfolio Management Group and developed target operating models within the Directorates.

The Council is fully aware that cashable savings must be delivered through the change portfolio. The savings forecast in 2015-16 have increased, with net cumulative savings expected to deliver £236m by 31 March 2016. However, to date the Council has yet to demonstrate that significant savings can be delivered through the change portfolio, as it only contributed 18% of the total savings delivered in 2011-12.

We recommend that the following high level recommendations are considered:

Portfolio Governance

The Council should review the role of the Portfolio Management Group to ensure arrangements are appropriate and effective.
The Council should review the role of Members in the current governance arrangements.

Directorate Programmes (CYPS & HSC)

The Council should ensure the current timeframe for CYPS and HSC is realistic to achieve its planned scale of change. It should review the key milestones in place, taking into account that significant elements of the work are still underway and the full business cases have yet to be completed and agreed.
The Council should develop full business cases for the CYPS and HSC programmes and ensure they are kept up to date during the life of the programme.

Cross Directorate Programme (Bristol Workplace)

The Council should agree SMART non-financial objectives and outcomes for the Bristol Workplace programme.
The Council should actively engage stakeholders in the Bristol Workplace programme by identifying and profiling the stakeholders and developing a communication plan.
The Council should review the membership of the Bristol Workplace Programme Board and the role of the Senior Responsible Officer to ensure effective governance arrangements are in place.

Impact on service delivery

The Council should ensure it monitors the effect that organisational change has on service delivery to ensure the impact on performance is understood and the risk of any reduction in standards is minimised.

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3 Detailed findings

Portfolio Governance

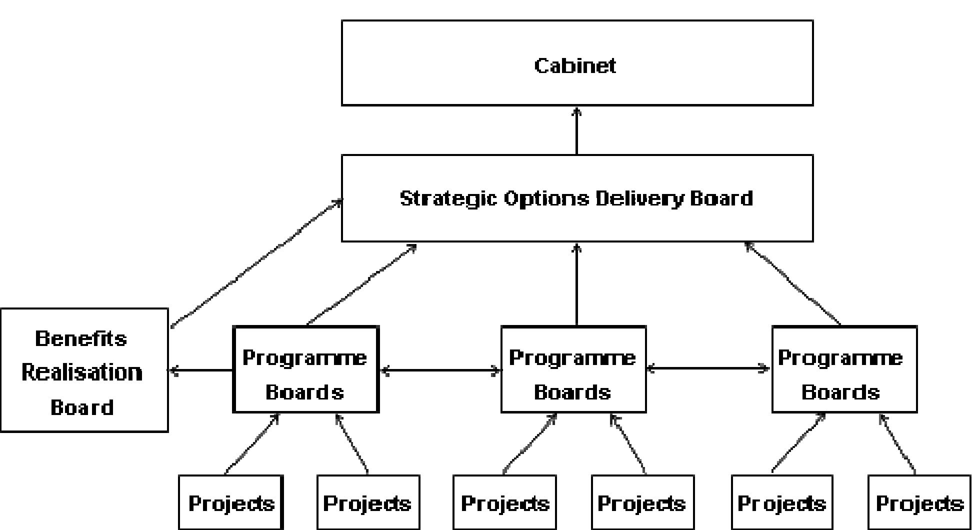
The Council has continued to review and change is governance and management arrangements to ensure they remain effective. Portfolio management remains the responsibility of the Strategic Options Delivery Board (SODB), with final approval and decisions being taken by Cabinet.

In June 2011 the Council defined nine design principles which underpin the change portfolio and are intended to guide practice and determine the type of organisation the Council is aiming for.

In September 2011 the Strategic Leadership Team agreed to further change the governance framework. The proposed changes aimed to support the "One Council" approach and ensure delivery both within and across Directorates. The Council recognised that it was not experienced in managing this level of change and complexity. The capacity of the SODB was also recognised as an issue.

The changes included a revised constitution for SODB and the introduction of the Portfolio Management Group (PMG). The Council agreed this group's remit and constitution and that it should include a senior leader, tier two officers from each Directorate, who would represent the needs of their Directorate within the programmes delivering across the Council. These horizontal programme include programmes such as people and technology.

Exhibit 1 illustrates the revised structure



The PMG became operational in October 2011 and continues to have a key role in the governance of the change portfolio and is a decision making group. Its remit includes:

- to overview resource demands which are consistent across the programme;
- to identify and address capacity and capability issues;
- to ensure consistent application of the design principles;
- to aggregate risks;
- to co-ordinate communication and impact of change on stakeholders; and
- to overview the interdependency map.

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The group meets every two weeks and is required to escalate issues to SODB. Information and standard documentation is prepared by the programme managers and challenged by the PMG.

The PMG has now been operating for ten months. During this review concerns were raised that the PMG may now have capacity issues and that the decision making arrangements may need review. We suggest that the Council should review existing arrangements to ensure the terms of reference remain appropriate and that key decisions are made at the appropriate level, either PMG or SODB.

Recommendation 1
The Council should review the role and capacity of the Portfolio Management Group to ensure arrangements are appropriate and effective.

In our previous report (September 2011) we raised the following recommendation: *Members and Strategic Leaders should agree the Council's strategic vision, for the next three to five years, and ensure the change agenda is aligned with the Council's strategic priorities.*

In order to address this in March 2012 Cabinet adopted its joint Corporate Priorities and Medium Term Financial Plan 2012-13 to 2014-15. This document identified that, in order to achieve the financial challenge over the next three years, would require the Council to rethink how it delivers a service, what it delivers and who should provide the service. It also requires financial targets to be driven by individual change programmes and a reduction in the reliance on non-recurrent tactical savings.

The introduction of the Corporate Priorities and Medium Term Financial Plan 2012-13 to 2014-15 provides clear objectives for Members and SLT. In addition the strengthened governance arrangements and design principles should ensure that each change programme and planned service change improves or contributes towards the Council's strategic outcomes.

We also raised the following recommendation: *The Strategic Leadership Team needs to ensure individuals and teams are encouraged and performance managed to do things better and deliver the Council's objectives through organisational change.*

The Council through the PMG and SODB is working to deliver change both operational and cultural through and across the Directorates. Although it is aware that changing the culture, so that the energy, commitment and drive of an organisation results in change, is a slow and gradual process. We recognise that the adoption of design principles to underpin the change portfolio and target operating models for the main programmes should provide a clear focus and agreed outcome.

The introduction of the PMG has provided a mechanism to improve working across the Directorates and continues to be a key focus for the Council going forward.

In 2011 the Resources and Scrutiny Commission took over responsibility from the Transformation Strategy Board for ensuring sufficient Member input into scrutinising and performance managing the change portfolio. However, we note that from September 2011 until July 2012 the Resources and Scrutiny Commission received only one overall performance update on the Change Portfolio, in April 2012, although the Commission did receive a copy of the business case for the Bristol Workplace for scrutiny ahead of Cabinet. It received no other information relating to the change portfolio during that period.

Cabinet also has not received overall performance updates on the Change Portfolio, but is involved in key decisions during the year, receiving documents such as business cases on which to base its decisions.

We are aware that the Service Director responsible for the change portfolio aims to have regular one to one meetings with the Member Executive Lead. These meetings are viewed as being effective by the current Member Executive Lead.

We consider that the involvement of Members in the governance arrangements for the change portfolio could be improved by ensuring they are involved in overseeing and performance managing the change portfolio, as well as making key decisions. However, we recognise that any changes in arrangements should take into account the impact of the introduction of an elected mayor in November 2012.

Recommendation 2
The Council should review the role of Members in the current governance arrangements.

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Target operating models

A target operating model (TOM) is a high level design of an organisation's future operating model, which should enable it to deliver its strategic vision and objectives.

The Council has been through a process of linking its strategic visions, as set out in the Corporate Priorities and Medium Term Financial Plan 2012-13 to 2014-15 with the corporate design principles and the portfolio change plans. This has resulted in target operating models being developed for each of the Directorate programmes. Theses TOMs provide the future model on which the services are to be redesigned and changed.

The Council is currently developing its "One Council" TOM which will set out the overarching future operating principles for the Council. The Directorate TOMS, change portfolio and change programmes should feed into and influence the "One Council" TOM, as will the "One Council" TOM influencing the Directorate TOMs and the change portfolio. The Council is aware that all these strategic intentions and programmes will interact and impact on each other and will need to consistent to be efficient and effective going forward.

Change portfolio – costs and savings

Exhibit 2 illustrates the revised costs and savings achieved to date and expected up to 2015-16. It also compares the cumulative net savings with those reported in September 2010 and 2011 in our previous report.

The Council forecasts net savings of £26.2m in 2012-13 and that by 2015-16 cumulative net savings should increase by £127m to £236m. As illustrated in exhibit 2.

Exhibit 2

Programmes and support services	2008-09 £000	2009-10 £000	2010-11 £000	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000	2015-16 £000
Costs June 2012	2,525	9,425	4,696	22,360	19,016	9,819	2,919	16
Savings June 2012	(11)	(4,130)	(10,749)	(19,316)	(50,042)	(70,685)	(75,454)	(76,439)
Net (savings) costs June 2012	2,514	5,295	(6,053)	3,044	(31,026)	(60,866)	(72,535)	(76,423)
Cumulative net savings June 2012	2,514	7,809	1,756	4,800	(26,226)	(87,092)	(159,627)	(236,050)
Cumulative net savings June 2011	2,514	7,765	2,674	1,823	(22,244)	(50,127)	(78,489)	(108,969)
Cumulative net (savings)/costs June 2010	2,514	8,338	11,810	8,029	(6,444)	(26,195)	(45,886)	(67,641)

In 2011-12 the Council needed to deliver revenue savings in the region of £29m. The Council achieved this and delivered the savings either as part of a change programme or through "business as usual" (BAU).

In 2011-12, 18% of the savings were delivered through the change programme. In 2012-13 this proportion is expected to increase and the change programme is planned to deliver 46% of the expected £24.7m savings. This would be as a result of both Children and Young People's Services (CYPS) and Health and Social Care (HSC) significantly increasing the amount of savings expected from the projects, to over 50% of their planned savings, assuming that savings are delivered as planned.

However, current monitoring arrangements indicate that the CYPS, Corporate, and Neighbourhoods and City Directorates are projecting that a proportion of the project savings have either no plans in place, or are in place but off target.

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Management Information

Information provided to Members, Strategic Leaders and officer should be clear and concise to enable them to assess and understand how the portfolio is delivering in line with objectives.

In 2011 we recommended that *the Council should continue to review the documentation it produces to support the change agenda to ensure it remains appropriate for the function for which it is intended.*

Detailed management information is produced by the programme managers and finance business partners and reviewed by the PMG. This information includes a programme highlight report, programme milestones, risk log and provides an overall risk rating for the programme. Any issues identified are raised within the portfolio commentary report.

The Council has changed the style of the information provided to the SODB. The SODB and the PMG both now receive a portfolio dashboard and a supporting portfolio commentary report. These documents are reviewed and challenged by the PMG prior to their review by the SODB.

These documents are not reviewed by the Resources and Scrutiny Commission. At the time of our review they also had not been reviewed by the Member Executive Lead.

We are aware that the Council and the programme office are continuing to improve and develop the management information. During this review concerns were raised about the dashboard, indicating that it is difficult to understand and that the commentary report is required to ensure understanding of progress.

In addition the Council still does not provided detailed reporting on the progress on the delivery of savings plans to Members. We have raised the following recommendation within our review of the Council's Arrangements for Securing Financial Resilience:

- The Council should report detailed progress against savings plans to Members.

Recommendation 3
The Council should continue to review the documentation it produces to support the change portfolio, including information provided to Members.

Children and Young People's Services (CYPS)

In 2011-12 the CYPS delivered savings of £5.4m, of which 12% was delivered through planned projects. However, CYPS experienced significant demand for safeguarding services and has had to find alternative savings to address these overspends and to address shortfalls in planned savings.

These alternatives amounted to £1.6m and included bringing forward savings from 2012-13, such as the planned early years savings and the use of non-recurrent savings such as vacancy management.

In July 2010 an outline business case for CYPS was developed and agreed by the Council. Following the outline business case a baseline review was completed and a draft TOM developed. As a result the information, including benefits and milestones within the outline business case is now out of date and has not been updated to reflect the planned developments within CYPS. In addition the development of the TOM has delayed the process. It should be noted that the Council is aware of the changes and updates since the outline business case and will reflect these in the full business case expected for approval in September 2012.

However, the CYPS Tom has enabled the service to have a better understanding of the needs of Bristol's children and understanding of the expected model required. Currently CYPS is developing its benefits map and engaging with stakeholders. This is part of the Directorates approach to ensuring it clearly defines the future desired position and focuses on the Directorate's priorities. We consider that there is a considerable amount of work to be completed to ensure the CYPS service has a robust full business case in place by the end of September.

In the meantime because the programme is not fully operational the Directorate Leadership Team for CYPS is having to identify savings from those elements of the change portfolio which are already approved, such as the Youth Service or from alternative sources. In 2012-13 CYPS plan to deliver 43% of its planned savings through projects. Delivering these remains a significant issue for CYPS, both as a result of increased demand and because the change programme has yet to be fully agreed and implemented.

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As part of this review we also considered the programme risk log, however, we noted that this was not up to date and in July included the risks identified in April. Ensuring that risk management procedures are up to date is essential to ensure a high risk, high profile programme is effectively managed.

Health and Social Care (HSC)

In 2011-12 the HSC directorate delivered savings of £9.96m, although £2.36m of this was as a result of unplanned underspends in other service areas. In 2012-13 HSC plans to deliver savings in the region of £5.1m, of which 68% should be delivered through planned projects.

HSC is similar to CYPS in that an outline business case was developed in 2011 and the development of the TOM has delayed the development of the full business case. The TOM has focused on residential and day care services.

The Strategic Director has ensured that Cabinet is aware of the planned changes within residential and day care services and as a result Cabinet approval was given at the end of July to progress with these changes, following extensive public consultation. As a result HSC hope to realise savings in the region of £1.4m from residential care homes in 2011-12.

The HSC programme has an in-house programme manager, which has improved the process and ensured ownership from within the Directorate. The programme includes seven projects covering all aspects of the Directorate. Each project has a senior executive lead who are members of the programme board.

The programme manager has good understanding of the financial benefits planned and how they are progressing.

In 2011 we raised the following recommendation: *The Council should ensure that progress against outcomes is regularly reviewed and that business cases become working documents and are updated through the life of a programme*. We are unable to assess progress against outcomes at this stage, until full business cases are available and the outcomes have been agreed, however, we are able to confirm that the business cases have not been kept up to date during the life of the programme.

Recommendation 4
The Council should develop full business cases for the CYPS and HSC programmes, ensure they are kept up to date during the life of the programme and are supported by detailed risk logs.

For both CYPS and HSC the extent and complexity of change required over a short timescale is significant. We recognise that the planned level of change is required to ensure the delivery of recurrent savings, but we are concerned that this amount of change, required over a short time period may reduce the likelihood of delivery.

In order to ensure delivery the Council needs to consider if the current timeframe is realistic to achieve the planned scale of change. The Council should review the key milestones in place, taking into account that significant elements of the work are still underway and the full business cases have yet to be completed and agreed.

Recommendation 5
The Council should ensure the current timeframe is realistic to achieve its planned scale of change for CYPS and HSC. It should review the key milestones in place, taking into account that significant elements of the work are still underway and the full business cases have yet to be completed and agreed.

New Ways of Working (NWOW) / Bristol Workplace

In 2011 we raised two recommendations relating to the New Ways of Working Programme. They were that the Council should:

1. *develop a robust business case for the NWOW programme which clearly sets out what the programme aims to achieve and includes measurable non-financial outcomes against which progress can be monitored.*
2. *actively engage stakeholders in the New Ways of Working programme by identifying and profiling the stakeholders and developing a communication plan.*

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The Council had originally planned to revise the business case, but in early 2011 concerns were raised as to whether the NWOW was a valid programme and in September 2011 an exception report highlighted that the programme was unable to achieve its expected benefits. Following a Cabinet briefing in late 2011 a Member advisory working group was established and work began on developing a business case for the new enabler programme 'Bristol Workplace'.

On the 4 July 2012 Cabinet was presented with the Bristol Workplace business case. The business case is based on a strategic financial model and reviews the options available to the Council to consolidate and upgrade its office accommodation. The final option selection will be taken by the end of 2012.

The benefit to the Council of non-financial benefits is raised within the document, but it does not include measurable non-financial benefits. In order to ensure these non-financial benefits are delivered the Council should agree SMART objectives and outcomes against which progress could be monitored and assessed. In order to do this the Council also needs to establish a baseline against which progress can be monitored.

Recommendation 6
The Council should agree SMART non-financial objectives and outcomes for the Bristol Workplace programme.

The Bristol Workplace is considered to be an enabler programme. It should provide both financial and non-financial benefits to the Council as well as enabling other programme to provide benefits. It will have a direct influence on other change programmes and should deliver both organisational and cultural transformation.

The programme has a dedicated programme manager who will be responsible for ensuring the business case is up to date. During the course of this review and those completed in 2010 and 2011 we concluded that the Council has no track record of ensuring that business cases are up to date so that they can be relied upon as a current source of information. We are aware that the Council intends to complete a Programme Execution Plan which will set out the programme controls, systems and delivery tools. This will be a live document and the intention is that this document will be up dated as the programme progresses.

Recommendation 7
The Council should ensure that the business case for the Bristol Workplace programme is kept up to date and supported by a current programme execution plan.

Bristol Workplace programme is a high profile programme and it is important effective programme governance is in place. A programme board was established as part of the NWOW programme. This programme board is now responsible for the Bristol Workplace programme, although the Council are in the process of reviewing the membership and ensuring the programme board is fit for purpose.

The Council is in the process of assessing the resources required within the Council to support the programme, this includes communications and organisational development. Therefore our recommendation raied last year remains outstanding.

Recommendation 8
The Council should actively engage stakeholders in the Bristol Workplace programme by identifying and profiling the stakeholders and developing a communication plan.

The role of the Senior Responsible Officer (SRO) is also being reviewed. Currently the Interim Chief Executive is the SRO. It is important to ensure that the SRO has sufficient capacity to fulfil the requirements of this role, whilst ensuring such a high profile programme is sponsored and owned by the Chief Executive and the Strategic Leadership Team.

Recommendation 9
The Council should review the membership of the Bristol Workplace Programme Board and the role of the Senior Responsible Officer to ensure effective governance arrangements are in place.

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Management of Intended Outcomes/Benefits

In our previous report (September 2011) we raised the following high level recommendation: *The Council should ensure all programmes are delivering SMART non-financial objectives and outcomes, which are aligned and considered alongside the outcomes for other programmes and are actively monitored.*

The Benefits Realisation Board (BRB) chaired by the Strategic Director of Corporate Services, is responsible for holding the programme and project officers to account for delivery of the cashable and non-cashable benefits. The BRB requires the programmes and projects to agree to a benefits contract against which progress will be monitored by the BRB.

To date benefits contracts have been developed for CYPS and HSC but have yet to be agreed. The focus of these contracts remains on cashable savings. This is also supported by the Bristol Workplace full business case. Therefore we consider that this recommendation remains relevant.

Recommendation 10
The Council should ensure all programmes are delivering SMART non-financial objectives and outcomes, which are aligned and considered alongside the outcomes for other programmes and are actively monitored.

Impact on service delivery

During periods of change it is important that the consequences and knock-on effects of change are understand and monitored in order to reduce and mitigate the impact. We established in our 2011 review that plans were in place to minimise disruption, but the likely impact on front line services was linked and should be considered as part of the change programme. We raised the following recommendation: *The Council should ensure it monitors the effect on services (business as usual) of organisational change to ensure the impact on performance is understood and the risk of any reduction in standards minimised.*

Currently performance monitoring of service delivery is undertaken as part of the Directorate Team Meetings, not within the programme boards or the PMG. We consider that this recommendation remains outstanding. The Council should either develop new performance metrics or use existing performance indicators to enable direct monitoring of those services likely to be affected by the change. We are concerned that at both an operational and strategic level, the impact that individual programmes may have on service delivery is unclear.

Monitoring the impact that organisational change will have on front line services becomes more difficult for large complex programmes, such as Health and Social Care Transformation, Children and Young People's Services Programme and cross cutting programmes such as the Bristol Workplace, but vital to ensure the effect is understood and minimised.

Recommendation 11
The Council should ensure it monitors the effect that organisational change has on service delivery to ensure the impact on performance is understood and the risk of any reduction in standards is minimised.

Programme Completion

Programme completion reports provide a formal opportunity to consider the lessons learnt and to evaluate a programme against its original objectives. In 2011 we were concerned that lessons learnt and closure reported were not report on a timely basis and that information was not being shared across programme managers.

We consider that these issues have been addressed. Programme managers meet regularly and closure and lessons learnt reports are available for the programme managers to view and share.

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Appendix A – Action Plan

Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
1	The Council should review the role and capacity of the Portfolio Management Group to ensure arrangements are appropriate and effective.	H		
2	The Council should review the role of Members in the current governance arrangements.	H		
3	The Council should continue to review the documentation it produces to support the change portfolio, including information provided to Members.	M		
4	The Council should develop full business cases for the CYPS and HSC programmes, ensure they are kept up to date during the life of the programme and are supported by detailed risk logs.	H		
5	The Council should ensure the current timeframe is realistic to achieve its planned scale of change for CYPS and HSC. It should review the key milestones in place, taking into account that significant elements of the work are still underway and the full business cases have yet to be completed and agreed.	H		
6	The Council should agree SMART non-financial objectives and outcomes for the Bristol Workplace programme.	H		
7	The Council should ensure that the business case for the Bristol Workplace programme is kept up to date and supported by a current programme execution plan.	M		

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Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
8	The Council should actively engage stakeholders in the Bristol Workplace programme by identifying and profiling the stakeholders and developing a communication plan.	H		
9	The Council should review the membership of the Bristol Workplace Programme Board and the role of the Senior Responsible Officer to ensure effective governance arrangements are in place.	H		
10	The Council should ensure all programmes are delivering SMART non-financial objectives and outcomes, which are aligned and considered alongside the outcomes for other programmes and are actively monitored.	H		
11	The Council should ensure it monitors the effect that organisational change has on service delivery to ensure the impact on performance is understood and the risk of any reduction in standards is minimised.	H		

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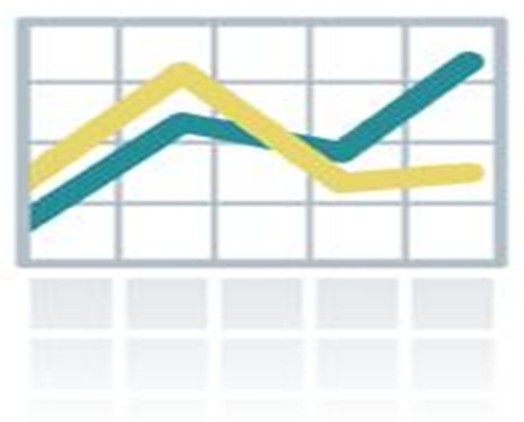
The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP

APPENDIX (14) 2

Bristol City Council

Implementing the Value for Money Strategy – Final Report

September 2012



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1 Our audit approach

Introduction and background

Bristol City Council (BCC) launched a new Value for Money (VfM) Strategy in June 2011. In January 2012 we said that successful adoption of this Strategy should enable the BCC to deliver and demonstrate VfM. We also said that BCC should ensure that the Strategy, and its supporting toolkit, is used by all Directorates and service managers by February 2012.

The expectation is that the implementation of the VfM Strategy will help to ensure that services are delivered in the most efficient and cost effective ways possible. Operational responsibility for the roll out of the VfM Strategy and its toolkit has been placed with BCC's Corporate Performance and Improvement Team (CPIT), under the overall direction of the Chief Internal Auditor. CPIT has trained senior officers in Directorates and offered further specific and targeted training where this is needed. More generally, CPIT has continued to work with some service areas to support their VfM aspirations and to give guidance on VfM measurement.

The Strategy requires each service manager annually to assess the progress of their service in delivering VfM. As part of the new arrangement, all services were asked to submit a VfM self-assessment to CPIT by 31 December 2011. Quality reviews of these self-assessments by CPIT, in conjunction with internal auditors, were scheduled to take place in January and February 2012.

Scope of audit work

For BCC, 2011-12 is the first year of operation with the new VfM Strategy. Our review has assessed to what extent the new system has been complied with, has enabled a better understanding of how services are performing, and whether the Strategy has helped responsible officers to improve VfM in particular areas. We have also asked services managers how they would like to see the system developed and improved.

We have based our work on:

- a 'desk-based' analysis of the intentions underpinning the Strategy and its implementation, supported by discussions with officers within CPIT and Internal Audit; and
- discussions to assess the practical implications of adopting the Strategy in the following three service areas:
  - housing benefits;
  - adults with learning difficulties; and
  - Youth Services.

These three service areas were chosen to help us understand how the new VfM Strategy has operated in practice. We have not carried out any detailed analyses of VfM in these service areas and hence are unable to comment in this respect.

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Code of Audit Practice

Under the Code of Audit Practice, we are responsible for issuing a Conclusion on whether we are satisfied the audited body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our VfM conclusion for 2011-12 in the Council will be informed, in part, by this review.

Use of this report

This report has been prepared to advise BCC of the matters arising from our work and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between BCC and ourselves and should not be relied upon to detect all opportunities for improvements in management arrangements that might exist. BCC should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking its own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

We have set out our findings and recommendations in Appendix A to this report.

Acknowledgements

We carried out this work through discussions with staff of BCC, and by reviewing key documentation, including policy and strategy documents, and Council papers and Minutes. We would like to record our appreciation for the assistance and co-operation provided to us during our work by Members of the Council and Council staff.

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2. Executive summary

Overall Conclusion

The VfM Strategy is a valuable management tool that demonstrates BCC's corporate commitment to improve VfM. It provides a sound base which should enable BCC to deliver and clearly demonstrate VfM. However, we are concerned that the current Directorate-led arrangements potentially undermine the Strategy and that improvements need to be made to ensure that the Strategy's objective are achieved.

The VfM Strategy has taken longer than anticipated to be adopted across BCC and implementation requirements have been locally interpreted resulting in inconsistencies between Directorates.

Corporate arrangements

The Chief Executive and the Strategic Leadership Team (SLT) have overall responsibility for ensuring BCC and its services deliver VfM. A process of self–regulation has been introduced to ensure adoption of the VfM Strategy.

In order to ensure consistency, both within and across Directorates, we recommend that governance arrangements should be strengthened. This should include:

- clear leadership of what is expected and by when;
- regular monitoring of compliance;
- prompt action taken to address non-compliance, with officers held accountable; and
- quarterly reporting to the Resources and Scrutiny Commission.

The first year's experiences suggest that there is a place for more intensive corporate guidance and support. Clear statements are needed about the future division of responsibility, in relation to VfM Strategy implementation, between staff working in CPIT and staff working in Directorates. In addition the approach for VfM should not be considered in isolation and should be amalgamated within existing management processes within the Directorates.

Service arrangements

In the sample of three service areas we examined we conclude that the roll out of the VfM Strategy (and its toolkit) has not radically altered the way service managers think, but has provided a useful discipline and offered a method by which opportunities for VfM can be identified and improved. However, several examples of possible notable practice only emerged from discussions with officers and were not clearly articulated through the self-assessment system. Indicating that the VfM Strategy has yet to be fully integrated within existing management practices.

Although the toolkit offers a good start, we consider that the process and possible future improvements in VfM are being hindered by:

- a lack of SMART target setting, this both limits the improvements individual services can achieve and prevents the Council at a corporate level demonstrating VfM;
- gaps in analysis and coverage within service areas; and
- a lack of good quality comparisons against which performance can be measured and improvements made.

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3 Detailed findings

In this section of the report we first consider the corporate arrangements of the implementation of the VfM Strategy and then present our findings from within three service areas.

Corporate arrangements

Since January 2011 there has been a series of developments in Bristol City Council (BCC) that have emphasised and supported the need to develop a more coherent strategy towards securing improved Value for Money.

As your External Auditors, since 2009-10, we have raised concerns that the Council should ensure that its services demonstrate VfM and raised a number of recommendations to support this view. Following on from this in January 2011 Internal Audit also issued a Value for Money report. This report was a comprehensive and a critical summary of the difficulties experienced by BCC in introducing a coherent and consistent approach to improving VfM.

The Internal Audit report highlighted that the Council has reported in its Annual Governance Statement, for several years that poor VfM is a key weakness, specifically in the areas of education and adult community care. In this report Internal Audit recorded its overall conclusion as being ‘of concern’.

The report raised 23 recommendations, of which seven were assessed as high priority. Some of the findings from the Internal Audit review have helped form and develop the VfM Strategy.

This report was followed-up by Internal Audit in May 2012, sixteen months after the original review. The follow-up has identified that 10 recommendations have been completed, 11 recommendations are in progress and remain outstanding and two are either no longer relevant or have been mitigated by other actions.

Although Internal Audit’s direct management of the CPIT means that there is a good awareness of progress with efforts to improve value for money across BCC, we are concerned that a high proportion of recommendations remain outstanding and that documentation of the follow-up work has not been given the priority it deserves.

Recommendation 1

More timely follow-up of recommendations should be completed in order to encourage managers to address recommendations by their target date.

Following this BCC planned to introduce a VfM Strategy later in 2011 and in April submitted papers to the Senior Leadership Team (SLT). These papers provided a useful summary of the rationale for the VfM strategy and of the importance of targeting efforts on areas with improvement potential. The new corporate VfM Strategy was approved by SLT on 12 April 2011 and was launched in July 2011.

The key driver of the Strategy was for each budget holder to review their service and formulate VfM indicators that best represented the service area.

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VfM Strategy Self-assessment

The VfM Strategy required a self- assessment to be completed annually, the first of which was due on 31 December 2011. The intention was for the Corporate Performance and Improvement Team (CPIT) to review a sample of assessments in order to establish the extent to which the Strategy had been applied.

We consider the self-assessment form to be well designed, and that it should be straightforward to complete. It has a sound structure based on clear logic. It requires each budget holding manager to complete four sections that:

1. describe their current and historical budget position;
2. list activities, explain which are discretionary and which are statutory, and identify the connections between activities and the Council's strategic priorities;
3. show what challenges are being made to alter ways of working; and
4. explain how VfM is being measured and demonstrated.

The CPIT expected 212 self–assessments to be completed within the Council. This assessment was based on the financial control budget for 2011-12 and the number of budget holders. Allowances were made for some assessments being combined, such as teams which completed the same duties but were just based in different areas of the city. Later in the report we describe the number of self-assessments that were actually submitted.

In addition, 24 service areas were identified by SLT as being VfM improvement priorities.

Governance and reporting arrangements

The VfM Strategy introduced mandatory indicators for all service areas, it raised the profile and importance of VfM, but also emphasised the importance of ownership and accountability. The Strategy set out the role and responsibilities and identifies that the Chief Executive and SLT have overall responsibility for 'consistently delivering VfM for the Citizens of Bristol' and that this is to be achieved through the governance arrangements included within the Strategy.

In summary the governance arrangements have included:

- quarterly reporting to the Executive Member, since November 2011, these reports provide a summary of performance; and
- monthly reporting to SLT.

Monthly progress reports for SLT were prepared by CPIT during the period January-April 2012. The January progress update revealed the mixed response to the requirement to complete a self-assessment.

At this point, 136 of the expected 212 self-assessments (64%) had been completed. The Neighbourhoods and City Development Directorate's were furthest ahead, but no progress had been made in Children and Young People's services (CYPS) which had completed none of its expected 36 self-assessments. At this point the view taken by CYPS was that VfM work 'is progressing' but not as prescribed through the VfM strategy.

The approach being used in Health and Social Care (HSC) was different as well. Here only three self-assessments were expected[1], mainly because of significant recent alterations in budget responsibility. As a result HSC had missed the opportunity to embed VfM ownership, alongside budget responsibility, at 4th tier level.

Further inspection of documentation by CPIT showed variation in the full extent of the internal challenges being made by services, as well as in choice of performance and cost indicators. Also there was a lack of quantification of savings, and clear shortcomings in the extent to which expected timescales were included in the self-assessments for delivering savings and/or improving performance. Two key conclusions at this stage were that:

- service managers needed to consult with Finance Business Partners, Organisational Development (OD) and CPIT for support in developing measures; and
- the purpose of VfM improvement actions – and the use of SMART measures and indicators – needed to be better explained to managers so that they could make best use of these.

[1] And two of these were recorded as completed

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The February progress update identified that both CYPS and HSC were justifying their lack of progress on the transformational change programme. This update again made a number of recommendations to improve the arrangements and compliance with the VfM Strategy. They included the following:

- *Adopt a more high profile and rigorous lead on VfM.*
- *Reinforce VfM responsibilities to Service Directors and Service Managers or, alternatively, authorise a suitably resourced lead role to take the VfM agenda forward on SLT's behalf and dispense with the self-regulation approach.*
- *Where appropriate unit cost measures have not been identified, require budget holders to work with Finance Business Partners to identify effective measures.*
- *Invest in targeted training for managers on VfM requirements via e.g. Finance Business Partners, Organisational Development, and Performance & Improvement Team'.*

The March progress update noted that SLT had agreed to extend the final deadline on self-assessments to 31 March. The update report once again reinforced earlier messages by saying that ways needed to be found to embed VfM thinking and rigour in every budget-holding manager, and provide support to assist Managers with developing SMART targets and measures.

The April progress update showed that the expected number of self-assessments had been revised downwards (to 138 from 212 at the beginning of the year). All, with the exception of four, self-assessments had been completed by the extended closing date of 31 March.

As explained above, the original number of expected self-assessments matched the number of budget holdings for 2011-12. Subsequently, Directorates determined how many self-assessments they would submit. There were cases where several teams carried out the same roles in different areas and Directorates chose to submit one assessment applicable to all such teams. Also, some budget holding managers held a number of small budget heads within their teams, and these were combined into one assessment.

We are concerned that the reduction in number of self-assessments completed could weaken the VfM Strategy and the Council's ability to ensure that all areas are being considered.

This update included a robust summary of 'outstanding issues' - that needed to be achieved and what steps might assist this achievement:

- *To embed VfM thinking and rigour in every budget-holding manager. The increasing pressure to deliver improved services at lower cost and with reduced resources, needs to be supported with a commensurate reduction in the bureaucratic burden. E.g. producing fewer performance reports and agreeing that future reports must seek strategic decisions or actions, and not…[just]… be submitted for information. Information reports can be extracted from SPAR.net as required.*
- *Processes and procedures must be subjected to intense challenge and scrutiny, and be streamlined or deleted where they are judged to be superfluous and not adding value.*
- *Ensure accountability and drive service improvement. Appointed VfM leads must endeavour to bring the VfM agenda into the focus of DLTs and DMTs by scheduling regular items at meetings.*
- *Support managers in developing effective SMART measures and targets. There needs to be greater coherence of the resources available to develop appropriate toolkits and guidance for managers.*

Annual random sample audit of self-assessment

In line with the agreed strategy this was undertaken by CPIT and was completed in April 2012. The key themes emerging from a sample of 32 self-assessments reviewed were that:

- 'self-regulation' had resulted in Directorates taking different approaches, resulting in variation in the format and styles of the self-assessments;
- a number of managers had had difficulties identifying suitable VfM measures, particularly for unit costs; and
- there was a general shortage of improvement actions and targets that were genuinely SMART.

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A key aim of the VfM Strategy is that it provides a process that supports, improves and assists in delivering and demonstrating VfM. As at June 2012, it is clear that the VfM Strategy has taken longer than anticipated to be adopted across the Council.

We consider that that this VfM Strategy's objectives are weakened because:

- implementation requirements have been locally interpreted resulting in inconsistencies;
- the quality of content of the self-assessments is varied; and
- ownership and accountability need to be strengthened to ensure the VfM Strategy becomes a management tool that is beneficial and that officers want to complete.

CPIT has, in its various progress updates, listed many things that could help the full development and implementation of the VfM strategy, ranging from simplifying some procedures, to improving target setting to providing more training for staff. While each of these is important, their impact can only be maximised if there is clear leadership and commitment. We are aware that the current approach relies upon self-regulation, but consider that the corporate arrangements should be strengthened to ensure VfM is embedded within existing management arrangements.

The VfM Strategy clearly documents the role and responsibilities of all those involved from SLT to every budget holder. However, we consider that the approach being taken is Directorate-led and at present does not appear to result in service managers being held to account by their line managers, Service Directors and ultimately SLT.

We suggest that the Council should reconsider its position of expecting individual Directorates to be fully responsible for planning and designing their own VfM improvement strategies. The first year's experience suggests that this has not worked as expected, and there is a place for more intensive corporate guidance and support. Clear statements are needed about the future division of responsibility, in relation to VfM Strategy implementation, between staff working in CPIT and staff working in Directorates.

Recommendation 2

Clear statements are needed about the future division of responsibility, in relation to VfM Strategy implementation, between staff working in CPIT and staff working in Directorates.

In addition we consider that the governance arrangements could be improved by quarterly reporting to the Resources and Scrutiny Commission. VfM Strategy reporting should be combined with existing reporting arrangements to Scrutiny and should assist to ensure compliance throughout the Council.

Recommendation 3

The corporate performance monitoring should be strengthened to ensure better consistency and compliance with the Council's VFM strategy. This should include:

- clear leadership of what is expected and by when;
- regular monitoring of compliance;
- prompt action taken to address non-compliance, with officers held accountable; and
- quarterly reporting to the Resources and Scrutiny Commission.

It is also important to ensure that corporate responsibility for the VfM Strategy fits as neatly as possible with other strategies including Business Planning and Medium Term Financial Planning (MTFP). Producing service VfM improvement plans should be seen as part of business planning and not as a separate exercise, and together both should inform the MTFP process. Clarification is needed about the organisational links between the VfM Strategy, Business Planning and Medium Term Financial Planning.

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Recommendation 4

The Council should ensure that the VfM Strategy is not complied with in isolation and is viewed as part of the management processes within Directorates.

Following an internal reorganisation, the management of the CPIT became the responsibility of the Chief Internal Auditor in 2011. We are concerned that this may compromise the independence of Internal Audit. The CIPFA Code of Practice for Internal Audit in Local Government, 2006 suggests that Internal Audit should be independent of the activities that it audits to enable it to make impartial and effective judgements. It also says that Internal Audit should not have operational responsibilities.

Recommendation 5

The Council should keep under review how it maintains the independence of Internal Audit, in line with the CIPFA Code of Practice for Internal Audit 2006, if it remains responsible for the CPIT Team

Service arrangements

This section of the report focuses on three services:

- **housing benefits** - a statutory service and strategic priority area that has been the subject of several previous efficiency reviews
- **adults with learning difficulties** - another statutory service and strategic priority area that has not so far been the subject of previous extensive review
- **Youth Services** - a service area that has a mix of statutory and non-statutory elements that is not an agreed and listed strategic priority for BCC.

Here we consider:

- whether a useful self-assessment has been prepared?
- what might have been done to improve the experience in the first year? and
- whether the process has changed the way managers think about their service and helped them deliver VfM improvements?

Is the self-assessment useful?

The Housing Benefits (HB) Service was prompt in completing its self-assessment (this was done in September 2011). In our opinion, the assessment was completed well. It succinctly documents actions that can be employed to meet a number of the service's statutory and discretionary activities. Nine VfM measures are listed each with useful benchmarking data.

The HB service operates within the fast moving Welfare Reform Agenda. It has seen some big improvements in recent years, through a number of high profile efficiency reviews in specific teams. For instance, it has successfully introduced on line claims, and risk based verification and has set up a Vulnerable Client Team to ensure that these service users get a high standard of service.

In our opinion the area of the HB self-assessment in most need of development is 'improvement actions and SMART targets'. Although there are some specific targets (for example 15 days to reach a decision on a new HB claim), in other cases targets are said to be under review.

Recommendation 6

The VFM performance measures should be SMART to enable progress to be effectively monitored and reported.

We know that the CPIT is aware of this issue and is considering if target setting could be improved by providing training to support the service managers.

The Learning Difficulties Service also met the original deadline of 31 December 2011 for submitting its self-assessment, but in our view this particular self-assessment was not well completed and also did not include SMART targets for the VFM measures.

The self-assessment covers mainly commissioning activities and commissioned services: it is therefore limited in scope as it does not consider the in-house services

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used for people with learning difficulties[2] . It is not clear why these are excluded, and why these are not being subjected to the same VfM review discipline as the rest of the LD operation.

We are concerned that clear procedures are not in place to ensure all aspects of a service are considered. Therefore we consider that all officers preparing self-assessments should describe exactly what is included, and give their reasons for excluding any specific areas from the assessment that might ordinarily be expected to be within the scope of the service description.

Recommendation 7

The self-assessment should aim to consider all aspects of a service, such as in-house and commissioned services, but managers should give their reasons if they decide to exclude specific service elements.

From discussions with the officers responsible for learning difficulties, it became apparent that the process of completing the self-assessment grid had resulted in a number of important potential VfM issues being revealed, but that these had not been further pursued. For example the need:

(1) for a prompt flag within PARIS for service user reviews to help ensure better performance in meeting review targets;
(2) to simplify Direct Payments (DP) bureaucracy in order to promote a higher uptake of DP; and
(3) to establish better cost comparisons for supported living. The LD self-assessment used the cost of residential care as an indicator, even though residential care is no longer considered to be the most important feature in the support of adults with LD.

Whilst this shows the VfM process is identifying improvements, it indicates that the full potential of the VfM system, in promoting creative and challenging thinking, is not being fully exploited and developed.

[2] it doesn't include one in-house day service and two in-house residential facilities

The LD self-assessment includes very little comparative data, and benchmarking information is limited. The main source of benchmarking data that allows comparisons of unit costs between authorities is the PSSEX1 return to the Department of Health. This return shows unit costs for residential, nursing, day care, home care and direct payments but does not include comparative unit cost data for supported living packages which are increasingly used for people with LD. Ways need to be found to extend the capture of more useful comparative information. In addition officers were reluctant to compare LD in Bristol with LD in other core cities – partly because of the high accommodation costs in Bristol. We recognise that there is some rationale to this, and comparing LD (or any essentially personal service) with the equivalent service in a neighbouring authority might be just as valid as comparing with core cities.

The VfM Strategy aims to identify priority areas for improvement through the use of benchmarking and comparisons. The Strategy states that it is for service areas to decide upon the benchmarks which best match their services and is used to inform decision making. This approach is weakened if suitable alternatives are not sought, analysed and assessed. The self-assessment should ensure comparisons between authorities are made, using whatever comparators are judged most relevant by service managers.

Recommendation 8

The self-assessment should include appropriate comparisons between authorities to enable VfM priority improvement areas to be identified, and where necessary more support and guidance should be provided corporately to enable this.

The Youth Services self-assessment was prepared in March 2012 following a comprehensive report to Cabinet in November 2011 that provided information on progress in relation to the commissioning of the integrated Youth Service (Bristol Youth Links) and recommendations for procurement. In this case the Youth Service had been through an earlier self-assessment process, before and outside the requirements of the VfM Strategy. The self-assessment that was submitted in March as part of the formal VfM requirement used material that had been previously assembled.

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There are several good features in the self-assessment including the clear links made with legislation showing what is and what is not a statutory service requirement, and the clear links made with three of the outcomes of the strategic partnership's 20:20 Plan. Like the LD self-assessment, the Youth Service self-assessment is weak in its use of SMART targets and the extent to which it covers benchmarking - a task made more difficult by the discontinuation of data collection and publication of comparative information by the National Youth Agency.

The Youth Service has undergone major changes involving a reduction in staffing from 122 Full Time Equivalents at April 2011 to 72 at April 2012. Over the current year many of these are expected to TUPE to new providers leaving around 10 people within the service area to focus on contract management and on enabling and facilitating roles. The Youth Services self-assessment is accurate but very limited in describing actions already taken in delivering improved VfM, and intentions for the current year – possibly because a full self-assessment had been done earlier within the Directorate and only parts of this were transferred to the new form required as part of the roll-out of the new VfM Strategy. The service aims to deliver improved value for money through the introduction of outcomes based commissioning, which should result in improved outcomes at reduced costs. Reducing staff numbers and increasing focus on outcomes are complementary ways of seeking to improve VfM in Youth Services.

Recommendation 9

A self-assessment should describe the main changes and improvements taking place within a service, and should contain sufficient detail to enable VfM priorities to be understood from reading the self-assessment without the need to access extensive supporting files and documentation.

What might have been done to improve the experience in the first year?

There are important in-built incentives to drive VfM in Housing Benefits (HB) services generally, through mitigating the major budgetary risks from debts arising from overpayments. In BCC around £220m is paid out to claimants each year, but the Council can recover this outlay from the Department of Work and Pensions (DWP) provided its claims procedures operate on time and with minimal or no errors. In this way the repayment system provides a useful 'external discipline' on the service.

Despite this incentive, performance in BCC's Housing Benefits team has not in the past been strong. In quarter one of 2011-12 the processing time for new HB claims averaged around 40 days compared with the national average of 24 days. Average performance has since improved sharply to 17 days.

This performance achievement has been reached with inputs from a DWP LEAN review. The previous poor performance has been attributed to significant under-resourcing within the benefits team. This has been recognised within the Council and in 2012-13 an £971k extra has been added for new staffing and technology support, which the Council considers has resulted in improved performance and recovered money. It is an example of 'invest to save'.

A similar issue was raised in discussion with officers in the LD service. Here the return from injecting more resources is less direct than with Housing Benefits. The logic is that if BCC spends more on services for a 25 year old with LD, it could end up reducing its spend on the service user when he or she is 35. For example, intensive help in training a relatively young person with learning difficulties, may lead to a more satisfied, less challenging and less expensive service user in later years.

Likewise there are potential 'spend now, save later' issues in Youth Services. The development of quantitative measures of performance outcome, such as reducing the likelihood of entry to the criminal justice system, or reducing unwanted pregnancies, could potentially lead to the Council re-prioritising some of its spending.

Currently, it is not obvious whether or where the invest to save principle is accommodated in the VfM Strategy, and therefore in the self-assessment.

Recommendation 10

The Council should consider if invest to save initiatives should be incorporated within the VfM Strategy.

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Has the process altered the way people think and will it help them to deliver VfM improvements?

Since April 2012, the Housing Benefits service has started to separate HB claimants into three bands (low, medium and high) according to their likely risk. This approach is supported by the DWP, and is helping to reduce the average waiting time. Also the use of on-line applications has developed dramatically since October 2011, to the point where now one third of all claims are 'self-service'. This too is reducing waits.

We consider that the new VfM strategy has not been the driver of the improvements in HB, and that most of the foundation work for achieving VfM improvements had been done beforehand. Weekly service performance reports are presented to Lead Members, Directors and all staff, and financial exception reporting with regard to staffing capacity has ensured that the service has the right number of staff processing claims at all times. Because of its previous efforts to improve VfM it was relatively easy for the HB service to adopt the required VfM format, and complete and return a useful self-assessment.

It is clear from the HB self-assessment that benchmarking is being appropriately used. We have been advised that through using CIPFA benchmarking statistics and engaging with the Core Cities group, service staff have been able to contact other authorities to explore different ways of working. There are plans for continued future improvement, including in the area of 'exempt accommodation'. Here benchmarking has revealed particularly high costs, and a review of all Exempt Accommodation Providers[3] is currently underway. A dedicated Policy Team has been set up for this purpose.

Therefore for the HB service we consider that the VfM Strategy and the supporting self-assessment should provide a useful process going forward by which progress could be assessed.

Within the LD team it appears that although the introduction of the VfM strategy had not generated a radical change in thinking, it had created a useful discipline. For example, in the last 12 months it has become clearer to those managing the service that they should have more outcome (happy, trained service user) or output (service user attending college) focussed contracts, rather than agreements that rely on inputs (support from two care assistants, twice daily).

The LD manager is working towards changing the way providers operate, looking to develop outcome focused services, so that they can generate better value for those with LD. While these developments cannot be attributed entirely to the introduction of the VfM Strategy, it is reasonable to assume that the messages within the strategy are increasingly reinforcing attitudes within managers to operate with VfM firmly in mind.

Within Youth Services a lengthy review process lasting several years has resulted in a significant commissioning exercise being underway. In this service area, clear and imaginative ideas for improving service quality and value for money predated the emergence of the VfM strategy. The function will be based in future on nine contracts each with service specifications involving challenging outcome measures that have been discussed with potential providers. We have been assured that the service has a good evidence base about what works, and that it is measuring the extent to which it is engaging with vulnerable young people.

As with the other two service areas, there have been no problems adopting the VfM strategy messages within Youth Services. The officers we spoke to in Youth Services did, however, say that other service managers in CYPS had indicated that the VfM documentation was a helpful checklist.

[3] These are deregulated tenancies – there are around 1500 of these in Bristol – including hostels and other forms of social accommodation

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Appendix A – Action Plan

Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
1	More timely follow-up of recommendations should be completed in order to encourage managers to address recommendations by their target date.	M	(re: Internal Audit report Jan 2011) – **Agreed** These recommendations will be followed up via the implementation of the new Corporate Performance Management Framework and Strategy, effective for the 2012/13 business year.	Chief Internal Auditor (CIA). Ongoing
2	Clear statements are needed about the future division of responsibility, in relation to VfM strategy implementation, between staff working in CPIT and staff working in Directorates.	H	**Agreed** Resources, roles and responsibilities to be reviewed in accordance with Corporate Performance Management Strategy.	Service Director Finance. 30 September 2012
3	The corporate performance monitoring should be strengthened to ensure better consistency and compliance with the Council's VfM strategy. This should include: • clear leadership of what is expected and by when; • regular monitoring of compliance; • prompt action taken to address non-compliance, with officers held accountable; and • quarterly reporting to the Resources and Scrutiny Commission.	H	**Agreed** SLT will act collectively to ensure one Council consistency in producing VFM data/information to agreed timescales. A robust communications plan of VFM requirements will be developed and delivered to ensure that managers are clear of requirements. Quarterly monitoring and challenge of VFM improvement by SLT and Resources Scrutiny will be developed and integrated with performance reporting.	SLT - ongoing CIA 30 September 2012

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Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
4	The Council should ensure that the VfM Strategy is not complied with in isolation, and is viewed as part of the management processes within Directorates.	H	**Agreed** Approach to business planning to be strengthened to ensure a clear, consistent, council wide approach which embeds all key elements of planning and performance management - including value for money.	CIA/Corporate Office April 2013
5	The Council should keep under review how it maintains the independence of Internal Audit, in line with the CIPFA Code of Practice for Internal Audit 2006, if it remains responsible for the CPIT Team.	M	Raised at Audit Committee on 29th June. Members of the Committee did not have an issue with these arrangements. However, this will be kept under review as the role of the CPIT evolves.	CIA. Ongoing
6	The VfM performance measures should be SMART to enable progress to be effectively monitored and reported.	H	**Agreed** SLT have commissioned a review of all vfm performance measures by the Corporate Performance and Improvement to enable them to determine a baseline for VFM improvement measurement. Once determined, key benchmarking data/unit costs to be published on-line.	SLT/CIA. 30 September 2012 As soon as practicable.
7	The self-assessment should aim to consider all aspects of a service, such as in-house and commissioned services, but managers should give their reasons if they decide to exclude specific service elements.	H	**Agreed** To be incorporated in next annual review of the VfM Strategy.	CIA. 31 March 2013
8	The self-assessment should include appropriate comparisons between authorities to enable VfM priority improvement areas to be identified, and where necessary more support and guidance should be provided corporately to enable this.	H	**Agreed** To be incorporated in next annual review of the VfM Strategy.	CIA. 31 March 2013

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Rec No	Recommendation	Priority	Management Comments	Responsibility and deadline
9	A self-assessment should describe the main changes and improvements taking place within a service, and should contain sufficient detail to enable VfM priorities to be understood from reading the self-assessment without the need to access extensive supporting files and documentation.	M	**Agreed** To be incorporated in next annual review of the VfM Strategy.	CIA. 31 March 2013
10	The Council should consider if invest to save initiatives should be incorporated within the VfM strategy.	M	**Agreed** To be incorporated in next annual review of the VfM Strategy.	CIA. 31 March 2013

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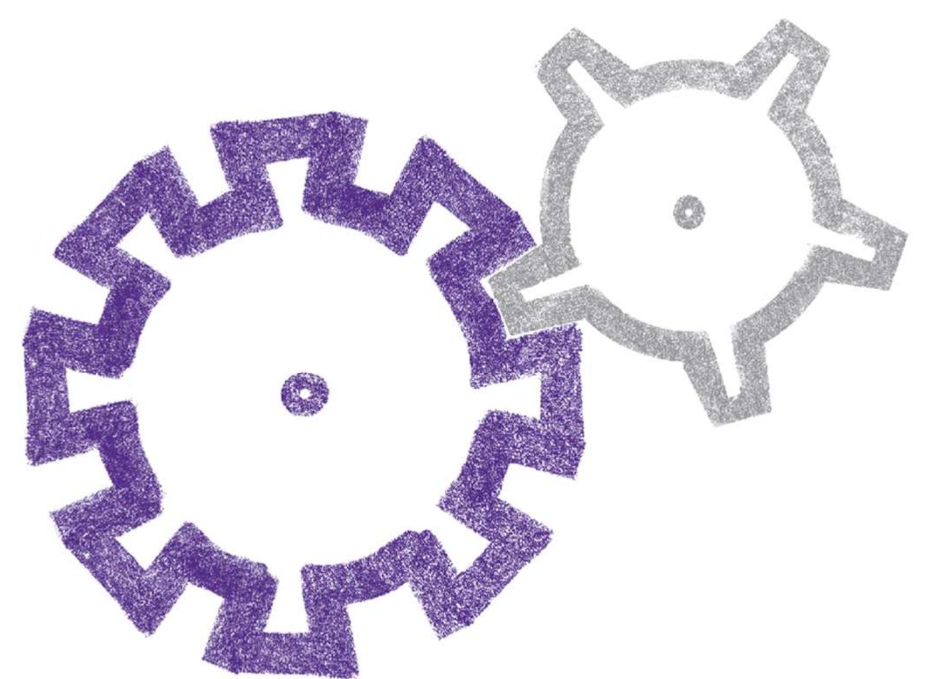
Bristol City Council

Review of the Council's Arrangements for Securing Financial Resilience

Final September 2012



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Executive Summary

Our approach

Value for Money Conclusion
Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit comprises a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

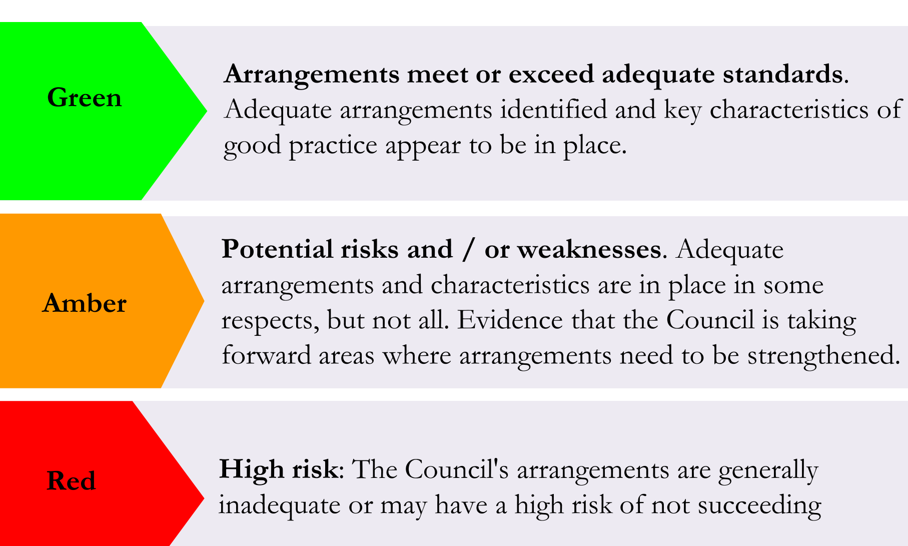
We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

Overall Conclusion
The Council has adequate arrangements in place to achieve financial resilience.

We have used a red / amber / green (RAG) rating with the following definitions.



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Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014-15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011-12 to 2014-15. CLG funding was reduced by 26% over the period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011-12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January 2011 with the debate and approval by the House of Commons on 9th February.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Local Context

Bristol is the largest city in the South West with an estimated population of 441,300. It is a vibrant multi-cultural city with a strong local economy. In recent years the health and well being of the population has improved, although significant differences remain between specific geographical areas. Bristol has very prosperous and affluent areas as well as deprived localities.

Bristol City Council was established as a unitary authority in 1995 and has since been working in partnership with its local authority neighbours on issues such as transport.

Following the CSR Bristol City Council (the Council) had to identify savings of £29m in 2011-12, followed by £21m in 2012-13 accumulating to £70m in 2014-15.

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Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Key Indicators of Performance	• In comparison to its "nearest neighbours" (Audit Commission VfM indicators) the Council is in line with the average and is consistent with the trends indicated by other Councils for the majority of the indicators. • The Council is able to consistently deliver an underspend, in a year savings of £29m have been achieved, whilst maintaining its useable reserves. • Average sickness absence rates are reducing for the Council and remain an area of focus.	Green
Strategic Financial Planning	• The Council published its first combined Corporate priorities and MTFP in February 2012, following consultation and Member scrutiny. This document directly links the financial strategy and the Bristol 20:20 vision and sets out the cumulative savings required for 2011-12 to 2014-15. • The MTFP however, does not include detailed financial analysis and does not include modelling and scenario planning of income and expenditure. The Council made a decision not to publish detailed financial information beyond 2011-12. • The Council Directorates have considered and modelled demand although this is not fully reflected within the MTFP. • Planned savings in 2011-12 have been deducted from the Directorates based budgets. However, the Council does not have a process to critically assess Directorate budgets, such as zero based budgeting, prior to setting the annual budgets	Amber

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Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Resilience		
Financial Governance	• The Strategic Directors have a good understanding of the financial position and meet regularly to oversee and manage progress. • Unit cost information is available, but its prevalence and use differs across the Council. • Member engagement is maintained through weekly meetings with the Executive Leads. • However, the formal reporting to Cabinet and Scrutiny could be improved. We found that reporting to the Directorate Scrutiny Commissions was inconsistent and for one Scrutiny Commission progress against budget occurred only once during 2011-12. • Only Cabinet and the Resources and Scrutiny Commission received a final outturn return for 2011-12, which did not include detail on the planned savings programme. • Formal reports to Member committees only include the forecast outturn position. • The Council has begun to consider integrated reporting, within the Directorate scorecards and through publishing the joint finance and performance outturn 2011-12 report. Integrated reporting could be improved to enable Members to more easily understand the link between performance against budget, cost and service outcomes.	Amber
Financial Control	• The Council has a good track record of achieving its planned budget, under spending its 2011-12 net budget by £1.9m. • Financial information and reporting is undermined by the existing financial systems, which the Council plans to replace and considers are no longer fit for purpose. • The Council has achieved its savings target of £29m, although this has been achieved by bringing forward savings planned for 2012-13, alternative savings plans and underspends across a range of services.	Green

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Executive Summary

Action Plan

Area of review	Key points for consideration	Priority	Responsibility Timescale	Management response
Key Indicators of Performance	• The Council should consider the impact that academies have on school reserves.	M	Service Director, Finance Ongoing	• This issue is being constantly monitored by the CYPS finance team.
	• The Council should continue to actively monitor sickness absence and introduce stretch targets for individual Services and Directorates against which performance can be monitored.	M	Strategic Directors and Service Managers Ongoing	• Noted
Strategic Financial Planning	• The published MTFP should include financial analysis and scenario planning on income and expenditure, for the next three to five years.	H	Service Director, Finance April 2013	• This is being developed and now form a standard output/objective for the Corporate Finance team.
	• Increases in Directorate budgets for unavoidable growth should be supported by detailed financial analysis to enable effective scrutiny and identify possible funding shortfalls.	H	Service Director, Finance December 2012	• Current Budget Monitoring reports include details of unavoidable growth and underlying spending pressures.
	• The MTFP should be supported by a detailed risk assessment.	M	Service Director, Finance April 2013	• All future MTFP will be compiled on a risk assessment basis.

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Executive Summary

Action Plan

Area of review	Key points for consideration	Priority	Responsibility Timescale	Management response
Financial Governance	• Reporting to Members on performance against budget (revenue) should be improved to ensure effective scrutiny. Performance should be reported quarterly, on a timely basis and be consistent across the differing scrutiny commissions.	H	Head of Executive Office April 2013	• Reporting arrangements will need to be completely reviewed as part of establishing the new governance arrnagement once the Elected Mayor is in post. A review of the Council corporate and service planning procedures is underway.
	• The Council should consider how it could improve its integrated finance/performance reporting.	M	Service Director Finance July 2013	• The Council is seeking to use the facilities within the Agresso Business World system to improve the integration and publication of financial and performance data.
Financial Control	• The Council should report detailed progress against savings plans to Members.	H	Service Director Finance July 2013	• This will be included within any revision to reporting processes following the Elected Mayor being in post.

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Appendix - Key indicators of financial performance

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Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Schools Reserves - Balances to DSG allocations
- Sickness absence levels
- Out-turn against budget

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Portsmouth City Council
Trafford Metropolitan Borough Council
Coventry City Council
Derby City Council
Warrington Borough Council
Plymouth City Council
Bristol City Council
Southampton City Council
Swindon Borough Council
Kirklees Metropolitan Council
Sheffield City Council
Newcastle City Council
Salford City Council
North Tyneside Borough Council
Leeds City Council

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Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	• The Council has a good track record of ensuring net spend is below budget. For 2011-12 net spend was £1.9m below budget, compared to £3.3m in 2010-11. Spending compared to budget for the service directorates was £0.6m over budget, largely due to overspends for children in care placements. • The capital spend for 2011-12 was £132m, £22m below plan. This was due to slippage across all the Directorates, but mainly within the Children and Young People's Services.	Green
Schools Balances	• The Council's ratio (school balances in relation to the total DSG allocation received for the year) has increased by 1% to 0.05 in 2010-11 from 0.04 in 2009-10. This is in line with the broad trend of the benchmark group. Bristol has remained just below the median over the last two years. • The Council should consider the impact that academies will have on the level of school reserves.	Green
Reserve Balances	• The Council's policy is to maintain a target working balance of unallocated reserves of £6m. The Council continues to maintain unallocated reserves in line with its policy and as at 31 March 2012 had an opening balance of £9.8m, £3.8m above the target. In 2010-11 the Council had a balance of £8.9m and this is in line with the average in comparison to the other authorities in the benchmark group. • In 2010-11 the Council's earmarked reserves were £85.6m. In 2011-12 this decreased to £75.4m.	Green

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Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	• Bristol City Council's working capital ratio is 1.02:1 and has reduced by approximately 0.2% between 2007 and 2010. This indicates a reduction in cash balances over this period. • The Council has had an average working capital ratio in comparison to the other authorities in the benchmark group. The majority of authorities have reduced their working capital ratio between 2007-08 and 2009-10, and Bristol is comparable with this trend. However it should be noted that the ratio is below the 2:1 ratio that is often viewed across the economy as appropriate.	Green
Borrowing	• The Council's ratio of long term borrowing to long term assets has increased from 0.17 to 0.25 between 2007 and 2010. The ratio of 0.25 indicates that long term borrowing does not exceed the value of long term assets although the overall position has deteriorated. Bristol has one of the better ratios within the statistical group and the increase in the ratio is mirrored by the rest of the group over the same time period • Bristol's long-term borrowing exceeds tax revenue by 1.47 times. The Council therefore may struggle to meet the repayment of its borrowings if it was to solely rely on tax revenues to meet these payments. However, we recognise that this is an unlikely scenario. Overall, Bristol is below the average in terms of its tax revenues to long-term borrowing ratio.	Green
Workforce	• From 2008-09 to 2011-12 the Council's sickness performance has fallen from 9.81 to 7.89 days • The average number of sick days for public sector workers in 2011-12 is 8.6 days, per FTE. Bristol is in line with the average. However, the Council does not have specific targets against which it, or Directorates aspire, although the Directorates do monitor performance against both the Council and the CIPD national average. • Given the significant organisational change that is taking place as part of the Change Portfolio during 2011-12, and 2012-13 it will be important for senior management to continue to carefully manage workforce issues when they arise and maintain a robust approach to sickness absence monitoring for the recent downward trend to continue.	Green

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Appendix A - Key indicators of financial performance

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Strategic Financial Planning

Key indicators of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following criteria:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

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Strategic Financial Planning

Medium Term Financial Plan

Area of focus	Summary observations	High level risk assessment
Focus of the MTFP	• The Council agreed its 2012-13 revenue and capital budget February 2012, following consultation and scrutiny. • It agreed its first combined Corporate Priorities and MTFP 2012-13 to 2014-15 on 29 March 2012. This document sets out the cumulative savings required from 2011-12 to 2014-15 - £70m, based on the 2010 comprehensive spending review. It does not profile income and expenditure across the three years. • The Council has decided not to publish its detailed financial plans beyond 2012-13.	Amber
Scope of the MTFP and links to annual planning	• The MTFP is a high level strategic document, but it does not identify the relative risks associated with income and expenditure within individual Directorates. We note, however, that the saving plans within the MTFP have been risk assessed. • The link between the MTFP and the Bristol 20:20 report includes major schemes to be undertaken and potential extra sources of funding – a positive improvement on previous years. • The Council has focused on ensuring that its planned savings are included within the MTFP, however it lacks financial analysis.	Green
Adequacy of planning assumptions	• The MTFP includes some scenario planning but this is limited and is on a "worst case scenario". It does not demonstrate that an alternative plan has been formulated should the original plan not be met. • The MTFP is not amended to accurately reflect changes in demand. Although Directorates have modelled and considered demand, such as in CYPS this is not fully reflected within the MTFP. CYPS remains an area where increasing demand continues to exert significant budget pressures.	Amber

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Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
Review processes	• 2011-12 is the Council's first year for having a combined Corporate Plan and MTFP, the Council intends to update the MTFP to reflect the revised budget annually. • Progress against budget and savings plans is monitored by the Senior Leadership Team and the Strategic Options Delivery Board. • The Council does not have a process to critically assess the Directorate budgets prior to setting the annual budget. Budgets which are not reduced as part of the savings plans are rolled forward to the next year. Although the Council has begun to develop resource plans which review staffing requirements within each service area.	Amber
Responsiveness of the Plan	• The Council adopted its first combined Corporate Priorities and MTFP 2012-13 to 2014-15 on 29 March 2012. It did not have an agreed published MTFP which reflected the CSR in 2011-12 but relied upon its agreed 2011-12 budget. As a result, the current arrangements are in their first year, so the Council has yet to demonstrate how responsive its MTFP will be in future years.	Amber

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Appendix - Key indicators of financial performance

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Financial Governance

Key indicators of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following criteria:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Understanding the Financial Environment	• The 2010-11 Annual Governance Statement outlines action taken and those required for current issues. • The Strategic Directors fully understand the financial environment in which they operate. All the Directorates have weekly management meeting and will regularly discuss key financial and performance issues as required. Performance against budget is reviewed monthly. • The Audit Committee receive updates on the risk management strategy and the risk registers on a regular basis. • Budget holders receive monthly budget reports.	Green
Executive and Member Engagement	• Review of the budget setting process indicates that there is considerable engagement in the process from Directors, senior officers and from Members. • The Senior Leadership Team meet weekly and are fully aware of the financial position. • Regular briefings are held with the Executive Leads for each portfolio area and the Executive Lead for Capital (Cllr Rogers) and Revenue (Cllr Kent) • The Council has begun to consider integrated reporting, within the introduction of Directorate scorecards and through publishing the joint finance and performance outturn 2011-12 report. to Cabinet Integrated reporting to individual scrutiny commissions is limited to the Directorate scorecards. Integrated reporting could be improved to enable Members to more easily understand the link between performance against budget, cost and service outcomes. • We consider that engagement of members is undermined by inconsistent and limited reporting as identified in the Review of accuracy of Committee/Cabinet Reporting focus area on the next page.	Green
Overview for controls over key cost categories	• The Council is aware of those areas which are high cost and/or are under performing. The Council is aiming to address these issues through the Change Agenda, for example Adult Social Care costs. • Unit cost information is available, but its prevalence and how it is used differs across the Directorates. The lack of consistency has been highlighted in our review of the Council's approach to implementing its VfM Strategy.	Amber

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Financial Governance

Monitoring and review

Area of focus	Summary observations	High level risk assessment
Review of accuracy of Committee/Cabinet Reporting	• Reporting is on an exception basis and we consider that narrative explanation is limited and could be improved. Directorates' commentaries remain varied and could be improved to provide better explanations of variances. • The timing and the period against which performance was reported during 2011-12 was not consistent and differed between the individual Scrutiny Commissions and Cabinet. The Resources and Scrutiny Commission have only received two revenue monitoring reports during the year and the Health and Adult Social Care Commission received only one report in November 2011covering April to August 2011. CYPS Scrutiny Commission received three quarterly monitoring reports. • The formal reports to Cabinet and the Scrutiny Commissions only include the forecast outturn position to the year end. They do not include actual position against phased budget. • Only Cabinet and the Resources and Scrutiny Commission received a final outturn report, summarising performance against budget for 2011-12. This did not include the final position on delivery of the £29m planned savings. • We recommend that reporting to Members on performance against budget (revenue) should be improved to ensure effective scrutiny. Performance should be reported at least quarterly, on a timely basis and be consistent across the various scrutiny commissions. • In both 2010-11 and 2011-12 the Council began the year by reporting forecast overspends across the Directorates, which reduced over the year to an underspend. We are concerned that this approach takes an overly pessimistic view and may prevent effective scrutiny.	Red
Performance Management of Budgets	• The financial reports summarising the position against budget are prepared at Directorate level for the Directorate Team meetings. The content of which is summarised by the Corporate Finance Team for reporting to Cabinet. There is a lack of understanding within the Directorates of what is reported by the Corporate Finance team to Cabinet of the overall financial position. • As identified above the frequency and timeliness of reporting undermines member ability to effectively performance manage the budget.	Amber

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Financial Control

Key indicators of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following criteria:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

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Financial Control

Internal arrangements

Area of focus	Summary observations	High level risk assessment
Performance Management of Budgets	• The 2011-12 budget was agreed in early 2011, following detailed scrutiny and public consultation. • The Senior Leadership Team and the Strategic Options Delivery Board ensure that performance against budget is actively monitored. Where performance dips, SLT holds the Directorates to account and requires further action to be taken. • Within CYPS overspending has resulted in the Directorate modelling the likely impact of increased demand on existing resources. • Action is taken in alternative areas to try and address increased demand, overspends or slippage in any savings plans • However, the inadequacy of the existing finance system does not enable year to date figures to be prepared and the forecast outturn position is based on best estimates.	Green
Performance against Savings Plans	• The Council has achieved its savings target of £29m. However, this has been achieved by bringing forward savings planned for 2012-13, by finding alternative savings plans and a range of underspends. In addition, we consider the inconsistent use of RAG ratings across the Directorates to monitor progress against the savings targets is misleading, including the use of Green where savings have not been achieved. • Performance against the 2011-12 savings plans was not reported as part of the Cabinet 2011-12 Finance and Performance Outturn report on the 4 July 2012. • Performance was reported internally to the Strategic Options Delivery Board.	Amber
Finance Department resourcing and qualifications / experience	• The Section 151 Officer is responsible for Internal Audit, the Corporate Finance Team and the Shared Transaction Service (STS). • The Section 151 Officer is not a member of the Senior Leadership Team, but will attend those meetings relating to finance. • Each Directorate has a Finance Business Partner. • The turnover within the finance function is low, although two Senior officers who have been with the Council for over 20 years, Chief Internal Auditor and Chief Accountant, Corporate Finance and have recently retired. The Council has successfully recruited and appointed successors and completed the 2011-12 accounts closedown prior to the departure of the Chief Accountant. To date these changes have not had a detrimental impact on the finance function.	Green

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Financial Control

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of key financial accounting systems	• The finance system used is CFS. The Council recognise that this system is no longer fit for purpose and is in the process of replacing the system. The new system is planned to go live on 1 April 2013.	Amber
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	• The Council has an effective internal audit function which complies with CIPFA standards. • Internal Audit is performed in-house and is robust. • Internal Audit plans have to be approved by the Audit Committee annually. Action plans are followed up, monitored and status updates are presented to Audit Committee and management regularly.	Green
External audit arrangements and programme of activities	• The key areas for action from the most recent Annual Audit Letter noted that the Council should take action to further improve it arrangements as follows: ➢ Need to ensure that documentation supports all items within the annual financial statements, and that year end arrangements relating to property are strengthened ➢ Agree and publish the Council's strategic objectives, ensuring the change agenda, financial planning and performance reporting monitor and support delivery of these strategic objectives ➢ Develop robust business cases for the major change programme and ensure they deliver SMART financial and non-financial objectives and outcomes ➢ Build on existing performance monitoring systems and ensure the new arrangements enable effective performance reporting and deliver performance improvements ➢ Publish a Medium Term Financial Strategy that is robust and sets out the Council's financial strategy ➢ Ensure Directorates improve the robustness of savings which are realistic and achievable within the budget timeframe and, where slippage occurs, ensure any additional savings and recovery plans are supported by detailed delivery plans. The savings and recovery plans are regularly monitored by Directorates, Senior Leadership Team and by executive members, but should have more public scrutiny.	Green

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Key Indicators of Financial Performance

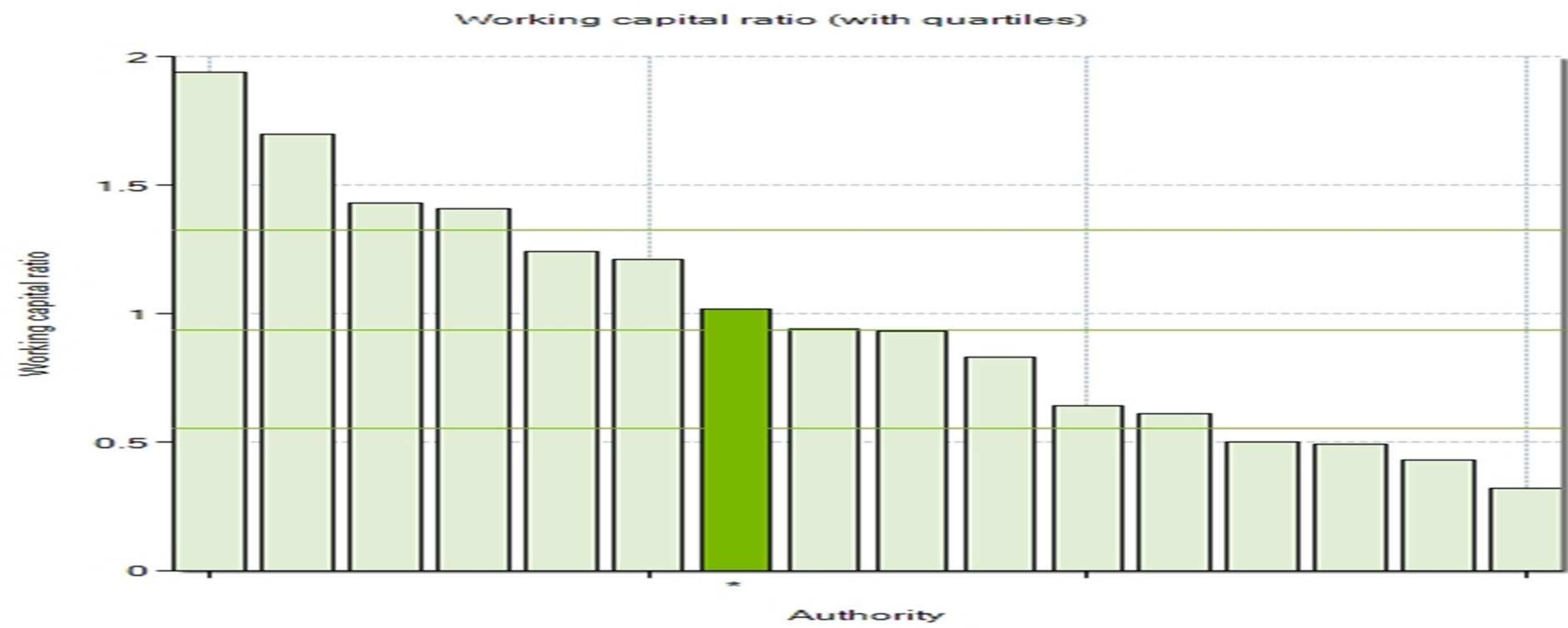
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually viewed across the economy as appropriate, whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio is not always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Bristol City Council currently has a working capital ratio of 1.02:1 which is below the level viewed to be appropriate. However it is within the average performance level in comparison with its statistical nearest neighbours i.e. those considered most like the Council. The position has however improved from 2009-10 where the ratio was 0.86:1 which clearly indicates that the Council's liquidity is increasing although it is still below a level that might be considered acceptable



Source: Audit Commission's Technical Directory

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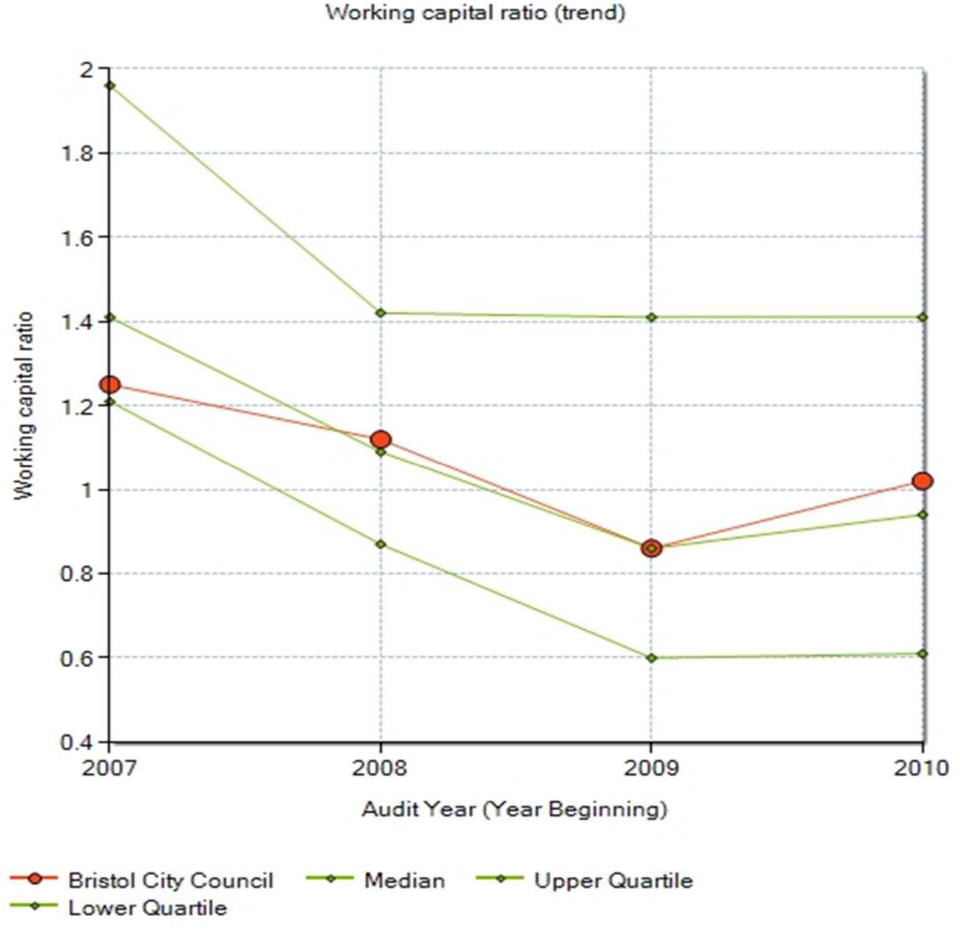
Key Indicators of Financial Performance

Working Capital - Trend



Source: Audit Commission's Technical Directory

Bristol City Council has improved its working capital ratio within the last year but the overall trend is for a decrease in performance.

This is in line with the other comparators and is a less marked deterioration than others. Further although the overall trend shows a decrease the Council has moved above the median quartile level from the position in 2007.

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Key Indicators of Financial Performance

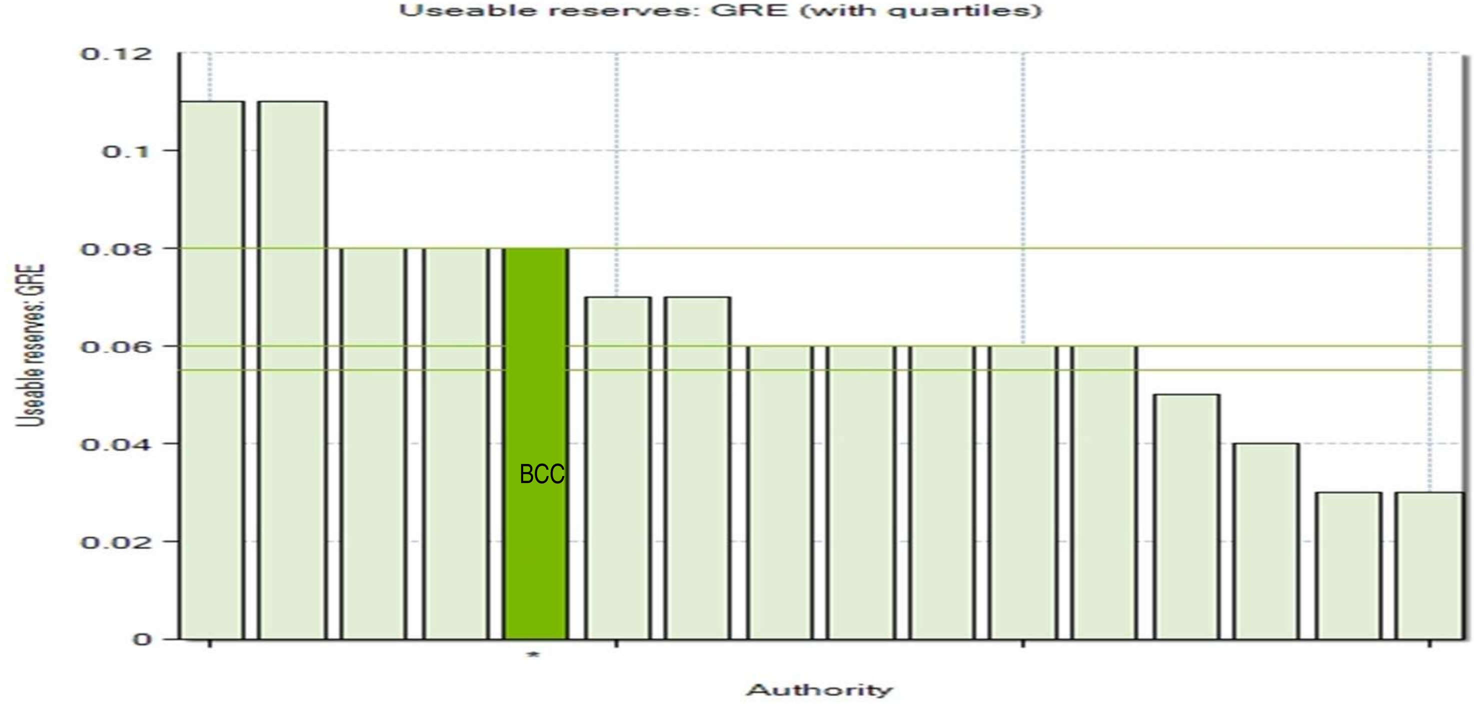
Useable Reserves - Benchmarked

Definition

This shows useable (defined as un-earmarked)capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

From 2009-10 Bristol City Council value of its useable reserves has remained static at 0.08:1 in 2009-10 and 2010-11. This means they are above average within the comparator group and have ensured that reserve balances have remained stable. The majority of the group have improved within the current year and, as shown on the next page, over the past four years but Bristol still remain one of the better performers within this metric.



Source: Audit Commission's Technical Directory

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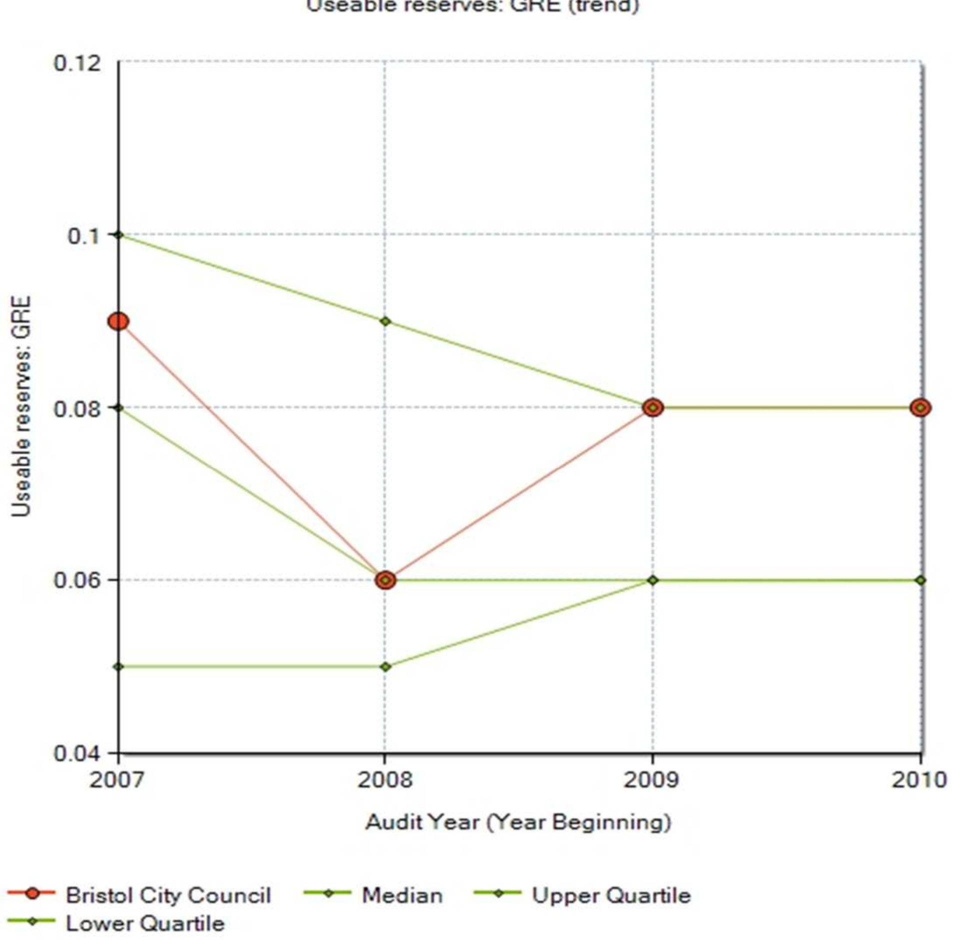
Key Indicators of Financial Performance

Useable Reserves - Trends



Source: Audit Commission's Technical Directory

Bristol City Council's useable reserves as a percentage of general gross revenue expenditure has marginally decreased over the past three years although it should be noted that the Council has changed markedly from 2007 to 2008 and 2008 to 2009.

The Council's has moved to be in line with the upper quartile in recent years.

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Key Indicators of Financial Performance

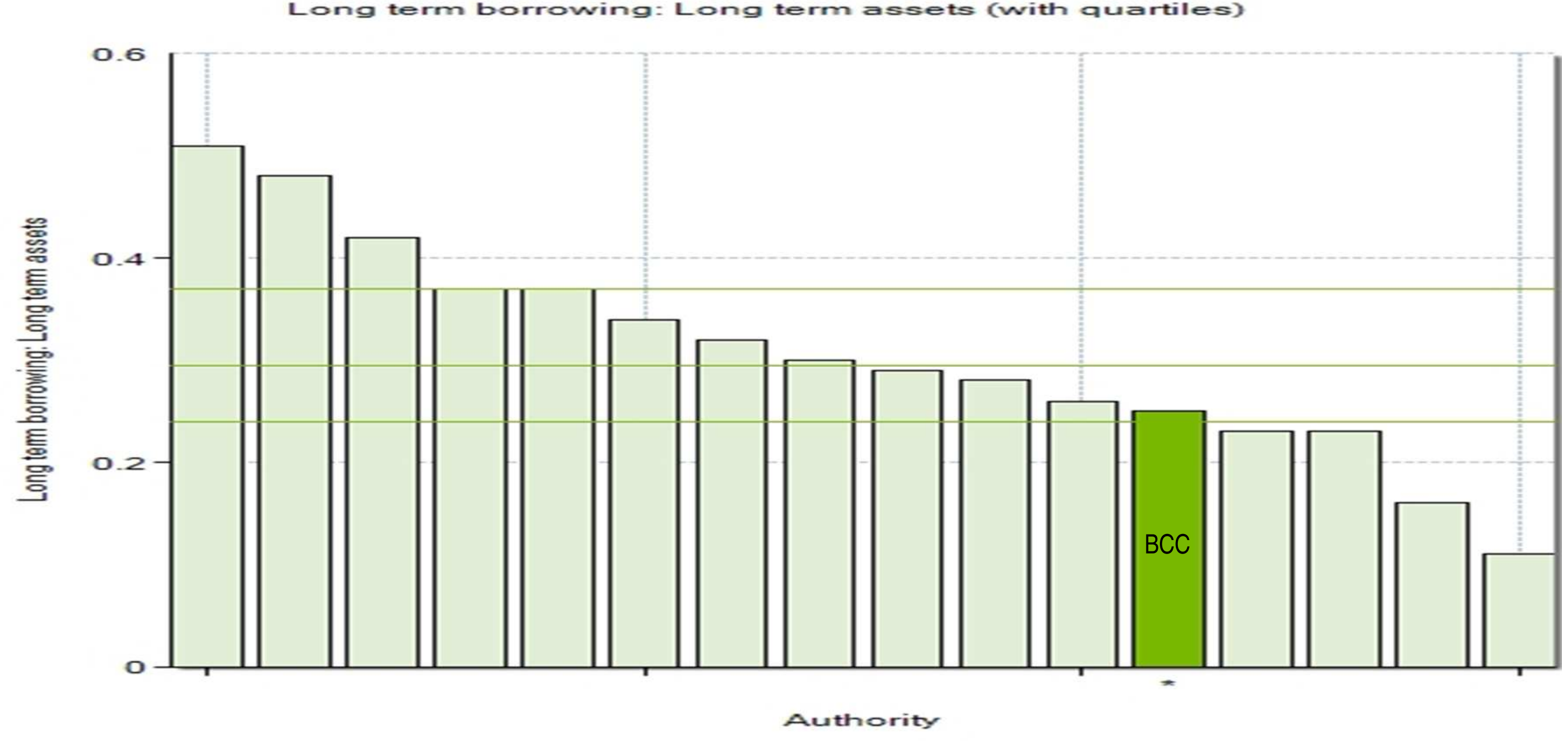
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The Council has a ratio of 0.25:1 as a result of having a large value of long term assets which is in line with previous years. The majority of Councils within the comparison group have a ratio of 0.4:1 or less.



Source: Audit Commission's Technical Directory

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Key Indicators of Financial Performance

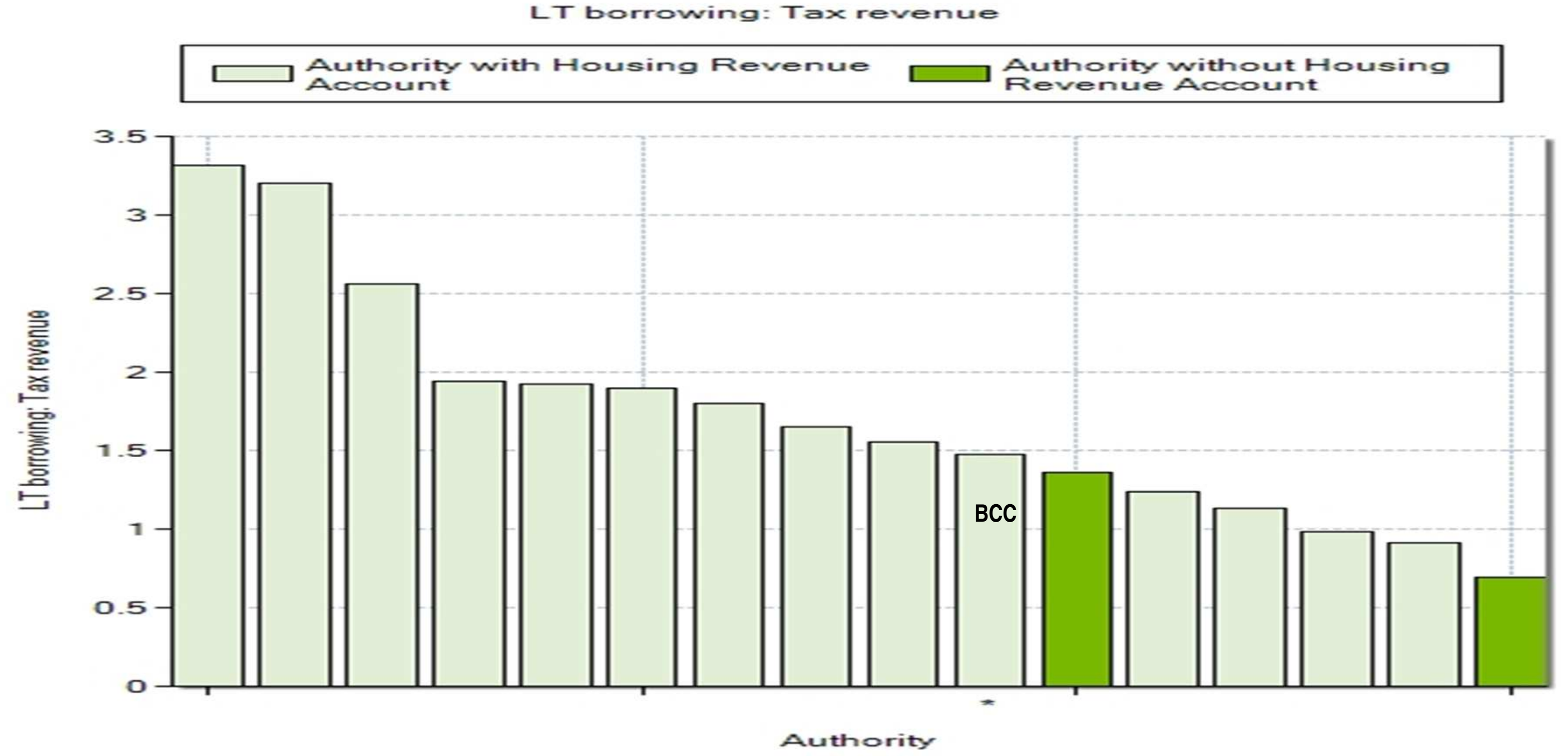
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

Bristol City Council has a ratio of 1.47:1 is as a result of having a large number of long term investments which is consistent with previous years. Bristol's performance is towards the lower end in terms of other Councils but is still in a position of having more long term borrowing than tax income. Only four councils receive more income than their outstanding long term borrowing.



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Key Indicators of Financial Performance

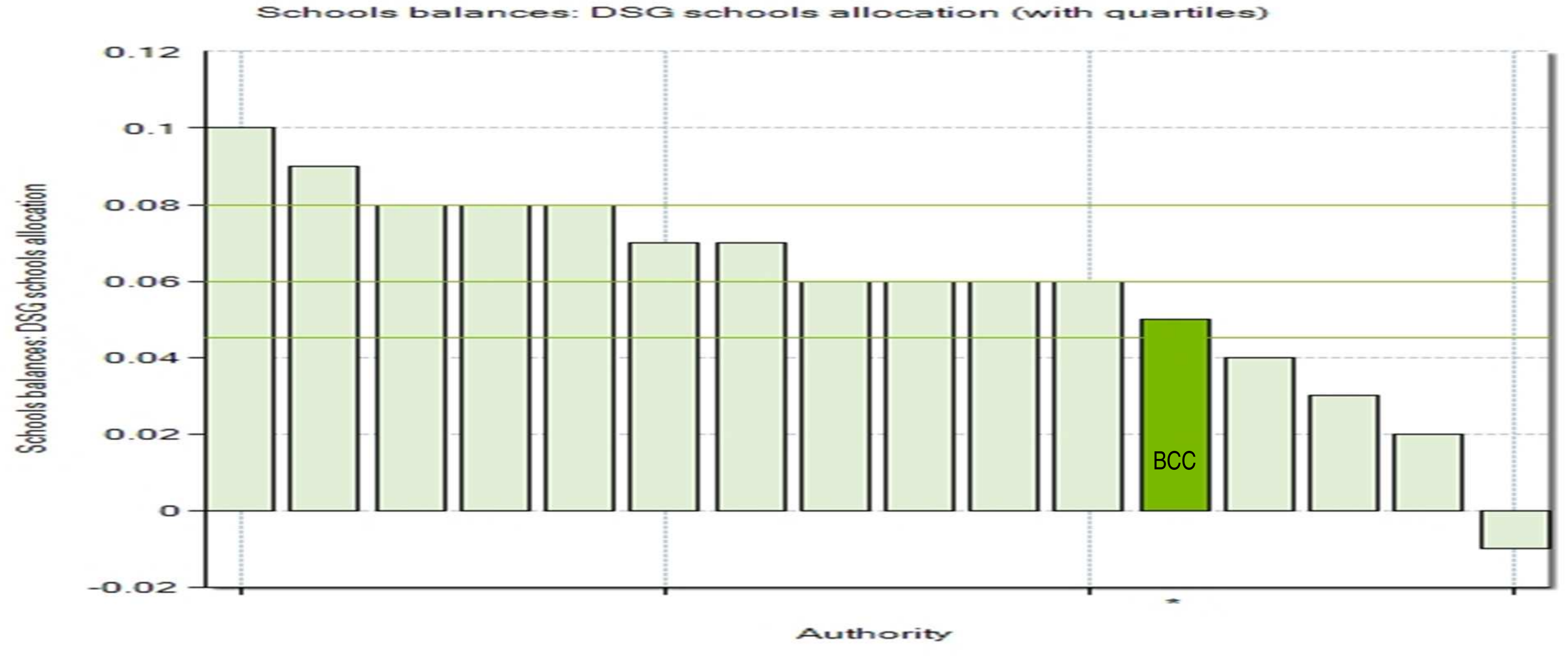
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

The Council's ratio has increased by 1% to 0.05 in 2010-11 from 0.04 in 2009-10. This is in line with the broad trend of the benchmark group. The Council has remained just below the median over the two years.



Source: Audit Commission's Technical Directory

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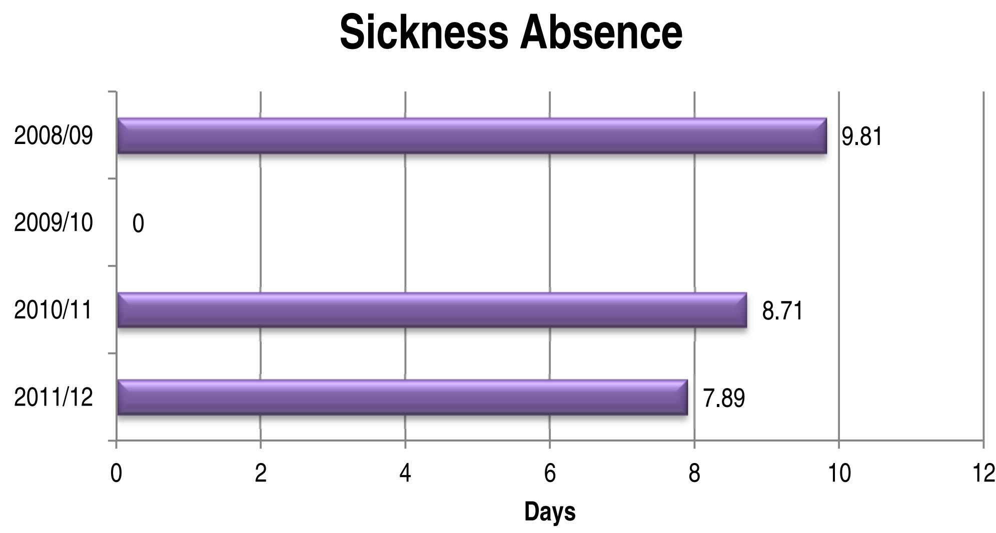
Key Indicators of Financial Performance

Sickness Absence Levels

Background

•The average sickness absence level for the public sector is 8.7 days per FTE (Source Public Finance). Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example, costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".



Source: BCC Committee papers

Findings

Bristol City Council has published data for 2008-09 2010-11 and 2011-12 but not for 2009-10. Based on the data available the number of days lost to sickness has decreased.

The Council's sickness absence average was 7.89 FTE in 2011-12. The Council monitors its performance against the CIPD average.

Whilst the overall performance is below the target specified this does provide an average figure and not necessarily an accurate picture for all departments. Within Bristol the average number of sick days by directorate varies between 12.3 and 6.85 days.

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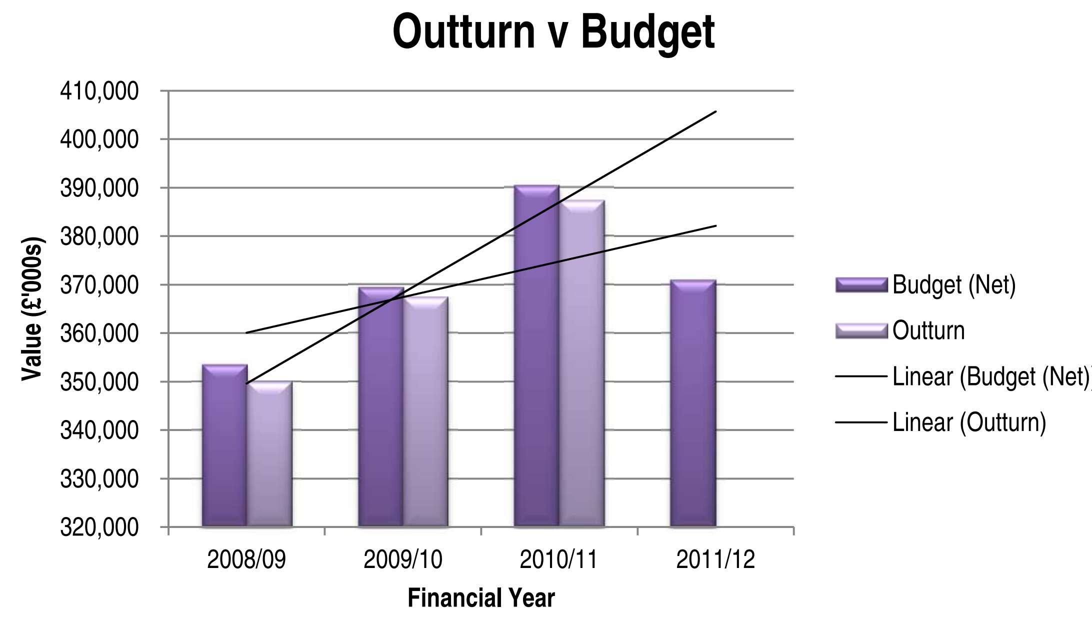
Key Indicators of Financial Performance

Outturn against Budget

Background

Budget setting requires a consideration of service provision by the Council and the funding that will be available to meet this expenditure requirement. The outturn at the year end is an indication of how accurate the forecasting process was and provides evidence as to whether Councils are aware of the local economic situation and are therefore realistic in the assumptions that they have made.



Findings

It is noticeable that in every year reviewed the Council has underspent against the budget and that until the budget for 2011-12 both had been increasing year on year.

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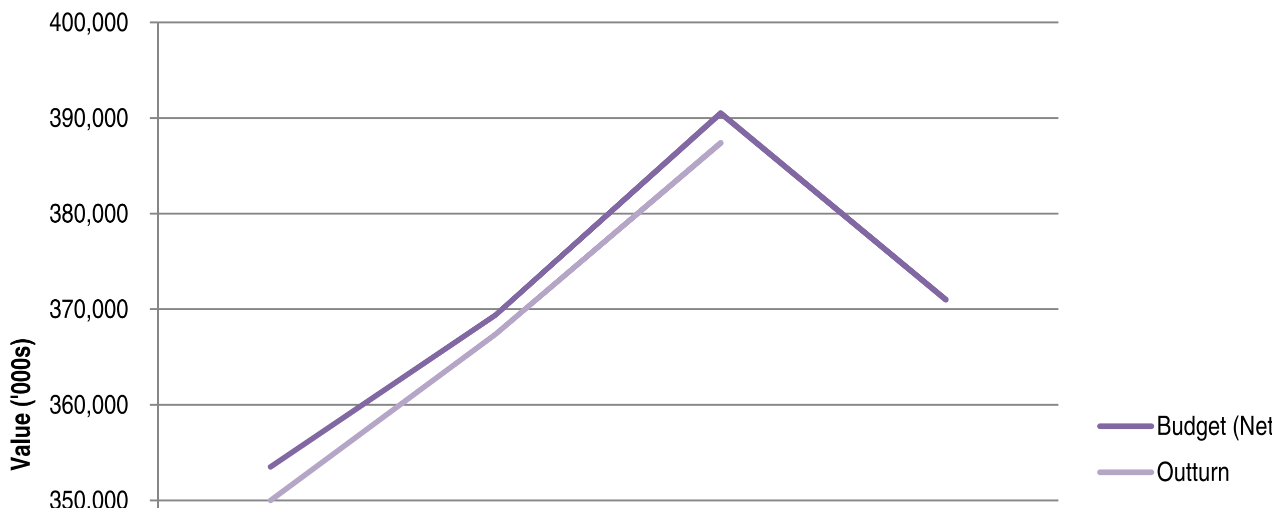
Key Indicators of Financial Performance

Performance Against Budget: Trend Analysis



Bristol City council had an overall underspend of £3.1m against budget at the end of 2010-11. However this is a net figure which may mask some large over and underspends within the directorates or at a corporate level.

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APPENDIX (14) 4

Bristol City Council

Elena Investment Programme

Review of Delivery and Funding Options

18 September 2012

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1 Important Notice

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2 Executive Summary

2.1 Introduction

Bristol City Council ("the Council") is undertaking a wide range of energy related projects to reduce carbon emissions for the Council and the city as a whole. At the heart of this are plans for developing an Energy Services Company (ESCO) and a large-scale renewable energy and energy efficiency programme for the whole city and wider sub-region.

The Council has now had its application for £2.5m ELENA Technical Assistance from the European Investment Bank approved and signature of the Funding Agreement took place on 2nd May 2012.

The Council has undertaken a sensitivity analysis to reflect recent UK government policy changes in relation to the Solar PV Feed in Tariffs (FITs) and is undertaking additional feasibility work to determine the composition of the Investment Programme. The original ELENA investment programme, on which the EIB approval and Funding Agreement are based, is shown below. [A recent sensitivity analysis has suggested reducing the total PV element to £4.5m public buildings PV, and increasing private sector domestic retrofit to £34.2m.]

Table 3.1: Elena Investment Programme

Programme Element	Value £m
Private sector domestic retrofit	10.4
Public sector domestic retrofit	29.3
Domestic PV	39.8
Public buildings PV	27.0
Public buildings retrofit	10.0
District Heating	23.5
Totals	140.0

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Scope of the Report

Grant Thornton prepared an initial report, which focussed on the ELENA application and review of the supporting financial models in advance of signature of the Funding Agreement.

The scope of this second report includes:

- Assessment of potential funding and delivery models for the ESCO and the investment programme and identification of options which can realistically be employed in the Bristol context

- An initial proposal for an integrated, practical and robust Commercial Model that will determine how to finance and deliver the Council's investment programme

- Recommendations on actions the Council should take as next steps before the start of the ELENA programme

2.2 Delivery Options

2.2.1 Rationale and timing for establishment of an ESCO

The Council's original intention was to create a wholly owned company to undertake the ELENA investment programme, and future low carbon investment activity. However, the rationale for 100% ownership may be revisited if there are compelling reasons to consider an alternative corporate structure, for example a community based model.

The main drivers for the establishment of an ESCO, which is an entity separate from the Council, could be:

- to give these activities a distinctive identity within Bristol separate from the Council;

- to encourage a professional and entrepreneurial management approach, freeing the organisation from some of the administrative and legislative parameters which apply to local government; and

- to create a structure which facilitates (through SPV arrangements or similar) the management of project risks and liabilities, raising of finance from a wide variety of sources, and development of partnering arrangements.

The role of the Council and preferred delivery and funding structures for the investment programme are discussed in this report, but have yet to be determined. There is important additional technical and financial feasibility work to be undertaken with the help of ELENA technical assistance to shape this further. We recommend that the Council defer a decision regarding the structure and establishment of an ESCO until it has concluded this analysis.

In the interim, the activities which are planned to be carried out by the ESCO can be undertaken within the Council, through a "shadow" ESCO which could comprise existing Council staff (members of the Energy Management Unit, Sustainable City Team, Landlord Services and others) and individuals being recruited into new posts to support feasibility studies and delivery of the ELENA programme.

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The Council has planned and implemented a wide range of investments in renewable energy and energy efficiency through its Energy Investment programme Phases 1 and 2. There would be benefit in further mapping and quantifying the level of committed investment within each Council department (data capture), which could count toward meeting the required ELENA Leverage Factor of 25:1. There could also be wider strategic benefits in bringing this activity into the ESCO/shadow ESCO as a corporate centre of excellence - to create greater scale, facilitate programme management, and ensure prioritisation and coordination of related activities.

2.2.2 Potential legal structures for the ESCO

There are a variety of legal structures which are available in relation to the ESCO. Some of the issues which need to be considered include:

a ownership and control

b restrictions on a company's activities

c taxation (corporation tax and VAT)

d costs of meeting regulatory requirements

e the ability to pay a return to shareholdings

f the need to raise external finance

Legal structures include "for profit" or, if the objective is to work with other public bodies and/or operate as part of the third sector on a not-for-profit basis, options for non-profit distributing organisations include a company limited by guarantee, Industrial and Provident Society (IPS), and a Community Interest Company (CIC) which operates as social enterprise.

2.2.3 Project Company Structures

Beneath the ESCO will sit a number of companies. There may be one or more council-owned Trading Companies as well as Special Purpose Vehicles, which have external shareholders and funders. There is also the possibility of a Community Interest Company (CIC) or similar vehicle if a community investment vehicle is established.

For certain elements of the Investment Programme, SPVs may not be required as no external finance or equity is needed, and contractual arrangements will suffice. (For example, Public buildings retrofit and PV, if the Council chooses to procure works contracts and fund directly.) Where SPVs are needed, the structures should reflect the desired sharing of risk and reward, be focussed on commercial objectives, cost efficient, tax efficient, flexible, in a familiar form, and independent.

The most common form of SPV project company structure is a private company limited by shares.

2.2.4 Green Deal/domestic retrofit Delivery Structures

The Green Deal is the UK government's main policy tool for improving energy efficiency and reducing carbon emissions from domestic and commercial properties. A new Energy Act has

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come into force and secondary legislation is to be introduced which from autumn 2012 will enable householders and businesses to have a package of energy improvement measures made to their properties by a Green Deal provider at no up-front cost.

DECC and the wider market have recognised the important role that local authorities can play. Local authorities are well placed to champion the Green Deal locally, stimulating activity to meet specific local needs and supporting wider strategic priorities including the reduction of fuel poverty. In addition, major landlords such as the Council can pilot new approaches and drive early roll-out of energy efficiency measures on their own housing and building stock.

To deliver the Green Deal/domestic retrofit locally there are broadly four approaches which the Council might choose to adopt, potentially working with other authorities/social landlords to achieve greater economies of scale and attract market interest:

Option 1- Provider – the Council provides Green Deal/retrofit directly to local residents and businesses, co-ordinating all aspects of finance and delivery;

Option 2 - Partner – the Council work in a formal partnership with a commercial Green Deal provider and/or community partner to deliver and facilitate delivery;

Option 3 - Promoter – the Council acts as an advocate or enabler for the Green Deal/retrofit locally, this could include providing referrals and marketing support, or

Option 4 – Framework Partnership – the Council establishes a framework agreement with multiple (say 3) providers. This option has characteristics of both Options 2 and 3, combining opportunities for co-branding and a targeted approach to the market with on-going choice, competition amongst providers, and potentially greater access to ECO than other options.

A review of Green Deal/domestic retrofit delivery models formed part of the stakeholder workshop held on 25 May 2012. Options 2 and 4 were felt to warrant more detailed consideration by the Council. Grant Thornton's initial view is that Option 4 appears to be the most compatible with the Council's aims and objectives.

2.2.5 Role of the Council in relation to Green Deal Delivery

The Council must carefully evaluate the role that it wishes to play and functions that it wants to undertake in relation to the Green Deal. Domestic retrofit including Green Deal comprises an important part of the ELENA Investment Programme and is potentially the most challenging aspect to deliver given the emerging policy and legislative framework, complex regulatory environment, uncertainty regarding timing, and reliance on access to low cost finance and Energy Company Obligation (ECO) funding. In addition, whilst social landlords have an ability to drive investment in their properties, the success of private domestic retrofit is ultimately in the hands of householders and the level of take up therefore remains a key risk. At an early stage the Council needs to make a thorough and candid assessment of its ability and appetite to perform the various functions required as part of Green Deal delivery to private households. Based on stakeholder workshop discussions, the Council does not have the risk appetite to become a Green Deal Provider, Assessor or Installer for private households.

2.2.6 The role of SMEs in Green Deal/retrofit

One of the strategic drivers for the ELENA programme is to support the growth of the low carbon economy in Bristol, including training, jobs and economic growth. Although there is a

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lack of dedicated resource available to support local authorities nationally in this area, the West of England LEP bid led by City of Bristol College has already been successful in receiving £1.25m Regional Growth Funding for training 1300 new and existing tradesmen in green jobs. In addition, the Council's Landlord services are currently involved in an £8m ERDF project (SDEEMs) involving subsidised retrofit in social housing, and the Council has helped to develop the supply chain strategy. The Council can also provide support for SMEs looking to form installer groups. Procurement processes can also be structured to encourage and support SME and local supply chain involvement.

2.2.7 Role of the Council in the District Heating Project/Delivery Options

In considering potential delivery structures and risks that it is prepared to assume, the Council should consider both the "ownership and funding elements" and "operational" elements. Even under the own and operate model, operational risks can be transferred to the private sector through subcontracts.

There are essentially three delivery models for the Council to consider in relation to the design, build, ownership and operation functions related to a district heating system:

Option 1: an own and operate model where the Council or ESCO procures the design and build phases and then directly owns and operates the system (or procures operational management for the plant)

Option 2: a licence to operate or concession where the Council grants permission to a single partner/consortium to deliver all aspects but the Council itself has no involvement in the ownership, finance or operation

Option 3: a form of public-private partnership (PPP) where the Council establishes a partnership with a private sector company or consortium to share the risks and rewards of the project; this will generally include the creation of one or more SPVs.

2.2.8 Summary Conclusions - DH Delivery Structure

The initial view of stakeholders at the 25 May workshop was that although the Council have experience of district energy on a small scale, they do not currently have the resource or expertise to design, build, operate and maintain a scheme of this size and complexity without a private sector partner(s). A delivery vehicle structure which is simple to procure and manage is preferred. Longer term, as expertise develops, there may be scope for the Council/ESCO to have a wider role.

A form of public-private partnership employing a company limited by shares is therefore likely to be the preferred delivery option for the DH Project. The extent to which the Council is involved in the financing and ownership of the DH Project is partly dependent on assessment of financial feasibility under ELENA - as mentioned in section 4.9.3, in the early stages there may be a need for Council investment or capital contribution to make the scheme financially viable. More generally, the Council's involvement in the ownership, financing and operation of the DH Project will depend upon its desire for control (including pricing and network expansion, for example to focus on social housing and reducing fuel poverty), its risk appetite, skills and resources.

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2.3 Evaluation of funding options

2.3.1 Introduction

In determining a financing "roadmap" for the ESCO's planned investment programme, we have employed a bottom up approach - considering the characteristics of each of the projects in the investment programme. In the long list of funding sources (see Appendix I) we have considered a broad range of potential funding sources including European and UK sources. We have identified those which are most appropriate for different elements of the investment programme to arrive at a short list.

In determining the optimal delivery and funding structure for the different strands of the ELENA investment, the Council will need to establish its risk appetite in relation to both finance and operational (business) risks. The Council will need to carefully weigh the benefit of lower cost finance associated with direct borrowing against the assumption of risk, balance sheet impact, and scarcity of capital finance.

2.3.2 Shortlist of funding options

In deriving a Shortlist of funding options we have mapped the assessment of European and UK funding options against the different elements of the ELENA investment programme, focusing on those Funding streams, which have an Applicability Rating of 3 or greater. This is summarised below.

Funding source	ESCO level	Private sector domestic retrofit	Public sector domestic retrofit	Public solar PV	Public buildings retrofit	District Heating
EEE-F European Energy Efficiency Fund	X					X
Elena/KfW (EIB)	X					X
PWLB	X	X	X	X	X	X
HRA			X			
Corporate/utility debt	X	X	X	X	X	X
Bank debt	X	X	X	X	X	X
GDFC		X	X			
Wessex Home		X				

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Funding source	ESCO level	Private sector domestic retrofit	Public sector domestic retrofit	Public solar PV	Public buildings retrofit	District Heating
Loans						
Leasing		X (PV)	X (PV)	X		X
DECC Early Adopters (may be available to householders only)		X	X			
Community funding		X?				X?
Big Society Capital (via a Social Investment Finance Intermediary)		X	X			
CERT, CESP, ECO		X	X			
SALIX			X		X	
CiL/Allowable Solutions						X

2.3.4 Summary conclusions from assessment of funding sources

1 The ELENA investment programme will require multiple debt and equity funding sources. Some newer/more innovative funding sources require further exploration to determine whether they are available and appropriate (e.g. EEE-F for subordinated debt, which could take project risk, thereby reducing direct Council risk). The potential benefit of accessing European finance must be weighed against the resource required, timescales, and likelihood of success – particularly given the tight timescale for delivery of the ELENA programme.

2 The Council has limited appetite to take project risk on the "non-Council" strands of the investment programme, for example by borrowing at ESCO/Council level and then down-streaming funds to SPVs/project companies. This stance, as well as the minimum borrowing requirement, effectively rules out a number of funding options including EIB direct funding and municipal bonds. In both cases, the debt instruments require full recourse to the Council, rather than relying on the performance of underlying projects (non-recourse). .Should the Council's stance change, then these funding sources should be revisited.

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3 PWLB is the most accessible low cost debt available, but because it is direct Council borrowing and there are many competing spending priorities, will need to be carefully rationed.

4 Access to Energy Company Obligation (ECO) is vital to the success of domestic retrofit investment (both social and private housing) and urgently requires a Council strategy.

5 The start-up of the GDFC is vital to the growth of the wider Green Deal market as there is no other sustainable, large-scale source of low cost finance for the private sector Green Deal market likely to be available. However, the Council is not reliant on the GDFC for its own housing stock, as this retrofit is likely to be financed largely through a combination of ECO and HRA.

6 Community funding models should be explored further especially where there are successful precedents, as they can help provide diversity in the funding mix and create a strong local ethos. However the initial amounts raised are likely to be modest and will provide a relatively small element of the overall funding requirement.

2.4 ESCO Commercial Model

The proposed ESCO commercial model has been prepared under the following parameters:

- A Council preference for 100% ownership and control of the ESCO to fulfil its public interest remit, but flexibility on ownership structures below ESCO level
- A structure with the ambition to capture economic benefit for Bristol businesses and the local economy, recycling profits/returns into further investment
- Flexibility to adapt to changing circumstances and to facilitate new investment, refinancing and exit at project company/SPV level
- A desire for the ESCO to be financially sustainable beyond the 3 year ELENA time horizon
- A high degree of investibility - an ability to attract low cost debt funding, private investment, and also to incorporate innovative funding including community investment
- Limited appetite for the Council to provide significant debt or equity funding to the programme
- Appetite for taking on commercial risk is limited to those areas where it has a strong track record (e.g. public non-domestic)
- Recognition that (subject to value for money) it may be necessary to incorporate retrofit of public sector assets (domestic and/or non-domestic) to devise a Green Deal procurement package which is attractive to the private sector - even if the Council's initial preference may be to contract for these separately. This is due to market nervousness about take up especially in the start- up period(this is supported by the experience of retrofit pilots).
- As a start-up, the ESCO will be reliant on the Council for any working capital and finance (outside that provided by ELENA)

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- Preference for off balance sheet treatment of any project SPVs
- Compliance with ELENA requirements
- A commercial approach which involves innovating to drive down costs, successful marketing and taking justified risks
- Aspiration to provide good quality energy efficiency and renewable energy measures at low cost to fuel poor
- Transparent governance structures and tax efficiency

The diagram below provides a high level view of how this commercial model might work:

This potential commercial model reflects that the ESCO may initially operate in "shadow" form within the Council. In addition, the commercial model anticipates the creation of a single SPV for District Heating investment. The remaining investment strands are assumed to be undertaken through contractual arrangements rather through the creation of project companies, with private domestic retrofit being delivered through Option 4 Framework Partnership. The dotted line grouping public and private retrofit highlights the potential requirement (subject to demonstrating vfm) to combine public domestic retrofit and/or public buildings retrofit with the private domestic retrofit investment strand in order to attract market interest and achieve economies of scale.

Figure 6.1: Potential ESCO Commercial Model

COUNCIL (or ESCO)
Shareholding/ funding
Dividend/ Interest
Payment
Contractual Obligation
Payment
Contractual Obligation
Fees/ commission
Referrals
District Heating SPV
Public Buildings Retrofit suppliers
Public Domestic Retrofit suppliers
Private Domestic Retrofit Framework providers
Non - ELENA Investment in Energy Efficiency & Renewable Energy ?
External Funders & Investors
Existing Council Budgets/ Funding Streams
GDFC/ ECO/ Other Funding

2.5 ESCO sources of income/financial benefits

The ESCO's actual revenue sources will depend upon a number of factors including its scope and the corporate structure. However, in general it will receive its revenues/income from the following sources:

- Interest and dividend streams where it is a lender or shareholder to project companies

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- Energy cost savings and electricity and heat generation revenues where there is direct investment

- Commissions, fees and other income depending upon the role taken in relation to the Green Deal

- Project management and other fees paid by the Council or SPVs for providing specified activities(under appropriate Service Level Agreements)

- Revenues from the Council's non-ELENA low carbon investments to the extent these are brought into the ESCO

A portfolio of activities has the benefit of diversifying income and therefore reducing risk to the ESCO. Surpluses generated from initial projects can be used to recycle into later ESCO projects.

2.6 Recommendations on next steps

Grant Thornton has been asked to make recommendations on next steps (over the coming 3-6 months) which the Council should take in relation to the funding and delivery aspects of the ELENA investment programme. Our principal recommendations are as follows:

1 **Resourcing:** Create an interim Project Team from internal resources; identify and secure short and medium term resources required for a full Project team, using specialist external consultancy support as required. This should be based on the technical, commercial and financial skill sets that are needed to further test feasibility, shape, manage and deliver the investment programme and activities below.

2 **Programme Management:** Prepare a comprehensive Project Plan including budget. risk register and governance arrangements, against which progress will be monitored.

3 **Finance and Delivery Strategy:** Agree preferred delivery models for further investigation and market testing. Develop a strategy for the overall finance and delivery of the investment programme based on the Council's preferred delivery models, willingness to provide finance, and risk appetite. This includes a strategy for accessing ECO, and further investigation of some of the innovative, lower cost sources of finance identified including inter alia European finance, community finance, Big Society Capital, expansion of Wessex Home Improvement scheme, and LEP Revolving Infrastructure Fund. Prepare an ESCO business plan with supporting business cases for each of the investment strands.

4 **Retrofit:** Maximise use of available grant funding (CESP, CERT, DECC) to initiate one or more pilot retrofit projects on Council stock to create exemplars and kick start early investment activity. Share experience of other pilot projects to learn relevant lessons and build on early experience of SDEEMs project.

5 **Stakeholder Communication and Engagement Plan: Develop** a comprehensive stakeholder and communication engagement plan for the ESCO and individual strands of the investment programme to include: potential public sector partners, social landlords, community organisations; householders; SMEs, major private sector players in Green Deal and District Energy and funders including GDFC. This should incorporate soft market testing when the Council's ideas are sufficiently well-developed.

A more detailed list of recommendations is provided in the Appendix.

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3 Introduction

Bristol City Council (the Council) has identified significant opportunities to reduce the Council's energy costs and carbon emissions, as part of its Climate Change and Energy Security Framework, which aims at reducing the emissions from Council services by 40% by 2020.

The Council also aims for Bristol to be the most energy efficient city in the UK, offering citizens and businesses secure affordable energy to meet their needs provided through local and national low carbon systems and creating local jobs. Targets include a citywide reduction of carbon emissions by 40% by 2020. The Council is also keen for the Bristol's businesses and workers to benefit from the growth of the low carbon economy, and to work alongside other partners including neighbouring authorities and community organisations.

The Council is undertaking a wide range of energy related projects to reduce carbon emissions for the Council and the city as a whole. At the heart of this are plans for developing an Energy Services Company (ESCO) and a large-scale renewable energy and energy efficiency programme for the whole city and wider sub-region. Through this company the Council intends to use relevant government policy and funding tools including Green Deal, the new Energy Company Obligation, Renewable Heat Incentive (RHI) and Feed-in-Tariff (FITs) regimes to improve energy efficiency and expand renewable energy generation across a range of both domestic and non-domestic properties in Bristol.

The Council has been working with the European Investment Bank for more than 12 months to secure funding support for technical assistance to progress a £140m investment programme. The Council has now had its application for £2.5m ELENA Technical Assistance from the European Investment Bank approved and signature of the Funding Agreement took place on 2nd May 2012.

The Council has undertaken a sensitivity analysis to reflect recent UK government policy changes in relation to Solar PV FITs and is undertaking additional feasibility work to determine the composition of the Investment Programme. However the original ELENA investment programme, on which the EIB approval and Funding Agreement are based, is shown below. [Recent sensitivity work has suggested reducing the total PV element to £4.5m public buildings PV, and increasing private sector domestic retrofit to £34.2m.]

Table 3.1: Elena Investment Programme

Programme Element	Value £m
Private sector domestic retrofit	10.4
Public sector domestic retrofit	29.3
Domestic PV	39.8
Public buildings PV	27.0
Public buildings retrofit	10.0
District Heating	23.5
Totals	**140.0**

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3.1 Scope of Report

Grant Thornton prepared an initial report which focussed on the ELENA application and review of the supporting financial models in advance of signature of the Funding Agreement.

The scope of this second report includes:

- Assessment of potential funding and delivery models for the ESCO and the investment programme and identification of options which can realistically be employed in the Bristol context

- An initial proposal for an integrated, practical and robust Commercial Model that will determine how to finance and deliver the Council's investment programme.

- Recommendations on actions the Council should take as next steps before the start of the ELENA programme

Due to the current uncertainty surrounding the financial viability and likely scale of the solar PV investment strands (the Phase 2 consultation stage has recently closed) this report does not consider the delivery and funding options for this element.

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4 Delivery Options

4.1 Overview of the Delivery Structure proposed in the ELENA application

The ELENA application to the European Investment Bank (EIB) proposes the following high-level delivery structure. This involves the creation of an ESCO which is proposed to be 100% owned by the Council and have a public interest remit. The intended functions of the ESCO are to undertake all the work necessary to develop, co-ordinate, implement and secure finance for the ELENA Investment Programme including:

- Feasibility assessment, business planning, engineering studies, financial modelling, risk analysis and other preparatory work required (including other financial, legal, technical and programme management support)
- Procurement of all necessary service providers to undertake the above and to deliver the planned Investment Programme
- Loan Preparation and applications to EIB and other investors, lenders, and grant providers.

The structure envisages different elements of the Investment Programme being undertaken by special purpose vehicles (SPVs), which could have external shareholders and sources of funding.

Diagram 4.1: Elena application - proposed delivery structure

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4.2 Rationale and timing for establishment of an ESCO

The Council's current intention is to create a wholly owned company to undertake the ELENA investment programme, and future low carbon investment activity. However, the rationale for 100% ownership may be revisited if there are compelling reasons to consider an alternative corporate structure, for example a community based model.

The main drivers for the establishment of an ESCO, which is an entity separate from the Council could be:

- to give these activities a distinctive identity within Bristol separate from the Council;
- to encourage a professional and entrepreneurial management approach, freeing the organisation from some of the administrative and legislative parameters which apply to local government; and
- to create a structure which facilitates (through SPV arrangements or similar) the management of project risks and liabilities, raising of finance from a wide variety of sources, and development of partnering arrangements.

In assessing the most appropriate delivery structure for the ELENA investment programme, we have adopted a" bottom-up approach" but have also borne in mind these aspirations.

Part of the Council's original vision was to create a revolving low carbon infrastructure fund with the revenue generation/cost savings from initial investments being recycled into new investment. This model is more feasible where there is already an established investment base, which generates returns, and/or where new investment has relatively high returns/short payback periods (e.g. Solar PV FITs, prior to the government downward revision of the tariff being a prime example.)

Diagram 4.2: Revolving low carbon infrastructure fund

Revolving Fund

Energy Efficiency Projects

Utility Savings & Generation Revenues

The potential ELENA investment programme may no longer have these characteristics. With the significant reduction in solar PV FITs, payback periods are long and modelled returns are relatively modest. In addition, for two major elements of the investment programme - private domestic retrofit and district heating - the role of the Council and preferred delivery and funding structures have yet to be determined. There is important additional technical and

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financial feasibility work to be undertaken with the help of ELENA technical assistance to shape this further. There may be an argument for focussing the wider activities of the ESCO on renewable energy including Wind, Anaerobic Digestion (AD) and geothermal where returns are higher and payback periods therefore shorter. This needs to be weighed against the risks inherent in the Electricity Market Reform (ERM) which includes regular tinkering by government – for example the new Renewables Obligation (RO) bands have been announced but are due for another review in 2014. The recent change in Environment Minster (Owen Paterson) who is an opponent of wind farms may signal less government support for renewable energy in the future.

We recommend that the Council defer a decision regarding the structure and establishment of an ESCO until it has concluded this analysis – form should follow function. To focus on the creation of the ESCO at too early a stage could divert management resource at a critical time, and potentially result in a structure which is not the most effective for the ELENA investment programme and longer term Council aims for low carbon investment.

In the interim, the activities which are planned to be carried out by the ESCO can be undertaken within the Council, through a "shadow" ESCO which could comprise existing Council staff (members of Sustainable City team, the Energy Management Unit, Landlord Services and others) and individuals being recruited into new posts to support feasibility studies and delivery of the ELENA programme. We have commented separately in our report on the ELENA Investment Programme on the merit of using internal and external secondments and consultants to provide flexible resource until there is greater certainty on the additional "client side" roles, skills and capacity required. The shadow ESCO would benefit from clear governance arrangements, which are being finalised, and includes a non-Exec in the form of Sam Roberts, Chief Executive of the Centre for Sustainable Energy.

4.2.1 Wider Council Investment Activity

The Council has planned and implemented a wide range of investments in renewable energy and energy efficiency through its Energy Investment programme Phases 1 and 2. This includes measures in council homes, installation of biomass boilers in schools and community buildings, a large solar PV programme in schools, upgrading of street lighting, and procurement of wind turbines at Avonmouth. Different teams within the Council are involved in the activity including the Energy Management Unit, the Sustainable City Group, and Landlord Services (as well as finance, legal and procurement).

In addition European and national funding has been secured to accelerate investment in this area and bring new expertise and knowledge into the Council. This includes the "Smart Spaces" project to develop a model to monitor energy usage within public buildings such as schools, "Low Carbon Network Funding (LNCF) that will integrate energy and demand management with advanced battery storage, distribution networks and PV, and the 3eHouses project aimed at reducing energy use in Council homes by 20% through the use of ICT tools.

Our previous report on ELENA suggested there would be benefit in further mapping and quantifying the level of committed investment within each Council department (data capture) which could count toward meeting the minimum Leverage Factor of 25:1. There could also be wider strategic benefits in bringing this activity into the ESCO as a corporate centre of excellence - to create greater scale, facilitate programme management, and ensure prioritisation and coordination of related activities in low carbon investment.

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4.3 Potential legal structures for the ESCO

There are a variety of legal structures which are available in relation to the ESCO. A legal structure combines the organisation's legal form by law and the organisation's governing document which states how it plans to operate and govern itself. This report does not seek to review these options in any detail, as detailed assessment is more appropriate at a later stage when there is greater clarity on the ESCO role, with form necessarily following function. There are a number of possibilities, which can be investigated as part of the ELENA technical assistance programme.

Some of the issues which need considering when assessing legal structures include:

- ownership and control
- restrictions on a company's activities
- taxation (corporation tax and VAT)
- costs of meeting regulatory requirements
- the ability to pay a return to shareholdings
- the need to raise external finance

4.3.1 Not for profit structures

If an objective is for the ESCO to work with other public bodies and/or operate as part of the third sector on a not-for-profit basis, the principal options for what are commonly known as non-profit distributing organisations are either a company limited by guarantee or an Industrial and Provident Society (IPS).

There is another option that may be relevant - a Community Interest Company (CIC), which is not a new form of company (as it may be a company limited by shares or guarantee). The most important feature of a CIC is that profits (other than capped interest or dividends) cannot be distributed to its members or shareholders and there is no right to any residual assets on winding up. The assets must be used for a similar public interest purpose. The CIC structure was created primarily as a vehicle for social enterprise to protect assets transferred from philanthropists for community purposes. It may, however, be considered unduly restrictive from the Council's perspective and the protections it offers unnecessary if the ESCO is wholly-owned by the Council.

The newest form of company is a Charitable Incorporated Organisation (CIO) which avoids the double regulation that exists where a company limited by guarantee is designated as a charity and is regulated by both Companies House and the Charity Commission - a CIO is only regulated by the Charity Commission. This structure may not the most suitable for the ESCO as there are strict requirements e.g. its activities must be wholly and exclusively charitable and that the public benefit test must be met. In addition, a CIO is unable to offer a debenture or secured charge over its assets as security for borrowing.

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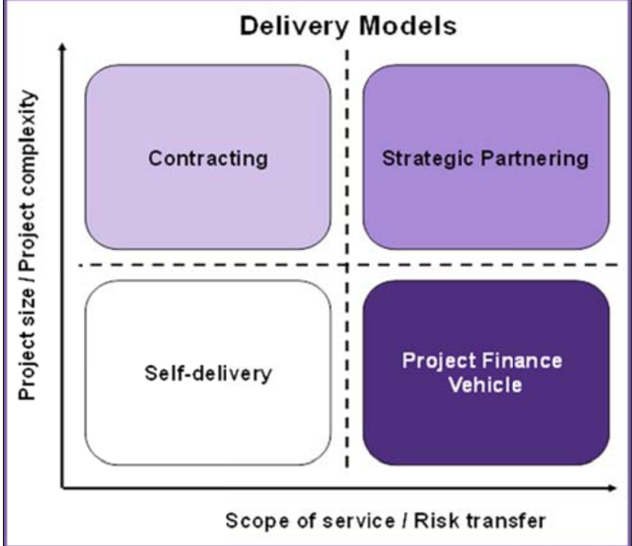
4.4 Project Company Structures

Beneath the ESCO will sit a number of companies. There may be one or more council-owned Trading Companies as well as Special Purpose Vehicles, which have external shareholders and funders. There is also the possibility of a Community Interest Company (CIC) or similar vehicle if a community investment vehicle is established.

For certain elements of the Investment Programme, SPVs may not be required as no external finance or equity is needed, and contractual arrangements will suffice. Examples of this include where the works are secured using Framework Agreements with one or more providers, or where the Council is procuring contractors for investment into its own estate and is funding this work through PWLB, Salix loans or reserves.

Where SPVs are needed, the structures should reflect the desired sharing of risk and reward, be focussed on commercial objectives, cost efficient, tax efficient, flexible, in a familiar form, and independent.

Diagram 4.4: Delivery models



Selection of the optimum delivery models will reflect the Council's:

- Objectives
- Organisational and physical constraints
- Risk appetite
- Willingness to finance

Before a local authority enters into any form of arrangement involving an external vehicle there will be a number of key issues and questions arising for further consideration. These include:

- the purposes for which the Council proposes to act - i.e. its objectives and what it is hoping to achieve/secure;
- the relevant powers of the Council to enter into the arrangements which link back to the purposes and require legal advice;
- what the Council's relationship will be with the body and how governance and accountability will be assured; and
- where the money will come from and how it will operate.

For SPV project companies which involve private sector partners or investors, the choice of structures includes:

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- Private Company limited by shares (Ltd)
- Private Company limited by guarantee (Ltd)
- Limited Liability Partnership (LLP)
- Contractual Joint Venture (JV)

An overview of key issues in relation of each of these structures is discussed in Appendix A. As noted in section 4.9.3 the most common form of SPV project company structure is a private company limited by shares.

The following sections consider delivery options in relation to domestic retrofit, district heating, and public buildings retrofit strands of the proposed investment programme.

4.5 Assessment of Green Deal/domestic retrofit Delivery Structures

The Green Deal is the UK government's main policy tool for improving energy efficiency and reducing carbon emissions from domestic and commercial properties. A new Energy Act has come into force and secondary legislation is to be introduced which from autumn 2012 will enable householders and businesses to have a package of energy improvement measures made to their properties by a Green Deal provider at no up-front cost. The cost of energy improvements is paid for over time by an additional charge on the consumer's electricity bill. Under the "Golden Rule", the expected financial savings from reduced energy costs must be equal to or greater than the costs attached to the electricity bill in order for a Green Deal plan to be approved - in short, self-financing. Additional funding estimated at £1.3bn pa is to be provided by energy companies through the Energy Company Obligation (ECO), which is targeted at hard-to-treat properties (largely solid wall) which would not otherwise meet the Golden Rule, and to households which are in fuel poverty.

Domestic retrofit including Green Deal comprises an important part of the proposed ELENA Investment Programme and is potentially the most challenging aspect to deliver given the emerging policy and legislative framework, complex regulatory environment, uncertainty regarding timing, and reliance on access to low cost finance and Energy Company Obligation (ECO) funding. In addition, whilst social landlords have an ability to drive investment in their properties, the success of private domestic retrofit is ultimately in the hands of householders, and the level of take up therefore remains a key risk.

DECC and the wider market have recognised the important role that local authorities can play. Local authorities are well placed to champion the Green Deal locally, stimulating activity to meet specific local needs and supporting wider strategic priorities. In particular local authorities:

- are able to link wider strategic priorities including employment and economic growth;
- are able to draw on established local networks, partnerships, services and delivery partners;
- can draw on existing links with business and community organisations and provide gateways through local advice agencies and services;
- are trusted to act in the best interests of their local residents.

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To deliver the Green Deal/domestic retrofit locally there are broadly four approaches which the Council might choose to adopt, potentially working with other authorities/social landlords to achieve greater scale and attract market interest:

Option 1- Provider –the Council provides Green Deal/retrofit directly to local residents and businesses, co-ordinating all aspects of finance and delivery;

Option 2 - Partner – the Council work in a formal partnership with a commercial Green Deal provider and/or community partner to deliver and facilitate delivery;

Option 3 - Promoter – the Council acts as an advocate or enabler for the Green Deal/retrofit locally, this could include providing referrals and marketing support, or

Option 4 – Framework Partnership – the Council establishes a framework agreement with multiple (say 3) providers. This option has characteristics of both Options 2 and 3, combining opportunities for co-branding and a targeted approach to the market with on-going choice, competition amongst providers and more opportunity for local supply chains, and potentially greater access to ECO than other options.

A review of Green Deal/domestic retrofit delivery models formed part of the stakeholder workshop and the view was that both Options 2 and 4 warranted further consideration by the Council. Grant Thornton's initial view is that Option 4 appears to be the most compatible with the Council's aims and objectives.

These options are described in more detail in section 4.7 below.

4.6 Role of the Council in relation to Green Deal

The Council must carefully evaluate the role that it wishes to play and functions that it wants to undertake in relation to the Green Deal. Diagram 4.6.1 below sets out the various stages of the Green Deal process and the roles of different parties.

Diagram 4.6.1: Green deal process

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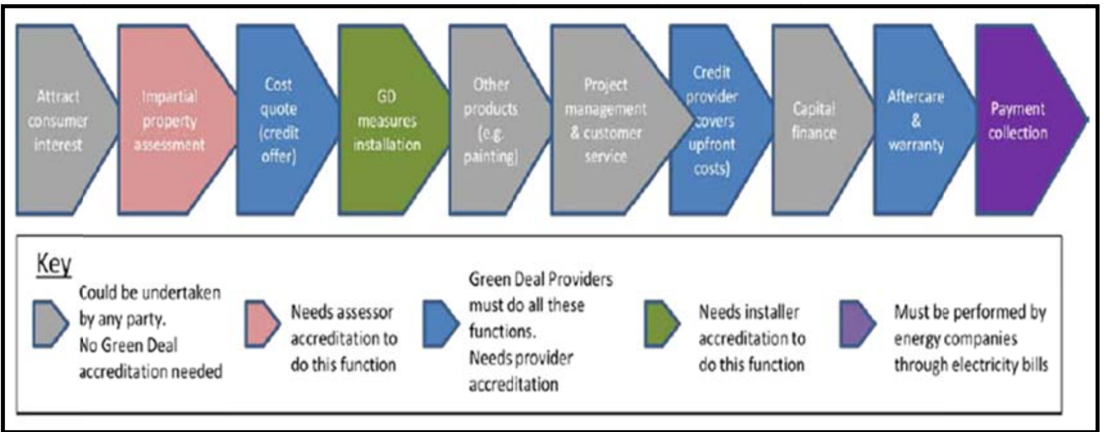
Diagram 4.6.2 (Source: DECC ECO and Green Deal consultation document) shows the various activities involved in Green Deal implementation and any particular accreditation requirements associated with each strand of activity. There are separate accreditation requirements to act as a GD Assessor, GD Provider and GD Installer.

Diagram 4.6.2: Green Deal activities



DECC has recently published the "Green Deal Provider Guide" which provides step-by-step practical guidance on what is required for any organisation wishing to become a Green Deal Provider.

As details of the Green Deal emerge and legislation develops, the stance of many Councils is that they do not have the track record, scale, resources (financial, operational and managerial) and risk appetite to act as a Green Deal Provider in their own right, providing all the functions shown above. However they do possess significant strengths including knowledge of their locality, citizens and housing stock, strong stakeholder relationships and status as a trusted brand, which they wish to deploy in the most effective manner. Therefore many Councils are focused on what they can do to educate, inform and advise consumers; help disadvantaged/fuel poor households; maximise take up of domestic energy efficiency in their locality, generate related local employment and training opportunities, and attract the maximum level of ECO grant.

The Council needs to make a thorough and candid assessment of its ability and appetite to perform the various functions, asking of itself:

- What are the benefits of the Council performing this function?
- What are the resource requirements?
- What are the risks and rewards?
- Is the Council best placed to perform this function directly or procure a partner/use a supply chain?
- What role is the Council prepared to play in securing finance?

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The answers to these questions will help to shape the most appropriate approach for the Council to take in relation to Green Deal implementation and the choice of delivery vehicle/approach. Initial feedback from the stakeholder workshop held on 25 May 2012 is that the Council does not have the risk appetite to act as a Green Deal Provider, Assessor or Installer in relation to private housing stock. However, with policy detail and legislation still emerging, we recommend further testing and refinement as part of the process for selecting a preferred delivery option.

4.6.1 Potential Council role as Green Deal Assessor

The Council had previously indicated a potential interest in undertaking a role in providing Green Deal assessments. Whether this is done by the Council directly or via third sector or private sector organisations, there are a number of issues to be considered including:

- accreditation and employment
- skill sets required
- marketing/targeting strategy
- risks associated with take-up and payment

These issues are discussed more fully in Appendix G.

4.7 Assessment of Green Deal Delivery Models

The following section considers in more detail the Options available to the Council in relation to the Green Deal, including the advantages and disadvantages of each. The possible delivery structures are also illustrated with supporting diagrams. Some example Case Studies are included at Appendix C.

4.7.1 Option 1 - Council as a Green Deal Provider

The Council seeks to establish itself as a Green Deal Provider, procuring a supply chain and outsourcing specialist activities (e.g. loans administration) as appropriate. This could potentially involve working with other partners (local authorities and housing associations).

Diagram 4.7.1: Council as a Green Deal Provider

Energy Supplier
Green Deal Finance payments via energy bill
Household/ Property
Green Deal Finance repayments
GD Installations
Warranty & Aftercare
COUNCIL as Green Deal Provider
Fund capital cost
Green Deal installer
Private sector finance
Interest Payments
Low cost finance
Private Sector Finance Provider
GDFC/PWLB

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The Council could initially raise finance (sources might include the Public Works Loan Board or commercial sources) to support delivery of the Green Deal locally, replaced /refinanced by GDFC when it becomes available.

Benefits of such a model could include:

- control over strategic planning and local delivery to address specific local priorities;
- ability to reinvest revenue streams into other local projects;
- direct delivery through local supply chains, creation of local training and employment opportunities.

The advantages and disadvantages of this option include:

Table 4.7.1 - Advantages and Disadvantages - Option 1

Advantages	Disadvantages
Consistent with Council aim to lead in low carbon investment in Bristol	Council may be at a competitive disadvantage to GD providers with a better track record, understanding of regulatory/Consumer Credit Act issues, and access to ECO
Council can focus on high priority groups and communities	Requirement to provide substantial finance to kick-start programme and risk of "stranded asset" if there is no refinancing by GDFC; state aid clearance will also be required
Compatible with ELENA technical assistance/eligible investment requirements	Council unlikely to have the resources and skills to self- deliver across all areas needed so will be reliant on supply chain performance
Council reputation as trusted brand can help drive take up	Significant business risk around start-up costs, successful take up and implementation, likely to be operating at a loss in initial years
Council can seek to use local supply chains to maximise benefit to local economy	Reputational risk/regulatory risk/miss-selling risk (Consumer Credit Act)

Torfaen County Borough Council in Wales is an example of a local authority, which intends to act as a Green Deal provider. Further information is shown in the Case Study in Appendix C.

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4.7.2 Option 2 - Council as a Green Deal partner

The Council might look to enter a partnership with one or more Green Deal providers to deliver to Bristol residents and businesses. This is most likely to involve a formal procurement exercise to select a partner(s) and creation of an SPV structure. In order for this approach to be successful the Council will need to offer some strong incentives. The Council can provide a tranche of low cost finance to help kick start activity, or even be a shareholder in the SPV. In addition as part of the procurement exercise, the Council may provide a guaranteed level of activity - e.g. Council homes, non-domestic properties. There is also scope to include other public sector partners provided they are named in the OJEU, providing a larger scale opportunity and economies of scale.

Benefits of such an approach include:

- strategic influence on how Green Deal is delivered in Bristol;
- the ability to draw in new sources of funding to the local area including ECO; and
- providing reassurance to local residents and businesses on delivery of Green Deal through marketing and co-branding

Diagram 4.7.2: Council as Green Deal partner

The advantages and disadvantages of this option include:

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Table 4.7.2 Advantages and Disadvantages - Option 2

Advantages	Disadvantages
Consistent with Council aim to lead in low carbon investment in Bristol. This approach is being piloted by Birmingham and Newcastle.	Depending upon the procurement approach used, arrangement could be time-consuming (12 months+) and expensive to put in place - eating into the 3 year ELENA timescales. Council may divert energy and resource into the procurement of a partner rather than driving investment.
Council can focus its partner's activity on high priority groups/geographic areas. The OJEU notice can name other potential public sector/HA partners which will provide greater economies of scale and increase market interest, risks around achieving leverage factor could be reduced	To attract private sector interest, Council must be able to offer something significant to the Delivery Partner - e.g. low cost finance, early wins in the form of committed council homes/non-domestic properties; marketing support
Compatible with ELENA technical assistance /eligible investment requirements	If procuring a single Delivery Partner, Council is potentially putting its "eggs in one basket" before the Green Deal market has an opportunity to develop. Will tend to favour energy companies over newer market entrants
Council reputation as trusted brand can help to drive take up	May limit access to ECO funding from energy companies other than Delivery Partner
Council has some ability to direct procurement approach to benefit local supply chains and maximise benefit to Bristol economy	Depending upon funding source/interest rate may require state aid clearance which could cause delay

An example of this model is Birmingham City Council who are providing an initial tranche of finance (£75m) to kick-start the programme and are in the process of procuring a Green Deal Delivery Partner to undertake the other functions. An overview of their approach is included in the case studies in Appendix C.

4.7.3 Option 3 - Council as Green Deal Promoter

The Council can facilitate and/or support commercial Green Deal provision in Bristol, for example by acting as a conduit for local commercial activity and/or providing leads on a commission basis. This is the least developed of the potential roles and it may be difficult for the Council to devise a structure where it receives adequate financial return from the Green Deal market for the role which it plays without more formal arrangements being in place.

Benefits from this approach include retaining an overview of how Green Deal is being delivered and contributing to local priorities. However, the ability to influence local employment opportunities and links with other strategic objectives may be more limited.

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Diagram 4.7.3: Council as a Green Deal Promoter

In our view the Council role as a promoter for the Green Deal is not compatible with the aims and investment objectives of the ELENA programme (as it will be difficult to demonstrate direct linkage between expenditure of technical assistance funding on marketing, community engagement, etc. and the resulting capital investment - meaning that it will be difficult to achieve Leverage Factor in this area of expenditure).

The advantages and disadvantages of this option include:

Table 4.7.3 Advantages and disadvantages - Option 3

Advantages	Disadvantages
Lower cost, lower risk option relative to Options 1, 2 and 4.	Not consistent with Council's aim to lead low carbon investment in Bristol, and could "lose out" to Councils taking a more pro-active approach to supporting Green Deal
Council has a narrower range of activity on which to concentrate	There may be difficulty in obtaining recompense from Green Deal providers for the activities undertaken by the Council e.g. marketing, assembling investment packages, assessments, leaving Council out of pocket
Council reputation as trusted brand can support citizens and help to drive take up - Council seen to be a source of independent advice and support	May not be compatible with ELENA requirement for "eligible investment" if technical assistance cannot be directly linked to investment activity - risk of grant claw back if required Leverage Factor not achieved.
Council can wait and see how Green Deal market develops before committing to an alternative delivery model	Risk of reduced access to ECO funding if energy companies prioritise investment where Councils are taking a stronger, more pro-active, leadership role
	Limited ability to influence the benefit to local supply chains and local economy

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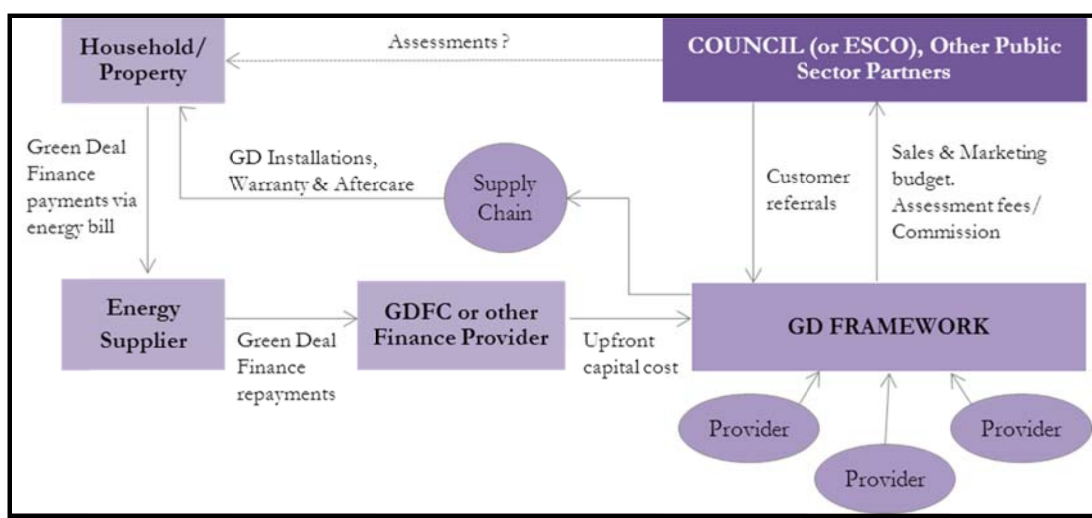
4.7.4 Option 4 - Council as Green Deal Framework Partner

This option is a mixture of options 2 and 3 involves the Council identifying the roles it wishes to play in relation to Green Deal and procuring multiple delivery partners to deliver the other elements to provide the complete Green Deal package. This could involve, for example, establishing a framework of three Green Deal providers, with each having different characteristics (e.g. national energy company, national non-energy company, regional/local company). (Note: legal advice required on such an approach). There is a potential for other public sector partners to access the framework provided they are named in the OJEU notice. The procurement of a Framework can be organised relatively quickly and without incurring significant procurement costs for either the public or private sector. This will help to counter any concerns the market may have about lack of exclusivity. There is also an opportunity for Green Deal providers to co-brand with the Council, or have a further quality kite mark, which could help to build consumer confidence and take up.

Diagram 4.7.4: Council as a Green Deal Framework Partner



The Council may undertake sales and marketing activity, for example, working with community organisations to focus on particular market segments, housing types or neighbourhoods to drive take up. This could involve the Council working with SMEs to provide assessments and assembling groups of homes. In the case of social housing, this could involve the Council agreeing to part-fund measures with the balance being provided by ECO funding (for hard-to-treat and those in fuel poverty). There may be other funding streams which the Council can access or make available, although state aid issues will need consideration.

The framework could provide a basis on which there would be a series of mini-competitions amongst the framework providers in order for the Council to identify the best overall package in terms of price and level of ECO subsidy. This ensures that there is on-going competition and that the GD Providers that perform the best can be rewarded with additional work.

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The advantages and disadvantages of this option include:

Table 4.7.4 Advantages and disadvantages - Option 4

Advantages	Disadvantages
Lower cost, lower risk option relative to Options 1 and 2. No/limited need for Council to commit funding	The Council will need to commit to a certain level of investment activity being directed to the Framework to attract market interest (this could include public domestic retrofit and/or an element of non-domestic retrofit).
Time and cost needed to procure a framework likely to be much less than for Option 2 - could be in place within a few months. Straightforward for other public sector bodies to access if they are named in OJEU notice.	There may be less market interest in tender if there are multiple framework providers - and co-branding with Council less attractive if they are 1 of 3.
The Framework provides competition and choice - the Council can direct work to the providers who are performing best/can offer the most ECO.	The basis upon which private householders would access such arrangements requires consideration.
Should be compatible with ELENA definition of eligible investment if technical assistance can be directly linked to investment activity pursuant to the Framework	Bespoke solution; management of Council role and framework arrangements could be resource-heavy
Framework arrangements can set out the basis on which the Council is remunerated for the activities undertaken by the Council e.g. sales and marketing, assembling investment packages, undertaking assessments, accessing finance	Risk of reduced overall access to ECO funding if energy companies prioritise investment where there is a single GD delivery partner. Greater reliance on the ECO brokerage system working effectively
Council can encourage alternative/regional GD providers e.g. appoint 1 energy GD, 1 non-energy company, 1 regional GD provider [subject to legal advice that this is permissible] to the benefit of local jobs/growth	

4.7.5 Summary conclusions on Green Deal Delivery Models

An initial review of Green Deal delivery models formed part of the stakeholder workshop on 25 May 2012. Based on this and our initial discussions with the Council, Option 1 is likely to be discounted due to the risk and finance requirements associated with the Council becoming a Green Deal Provider in its own right. Option 2 is a possibility although the cost and timescales associated with such a procurement exercise, as well as the market response, need to be considered. The role of the Council in Option 3 is relatively weak and does not appear consistent with Council's aim to lead low carbon investment in Bristol; the city could lose out to others taking a more proactive stance. Option 4 – Council as Green Deal Framework Partner, was also considered to be worth further exploration and in our view, appears to be the most compatible with the Council's aims and objectives ,combining opportunities for co-branding and a targeted approach to the market with on-going choice and diversity, competition amongst providers, and potentially greater access to ECO than other options.

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4.8 The role of SMEs in Green Deal/retrofit

One of the strategic drivers for the ELENA programme is to support the growth of the low carbon economy in Bristol, including training, jobs and economic growth. This section considers the roles, which DECC has proposed that SMEs could play in Green Deal delivery. In addition there are suggestions on how the Council can support the successful involvement of local SMEs in Green Deal and retrofit more widely.

4.8.1 Options for SMEs in Green Deal delivery - DECC

The government has indicated they expect Small to Medium Sized Enterprises (SMEs) to be able to play a key role in delivering the Green Deal. SMEs are defined as having fewer than 250 employees and annual turnover of less than £44m and/or balance sheet total not exceeding approximately £38m.

Although in principle any size of organisation can become a Green Deal provider (as long as they can fulfil the authorisation requirements and on-going obligations including arrangement of Green Deal finance plans compliant with the Consumer Credit Act) the requirements are likely to be too onerous and complex for the majority of SMEs. The likelihood therefore is that SMEs will choose to be part of the Green Deal supply chain for one or more Green Deal providers. This is expected to be primarily in two areas: Green Deal advisors (carrying out building assessments) and Green Deal installers (installing measures).

The potential business models for SMEs in the Green Deal which DECC has proposed include:

Diagram 4.8.1: Green Deal Provider Business Model Spectrum

Green Deal Provider Business Model Spectrum

'One Stop Shop' Green Deal Provider - GDP is installer, assessor and provides finance.

'Partnership Model' Green Deal Provider is finance provider and acts as intermediary between consumers, assessors and installers.

Company acts as face of Green Deal brand. All other aspects are outsourced to one other single company who will do everything in-house.

Green Deal Provider is CCA counter-signatory only; outsources all other aspects including assessment, installation and customer services.

SME partnerships (GDP could facilitate local SME partnerships/networks)

SME in supply chain (GDP contracts with SME)

SME in supply chain (GDP contracts with SME)

1 SMEs entering the supply chain for Green Deal Providers (GDP): Larger companies can use local suppliers of goods and services. Under this model a GDP would market the Green Deal to customers and then pass on the installation work to companies engaged in its supply chain. This could also work with Local Authorities becoming GDPs and then creating local supply chains to maximise the local economic benefits.

2 SMEs working in partnership supply chain with GDPs: Under this model SMEs would be the face of the Green Deal and make full use of their local networks and customer base. The GDP would, effectively, become a silent partner behind the scenes, providing the financing. One or a number of SMEs could discharge the on-going obligations of the Green Deal Provider including assessment, installation, customer services and on-going customer relations.

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3 SMEs in partnership as agents with GDPs: SMEs could become agents for these GDPs and would be able to offer their customers access to Green Deal financing following an assessment. They could find clients for GDPs thus providing access for their customers and at the same time, increasing the remit of their business. This model could involve SMEs directly becoming agents of GDPs, or becoming agents through their trade body (who could partner with a finance provider on their behalf). Alternatively, trade bodies or trade suppliers could become GDPs on behalf of their members/customers.

The informal market view is that the first of these options is the most likely outcome for the vast majority of SMEs interested in being involved in Green Deal delivery and that examples of the second and third approaches will be far less common.

4.8.2 Supporting the involvement of SMEs in retrofit

A recent report commissioned by the Green Deal Skills Alliance (GDSA) highlights the scale of the challenge to up-skill and accredit the workforce and training providers in time for the Green Deal launch. Issues highlighted include:

- There is a lack of training in place to equip firms with Green Deal type skills
- There is a low awareness of GD amongst the workforce
- In this economic climate neither SMEs nor training providers will be up-skilling for the scheme unless there is a demand from consumers.
- Current available training is too generic and lacks detail in areas such as insulation, building regulations and energy performance assessment.

There are a number of actions the Council can take to encourage and support the involvement of local SMEs in the Green Deal/retrofit market, irrespective of the Delivery model adopted.

1 Ensure SMEs are aware of the future market opportunity and provide practical and financial support for those seeking to obtain the necessary training and accreditation (individuals and organisations), working with local colleges. This can build on the successful £1.25m Regional Growth Fund bid for the West of England LEP led by City of Bristol College. The funds are going towards training people for 500 new green technology jobs and 900 existing trades people in renewable energy building and retrofitting skills by 2014. In March the government announced £3.5m in funding nationally to train Green Deal installers and to create 1000 apprenticeships - could this also be accessed by the colleges?

2 In relation to any relevant procurement exercises undertaken, consider the scope for maximising local employment, apprenticeship and training opportunities, and SME involvement. The Council can also provide support for SMEs looking to form installer groups. Procurement processes can also be structured to encourage and support SME and local supply chain involvement. There is an ability under EU procurement rules to incorporate community benefit or social clauses and there are a number of good precedents on how these have been used by local authorities. Legal advice should be sought on how to structure procurements to appropriately incorporate this into evaluation criteria and contract documentation whatever delivery route is used.

   The current ERDF SW Competitiveness Programme "Supporting the Domestic Energy Efficiency and Microgeneration Sector" (SDEEMS) which is being led by the Energy Savings Trust with E.ON as the delivery partner, is providing targeted business support

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and market stimulus through a subsidised programme of domestic retrofit in social housing. There is £8m funding from April 2012-14 and Bristol is one of four local authority areas involved. The aim is to support 410 local businesses and 176 jobs through the upgrading of 1000 homes.

3 Cash flow/working capital is a major constraint to SMEs therefore their involvement in Green Deal locally should take this into consideration. For example they are unlikely to be able to undertake free assessments and be paid only for those where a GD plan is taken up, although the government's response to the recent consultation exercise suggests that this issue is being addressed. Fair payment terms can also be incorporated into supply chain contracts.

4 Support of Bristol SMEs involved in low carbon manufacturing e.g. insulation materials, heating systems for both domestic and non-domestic settings. There is a significant business opportunity for manufacturers of materials used in the energy efficiency market. Relevant SMEs can be also be identified through industry groups and trade organisations such as Low Carbon South West and Regen South West. Should the Council require additional assistance in identifying and supporting SMEs in this sector, the South West Manufacturing Advisory Service (South West MAS) could be of help. [A consortium led by Grant Thornton is responsible for delivering Manufacturing Advisory Services on behalf of the Department for Business, Innovation and Skills (BIS); South West MAS is the delivery partner in the South west.]

   Reports prepared by MAS (March 2011) on Low Carbon and Advanced Manufacturing "Refurbishment Opportunities for SMEs in the Low Carbon Sector" and A Guide to Growing your Business in the Retrofit and Refurbishment Markets" identify the opportunities that the Green Deal presents for SME manufacturers especially in relation to the Hard-to-treat (HTT) market with innovative insulation products (solid wall and double glazing) being the areas of greatest opportunity. SMEs operating in the existing refurbishment market should be developing low carbon offerings but may need support in R & D and pre-commercial testing. The testing of new insulation materials and techniques developed by local SMEs could form part of pilot projects undertaken by the Council and community organisations.

4.9 Assessment of District Heating Delivery Structures

4.9.1 Introduction

This section explores the delivery structure options to develop the District Heating Project (DH Project).

The DH Project as set out in the ELENA application aims to implement district-heating networks across 6 sites as shown in the table below. These sites were selected based on initial viability studies by external consultants. The ELENA Technical assistance will be used to undertake more detailed technical and commercial feasibility work. Feasibility studies may also consider the Enterprise Zone (Temple Quarter) as the initial feasibility work pre-dates this development.

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Table 4.9.1: Proposed DH sites

Phase/Location	Estimated capex (£m)
Phase 1 - BS1/Phase 1	3.045
Phase 1 - BS3	2.900
Phase 1 - BS13 Hengrove	4.000
Phase 1 - BS18 Ashton	0.645
Phase 2A - Bristol City Centre 1 &2	11.372
Phase 2B - Bristol Park Street	1.491
TOTAL	**23.453**

Decentralised energy is a key element in reducing carbon emissions, as expressed in the Council's Climate Change and Energy Security Framework and will help the Council in meeting its target for a citywide reduction in carbon emissions by 40% by 2020.

In particular the DH Project presents the opportunity to act as a catalyst for the development of an extensive low carbon heat network providing low carbon heat sources to residential properties, alleviating fuel poverty, and to businesses and public sector organisations who seek to meet their Carbon Reduction Commitment requirements and to mitigate their exposure to hyper-inflation on utilities costs.

4.9.2 Key Principles and Objectives

The primary objective is to support the delivery of district heating across up to six key sites initially, and more in the longer term. In the short term the challenge is to create a financially deliverable project where procurement can commence well within the 3 year ELENA period. This requires a structure, which manages the project risks, is familiar to funders, can respond flexibly to commercial pressures and is cost effective.

In the longer term, the Council is seeking to deliver a wider network, which provides cost-effective, low carbon energy on a commercial basis. This requires a structure which is scalable, sustainable in the longer term and is focussed on delivering this vision.

To provide value for money for funders and to be competitive in the energy supply market, the commercial vehicle needs to minimise its overhead costs, secure competitively priced supplies of heat and build the transmission infrastructure as cheaply as possible. To minimise overhead costs we recommend that the vehicle is relatively 'lean'.

In order to secure heat supplies and infrastructure on the best terms, the vehicle will need to take a commercial approach with a senior management team with the skills and motivation to negotiate favourable deals.

Risk management

The commercial structure can contribute to risk management by shielding the project from extraneous risks. By establishing a Special Purpose Vehicle, returns are isolated from external risks and management can focus on the success of the project and managing each of the project risks.

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The DH Project will start at a relatively small scale, which is likely to require an element of public sector support but has the potential to grow as connections are made to the network, which will increase the scale and complexity of its operations. As it grows, the commercial viability of the DH Project is projected to increase through economies of scale, but profitability will remain dependent on the demand for heat and its attractiveness relative to other energy sources, particularly in terms of securing the first connection. At the present time, heat production is seen as generating relatively low returns compared, say, with electricity. If this continues to be the case, it may well be that public sector support will be required for the foreseeable future. Our work elsewhere suggests that electricity generation is important in enhancing the financial viability of district energy schemes.

The structure created to deliver the DH Project will need to be based on a relatively low level of activity at the outset, ideally with the ability to scale up in the future.

Nevertheless, in order to deliver the project effectively, a clear focus is necessary at the outset, in order to put in place effective resources, governance and accountability arrangements.

The "softer" aspects of developing a corporate structure should not be overlooked. Part of the job of the DH Project will be to "build a brand" and develop a level of credibility so that it can engage effectively with potential customers and suppliers.

To the extent that the Council acts as an investor, it will wish to preserve the opportunity to achieve a partial or a full exit at a later stage, should commercial investors be available to acquire an interest in the project.

We therefore see the following characteristics as key for the DH delivery vehicle:

- Flexibility
- Dedicated resources to ensure focus on project delivery
- Arms-length corporate governance arrangements to ensure transparency and accountability from the outset, and ease of investment (through clean, simple ownership structures) in the later stages
- Preservation of Intellectual Property and bespoke project processes within the Project
- Low cost start-up, with limited company overheads at the outset. All substantive activity therefore carefully scoped and outsourced to preserve "lean client" structure
- Broad but clearly defined corporate objectives. These need to balance the public policy priorities set out above, whilst allowing the company to operate commercially
- Adequate investment to ensure reasonable prospect of securing follow-on customers and suppliers.
- Sufficient credit strength or parent support that the vehicle is an acceptable partner for a long term supply contract

This approach should help to secure the following objectives:

- Deliverability - short term and long term;

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- Value for money; and

- Effective risk management

4.9.3 Proposed company structure

The commercial structure established for the DH Project will be required to build, own, operate and maintain the distribution network. It will also be required to buy and sell heat, market to new customers, develop the network and raise new finance where appropriate. In seeking to deliver these outcomes, the structure taken forward must be focussed on commercial objectives, adopt a tried and tested form, be able to adapt, operate independently, be tax efficient and achieve limited liability.

Appendix A sets out a range of structural options and a high level discussion of each. The preferred option should be considered further as the Council's plans develop, but at this stage we consider that it will be preferable to create an arm's length entity in the form of a company limited by shares to progress the project, which can then be put in funds to an appropriate level.

The alternatives to an arm's length entity, which would either be an entirely "in-house" option or a contractual joint venture if a private sector partner joined the project, seem to us to fail on the counts of:

- making dedicated resource harder to allocate to the project

- preserving value (e.g. I.P.) in the project; and

- building the "brand" and market presence.

The other arm's length entities listed in Appendix A have additional layers of complexity to the proposed option, which do not appear to add value to this particular project.

The conventional corporate option of one or more companies limited by shares offers the optimum level of flexibility and transparency and is a structure that is readily understandable to the market. There will be a minimum level of overhead in terms of reporting and legal requirements, but we would not expect this cost to be significantly greater than any of the other options that offer an arms-length structure.

Limited liability companies are quick and easy to establish, and a group structure can be put in place where there is sense in allocating different activities or assets to different companies. The project Special Purpose Vehicle ("SPV") has become a standard feature of project finance transactions and is used to isolate a single asset to secure limited recourse funding, with a holding company interposed between the SPV and the ultimate investors, as a look-though company.

Even where a public sector ownership model is pursued, it may make sense to isolate groups of assets or activities as sub-sets of the overall project ("ProjectCo") - particularly if there is a prospect of different funding structures for separate areas of activity or disposing of parts of the business (for example, selling the assets and retaining the management or business development activities, or having separate SPVs for the energy centre (generation) and energy network (distribution) elements.

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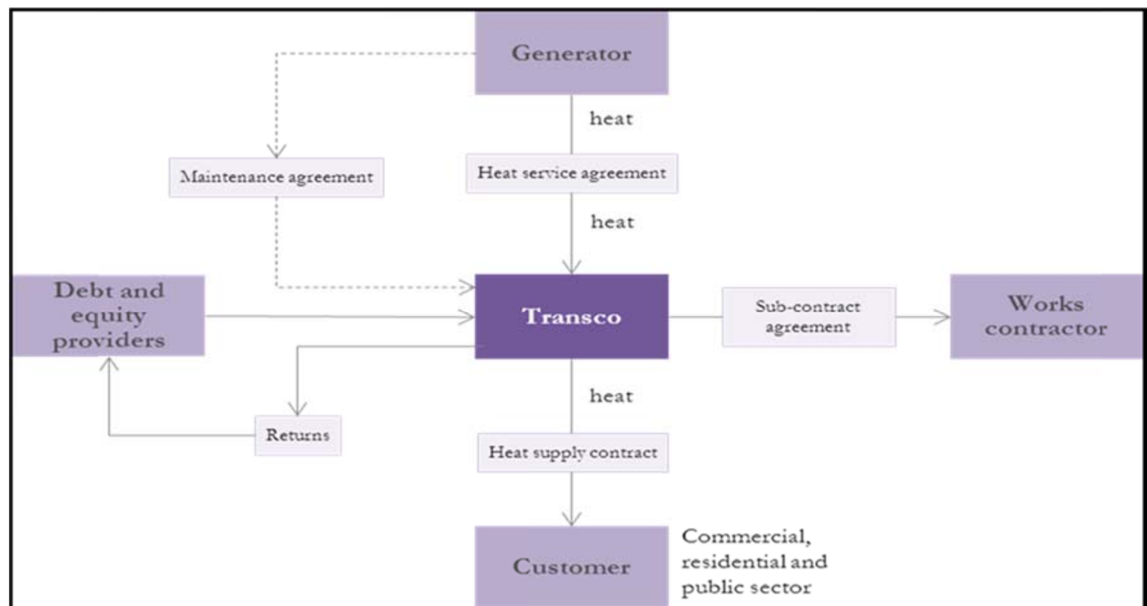
Figure 4.9.3. Example district heating structure



Ability to Access Finance

SPV companies limited by shares have a proven ability to access debt and equity as well as grants if any attached conditions are met. The ability of the SPV to access debt finance for future expansion of the project will ultimately depend on the quality of the assets held by the SPV, the potential income streams and the quality of guarantees or security being provided. The better the quality of the assets, the greater proportion of better value bank debt can be introduced into the vehicle. The quality of assets will also be impacted by the proportion of risk that is assumed by the public sector.

In the absence of financial feasibility studies and a base case financial model, we cannot at this stage comment on the likely split of initial debt and equity/Council funding in the scheme. The ability to achieve private funding will be influenced by the quality and quantity of the income streams (heat off-take). The model of the private company limited by shares is a well - established model which funders should be comfortable with.

Experience of other schemes has also indicated that the ability of public sector bodies to provide upfront 'pump priming' capital investment through the construction phase can greatly enhance attractiveness of the scheme to potential investors. Clearly there is a level of associated investment risk for the Council, but we would recommend that it gives consideration to the scope for this type of investment.

In terms of attracting equity investment, an SPV limited by shares is also a proven vehicle. Should the decision be made to bring on board a strategic partner in an equity capacity, decisions would need to be made on items such as voting and veto rights, appointment of board members, dispute, deadlock resolution and exit rights or options. As set out previously, this would have the potential to alter the balance sheet treatment of the SPV should there be a loss of control. However, this form of company is perhaps the most appropriate vehicle for a venture which is not considered to be a static, long term investment; in particular, it is more appropriate for a venture which requires commercial flexibility than a company limited by

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guarantee (a structure which is not conducive to increasing the capital of a company and is widely viewed as a less commercial vehicle).

4.9.4 Compliance

The following areas will need to be considered:

State Aid

The EU's State Aid rules are a potential constraint upon a commercial vehicle if it receives public funding. Legal advice should be sought on state aid issues related to any public sector funding.

Accounting

Our working assumption is that there is a preference for the project to be off the public sector's balance sheet. The ability to achieve this will be dependent on substantive as well as formal control.

Tax

The structure should seek to optimise the tax position. This should be predominantly "negative tax optimisation"; in other words, avoiding direct and indirect "tax traps" wherever possible, such as irrecoverable VAT. The extent of public v private ownership may create tensions, which should be considered. Leasing options may be a tool to take full advantage of capital allowances and if there is private equity in the commercial company, a limited liability partnership or a Joint Venture structure may be tax efficient.

Legal Issues

The Council should seek legal advice to confirm it has the legal powers to establish a commercial entity to deliver the project and identify if there are any legal restrictions on the type of financial support it can provide.

As well as determining whether the entity and its owners have the powers to enter into the contracts and liabilities that will flow from this activity, it will also be necessary to ensure that the entity has the capacity to manage the contracts it enters into and that its directors and / or officers are adequately protected. At the same time, if this entity is entering into substantial contractual commitments as a newly established company, commercial entities are likely to seek external cover unless the entity is well capitalised.

Control & accounting issues, state aid, taxation and implementation are considered in more detail in Appendix B.

4.9.5 Components and risks of a District Heating System

The major components of a district heating system: generating plant, distribution network and heat customers are illustrated in the following diagram.

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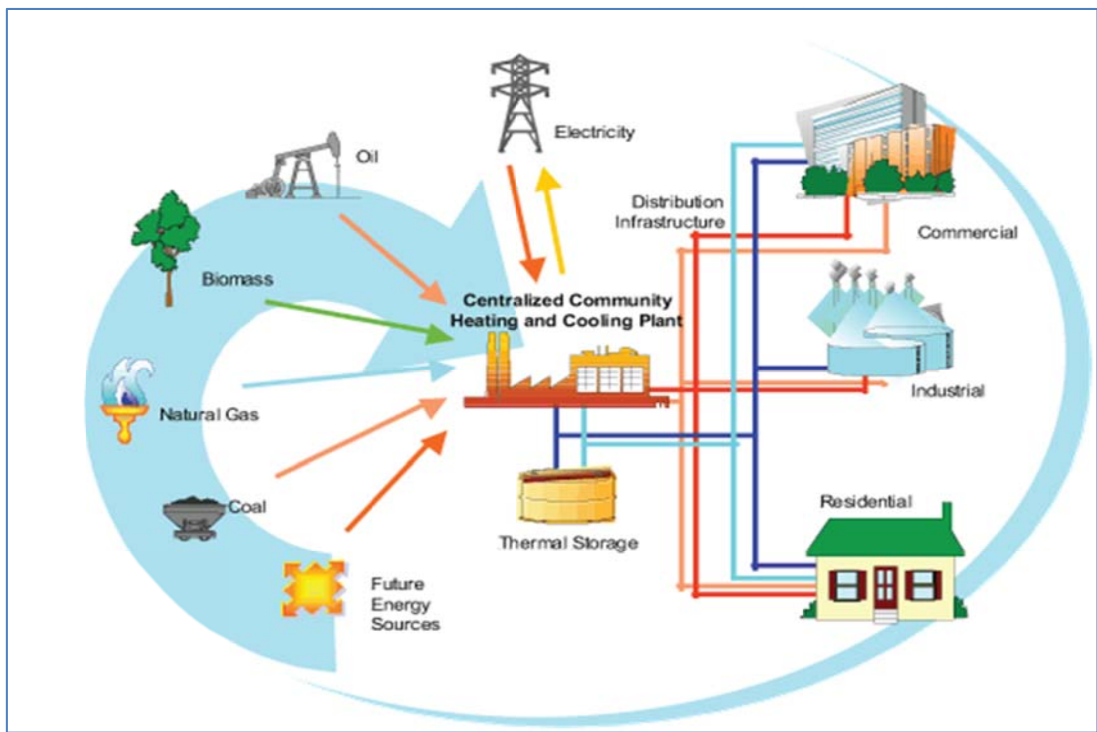
Figure 1 - District Heating network



These elements has different characteristics in terms of perceived risk, return requirements and investment payback periods, summarised in the table below.

Components	Financial risks	Investment Characteristics
Generating plant	• Fuel supply risks (volume and price) • Availability • Heat and power off take (volume and price) • Operating costs	20 Year life Medium risk profile Est. 10% to 18% required return
Distribution network	• Heat demand – connection risks • Heat off take price and purchase price • Availability • Operating costs	50 year life Low risk profile Est 6% to 10% required return
Heat customers	• Anchor loads • Reliance on future development and impact of Council planning policy (Heat Priority Area) • Creditworthiness of offtaker(s)	

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4.9.6 Role of the Council in the District Heating Project

A district heating scheme with an estimated capital value of £23.5m is relatively modest in financial terms but nevertheless significant in physical asset terms. In order to attract market interest it will be important to demonstrate strong Council leadership in areas such as planning and securing heat off-take, as well as to indicate the scope for expansion and growth.

District heating schemes are capital intensive, specialised operations and even at this early stage the Council can anticipate that it will require a private sector partner to provide technical and operational expertise and take business and performance risks.

In considering potential delivery structures and risks that it is prepared to assume, the Council should consider both the "ownership and funding elements" and "operational" elements. Even under the own and operate model, operational risks can be transferred to the private sector through subcontracts.

There are essentially three delivery models for the Council to consider in relation to the design, build, finance, ownership and operation functions related to a district heating system, although there are additional permutations:

Option 1: an own and operate model where the Council or ESCO procures the design and build phases and then directly owns and operates the system (or procures operational management for the plant)

Option 2: a license to operate or concession where the Council grants permission to a single partner/consortium to deliver all aspects but the Council itself has no involvement in the ownership, finance or operation

Option 3: a form of public-private partnership where the Council establishes a partnership with a private sector company or consortium to share the risks and rewards of the project; this will generally include the creation of one or more SPVs

The advantages and disadvantages of these three approaches are outlined below.

Table 4.9.6.1 100% Public ownership

Advantages	Disadvantages
Potentially greater access to European and other grant funding; can partner with other public sector organisations	Full risk for raising debt and equity finance rests with the Council. Assets will be on council's balance sheet. State aid considerations.
Council retains equity return/upside	Council has downside as well as upside/ equity risk.
Full ownership control and can be run on a basis which is consistent with Council's wider policy aims including reduction of fuel poverty and pricing policy	Greater scope for political interference and delay in decision-making; a less commercially driven vehicle.

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Advantages	Disadvantages
Contractual arrangements can be structured to pass risk to private sector (both finance and operational). Procurement process may be more straightforward.	Interface between Council and one or more contractor(s) as well as customers must be structured carefully to avoid residual/performance risks sitting with Council.
Easier for the DH system to expand organically.	Council resource requirements can be significant. Council may not have the necessary management, technical and operational skills, especially at the outset.

CASE STUDY - Islington District Heating – Bunhill Energy Centre and Heat Network

Islington Council has adopted Option 1 – 100% public ownership model, and plans to create a borough-wide district heating network, initially to reduce fuel poverty and supply cheaper and greener heating to more than 700 homes and two leisure centres owned by the Council, using a gas-powered CHP energy centre. The social housing units are currently heated from communal boiler houses which are being reconfigured for DH use, therefore minimal disruption.

The Council has procured the works contract, and will own the heat network, giving it the option for expansion in the future. The contract with the private sector covers the design and build of the new energy centre and DH network. In addition there is a maintenance contract for the CHP plant with guaranteed performance levels and availability, and output based maintenance contracts covering the balance of the Energy Centre equipment, network, and customer connections, all with a minimum duration of 10 years.

The Council has not established an ESCO vehicle for the initial £4.4m pilot phase, but is managing all activity internally using its energy and procurement teams, with external technical and commercial advice provided on a call off basis. Contracts have been structured to allow novation in the future if desired.

Further expansion of the scheme is being explored using ELENA support secured by the Greater London Authority (GLA). (The GLA has contracted with Arup to provide a DE delivery unit). This includes a new scheme at Archway and an expansion of Phase 1, a combination of one new residential and 3 mixed use new build developments.

Timetable for the project is summarised below

Initial feasibility: Summer 2007
Detailed technical feasibility and concept design: September 2009
Prior Information Notice (PIN): March 2010
Contract award: February 2012 (Vital Energi awarded contract)
Scheme operational: Autumn 2012

Funding for the £4.4m scheme has been provided by £2.3m grant from the GLA with a further £1.9m funding from the HCA. The anticipated payback period for the initial investment is approximately 20 years.

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Table 4.9.6.2. 100% Private ownership

In reality a 100% private owned model with no Council involvement is unlikely due to the Council's role as an major heat customer (anchor load) and role as planning authority.

Advantages	Disadvantages
Full risk for raising debt and equity finance rests with the private sector. Assets likely to be off balance sheet for the Council.	No management influence. Council does not share in equity return/upside. May limit the available sources of finance available. Project in any case may not be financially viable without grant/subordinated debt from Council.
Full performance risk rests with private sector.	Commercially driven organisation and will have higher investment return requirements which may not be compatible with Council policy aims and priorities including reduction of fuel poverty.
Limited Council resource requirement.	May be difficult to replace contractor for poor or non-performance.
	Difficult to capture economic benefits for the locality. In general a more passive role, which does not appear compatible with the Council's strategic aims for the ELENA investment programme.

4.9.7 Public private partnerships

Within the public-private partnership space, a variety of models have been developed which cover a wide spectrum of options, three major types are summarised below:

Operation and management contracts

Public private partnerships where there is no capital involvement from the private sector or private sector shareholding are operation and management contracts, where the operator gets paid for the services performed based on a detailed specification. As this does not involve the creation of a legal entity but relies on contractual provisions, the contract must be extremely comprehensive in nature. This structure is suitable where the Council wishes to retain full ownership and funding responsibility for the DH assets but wishes to transfer operational and management responsibilities/risk to one or more third parties.

Corporate joint venture

A form of public private partnership where both the local authority and a private sector partner are shareholders in a separate legal entity, a special purpose vehicle (SPV), with the local authority having a minority shareholding in most cases. Finance for the SPV may come directly from the shareholders or it may be raised on a limited recourse basis, where the repayment to lenders is dependent upon the performance of the SPV.

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Full private ownership with municipal support

Under this option, ownership, management and operation of the DH system is fully with the private sector, usually through a special purpose vehicle, but the Council supports the activities of the company by separate agreement. This support could potentially include provision of land, committed anchor loads, marketing, planning and financial support with the Council benefiting through reduced energy costs and some profit share.

Table 4.9.7.1 Public/private partnership

Advantages	Disadvantages
Flexibility on whether Council is a shareholder. Should it wish to be a shareholder, the Council can exercise a degree of management influence and control through [minority] shareholding and board representation. Likely to be off balance sheet for the Council.	For a new DH development, private sector will wish to have majority shareholding. Governance arrangements will need to be carefully specified to satisfy both public and private shareholders. Any special rights for public sector ("golden share") will impact private sector investment appetite. Council will need to make a cash or in-kind contribution (e.g. land) in exchange for shareholding
Flexibility on whether Council provides low cost funding/capital contribution	Council takes on risk as investor and/or funder. Potentially state aid issues.
Council can retain equity upside through shared savings mechanism	Commercially driven private sector organisation will have higher investment return requirements which may not be compatible with Council policy aims eg pricing policy; heat supply to social housing stock
Council must be clear on its objectives. Ownership, funding and contractual structure can then be tailored to suit the Council's risk appetite.	Procurement process and contractual documentation can be complex, time-consuming and costly.

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CASE STUDY – Southampton District Energy

An example of Option 2 - full private ownership with a strong municipal support is the **Southampton District Energy Scheme:**

COMELY owns and operates the Southampton District Energy Scheme through its subsidiary Southampton Geothermal Heating Company. Southampton City Council works closely with COFELY to actively promote district heating for its environmental benefits and also as an economically viable option.

This is achieved through a Joint Cooperation Agreement, originally signed in 1986, and extended in 2005 for a further period of 25 years. Commitments from both parties include:

COFELY

- Development of the scheme, initially utilising the city's geothermal resource, and later adding CHP
- Selling heat to the City Council at agreed savings, for its own administrative buildings
- Providing all necessary funding, technical and management expertise to ensure successful development of the scheme
- Open book accounting and a long-term profit sharing arrangement with the Council

Southampton City Council

- Taking heat wherever practical for its own buildings
- Helping to promote the scheme to other potential users
- Providing general support particularly through the Planning and Highways Departments
- Providing the land for the heat station at a peppercorn rent and transferring ownership of the geothermal resource
- Treating COFELY as a "statutory utility" within the city boundaries

The diagrams below illustrate two different PPP delivery approaches for DH. The first diagram is prepared on the basis of a simple single SPV vehicle where the Council may act as an investor/funder alongside private sector partners and investors.

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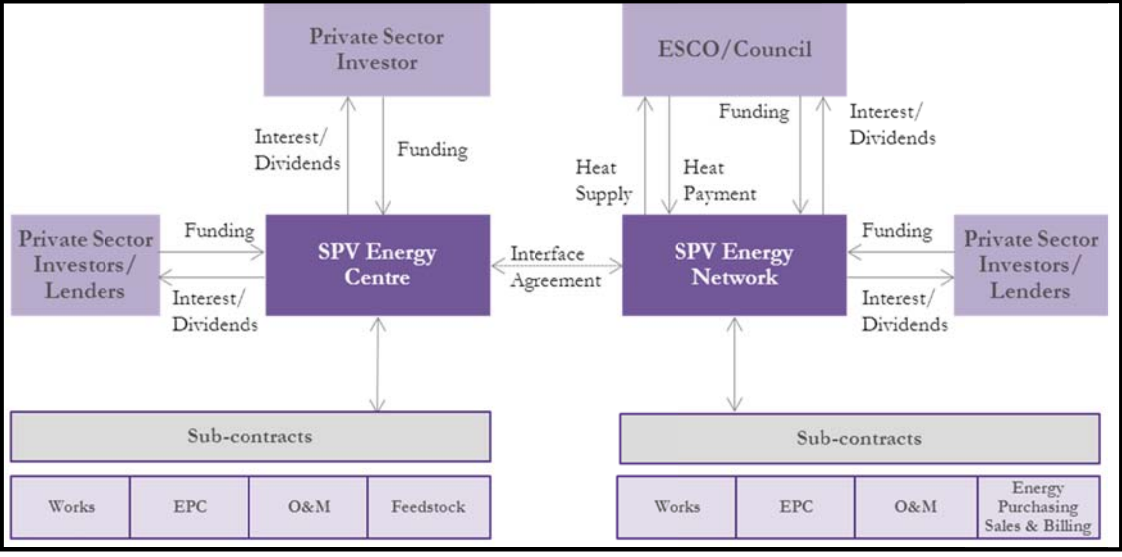
Diagram 4.9.7.1: District Heating - Single SPV Structure

ESCO/ Council
Heat Supply
Heat Payment
Funding
Interest/ Dividends
Private Sector Investors/ lenders
Funding
Interest/ Dividends
DH SPV Energy Centre & Network
Subcontracts
Works
EPC
O&M
Feedstock
Energy Purchasing Sales & Billing

The second diagram illustrates a PPP delivery approach where separate SPVs are created to finance the heat centre and heat distribution network, reflecting their different risk and return characteristics. This structure could be appropriate if the Council were to provide capital to fund the distribution network, for example. This structure is more complex than the single SPV structure but allows segregation of project risk to both investors and lenders.

Diagram 4.9.7.2: District Heating - Multiple SPV Structure



4.9.8 Summary Conclusions – District Heating

The initial view of stakeholders at the 25 May workshop was that although the Council had experience of district energy on a small scale, they do not currently have the resource or expertise to deliver a scheme of this size and complexity. Therefore, one or more private sector partners would be required in order to design and build the energy centres and heat networks and to provide operational and maintenance services. A delivery vehicle structure which is simple to procure and manage is preferred. Longer term, as expertise develops, there may be scope for the Council/ESCO to have a wider role.

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A form of public-private partnership employing a company limited by shares is therefore likely to be the preferred delivery option for the DH Project. The extent to which the Council is involved in the financing and ownership of the DH Project is partly dependent on assessment of financial feasibility under ELENA - as mentioned in section 4.9.3, in the early stages there may be a need for Council investment or capital contribution to make the scheme financially viable, and if this investment is required then the Council should retain an equity interest. More generally, the Council's involvement in the ownership, financing and operation of the DH Project will depend upon its desire for control, its risk appetite, skills and resources. These issues should be explored further in defining the Council's preferred delivery approach for a public-private partnership.

4.10 Public buildings retrofit

The Council has identified approximately £10m public domestic retrofit as a potential ELENA investment strand, this includes approximately 75% Council and 25% other public sector stock.

The main delivery options for public non-domestic retrofit include:

Self–delivery: The Council designs and procures installation works of energy efficiency measures in public buildings from the private sector through a suitable existing framework agreement or new procurement. This does not include an Energy Performance Contract or EPC (where the private sector guarantees a certain level of energy savings). The Council must provide the up-front funding.

Energy Performance Contracting (EPC): The Council procures a private sector partner to design and install energy efficiency measures in its public buildings. In addition, the private sector commits to a certain level of energy savings. This can be done either a shared savings or a guaranteed savings arrangement, as described below.

Under an EPC a contractor commits to make improvements designed to improve the energy efficiency and performance of a building/estate, with the cost of these improvements more than offset by improved energy efficiency. There is a well-established market in EPC with major players including utilities, Honeywell. MITIE, ENER-G, Vital Energi and Dalkia.

There are two types of performance contract- firstly **shared savings** where the financial risk lies with the EPC contractor and the savings are shared between contractor and municipality. The contractor funds the investment and takes on the performance risk of the project; cost savings are divided between the parties at an agreed percentage for an agreed period of time. Shared savings contracts are beneficial when the customer does not wish to borrow.

Under a **Guaranteed savings** arrangement, there is third party funding through bank finance/leasing. There is no contractual relationship between the contractor and the funder, but the contractor assumes project risk and guarantees the energy savings made. If the savings do not reach the agreed minimum level, the contractor covers the difference, if they are exceeded, the customers agrees to share the savings with the contractor. The EPC contractor guarantees loan repayment and a given amount of excess savings but retains the benefit of any further upside.

The advantages and disadvantages of the delivery approaches are summarised in the tables below:

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Advantages/Disadvantages of self-delivery

Advantages	Disadvantages
Council can use in-house expertise of Energy Management Team	Council must fund up-front investment
Relatively short and simple procurement process and documentation	Council responsible for contractor management/interface
Council retains all upside benefit of energy savings	Level of Council resource may slow speed of implementation
Council can control timing	On-going maintenance responsibility
Potentially more opportunities for SMEs as there is no requirement to provide finance	

Advantages/Disadvantages of EPC

Advantages	Disadvantages
Private sector finances upfront investment	Higher cost of private finance and risk premium will reduce level of energy savings
Risk transfer to private sector (turnkey contract/energy costs capped) and scope for sharing in upside	Procurement will be more complex and time-consuming
Could form part of a larger energy efficiency procurement (alongside domestic)	Approach favours larger contractors over SMEs
Implementation timescales could be faster (depending upon procurement timetable)	
There may be potential tax advantages	

Due to its prior experience in undertaking retrofit and renewable energy measures on its own stock, the Council has indicated an initial preference for managing the process through a self-delivery approach as it believes that this delivers better value for money. However, we believe this should be tested through more detailed feasibility work establishing baseline performance and an outline programme of works required, and market testing.

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5 Evaluation of Funding Options

5.1 Introduction

In determining a financing "roadmap" for the ESCO's planned investment programme, we have employed a bottom up approach - considering the characteristics of each of the projects in the investment programme based on our prior analysis to refine the approach to funding and structure. We have used our detailed understanding of the concerns of financiers and the Council to help develop a structure which will be finance 'friendly'. The process we employ is set out in the flow chart below.

Figure 5.1 : funding options process flowchart

Agree Evaluation Criteria → Develop the Options ← Gather project information

Develop the Options → Assess, analyse and short list the funding options → Select preferred option(s) for project

5.2 Evaluation Framework

We have considered a broad range of potential funding sources including European and UK sources. Each funding source has been appraised against an evaluation framework to establish which option offers the most viable and sustainable solution for the Council. The evaluation framework has included the following key considerations/evaluation criteria:

- Cost (transaction costs and interest rates)
- Market maturity
- Deliverability
- Flexibility - minimum drawdown amounts, prepayments, etc.
- Balance sheet implications

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- Security requirements
- Scale
- Credit standing of borrower/default risk
- Ability to leverage in other sources of funding
- Ability to refinance/aggregate/securitise
- Willingness to take project risk
- State aid issues
- Compatibility with ELENA
- VAT and tax issues

5.2.1 Full recourse v limited recourse finance options and risk

In determining the optimal delivery and funding structure for the different strands of the ELENA investment, the Council will need to establish its risk appetite in relation to both finance and operational (business) risks.

Where the Council acts as a direct borrower, whether via PWLB, private lenders, capital markets or European institutions, the cost of borrowing can be considerably less than if finance is raised by the private sector, or raised on a limited recourse basis by a project company. (Limited recourse in this context means that the lender has limited or no claim against the shareholders, as repayment relies upon the performance of the company/project on a stand-alone basis.)

The Council will need to carefully weigh the benefit of lower cost finance associated with direct borrowing against the assumption of risk, balance sheet impact, and scarcity of capital finance. The recommended approach to investment appraisal includes undertaking a cost benefit analysis of options, which includes adjustments for risk and optimism bias (Treasury Green Book).

Stakeholder risk workshops are a useful means of evaluating funding options in the context of anticipated project risks, as the different options will include different allocations of risk and responsibilities. A workshop can be used as a forum for developing a comprehensive risk register and a prioritised set of mitigation strategies, building on the work already completed by the Council.

5.2.2 Refinancing

Under most funding solutions, the Council/ESCO will have the potential to re-finance a debt obligation under different terms at a later stage. Often this is when the development/construction stage of a project is complete and it has some track record of successful operation. Refinancing in relation to the ELENA investment programme is likely to occur under two scenarios.

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Where the Council/ESCO has acted as a direct lender and/or investor during the initial period of a project and wishes to re-finance to reduce its risk exposure and free up funds, potentially for further investment in new ESCO activities. (An example would be if the Council provided early Green Deal finance and this was subsequently refinanced by the Green Deal Finance Company.)

Where finance has been raised on a limited recourse basis by a project SPV, and there is an opportunity to re-finance at a lower rate of interest, and/or higher level of gearing (ratio of debt to equity). If the Council is a shareholder in the SPV it will enjoy a proportional benefit from improved financing efficiency. Even where it is not a shareholder, the Council is entitled to a share in re-financing gains if the relevant SOPC4 provisions applicable to PFI contracts are incorporated.

Despite the benefits of re-financing described above, some debt instruments will have a penalty clause that is triggered by early repayment of the loan. There may also be transaction fees involved with the re-financing, and costs associated with unwinding any interest rate hedging arrangements. Where refinancing is being considered, a detailed analysis is required to compare the potential savings from re-financing to the all-in cost of the re-financing in order to determine if the re-financing generates net savings.

5.3 Long list of funding options

We have assessed a long list of funding options and assessed their applicability to the Project. A description and assessment of the long list funding options is provided at Appendix I.

5.4 Shortlist of funding options

In deriving a Shortlist of funding options we have mapped the above assessment of European and UK funding options against the different elements of the ELENA investment programme, focusing on those Funding streams which have an Applicability Rating of 3 or greater. This analysis also informs our approach to Delivery models set out in Section 4.

Funding source	ESCO level	Private sector domestic retrofit	Public sector domestic retrofit	Public solar PV	Public buildings retrofit	District Heating
EEE-F	X					X
Elena/KfW	X					X
PWLB	X	X	X	X	X	X
HRA			X			
UKGI Non-domestic EE fund			X		X	X
Corporate/utility debt	X	X	X	X	X	X
Bank debt	X	X	X	X	X	X
Wessex Home Loans		X				
GDFC		X	X			

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Funding source	ESCO level	Private sector domestic retrofit	Public sector domestic retrofit	Public solar PV	Public buildings retrofit	District Heating
Leasing		X (PV)	X (PV)	X		X
UKGI non-domestic EE fund					X	X
DECC Early Adopters (may be available to householders only)		X	X			
Community funding		X?				X?
Big Society Bank		X	X			
CERT, CESP, ECO		X	X			
Salix			X		X	
CiL/Allowable solutions						X

In sections 5.5 and 5.6 we provide more specific comment on the GDFC and Community Funding. Appendix E provides further information on a number of the other funding sources, which are included in the shortlist above.

5.4.1 Short list of Green Deal/domestic retrofit funding sources

Of the funding sources reviewed above, the following were seen as having either Medium or Good applicability to Green Deal/domestic retrofit.

PWLB/Own cash reserves

The Council or other public sector participants could either use existing funds or their ability to borrow under Public Works Loan Board to fund selectively, leveraging in other sources of funding. This could include, for example, an initial debt or equity tranche where required for a scheme to be viable, gap funding investment in social housing not covered by HRA and ECO, or used to expand the Wessex Home Loans scheme for private householders. Discussions with the Council are required to determine whether this is a feasible option and the quantum of investment would need to be considered against other competing investment priorities.

HRA Capital Budget (Council housing stock only)

The Council's draft HRA capital budget for 2012-13 includes a number of planned investments, elements of which could count as Eligible Investment (see last para section 4.2). These include £5.7m for Heating installations, including air source heat systems, £1.5m for roofs and windows, and £8.2m for overcladding works in apartment blocks. These form part of the overall £42m capital budget for 2012-13.

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We are advised that the Council has agreed a £52m overcladding programme over 9 years and a £10m boiler replacement programme; provided Eligibility requirements are met, this would count towards ELENA Eligible investment and can also attract ECO funding.

Corporate/utility debt

There are a number of large corporate companies/utilities amongst the initial 22 organisations, which have signed up to become Green Deal providers - including: British Gas, E.ON, SSE, Kingfisher, Mark Group and Carillion. For early schemes they may need to provide an element of finance (eg Birmingham Energy Savers). However, this will be done very selectively, and they will wish to limit the amount of debt on their balance sheets. The expectation is that the GDFC will be available as a universal source of finance by 2013.

Bank debt/leasing

Banks will be happy to lend on the basis of Council credit risk although this will be at rates higher than PWLB, and debt terms have shortened considerably.

If the establishment of the GDFC is delayed, there may be a need to determine the basis on which banks would be prepared to finance a local/regional scheme, and the credit enhancement which would be required to deliver a competitively priced structure. In addition, bank/lease finance may be required to provide funding for domestic retrofit measures not covered by the GDFC: Feed in Tariffs, Renewable Heat Incentive, and other measures that are not Green Deal measures. Again, debt term will be an issue, with many funders not prepared to lend more than 10 years.

Wessex Home Loans

There would be benefit in investigating the scope for expanding this successful though relatively small scheme, which is aimed at home improvements and energy efficiency for private householders and is secured on the property, particularly if there are issues around the GDFC. The scheme is currently reliant on funding from the Council although there could be scope for leveraging in other finance sources such as Big Society Capital through a Social Investment Finance Intermediary (SIFI) such as Triodos Bank, which is based in Bristol.

Green Deal Finance Company (see also section 5.5)

When it is established, the GDFC is designed to be a universal source of low-cost finance (circa 6%) for eligible Green Deal plans. Any finance structures for private sector retrofit developed in advance of the GDFC being available must be designed to avoid the risk of "stranded" assets.

DECC Early Adopters Incentive

No details have been provided on the form that this £200m grant will take (may be in the form of vouchers), but DECC are keen to discuss community pilot schemes and the Council should engage at a senior level. As more detail becomes known, the Council needs to establish what it can do to maximise the benefit of this early funding for Bristol residents. [We are informed that the Council has now been approved for a £2m pilot scheme.]

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Big Society Capital

Big Society Capital is a recently created social investment bank with a goal to create a market in social finance. It has up to £400m to invest, and requires all funding to be made via a Social investment finance intermediary (SIFI), which includes social banks (including Triodos), non-bank social investors and social finance support providers. It would be worth exploring whether this low cost (4.5 -5%) source of funding could be used to expand the Wessex Homes Loans scheme or domestic retrofit more generally.

CERT, CESP and ECO

The use of these energy company obligations which effectively provide grant funding for eligible energy efficiency measures should be maximised. Although the CERT and CESP schemes expire at the end of 2012, the government has clarified that if energy companies over commit, this will count in reducing their future ECO obligation. This may be attractive to energy companies and highlights the importance of early engagement with energy companies and a clear strategy for maximising access to ECO, which includes the choice of delivery model.

Community Infrastructure Levy (CiL)

The Community Infrastructure Levy (CIL) is a new charge which local authorities in England and Wales will be empowered, but not required, to charge on most types of new development in their area, largely replacing section 106. CIL charges will be based on simple formulae which relate the size of the charge to the size and character of the development paying it. The proceeds of the levy will be spent on local and sub-regional infrastructure to support the development of the area.

The CIL projections made by BCC show that there is expected to be £13.5m in receipts over the first 5 years. £5m of these receipts have been put toward transport funding leaving £8.5m of CIL receipts for which a use has not yet been identified.

5.4.2 Short list of district heating funding sources

Of the funding sources reviewed above, the following were seen as having either Medium or Good applicability to the DH/CHP Scheme

Project/Lease Finance

Under an ESCO delivery structure mainstream project or lease finance lenders could provide finance into the project. This is a tried and tested approach to funding DH/CHP projects, however based on recent soft market testing carried out by Grant Thornton - Barclays, Co-op, Lloyds, Lombard, RBS, Triodos were all approached for feedback - there is not a great appetite amongst funders to invest in DH projects at this time. Reasons given being (i) general economic pressures (ii) not investing in District Heating (iii) size of scheme. The lack of significant funder interest reinforces the importance of fully appraising other funding sources to use instead of / alongside project/lease finance. The leasing market should be revisited as part of the more detailed ELENA technical feasibility work.

PWLB/Own Cash Reserves

The Council or other public sector participants could either use existing funds or their ability to borrow under Public Works Loan Board to fund a proportion/all of the scheme (for

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example the network).   PWLB currently offers significantly better lending rates than Project/Lease Finance. Discussions with the Council are required to determine whether this is a feasible option. A case would need to be made that Council investment was benefiting the community, and the investment would need to be considered against other competing investment priorities. As noted, it may be necessary for the Council to provide some up-front capital in order for the project to be financially viable even under a PPP arrangement.

Utilities/Corporates

There are a number of Utilities /Corporates familiar with large heat networks include Dong Energy, Vattenfall, E.ON, Suez, Veolia and Cofely. If the decision is made to proceed with a 'Developer/Utility-led' solution similar to that rolled out in Southampton, then in principle all of the upfront funding could be supplied by the developer/utility. However, the implied cost of such funding will be significantly greater than PWLB rates.

UK Green Investment (UKGI)

UKGI, the precursor to the Green Investment Bank, has recently tendered for fund manager(s) for two £50m investment funds for Non-domestic energy efficiency (NDEE) projects and Equitix and SDCL have been appointed as fund managers. District heating and building retrofit are two of the major areas of focus. Funds will be provided at market rates. The fund is intended to be in place by 3Q 2012 to support "shovel ready" investment opportunities covering the period from Summer 2012 to Q1 2015, with a maximum project size of £30m.

European Energy Efficiency Fund (EEE-F)

Of the European funding sources reviewed, EEE-F was felt most appropriate to the Council's DH/CHP scheme. EEE-F provides debt or equity funding for projects valued between €5 and €25m, which will mitigate climate change through energy efficiency measures. The DH/CHP scheme is likely to fall within this value range and satisfies qualifying criteria. EEE-F can also be applied for by the Council directly or an ESCO working on its behalf which gives it flexibility around delivery options. The Council should complete an online 'Eligibility Check' at the appropriate time (following further feasibility work) and explore the feasibility of this funding stream further.

City based funding mechanism (revolving infrastructure fund)

On other projects (both environmental and other infrastructure) we are seeing an increased focus on potential revolving funding mechanisms to help deliver city-based projects using Regional Growth Fund and Growing Places Funds as well as other funding streams. Causal effects can be found in both the increasingly risk-averse position of private sector funders and the coalition government's localism agenda. A city or West of England Local Enterprise Partnership based fund could feasibly be used to allocate central government and local funding streams to local initiatives and thus devolve responsibility.

Such an undertaking would involve cost and resource upfront to set up the vehicle and linked governance arrangements. If there were a sufficient throughput of local schemes - including but not limited to low carbon projects - a city based fund could offer a viable funding source for the DH/CHP undertaking without excessive overheads. There is also potential for Allowable Solutions (see also Appendix E to be incorporated when this developer requirement comes into effect in 2016.

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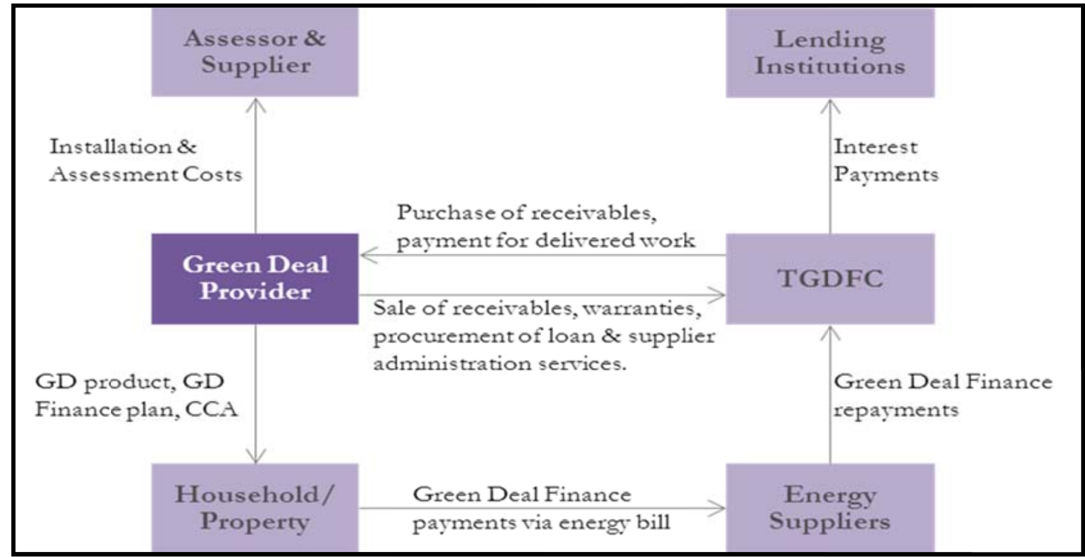
5.5 The Green Deal Finance Company (GDFC)

The GDFC was formed in response to the need for low-cost finance to support the successful roll-out of the Green Deal across the UK. Current membership includes a number of major energy companies, retailers, construction companies, housing associations and local authorities.

The purpose of the GDFC is to act as an aggregator, providing a universal source of Green Deal funding for the entire UK Green Deal market. It is recognised that the one of the biggest barriers to successful take up of the Green Deal is access to low cost finance by Green Deal providers. The aim of the GDFC is to create a finance structure, which delivers an all-in finance cost of approximately 6% and is available to all Green Deal providers with eligible Green Deal plans. However the GDFC will fund only the Green Deal element of a whole house retrofit (meaning that FITs and RHI related investment would need to be funded separately if these tariffs were sought).Further detail on membership, proposed funding and structure of the GDFC is provided in Appendix E.

Figure 5.5: Proposed GDFC Model (source GDFC)



The relevance of the GDFC to the Council is four-fold:

i The widely held view industry view is that the success of the Green Deal is dependent upon the successful implementation and roll-out of the GDFC, as low cost finance is essential to consumer take up. Whatever role the Council chooses to play in relation to Green Deal, given the importance of domestic energy efficiency in the ELENA investment programme, the Council needs to remain very close to this agenda. Should the Council act as a Green Deal Provider it will be looking to the GDFC to provide finance; if it acts as a Green Deal Partner it will have a similar interest in the establishment and performance of the GDFC.

ii Membership of the GDFC is a clear means for the Council to make its voice heard (through participation in the Local Authority subgroup of the GDFC) and stay abreast of developments (DECC is also actively promoting GDFC and sitting on steering group meetings.) There is no financial consequence as the company is limited by guarantee (£1) however resource would be required to attend meetings.

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iii The GDFC is unlikely to be open for business by December 2012 (and indeed there are suggestions that the autumn 2012 Green Deal launch itself could be subject to delay). Delays to the implementation of the GDFC will have a knock-on impact on the early roll-out of the Green Deal across the UK due to the lack of readily available low cost finance from other sources.

iv It has been proposed by PWC (who are leading GDFC development) that local authorities could aid with the early development of the Green Deal by providing subordinated debt (alongside UKGI/GIB) to provide a first-loss guarantee, or even to provide PWLB for senior debt funding for a period of 3-5 years (until refinanced by the capital markets). PWC has indicated that such finance could be ring fenced such that it was only used for Bristol-based Green Deals. The Council must be very clear about the role it wishes to play and financial resources it is prepared to commit in relation to the ELENA programme (and wider domestic retrofit market) before even considering such a possibility.

5.6 Community funding models

5.6.1 Introduction

This section considers in more detail the concept of community funding models and how they might apply to the ELENA programme.

The funding and delivery of community-scale projects is a complex challenge. To do it successfully a model is needed that works at a number of levels to address the needs of participating communities and funding providers, and to support investment in the supply chain.

One form of possible finance for community scale programmes, community finance is explored here. Community finance could take the form of community share or local bond issues as explained below.

5.6.2 Community investment: raising debt and equity from the Community

Experience in recent years has demonstrated that renewable energy asset based projects with financially viable business models developed by and/or for the benefit of a local community are capable of successfully raising finance from local communities.

These projects have also demonstrated how engaging with the communities can not only generate much needed funding for projects but also deliver a number of additional benefits which strengthen a project's overall business case, with shareholders becoming:

- suppliers, sometimes with a lower input price
- customers, who sometimes accept higher prices
- volunteers, providing lower labour costs and valuable free sources of expert advice for the project

These benefits are the product of working with people with shared values, needs and ambitions and are unpinned by legal and governance structures focused on supporting community benefits.

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The needs and objectives of the project will shape the nature of the funding offer that is sought. The key questions that should be considered prior to engaging with a community about raising funding for a project are:

- Does the project have a strong Business Case?
- Is the project financially viable?
- Is the project deliverable?
- Is the project too risky?
- Does the Council want to retain control of the project?
- Can a robust community engagement strategy be developed?
- Can the funding be raised from the community?

The stage at which a Project finds itself will also have a significant impact on the type and amount of funding it seeks and who it targets in the community:

Feasibility stage – there is a requirement for resources and support to develop the project into an investment ready proposition. Funding this phase of a project's life requires higher risk capital i.e. equity

Delivery stage – the project is ready for investment. The project assets have not yet been commissioned and proven to be fit for purpose

Acquisition stage – the project has already funded and delivered renewable energy assets and these are now ready to be acquired

The two types of finance considered here are the raising of equity and debt funding from communities. The raising of **equity** is done via a share issue. A share issue is an offer for shares by a company or another legal form called an Industrial and Provident Society (IPS). Only certain legal forms can issue shares (companies limited by shares including a Community Interest Company limited by shares and an Industrial Provident Society). A key feature of some legal forms such as IPS is that each investor becomes a member with equal vote with every other member regardless of the sum invested. It should be noted that there are important legal and regulatory issues to consider when seeking to raise finance from the public and these are not explored in any detail in this report.

Equity or risk capital is typically viewed as more advantageous to a project as it offers more flexibility and does not have to be repaid if the project does not generate profits, but issuing debt such as a bond might improve a project's ability to raise finance as it offers payment of interest and debt on fixed dates.

The diagram below shows an example of a community **debt** instrument structure where members of the community lend via a Debenture or Royalty debt instrument to a special purpose company set up by the project sponsor to deliver the project ('SPV'). This community debt then helps raise additional debt funding from a commercial debt Lender.

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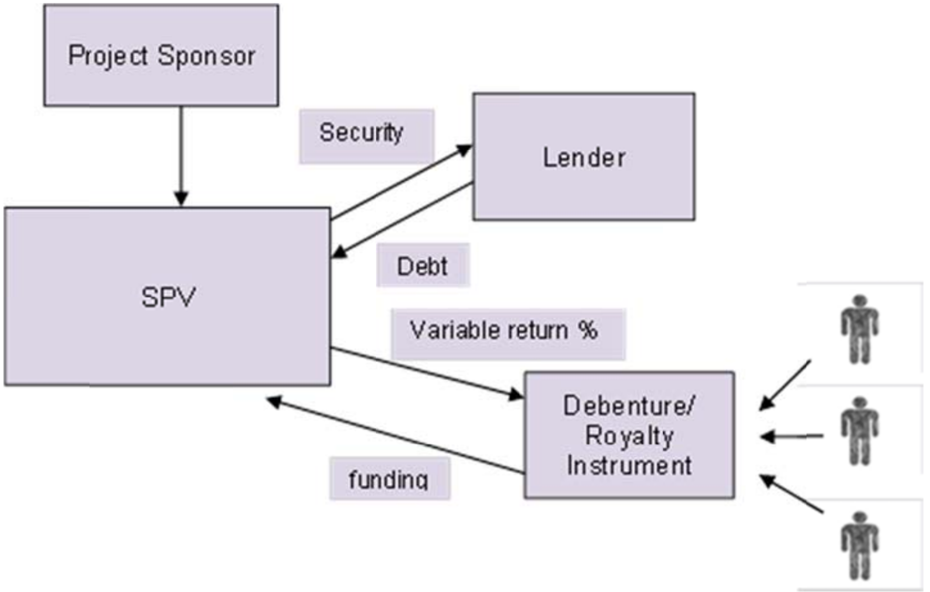

Examples of recent local community funding initiatives are set out below

Case study 1: Bath & West Community Energy Limited

Bath & West Community Energy Limited is a Community Benefit Society incorporated under the Industrial and Provident Societies Act 1965.

In October 2011 the organisation sought to raise £400,000 via a share issue offering to finance a portfolio of solar pv projects (of which many already had planning permission). It had also already secured a loan to pay for part of the project costs. It managed to raise over £700,000 thanks to its strong management team putting forward a well-advertised investment proposal with an attractive projected rate of return of 7% per annum.

Case study 2: Bristol Community Energy Limited

The Bristol Energy Cooperative is the trading name of Bristol Community Energy Limited, a Community Benefit Society incorporated under the Industrial and Provident Societies Act 1965.

In April 2012 it launched an initial share offer to raise £87,800 from members across Bristol to fund two solar pv installations on two community buildings in Bristol. It is offering returns of up to 4% per annum. One of the solar pv systems has already been installed thanks to the financial support of the landlord on whose roof the system is installed and also the solar pv installer accepting delayed payment at risk. This "Delivery stage" funding demonstrates the importance for community projects of working with members and partners who share the same values and of the role the local business community can play in these projects.

Both examples demonstrate the importance of offering "de-risked" projects as an investment proposition which also has the double benefit of demonstrating that the organisation is capable of delivering projects of this nature.

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5.6.3 Role of community funding in ELENA programme

There are clear advantages to working with communities to fund and deliver projects with community benefits. The legal structures typically adopted however do not give the main investor control over the organisation, which means that community funding and their associated legal forms will not be appropriate for projects over which the Council wants to retain control.

Experience in recent years has demonstrated that renewable energy asset based projects with financially viable business models developed by and/or for the benefit of a local community are capable of successfully raising finance from local communities. Based on the current ELENA investment programme, this would suggest that it is the District Heating projects with strong community benefits that are best suited to this form of funding.

There are also emerging community funding models with wider funding aspirations such as the Council-led Building a Better Bristol (BBB) initiative. BBB could offer greater reach and the potential to draw down match funding, and act as an intermediary for other sources such as Big Society Capital. The ESCO team should continue to explore how such an initiative might complement its programme.

5.7 Summary conclusions from assessment of funding sources

1. The ELENA investment programme will require multiple debt and equity funding sources. Some of the newer/more innovative funding sources require further exploration to determine whether they are available and appropriate (e.g. EEE-F for subordinated debt which could take project risk, thereby reducing direct Council risk). The potential benefit of accessing European finance must be weighed against the resource required, timescales, and likelihood of success – particularly given the tight timescale for delivery of the ELENA programme.

2. The Council has limited appetite to take project risk on the "non-Council" strands of the investment programme, for example by borrowing at ESCO/Council level and then down-streaming funds to SPVs/project companies. This stance, as well as the minimum borrowing requirement, effectively rules out a number of funding options including EIB direct funding and municipal bonds. In both cases, the debt instruments require full recourse to the Council, rather than relying on the performance of underlying projects (non-recourse). . Should the Council's stance change, then these funding sources should be revisited.

3. PWLB is the most accessible low cost debt available but because it is direct Council borrowing and is therefore a scarce resource, will need to be used prudently, as a means for leveraging in European funding, grant funding, and private finance.

4. Access to Energy Company Obligation (ECO) is vital to the success of domestic retrofit investment (for both social and private housing) and urgently requires a Council strategy (see also Sustain report).

5. The start-up of the GDFC is vital to the wider Green Deal market as there is no other sustainable, large-scale source of low cost finance for the Green Deal market likely to be available and it is important for Council to stay close to developments, potentially through membership. However, the Council is not reliant on the GDFC for its own housing stock, as this retrofit is likely to be financed largely through a combination of ECO and HRA.

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6 Community funding models should be explored further especially where there are successful precedents, as they can help provide diversity in the funding mix and create a strong local ethos. However the initial amounts raised are likely to be modest and will provide a relatively small element of the overall funding requirement.

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6 Commercial Model

6.1 Introduction

Previous sections on this report have considered potential delivery and funding options for the ESCO and elements of the investment programme. This section seeks to bring this analysis together and present a conceptual commercial model for the ESCO for consideration by the Council. However, the final composition of the investment programme is still uncertain. In addition, as there has been limited opportunity to engage with Council stakeholders to date, this is presented as an initial basis for discussion and debate and will undoubtedly be subject to refinement.

In summary, the ESCO commercial model has been prepared under the following parameters:

- A Council preference for 100% ownership and control of the ESCO to fulfil its public interest remit, but flexibility on ownership structures below ESCO level

- A structure with the ambition to capture economic benefit for Bristol businesses and the local economy, recycling profits/returns into further investment

- Flexibility to adapt to changing circumstances and to facilitate new investment, refinancing and exit at project company/SPV level

- A desire for the ESCO to be financially sustainable beyond the 3 year ELENA time horizon

- A high degree of investibility - an ability to attract low cost debt funding, private investment, and also incorporate innovative funding including community investment

- Limited appetite for the Council to provide significant debt or equity funding to the programme

- Appetite for taking on commercial risk is limited to those areas where it has a strong track record (e.g. public non-domestic)

- Recognition that (subject to value for money) it may be necessary to incorporate retrofit of public sector assets (domestic and/or non-domestic) to devise a Green Deal procurement package which is attractive to the private sector - even if the Council's initial preference may be to contract for these separately. This is due to market nervousness about take up especially in the start- up period.

- As a start-up, the ESCO will be reliant on the Council for any working capital and finance (outside that provided by ELENA)

- Preference for off balance sheet treatment of any project SPVs

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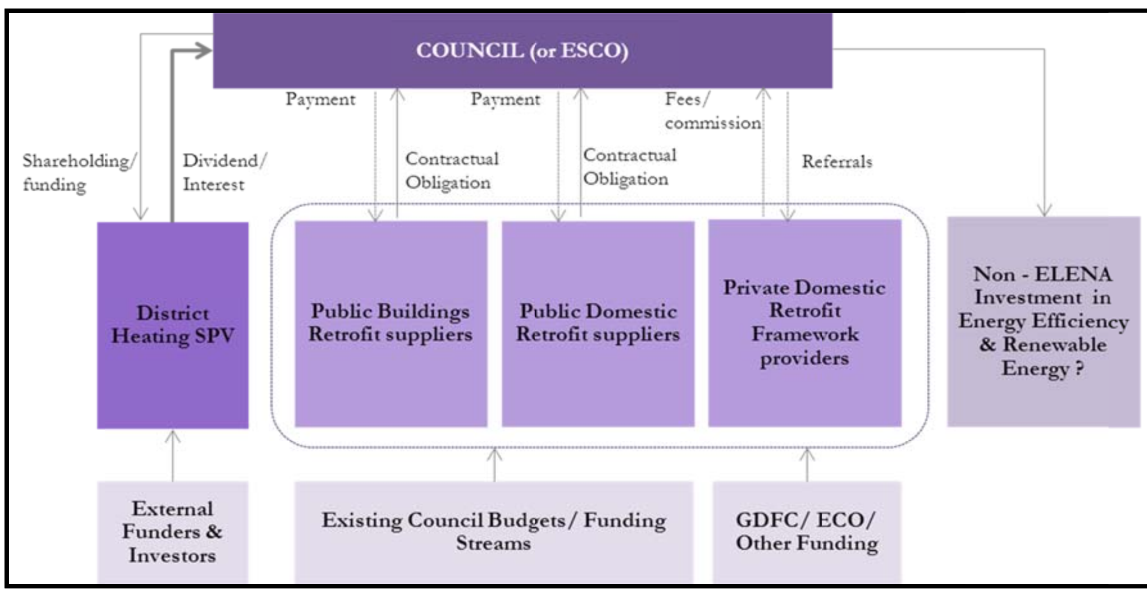
- Compliance with ELENA requirements
- A commercial approach which involves innovating to drive down costs, successful marketing and taking justified risks
- Transparent governance structures and tax efficiency

The diagram below provides a high level view of how this commercial model might work:

This potential commercial model reflects that the ESCO may initially operate in "shadow" form within the Council. In addition, the commercial model anticipates the creation of a single SPV for District Heating investment. The remaining investment strands are assumed to be undertaken through contractual arrangements rather through the creation of project companies, with private domestic retrofit being delivered through Option 4 Framework Partnership. The dotted line grouping public and private retrofit highlights the potential requirement (subject to demonstrating vfm) to combine public domestic retrofit and/or public buildings retrofit with private domestic retrofit in order to attract market interest and achieve economies of scale.

Figure 6.1: Potential ESCO Commercial Model



6.2 ESCO sources of income/financial benefits

The ESCO's actual revenue sources will depend upon a number of factors including its scope and the corporate structure. However, in general it will receive its revenues/income from the following sources:

- Interest and dividend streams where it is a lender or shareholder to project companies
- Energy cost savings and electricity and heat generation revenues where there is direct investment

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- Commissions, fees and other income depending upon the role taken in relation to the Green Deal

- Project management and other fees paid by the Council or SPVs for providing specified activities(under appropriate Service Level Agreements)

- Revenues from the Council's non-ELENA low carbon investments to the extent these are brought into the ESCO

A portfolio of activities has the benefit of diversifying income and therefore reducing risk to the ESCO. Surpluses generated from initial projects can be used to recycle into later ESCO projects.

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7 Next steps

7.1 Recommendations on next steps

Grant Thornton has been asked to make recommendations on next steps (over the coming 3-6 months) which the Council should take in relation to the funding and delivery aspects of the ELENA investment programme. Our principal recommendations are as follows:

1 **Resourcing:** Create an interim Project Team from internal resources; identify and secure short and medium term resources required for a full Project team, using specialist external consultancy support as required. This should be based on the technical, commercial and financial skill sets that are needed to further test feasibility, shape, manage and deliver the investment programme and activities below.

2 **Programme Management**: Prepare a comprehensive Project Plan including budget. risk register and governance arrangements, against which progress will be monitored.

3 **Finance and Delivery Strategy**: Agree preferred delivery models for further investigation and market testing. Develop a strategy for the overall finance and delivery of the investment programme based on the Council's preferred delivery models, willingness to provide finance, and risk appetite. This includes a strategy for accessing ECO, and further investigation of some of the innovative, lower cost sources of finance identified including inter alia European finance, community finance, Big Society Capital, expansion of Wessex Home Improvement scheme, and LEP Revolving Infrastructure Fund. Prepare an ESCO business plan with supporting business cases for each of the investment strands.

4 **Retrofit:** Maximise use of available grant funding (CESP, CERT, DECC) to initiate one or more pilot retrofit projects on Council stock to create exemplars and kick start early investment activity. Share experience of other pilot projects to learn relevant lessons and build on early experience of SDEEMs project.

5 **Stakeholder Communication and Engagement Plan:** Develop a comprehensive stakeholder and communication engagement plan for the ESCO and individual strands of the investment programme to include: potential public sector partners, social landlords, community organisations; householders; SMEs, major private sector players in Green Deal and District Energy and funders including GDFC. This should incorporate soft market testing when the Council's ideas are sufficiently well-developed.

A more detailed list of recommendations is provided in the Appendix.

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Appendix A - Potential Corporate Vehicle Structures

A number of options for the structure of corporate vehicles are outlined below together with a discussion of advantages and disadvantages and a high level assessment against the Council's objectives. The suitability of structures will need to be revisited as the preferred delivery models for different investment strands develop.

Limited Liability partnership

This structure has reduced personal responsibility of members. Partners can run the business without the requirement for a Board of Directors. Likely to be accounted for under IAS 27.

Advantages: "See through" for tax purposes, so non-taxpaying shareholders do not have to pay tax on their share of the profits of the LLP (could also be a disadvantage for tax-paying shareholders as allowances may be lost). Essentially the same limitation of liability as a company limited by shares.

Disadvantages: Less familiar structure to investors than company limited by shares. Potential issue with banking security and liquidity of members' interests. Cannot be used for not-for-profit ventures; need at least two partners (individuals or firms); governance is less transparent; and varying legal views on vires position for local authorities.

High level assessment: Additional layer of complexity. Expectations of profit to public sector not high but may be preferred by certain private sector investors.

Private Company Limited by Shares

The liability of each member is limited to the amount unpaid on their shares. A private company cannot offers it shares for sale to the general public. Likely to be accounted for under IAS 27. Can be used for a CIC.

Advantages: Shares cannot be traded so more control on ownership; liability is limited and risk exposure is known; ability to offer share options; voting rights and control; transparent governance; very familiar, relatively inexpensive to run.

Disadvantages: Shares cannot be freely traded which can be limiting and potentially deter other investors. Tax impact needs to be considered.

High level assessment: Often a preferred approach for project companies

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Private Company Limited by Guarantee

There is no share capital – members are guarantors. Often used for not-for-profit organisations. Likely to be accounted for under IAS 27. Can be used for a CIC.

Advantages: Members' liabilities is limited to the amount guaranteed; liability is limited and risk exposure is known; transparent governance', fairly common, particularly for organisations not established for commercial profit. Achieves limited liability.

Disadvantages: Less appealing to investors as liquidity of interests an issue, more difficult to increase capital of the company. Seen as a less commercial vehicle.

High level assessment: Not suitable for a vehicle that requires commercial flexibility.

Contractual Joint Venture

A joint venture can be formed between two or more organisations and allows for the sharing of risk and reward. Likely to be accounted for under IAS 31 Investment in Joint Ventures.

Advantages: No need to incorporate a vehicle - costs absorbed by contractual counterparties. Flexible, can share risk, can set up individual JVs for individual projects. Tax transparent, like LLP.

Disadvantages: Interest in project illiquid and not a well-defined entity. cannot make independent commitments and decisions. Fully bespoke governance arrangements required. No limitation of liability.

High level assessment: Not enough separation from other Council activities

"Non- or Semi-Corporate" Structures (such as Community interest Company (CIC), Trust, Non Profit Distributing Organisation (NPDO) and other not for profit organisations)

Advantages: Ability to structure in public policy objectives, such as charitable distributions, community objectives, cap on profits, etc.

Disadvantages: Additional complexity, level of distrust amongst private sector investors. Structures often used to meet specific community objectives.

High level assessment: Key features of this structure do not appear to be required for this project unless a strong community element is incorporated.

"In-house" Public Sector Option

Advantages: Simple to set-up

Disadvantages: Lack of distinct identity for project vehicle(s), risk that will be inadequately or intermittently resourced or project will be thrown off-track by changing policy commitments, potentially more difficult to lever in private sector expertise (although public body could still sign up arms-length consultancy agreements). External funding

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(whether public or private sector) will probably require some specifically created entity in any case. Difficult to create value in project. No limitation of liability.

High level assessment: As noted the requirement for a separate vehicle means this approach is not considered a practical long term solution.

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Appendix B: Detailed consideration of Company limited by shares (proposed SPV)

This appendix provides a detailed discussion in relation to adopting this corporate structure and considers inter alia:

- Control & Accounting Issues;
- Ability to Access Finance;
- State Aid;
- Taxation; and
- Implementation.

Control & Accounting Issues

The Council require to confirm whether balance sheet treatment is a key driver in progressing the project. Accounting conventions essentially dictate that balance sheet treatment is a function of control over the entity in question; therefore it is important for the Council to clearly understand their requirements in terms of control and governance over an entity in which they have an interest, versus any need to obtain a particular balance sheet treatment for the SPV.

Whilst detailed accounting advice would be required to determine precisely the accounting treatment for any entity which is established, the following paragraphs set out the broad parameters for accounting treatment of SPVs within the balance sheet of an organisation with a financial interest.

>50% Interest: Under International Accounting Standards (IAS 27), an organisation is required to present financial statements which consolidate investments in subsidiaries which it controls. Control is presumed to exist when a parent owns, directly or indirectly, more than half of the voting power of an entity unless it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there are exceptional circumstances including the power to appoint or remove the majority of the members of the board of directors or the power to cast the majority of votes at meetings of the board of directors.

20%-50% Interest: International Accounting Standards (IAS 28) require organisations which exert "significant influence" over an entity to account for the entity using the equity method (whereby the investment is initially recognised at cost and adjusted thereafter for future changes in the investor's share of net assets). Significant influence is considered to exist when an investor holds, directly or indirectly, 20 per cent or more of the voting power

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of an entity. The existence of significant influence by an investor is usually evidenced by representation on the board of directors, participation in policy-making processes, including participation in decisions about dividends or other distributions; and participation in the interchange of managerial personnel.

<20% Interest: Where an organisation has a holding of less than 20% of the voting rights within an entity, it is generally considered not to have significant influence, unless such influence can be clearly demonstrated (for example through disproportionate board representation or voting rights). In this circumstance, an investment in such an entity is commonly accounted for using the cost method, whereby the investment is recorded at cost at the time of the transaction.

As can be seen from the paragraphs above, the treatment of an interest in an entity is primarily established by the level of shareholding or financial interest held in an entity, but importantly also the degree of control or influence which an organisation can exert over that entity. This control or influence may take the form of a controlling share of the Board of Directors, or for example, ownership of veto rights on all major strategic issues. The Council will therefore be required to establish a balance between the two issues of:

- A requirement (statutory or otherwise) to have a controlling interest in the SPV / appetite for risk; and

- A requirement to achieve particular balance sheet treatment for a transaction.

From a control perspective, it is also important to note that shares in a private company cannot be publicly traded. This provides existing shareholders and owners (and indeed funders) with greater control and certainty over ownership. Conversely, some investors may see this as a limiting factor although given the potential size of the business held by the SPV a public option is not considered attractive.

State Aid

The objective of State Aid control is to ensure that government interventions do not distort competition and trade inside the EU. In this respect, State Aid is defined as an advantage conferred on a selective basis to undertakings by public authorities. However in some circumstances, government interventions are considered necessary for a well-functioning and equitable economy. Examples of State Aid which may potentially impact this project include:

- Public funding of privately owned infrastructure;

- Cash injections to and writing off losses of public enterprises; or

- Loans and guarantees below market rates

In structuring and financing the SPV, it would be necessary to explore in detail the State Aid provisions around environmental investment, regional aid and aid for SMEs, the rules governing investment in energy efficiency schemes and the scope and implications for private companies co-investing in the chosen corporate vehicle.

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Taxation

The potential to minimise the exposure of the vehicle to corporation and income taxes needs to be carefully considered at the outset and as set out previously, also when considering the potential future involvement of third party investors. Indeed, structure such as Limited Liability Partnerships and Joint Ventures may be more attractive to some investors as they are 'tax transparent' in nature. Careful tax planning would be required for the delivery through a company limited by shares to ensure inter alia, capital allowances are used efficiently, tax losses are claimed in a timely manner, lease versus buy decisions are considered, and VAT is appropriately managed. Whilst LLP and JV structures may offer greater potential tax benefits, if there are relatively low expectation of profits, their relative tax advantages may be outweighed by the commercial flexibility, track record and transparent governance of a company limited by shares. Detailed tax structuring advice would be required prior to the finalisation of an agreed corporate structure.

Implementation

The process through which the legal entity of a company limited by shares is established is in reality fairly straightforward. Indeed, off the shelf companies of this nature can be bought and established in a matter of hours, in contrast to other structures with more onerous levels of reporting, regulation or complexity. Most time would instead be required to be invested upfront, in agreeing the detailed terms of the initial memorandum and articles of association, covering areas such as voting rights, control, dispute, deadlock and nominated directors. These operational aspects of a new company would in turn be guided by the vision established for the project and through a clear set of operational objectives.

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Appendix C: UK ESCO/Green Deal Case Studies

Case study: Birmingham City Council (Birmingham Energy Savers)

Birmingham City Council is the local authority leading the implementation of the Green Deal in the UK.

They are currently at the ISDS stage of a competitive dialogue process to procure a Delivery Partner to manage the delivery of the Green Deal, including marketing the programme, engaging customers and selling measures, surveying, assessing, refurbishing and maintaining properties, and managing supply chain growth and innovation. The Council will support the Green Deal partner with finance (an initial trance of £75m), branding and referrals.

Birmingham's 'contract notice' names 22 local authorities, 9 registered social landlords and 3 other public authorities who have expressed an interest in using the services of the Delivery Partner once appointed. Together this has a potential contract value of £1.5bn.

As a result of the Green Deal, Birmingham will combine environmental with social and economic benefits thanks to emission reductions, declining fuel poverty, job creation, strengthened skills and qualifications of the local work force.

The key targets for the first phase (three years) of the implementation of the 'Birmingham Green Deal' are in Figure 1.

Figure 1 - Key targets for the Birmingham Green Deal – First phase

Funding (£m)	100
Council's prudential borrowing	75
ECO	25
Properties	
Number of households	15,000
Number of public buildings	40
Environmental benefit (CO_2 tonnes/year savings)	
Households	25,000
Public buildings	6,000
Economic benefit (direct and indirect jobs)	**4,500**

Source: Birmingham Energy Savers

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Case Study: Torfaen County Borough Council

Torfaen is a small Welsh council with a population of approximately 91,000.

The Council's vision is to create an ESCO for Torfaen working with two local RSLs Bron Afon and Melin. The aims are to address the Council's own building stock but also to catalyse community actions to reduce fuel poverty and address associated carbon reduction goals.

The structure of the ESCO has two separate but related entities, an overarching company, limited by guarantee which effectively plans at strategic level. It will receive a £500k loan from the Council. The charity will then use this funding to purchase shares in a separate Community Interest Company (CIC) with which it would share some common directors. This wholly owned trading subsidiary will be a CIC limited by shares with articles that direct it to support the aims of the parent charity, being to

- reduce fuel poverty
- reduce fuel use
- increase local training and local jobs

by maximising the SAP ratings of all buildings in Torfaen and maximising the amount of energy generated by renewable means in the borough through empowering local residents and the business community. The CIC will support these aims by gifting any surpluses generated by its trading activities to the parent charity so that the charity's trustees may reinvest these funds in furthering its aims.

Their initial focus was on installing £550k solar PV on council buildings including schools and leisure centres funded by prudential borrowing before the recent reduction in the FITs.

In relation to the Green Deal, the Council's current intention is to act as a local GD provider with a supply chain of local businesses. It has identified a local company to undertake assessments, and intends to use the RSLs for installation. In order to reduce its reliance on the GDFC as a source of finance, it is in discussions with a local credit union to provide low cost finance to householders. The Council has estimated that it can create up to 200 jobs.

Case Study: Greater Manchester

Greater Manchester (GM) ESCO

As part of their recently announced City deal, Manchester City Council is to create a pioneering £1.2bn ESCO which includes the creation of a low carbon hub.

With financial support from the precursor to the Green Investment Bank, UK Green Investments and Greater Manchester, it will establish and fund a 50/50 joint venture company, called Greater Manchester Green Developments Ltd to develop a portfolio of investment propositions such as retrofit housing, retrofit public buildings and heat networks.

The prioritisation of energy efficiency in homes will be a key focus of the Low Carbon Hub, as overseen by the Association of Greater Manchester Authorities.

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A retrofit financing development model is being developed based on feed-in tariffs and pay-as-you-save, the principle of the Green Deal.

Greater Manchester is already running a social housing scheme in conjunction with existing CERT and CESP offers that is seeking to test elements of the Green Deal process and how this might work for local residents.

This includes a free loft and cavity insulation offer for households in all tenures which will help to engage households, coupled with a consistent approach to resident engagement as set out in the Greater Manchester behavioural change report 'The Missing Quarter'. Strong networks between Greater Manchester local authorities, social housing providers, contractors, SMEs and colleges are also being developed to build a skilled, competent supply chain, ahead of the introduction of the Green Deal.

A working group has already been set up incorporating housing associations and building on pilots such as the recent Carbon Co-operative pilot for two streets in Moss Side.

Energy information will be gathered about homes, planned upgrades and the standards to be achieved. The intention is to maximise the benefit of joint procurement, not just in respect to hardware, but in education to change the behaviour and attitudes of tenants in relation to energy usage.

Research shows that the benefit of energy improvement measures in buildings is often counteracted by the unpredicted or unaware behaviour of their occupants. A subgroup is already in place with the aim of dispensing Energy Saving Trust in-house advice, along with smart meters.

The City Deal will also enable the training of apprentices to SMEs to install the energy-efficiency measures at a City Apprenticeship and Skills Hub.

Also potentially in the low carbon hub project list are:

- a solar park concept for an integrated manufacturing facility in St Helens
- a heat main that would use waste heat from the proposed Carrington gas fired power stations, with the potential to supply a corridor extending all the way to Manchester City Centre. It would be one of the largest single carbon reduction measures in Greater Manchester
- a low carbon energy network for the City Centre that would use the 'least cost' method of heating clusters of buildings, from which a network could develop, with an innovative mutual ESCo model formed from the building owners
- waste to energy heat networks using landfill gas from Pilsworth power station to heat most of the public buildings in Bury town centre
- a low carbon programme for the iconic Victoria Baths using novel heating, ventilation and fabric strategies
- low carbon energy strategies for Rochdale, Oldham and Trafford and a decentralised and zero carbon energy planning policy framework for Manchester City Region.

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Appendix D: Commercial Structures used by other District Heating Networks

Aberdeen
(Not for Profit)

The Aberdeen CHP Scheme was initially to deliver heat and power to four multi-storey blocks identified as suitable for CHP. The scheme received a grant from the Government's Community Energy Programme (CEP) managed by the Energy Saving Trust (EST).

The scheme was delivered through the setting up of a company at arm's length from the Council in which the Council has minority participation at member and director level. Other members and directors include individuals with expertise in the delivery of energy schemes and representatives of the community. The company is limited by guarantee and has been deliberately set up that way as a not-for-profit model, with the aim that any surpluses will be reinvested in further development of the scheme.

The arm's length company (ESCO) did not design and build the scheme itself. It employed consultants and professional advisers to assist on this and to compete the construction and installation of the CHP plant and pipework as well as the installation of units in individual flats. This was done in accordance with EU public procurement legislation given that the ESCO required to be treated as a public body as the majority of its funding came from public authorities.

The ESCO itself operates and maintains the system so the private sector involvement in the project has been limited to the construction and installation of the CHP plant and pipework. The project has moved on to, and has just completed, a second phase encompassing a school and further housing. A third phase has also been commenced encompassing further council and other buildings.

The contractual relationship between the ESCO and Aberdeen City Council is regulated by a Framework Agreement, which sets out the general obligations of the ESCO, and an Installation Agreement which contains specific provisions in relation to the installation of heating units in properties. The Council has also granted the ESCO necessary access rights and licences to occupy and use land. These Agreements operate on a light-touch basis and do not contain, for example, performance and operating guarantees.

Essentially, the ESCO is under an obligation to supply heat to the Council, for onward supply by the Council as heat with rent to tenants. Separately, the ESCO can, and has, entered into Heat Supply Agreements with owner-occupier properties. As far as the supply of electricity is

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concerned, the output from the plant is sold by the ESCO to an electricity consolidator who offers electricity supply to the tenants and owner-occupiers (who receive heat from the CHP plant) on terms which have been agreed with the ESCO. Surplus electricity is sold, via the consolidator, to other local commercial customers.

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The ESCO's funding arrangements include not only the EST CEP grant, but also guaranteed annual funding from the Council over a specified term. The Council funding is the sum of money which the Council would have been able to put aside each year for the improvement of the heating systems in the relevant housing stock. On the strength of the financial commitment to the ESCO from the Council, the ESCO obtained a term loan from the Co-operative Bank. The ESCO's obligations to repay the loan are guaranteed by the Council. Although it would have been possible to structure the lending on a non-recourse basis (at greater expense), the Council's commitment to the project meant that it was prepared to grant the necessary guarantee to the Bank.

In September 2010 the scheme achieved connection with its 1,000th home. At its core appear to be 3 gas fired CHP units.

Operation of the network appears to be outsourced to a company called Integrated Energy Utilities Ltd.

Sheffield

(Private Sector)

In 2001, Veolia Environmental Services was awarded the waste management contract from Sheffield City Council. As part of this 35 year contract, Veolia Environmental Services is responsible for maintaining an efficient collection and treatment service.

The Company's services include developing recycling facilities, encouraging waste reduction, operating a Materials Recovery Facility to sort waste paper and card, constructing and operating an Energy Recovery Facility at Bernard Road to continue electricity and heat generation develop the District Energy Network to allow more buildings to connect to the system, although anecdotally we understand that the City Council is finding it difficult to make progress with expanding the network.

There are currently 140 buildings connected to the District Energy in Sheffield making it the largest and most successful in the UK. There are 43km of pipeline installed across the city centre reaching Netherthorpe, Western Bank, the Heart of the City, Moorfoot and Park Hill.

In Sheffield, the energy required for the District Energy Network is recovered from incinerating the city's residual waste after recycling initiatives (waste that is put in black wheeled bins). The ERF can generate up to either 60MW of thermal energy for District Energy or 19MW of electrical energy for the National Grid. The network is supported by back-up facilities with 3 pre-heated stand-by/peaking boiler stations ready to come on line at a moment's notice with 84.6 MW of capacity.

In the event that Veolia Environmental Services plc is bought out then the ownership and operation of the District Energy Network would revert to Sheffield City Council.

Southampton

(Private Sector)

In 1986 Utilicom formed the Southampton Geothermal Heating Company (SGHC), an Energy Services Company (ESCo)) to develop the geothermal district heating scheme in Southampton. The company was set up on the basis of a Cooperation Agreement between Utilicom and Southampton City Council.

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The scheme which initially served a core of consumers from the geothermal well has grown into a multi-million pound, multi-source heating and chilling system saving over 11,000 tons of CO2 each year.

The original well, which can provide up to 15% of the system's heat input, is now supplemented by large scale CHP. This includes a 5.7 MW unit at the central Heat Station and a 0.7 MW unit at the RSH Hospital. The heat from the CHP units is recovered for distribution through the 12km mains network. Southampton's scheme also has conventional boilers for "top-up" and standby needs, in both the Civic Centre and Hospital.

More than 40 major consumers in the city centre are now served by the district heating scheme. Commercial connections commenced in the early days of the scheme, when the ASDA superstore signed up for the winter of 1987-88.

The Scheme delivers more than 40,000 MWh of heat each year, equivalent to nearly 7,000 dwellings, 26,000 MWh of electricity from the CHP plant and over 7,000 MWh of chilled water for air conditioning. Hot and chilled water is circulated around the city through 12km of insulated service pipe, within a 2km radius of the heat station.

The company is in private sector ownership. The immediate parent is Cofely District Energy Group Ltd. It is ultimately owned by French company GDF Suez after the company acquired Utilicom Group in May 2010.

Copenhagen

(Mixed market)

The Greater Copenhagen Integrated District Heating System consists of a 160 km hot water transmission system which supplies heat to 21 distribution networks in 18 local authorities. Copenhagen Energy (KE) operates a steam system covering 20% of the system.

The main power sources for the network were originally municipally owned but sold to energy companies Vattenfall and E.On in 2006.

The City of Copenhagen and Copenhagen Energy have been very active as driving forces in the development of the district heating system, with companies (CTR, VEKs and recently Vestforbraending) operated by local municipalities which have grouped together to form the companies which own/operate/transmit

The 18 local authorities are responsible for the least cost heat supply planning of the system in accordance with the Heat Supply Act.

The system is further developed and optimized to meet climate objectives by connecting districts with existing and new buildings to the grid and by shifting to more renewable energy. A heat market group formed by CTR, VEKS and Copenhagen Energy optimizes the heat production from:

- 4 CHP plants
- 3 waste-to-energy CHP plants
- 50 peak load boilers

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Helsinki
(Municipal Ownership)

District heating first started to be developed in Helsinki in 1953.

Now one of the largest energy companies in Finland, Helsingin Energia supplies electric energy to approximately 400,000 customers in Finland and covers more than 90% of the heat demand of the capital city with district heat. Helsingin Energia produces and sells district cooling from seawater, which is considerably expanding in Helsinki.

Among the services provided by Helsingin Energia are the design, projecting and maintenance of energy production and distribution systems. Helsingin Energia is also responsible for the outdoor lighting systems in Helsinki.

Helen Group is a business entity whose structure consists of subsidiaries and associated companies. The Group's parent company is Helsingin Energia, which is owned by the City of Helsinki. The Helsinki Energy Board became a municipal corporation and was renamed as Helsingin Energia.

In 2009 Helsingin Energia sold a total of 7,613 GWh of electricity, of which retail sales accounted for 3,747 GWh. Retail sales grew by approx. 5%. Total district heat sales amounted to 6,775 GWh, up by approx. 10% on the previous year due to the cold winter. District cooling sales stood at 57 GWh.

Malmö
(Private Sector)

The City of Malmö is the third largest city in Sweden. Presently, there are approximately 290,000 inhabitants in Malmö, which has become the growth centre in the South of Sweden.

A critical component of Malmö's focus on energy efficiency can be found in its district heating system, which was originally constructed in 1951. First it contained smaller separate units that, over the years, merged together into one large-scale system. Gradually, as the city grew, the district energy distribution system has followed a similar pattern and grew with it.

While originally owned by the municipality, in 1991 it was sold to the energy utility company, Sydkraft, which was later sold to E.ON. The private company E.ON currently maintains 100% ownership of the system. However, while privately owned, E.ON engages in close co-operation with the City of Malmö concerning extension of the system, planning, environmental considerations and so on.

In 2000, E.ON and the City of Malmö worked together to construct a unique district energy system comprised of "100% locally renewable energy" in the Bo01 area of Malmö's Western Harbour. This project is very much seen as a Public Private Partnership.

The concept is premised on using local conditions for energy supply from renewable energy in the form of solar, wind and water. A large wind power generator of 2 MW, placed in the Northern Harbour in Malmö, and 120 m² solar cells on one building in the area, produce electricity for the housing and for the heat pumps as well as other pumps and fan installations in the buildings for their use.

Heat is produced by 1 400 m² solar collectors that are placed on ten of the buildings. Heat is also gained from an aquifer in the area with the help of a large heat pump. The aquifer is a

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natural water storage in the bedrock that enables seasonal storage of heat and cold, respectively. The heat from the summer is saved for the winter and is made available with help from the heat pump for the district heating system. Cold from the winter is saved and is provided by a district cooling system that provides comfort cooling during summer. Besides renewable energy provision, the goal for energy use in the building is set according to the quality program that was adopted for the area at maximum 105 kWh per square meter of use area and year, including electricity for domestic appliances. This is substantially lower than prevailing building norms at that time.

Creating a 100% local renewable solution with both local heating and cooling networks would have been much more difficult without having the existing infrastructure working as a buffer. During the summer, surplus heat from the Bo01 area is sent to the rest of Malmö through the district heating net. In winter, when too little heat is generated locally, heat is imported the same way. Averaged over the course of a year, production and use are in balance.

The Main production plants for Malmö's District Heating are industrial surplus heat, refuse incineration and CHP.

Malmo's district heating network is owned by E.ON Värme Sverige AB, a private energy utility company, owned 100% by E.ON Nordic.

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Appendix E: Overview of Selected Funding Sources

European Energy Efficiency Fund (EEE-F)

The aim of the EEE-F is to fund small to medium-sized projects, which must be market-based and able to attract a high amount of private sector leverage in order to become self-sustaining.

Funding will be provided for sustainable energy investments in areas such as

- Energy saving measures in public and private buildings
- Highly-efficient combined heat and power (CHP), including micro-cogeneration and district heating/cooling networks
- Decentralised renewable energy sources, including micro-generation
- Clean urban transport
- Infrastructure modernisation, such as street lighting and smart grids
- Sustainable energies with a potential for innovation and growth

The investment categories for the EEE-F are:

1. Energy saving and energy efficiency
2. Renewable energy sources
3. Clean urban transport

The funding is allocated on the following basis:

- 70% to energy saving and energy efficiency projects
- 20% to renewable energy projects
- 10% to clean urban transport projects

In addition the investment manager Deutsche Bank has clarified that there is a cap on lending/investments to any single country of 18% of the total fund. This equates to Euros 46m on the basis of current funding.

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The funding is Euro denominated, there will be currency hedging costs incurred on top of borrowing costs for UK projects.

The managing authorities are looking at funding projects ranging from €5-25million, with an average size of around €15million. The institutions backing the fund are: the European Commission, the European Investment Bank (EIB), Deutsche Bank and the Cassa Depositi e Prestiti SpA.

Eligibility criteria

General eligibility criteria that have to be met for each project include the municipal background of the project, CO2 savings of 20% and the alignment with EU legislation (as well as some more specific requirements for certain technologies). For building retrofit projects there is a requirement that the buildings be "municipal" – e.g. public sector not private sector. For a district heating scheme the off take does not need to be 100% public sector but probably at least 50-60%.

ELENA/KfW

ELENA is an IEE (Intelligent Energy Europe II) technical assistance facility designed to support the local and regional authorities in contributing to the “20-20-20” initiative of the European Union:

- reduce greenhouse gas emissions by at least 20% and/or
- increase the share of renewable energies in energy consumption to at least 20% and/or
- improve energy efficiency by at least 20%, all by 2020.

Since 2010 the EIB is running a pilot project on ELENA in order to support investments projects above €50 million. The new KfW-ELENA facility offers a complementary approach in order to mobilise sustainable investments of small and medium sized municipalities and, where appropriate, Energy Service Companies (ESCOs).

- KfW-ELENA consists of two innovative and complementary financing schemes:
- global loans to local participating financial intermediaries (PFIs) in order to reach smaller investments (volume up to €50 million)
- and carbon crediting as a new financing element.

Eligibility criteria for the investment projects are: the same as for the main ELENA facility

- a non-discriminatory basis within IEE participating countries (EU 27 + Norway, Iceland, Liechtenstein and Croatia)
- energy efficiency investments in public and private buildings,
- renewable energy sources,
- environment friendly transport,

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- smart and energy efficient local infrastructure.

- The leverage factor between technical assistance and investment volume must be at least 1:20.

Final beneficiaries can only apply to the ELENA Technical Assistance via Partnering Financial Intermediaries. Application for ELENA Technical Assistance is combined with application for financing of the Investment Project. KfW cannot receive direct applications from local and regional authorities. It is not clear whether the Council could effectively transfer from the "larger" ELENA programme into the KfW ELENA programme.

Green Investment Bank/UKGI

The Green Investment Bank is intended to be the world's first investment bank dedicated to accelerating investment of capital into green infrastructure. Capitalised with £3 billion, the GIB aims to provide financial solutions to accelerate private sector investment in the green economy.

The Government expects to obtain state aid approval for the GIB by early 2013. In advance of that, the Government will begin making investments in green projects from April 2012 at market rates through UKGI (UK Green Investments) which is operating under BIS. There is £750m of investment available in 2012-3.

UKGI has indicated that its support of the Green Deal will be limited to a role in the GDFC (see below) and that at present it will not consider other investments or loans to other domestic energy efficiency projects.

UKGI is keen to develop a local government pilot project such as an ESCO which focuses on other areas of green investment. Key criteria are (i) willingness to work with one or more private sector partners to deliver the investment and (ii) scale/project pipeline – a large identified ongoing programme of investment.

In light of the above, BCC's ELENA programme does not appear to be a good match with UKGI's criteria. A larger "green" infrastructure investment programme or collaboration with other local authorities/partners (potentially via the LEP) to create a regional ESCO would be needed.

Of note, UKGI has recently tendered for fund manager(s) for a fund of £50-100m for Non-domestic energy efficiency projects. The likely focus is on the following areas, the first two of which are of direct relevance to the ELENA programme:

- building retro fit including CHP,

- urban infrastructure, including street lighting and district heating and/or

- industrial energy efficiency

The fund is intended to be in place by 3Q 2012 to support "shovel ready" investment opportunities covering the period from Summer 2012 to Q1 2015, with a maximum project size of £30m. The Council should consider applying for such funding when it becomes available.

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Municipal retail bonds

A bond is a tradable security whereby the issuer agrees to repay the principal to the holder at a specific future maturity date. There are also a series of interest payments (coupon payments) at fixed intervals.

In the UK bonds have typically been issued in large denominations (£50k +) and targeted at institutional investors. Retail bonds refer specifically to bonds traded in denominations small enough to be accessed by private individuals. It is the size of the denomination and the difference in investor type which distinguishes the retail bond market from the institutional or wholesale bond market.

Retail-sized bonds are typically in denominations of £1,000 on the primary market as little as £1 on the secondary market are tradable electronically on the Order Book for Retail Bonds (ORB) on the London Stock Exchange (LSE).

A retail bond issuance can be targeted at local residents, giving them a direct stake in local infrastructure and developing a more localised approach to capital finance.

Transaction costs: There are significant transaction costs for a retail bond including legal fees, manager and PCB distribution fees, listing fees, credit rating fees, trustee and agency fees. These fixed costs will be apportioned to the bond issuance therefore the smaller the amount raised and the shorter the tenor, the greater the transaction costs (expressed as basis points). In order to be competitive with PWLB would require a 10 or 15 year issue of at least £50m, or a 20 year issue of at least £25m.

Borrowing costs: This will be driven by market conditions (gilt rates) and the local authority credit rating. Local authorities are considered high quality credits - those which have been rated are between AAA and AA-. The cost could be lower than PWLB (GLA issuance in July 2011 for Crossrail was Gilts + 83)

The Local Government Association (LGA) is currently assessing the business case for developing a national finance agency. If this were to be established it could include retail bond issuance as a part of the agency's borrowing portfolio. This would lower the cost of bond issuance to individual local authorities.

Issuance requirement of approximately £150m although there have been issuances of as little as £25m. There is also an ability to go back to market for smaller amounts.

The Green Deal Finance Company (GDFC)

The GDFC was formed in response to the need for low-cost finance to support the successful roll-out of the Green Deal across the UK.

The GDFC was incorporated on 7 March 2012 as a company limited by guarantee, non-profit distributing. Founding Members of the GDFC include British Gas, Carillion, Clifford Chance, E.ON, EDF Energy, Goldman Sachs, HSBC, Insta Group, Kingfisher, Linklaters, Lloyds Bank Corporate Markets, Mark Group, npower, PwC, RBC Capital Markets and SSE. Newer members include a number of local authorities: Newcastle City Council, the Association of Greater Manchester Authorities, Swindon BC and LB of Haringey. In addition Gentoo, Places for People, Skanska, Kier, Wilmott Dixon have joined. GDFC are actively seeking additional members to join, including local authorities.

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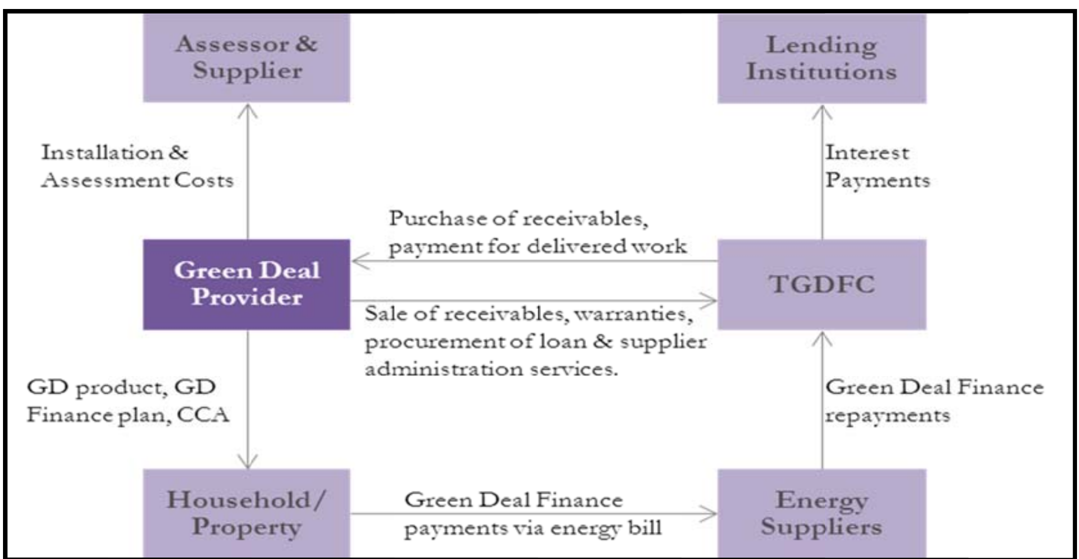
The purpose of the GDFC is to act as an aggregator, providing a universal source of Green Deal funding for the entire UK Green Deal market. It is recognised that the one of the biggest barriers to successful take up of the Green Deal is access to low cost finance by Green Deal providers. The aim of the GDFC is to create a finance structure, which delivers an all-in finance cost of approximately 6% and is available to all Green Deal providers with eligible Green Deal plans. However the GDFC will fund only the Green Deal element of a whole house retrofit (meaning that FITs and RHI related investment would need to be funded separately if these tariffs were sought).Further detail on membership, proposed funding and structure of the GDFC is provided in Appendix x.

Proposed GDFC Model (source GDFC)



Proposed financing structure of the GDFC

The intention is for a tranche of subordinated debt to be provided by the Green Investment Bank (not yet established pending state aid approvals estimated to occur in spring 2013). In the interim, GDFC has applied to UK Green Investment (UKGI the precursor to GIB) for an initial tranche of subordinated debt funding. £500m has been requested but this could be £200-300m. This would provide a first loss guarantee of between 5 -10% to absorb the risk of bad debts (an estimate of the level required for senior debt to get an investment grade rating).

Initially senior debt would be provided by banks through a "warehousing" facility (EIB has also been approached to provide a warehousing facility of £800m.). When there is sufficient debt to support a bond issue then the capital markets will be tapped. Given government's aspirations for Green Deal it is anticipated that £billions of GD finance could be raised annually.

The GDFC has provided the following estimate of likely demand for Green Deal finance and the projected sources over the period 2013-2020. The GDFC intends to use 5 principal sources of finance:

i £100m GIB corporate facility (to finance general corporate expenditure including set up costs and working capital)

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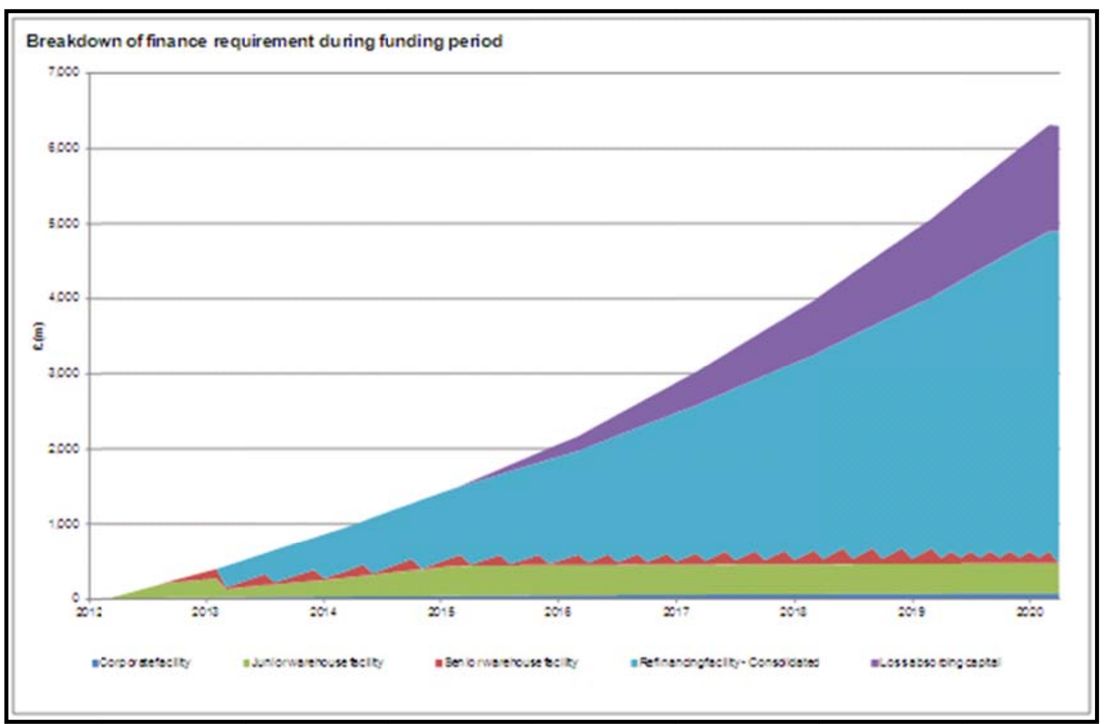
ii £400m GIB junior warehouse revolving credit (junior debt to support first loss guarantee)

iii £300m senior debt warehouse facility provided by banks (£800m EIB facility is also being pursued)

iv capital market issues - an initial minimum capital markets issue of £250m followed by smaller issues of £150m. Estimated to grow to a £5bn market

v additional junior debt if required to top up GIB junior warehouse revolving credit ii above

Breakdown of GDFC Funding Sources (Source: GDFC)



Estimated Cost of GDFC Finance

The estimated cost of GDFC to Green Deal Providers is based on the follow assumptions:

Base cost of finance (based on gilts)	4.33%
Buffer	0.25%
Operating costs and overheads	1.53%
Loan losses	0.25%
Total estimated finance cost	6.36%

It should be noted that as this is a start-up business and there is no Green Deal track record, the finance cost is indicative only and could be considerably less favourable if the finance and re-financing structure outlined above is not deliverable. The GDFC has indicated that the

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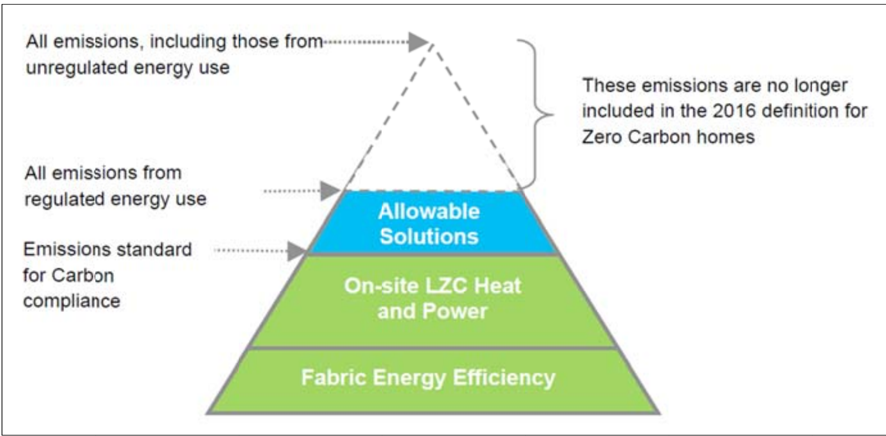
cost of finance will move in accordance with the performance of the Green Deal portfolio and market conditions.

Allowable Solutions

To comply with the proposed 2016 Building Regulations, new zero carbon homes will have to meet on-site requirements for Carbon Compliance (achieved through the energy efficiency of the fabric, the performance of heating, cooling and lighting systems, and low and zero carbon technologies). In addition, through Allowable Solutions (a form of developer contribution), they will need to account for the carbon emissions that are not expected to be achieved on site through Carbon Compliance.

Under allowable solutions, the developer will make a payment to an Allowable Solutions provider, who will take the responsibility and liability for ensuring that Allowable Solutions, which may be small, medium or large scale carbon-saving projects, deliver the required emissions reductions.

The diagram below illustrates the concept of Allowable Solutions:



The policy detail for Allowable Solutions is still being worked out, but there is a potential for local authorities to play a role in directing how this money is utilised. In particular, a Community Energy Fund (CEF) has been proposed as a means for channelling developer investment in carbon reduction/allowable solutions into the local area. As proposed by Cambridgeshire Horizons amongst others, this could involve the creation of a revolving fund which the following shape:

- Developer contributions are pooled in the Fund
- The Fund invests in local low carbon projects, with the possibility of attracting additional private sector investment

Cambridgeshire wants to pilot its own fund holding because:

- The CEF is a means of ensuring that this investment is retained in the local economy;
- The local authorities control how the money is spent; and CEF does not increase the cost of development.

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- It provides a means to unlock projects that would not otherwise be brought forward by the private sector alone e.g. citywide district energy infrastructure

- Economies of scale can be achieved in terms of portfolio of low carbon projects

There are a number of potential structures for the fund-holding vehicle (contractual/partnership, corporate SPVs or others such as using an Industrial and Provident society); a company limited by guarantee was decided to be the most appropriate for the Cambridgeshire CEF.

Zero Carbon Hub has proposed a framework for Allowable Solutions in their recent paper "Allowable Solutions for Tomorrow's New Homes".

A key element of this framework relates to the potential role of local government and the paper suggests that to be successful, the following framework processes and structural elements are considered essential.

1 Local Planning Authorities should have choices for establishing a policy within their local plan which would set out local priorities for carbon emissions reductions, possibly with associated Allowable Solutions projects.

2 Where Local Planning Authorities have developed an Allowable Solutions policy, they can invite developers to contribute to the local Community Energy Fund and leave the liability for delivery of Allowable Solutions to the Local Planning Authority. However, to ensure a competitive market, developers will also be free to contract with Third Party Allowable Solutions Providers to deliver their Allowable Solutions, though projects must match up to a list approved by the Local Planning Authority (which may draw inspiration from a nationally approved list of 'default' Allowable Solutions options).

3 Where Local Planning Authorities have not yet developed an Allowable Solutions policy or have opted out of developing one, developers will be able to secure Allowable Solutions competitively via a Private Energy Fund. These Allowable Solutions may not have a local context.

As part of its policy review, the UK Government also invited CHPA to make the case for district heating networks to receive support from the Allowable Solutions element of Zero Carbon Homes policy. CHPA is the trade association for CHP and district heating operators and developers and has set out their arguments in the November 2011 paper "ENERGY & CARBON SAVINGS: Using Allowable Solutions with district heating to fill the gaps in Government policy." Over the long-term (by 2050), district heating is expected by Government to deliver a major proportion of heating to residential and commercial properties. There is presently no policy framework to drive this expansion.

For large scale district heating networks, similar to continental and North American cities, to be viable in the UK, there needs to be finance available at equivalent to utility interest rates. CHPA proposes that Allowable Solutions could help de-risk DHC schemes by providing a 25% capital contribution so that overall, total capital will be cheap enough to trigger substantial development.

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Allowable solutions in Bristol

At present there is a policy contained within the Bristol Core Strategy which provides for a contribution from a developer through an 'allowable solution' if the requirement for 20% onsite renewable energy cannot be met:

> "4.14.9 Where the full requirements of Policy BCS14 cannot feasibly be delivered onsite, an alternative allowable solution will be considered, such as providing the residual emission reduction through a contribution to a relevant citywide low-carbon energy initiative or by agreeing acceptable directly linked or near-site provision."

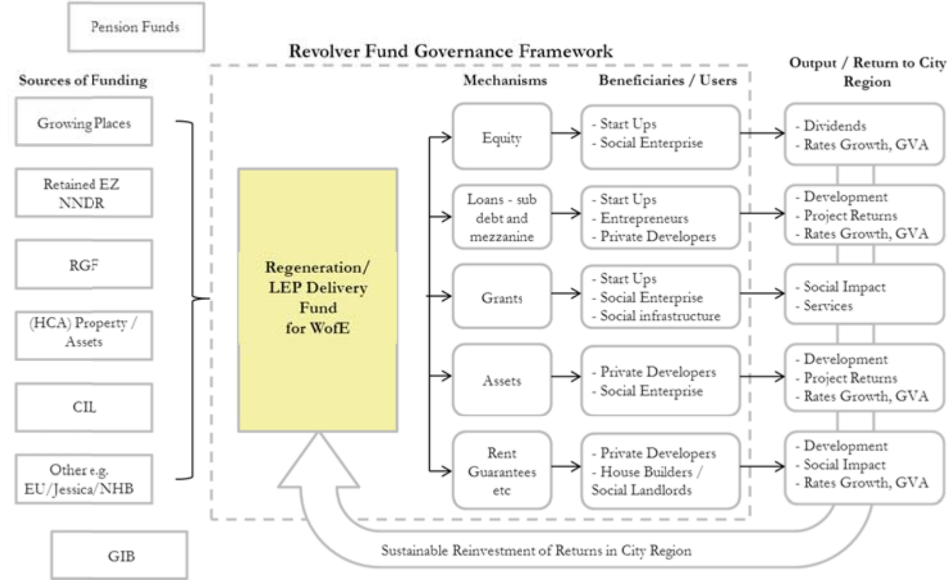
There is more detail on the implementation of this policy in a practice note, in line with the report published last year by the Zero Carbon Hub.

The Council has not yet had an offer of an allowable solution from a developer, and the process is waiting on clearer guidance from DCLG, in particular on what would be a reasonable cost per tonne of CO_2. Celia Beeson [Climate Change and Built Environment Coordinator] has recently heard a suggestion that this is likely to be around £75, but this has yet to be confirmed. The Council also need clarity on how these funds can be collected and distributed, but it seems unlikely that it would be empowered to require contributions only to an LA led scheme. Celia indicated there would be benefit in structuring the ELENA programme in such a way as to allow for collection and distribution of allowable solutions to projects within Bristol in the future.

Allowable Solutions payments from developers could potentially be available to help fund the Bristol district heating network (or other low carbon investment) from 2016. This may come too late to finance the initial stages of the district heating project under the ELENA programme. However the Council should join the debate alongside other core cities and seek to incorporate it into the city deal negotiated with government.

Revolving Infrastructure Fund

The diagram below sets out the concept for a revolving infrastructure fund which could be developed on a city or regional basis and act as a source of funding for future investment in infrastructure including low carbon.



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Appendix F: Domestic Retrofit – Engagement strategy

The approximate composition of housing in Bristol by tenure is:

Housing tenure	Number of homes	% total
Local authority	28,435	15.4%
Registered providers	10,744	5.8%
Private rented	33,100	18.0%
Private owned	111,110	60.5%
Other	500	0.3%.
Total	183,889	100.0%

The engagement strategy should consider where targeting will be most effective, what communication channels should be used, and the best intervention points for the Council in relation to domestic retrofit might be for example:

Social tenants

- Improvements to void properties
- Add to planned maintenance/improvement programmes
- Communication channels: existing tenant associations, Resident Liaison officers, door to door activity, and word of mouth.
- Localised events on a street by street basis, in conjunction with existing events/activities e.g. bingo nights to maximise opportunities (social/private mix)
- Stakeholder-led design workshops were a very effective form of engagement (Affinity Sutton Futurefit pilot)

Owner occupied

- Householders who have already installed solar panels (likely early adopters)
- Householders moving into new homes (often making other improvements)
- Householders who are undertaking major refurbishment or extensions (planning applications). There are proposals that new planning conditions could force householders to incorporate energy efficiency improvements where they are undertaking such works.

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- Householders in Hard to Treat (solid wall homes/hard to treat cavity/ not on mains gas)

- Householders in receipt of means-tested benefits (and other data the Council has access to target fuel poor or vulnerable)

- Elderly – Age Concern, Help the Aged are trusted organisations that can help get the message across

- Period properties which require specialist measures for aesthetic reasons – how to make them golden rule compliant

Private rented – Council role as regulator/licensor

The Council can use its role as regulator/licensor to drive take up of energy efficiency in the private rented sector. Alongside this "stick" approach it can employ "carrots" – education support, reduction in licensing fees.

- Where the Council is using private rented sector for social tenants

- Empty homes – incorporating energy efficiency alongside other improvements to bring back into use

- Landlords associations, letting and management agent associations

- West of England Landlord Expo (May 2012) – opportunity to engage with private landlord more widely

- Homes in Multiple Occupancy (HMOs) – student landlords

In Bristol, licensable HMOs are houses with 3 or more storeys, with 5 or more people, in 2 or more households. Licenses are required to ensure houses are safe and meet basic (Decent Homes) occupancy standards, and are renewable every 5 years. (This includes heating requirements – fixed heating appliance which maintains a temperature of 21C, heating available at all times and in control of the occupier.) All properties rented after October 2008 must have EPCs – this assessment will also identify lower (under £500) and higher cost measures available. Enforcement notices can be used to get landlords to comply.

Some local authorities have introduced **extended licensing requirements** in particular wards (where there are high levels of rented student housing) which includes any homes where there are two or more people not part of the same household.

In Bristol, initial licensing fees are between £1200-£1500, small discounts are available if the Landlord is Accredited, though accreditation is not mandatory and it is not a requirement for student housing landlords for example. The Council could consider **higher licensing fee discounts** for landlords who implement energy efficiency measures (and also **ensure that landlords are aware of tax breaks such as Landlord** Energy Savings Allowance whereby £1500 pa on energy efficiency measures per dwelling is tax deductible).

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Appendix G – Green Deal Assessor Role

Accreditation and employment of Green Deal Assessors

There are a number of issues which need to be considered by the Council if it wishes to become a Green Deal assessor or to support SMEs in this regard.

A qualified, authorised Green Deal Advisor is any individual who:

- meets the requirements to be set out in both the National Occupational Standards (NOS) for Green Deal Advisors; and

- is employed by an organisation that has been certified by the appointed accreditation body against the relevant Green Deal Scheme Standard, has signed the Code of Practice, and appears on the Green Deal register.

Green Deal Advisors will need to be active members of an accredited Energy Performance of Buildings Directive (EPBD) Accreditation Scheme for either Domestic Energy Assessors (DEAs) or Non-Domestic Energy Assessors (NDEAs), as appropriate to the sector they intend to provide Green Deal assessments for.

A Green Deal assessor may be employed in one of several ways. They may be:

- a salaried employee or sub-contractor of one or more Green Deal providers or installers;

- an independent, self-employed Green Deal assessor commissioned directly by a consumer;

- a public/third sector official or representative of a civil society organisation funded (or self-funded) to deliver Green Deal assessments

There are a number of issues and risks the Council needs to consider in relation to providing GD assessment services.

Skills sets required for Green Deal Assessors

Green Deal Assessors are required to have a mixture of technical knowledge, practical competence and 'soft' skills to provide households and businesses with the advice they need to take informed decisions. The National Occupation Standards for Green Deal Assessors are currently in draft form pending approval but for domestic properties cover the following areas:

- Prepare for energy assessments of domestic property:

- Identify representative properties for sampling and multiple certification

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- Undertake energy inspections; produce and explain Energy Performance Certificates relating to domestic property

- Provide information to customers on the principles, financing and operation of the Green Deal

- Undertake home visits to carry out Green Deal Occupancy Assessments and give advice

- Prepare and issue Domestic Green Deal Advice Reports; explain to the customer

Although the Council will have experience of undertaking energy assessments and procuring the installation of measures, its staff are likely to have limited experience in the type of sales and marketing which will be required of GD assessors.

The skills mix required is challenging and it is not necessarily the case that individuals who have the required technical skills will be adept in other areas. As the sale of domestic Green Deal plans is subject to the Consumer Credit Act, the customer has well defined rights and protections, and there is significant potential risk around mis-selling.

What market segment(s) is the Council targeting?

Many of the large Green Deal providers are likely to have inbuilt competitive advantages within the Green Deal market through the existing client relationships, knowledge of buying behaviour and other market knowledge they possess - e.g. energy companies, supermarkets and DIY retailers. For those with a physical and/or on-line presence they already have effective mechanisms in place for marketing and generating sales leads.

Whilst the Council (and social housing providers more widely) will have experience of dealing with tenants and installing measures in their homes, the relationship is not a competitive, commercial one where consumers must make a positive choice to enter into a long term finance arrangement to improve their homes. This raises the question - in which segments of the owner occupied domestic market does the Council have an in-built marketing advantage? The Council may wish to focus on the certain segments where they believe the need for support (and consumer protection) is greatest such as fuel poor and other vulnerable groups rather than more affluent households.

Payment for assessments and take up risk

Although the cost of assessments will be left to market forces, the larger Green Deal providers are expected to offer assessments to homeowners at no upfront cost, with the cost of the assessment being wrapped into the cost of the Green Deal plan if this is taken up by the consumer. If the Council acts as an independent assessor, it faces the same challenges as other independents: who will reimburse it for the cost of the assessment? The recent government consultation response suggests that GD Providers will not be able to pay GD Assessors only when there is take-up, however the detail has not been spelt out. With the estimated average price of a GD assessment being around £100-120 most consumers are likely to shop around for a free assessment (or may seek more than one). The estimated price could easily be a loss-leader even where a Green Deal plan is sold, as it may only partly cover the actual cost to the assessment, even before the cost of sales and marketing activity leading up to the assessment is factored in. (For example, in Affinity Sutton's Futurefit Report[1] on a

[1] Futurefit Report, Part One, Affinity Sutton, September 2011

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pilot retrofit scheme, they estimated the cost of engagement at between £450 and £1350 per property.)

Under this scenario, the Council may wish to charge Green Deal providers/partners for all assessments it undertakes (not taking risk of ultimate take up) which may not be commercially palatable. Alternatively, the Council may only receive an assessment fee where the consumer ultimately takes up a Green Deal plan. In the latter case, the ratio of total assessments undertaken to sales conversions will be critical, and the Council runs a significant risk that it will not fully recover its costs.

Should the Council wish to pursue this potential role, there would be merit in testing the approach as part of the feasibility work funded by ELENA Technical Assistance, and as part of early pilot schemes.

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Appendix H – Detailed Recommendations

Resourcing and partnership working

1. Create interim Project Team from internal resources and identify short and medium term external resource requirements. Explore options for direct hire, secondments, and consultants and undertake necessary recruitment.

2. Consider the potential for community organisations (e.g. Bristol Green Doors) to provide delivery support and develop a framework for how this will work in practice.

3. Further explore potential for partnership working in relation to retrofit and district heating (health bodies, other local authorities, universities, RPs). [For example, we are aware that 18 social landlords (150,000 stock) are seeking to establish a collaborative approach to GD through a southwest regional framework.]

Programme Management

4. Prepare an updated high level Project Plan including budget against which progress will be monitored.

5. Revisit ELENA technical assistance consultancy tasks and budgets especially for next stage of feasibility work.

6. Prepare and monitor a detailed risk register at programme and project level incorporating a traffic light system and noting interdependencies.

7. Establish ELENA contract monitoring and reporting procedures in conjunction with internal auditors.

8. Establish governance arrangements for shadow ESCO/ESCO.

9. Further map and quantify the level of committed investment within each Council department, which could count toward meeting the required Leverage Factor of 25:1.

10. Consider scope for planning and managing wider Council investment activity in renewable energy/energy efficiency together with ELENA investment programme

Finance

11. Develop strategy for overall financing of the investment programme including Council finance and risk appetite.

12. Develop and implement strategy for maximising access to ECO in relation to social and private housing.

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13 Investigate the more innovative, low cost sources of financing identified in section xx of our report which could be used to support elements of the investment programme, specifically:

- Community finance structures (including Building a Better Bristol initiative)
- Big Society Capital (bank) - scope for incorporating into community finance schemes or to expand the existing Wessex Home Improvements scheme
- European finance - feasibility of EEE- F and/or ELENA/KfW finance to provide junior debt/equity for district heating scheme.
- extension Wessex Home Improvement Scheme

14 Update ELENA financial (economic) models to reflect updated technical assumptions and Grant Thornton comments. Incorporate data books.

15 Where the preferred delivery model involves a public-private partnership, prepare financial models which reflect the intended delivery approach, from both public and private sector perspective.

16 Prepare an ESCO business plan with supporting business cases for different elements of the investment programme.

Delivery models and pilot projects (domestic retrofit)

17 Involve stakeholders in debating and agreeing (or at least narrowing the choice) of preferred delivery model(s) for the investment programme in particular the Council's role in relation to private domestic energy efficiency. To involve soft market testing and discussion with potential public sector partners and keeping abreast of other local authorities' activities. Consider procurement and finance implications.

18 Review Green Deal pilot projects by Centrica, Gentoo, etc. to learn relevant lessons and avoid unnecessary duplication.

19 Depending upon the Council's role in relation to domestic retrofit - undertake additional housing stock analysis (including measures for each housing archetype) to inform investment priorities. Identify best opportunities for early wins across all tenures and work with community groups/housing associations to develop Green Deal pilots (building on solar/expansion of CESP, CERT and other existing schemes) using available grant finance/pilot funding.

20 Identify opportunities to use the Council's assets/property portfolio to pilot new approaches and kick start investment

District Heating

Specifically in relation to the DH Project we recommend the following activities:

21 The Council should initiate a structured engagement programme with tenants and landlords (public and private sector).

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22 The Council should engage with other major entities (e.g. NHS, university) located in or adjacent to the identified sites to establish their potential interest in being involved as their anchor load will significantly enhance the financial feasibility and attractiveness of the scheme to investors and funders.

23 The Council should gather information on other DH schemes, including site visits and sharing of their experience of implementation including timescales.

24 The Council should meet existing ESCOs and O & M providers and undertake soft market testing to get feedback on their overall DH plans via a PIN notice, or engage with the industry through for example the UK District Energy Association whose members include the partners, owners and operators of major district heating schemes. [This should include the intended scope and approach to the detailed technical appraisals to ensure they provide the information required in advance of a procurement exercise and if appropriate are backed by warranties. Otherwise the risk is that the Council spends significant time and money commissioning studies which are not entirely appropriate or cannot be relied upon. The private sector could then need to undertake their own studies adding to overall scheme cost and potentially causing delay in implementation.]

25 The Council should formalise its planning requirements for Heat Priority Areas in order to drive new connections.(e.g. requiring/incentivising new developments to become heat customers where viable and feasible) and facilitating the licensing and way leaves for mains and cables.

26 In engaging with offtakers -both agreed and potential - the Council should also be mindful of opportunities to deliver electricity as well as heat as experience has demonstrated that this can increase commercial returns from projects and produce portfolio risk benefits

District Heating - Financial feasibility

27 Use ELENA technical assistance to investigate and stress test the financially viability of the proposed District Heating project as part of an overall feasibility study which explores technical, commercial and financial feasibility of the proposed networks with supporting financial models.

28 Financial modelling should incorporate "what if" scenarios in case the timetable is extended or fewer sites are progressed; assessment of alternative fuel sources captured by RHI (i.e. biomass); the wider tax costs/benefits resulting from the proposed DH solution, specifically potential exemption from Climate Change Levy, Carbon Price Floor costs, CRC Energy Efficiency scheme; and the likely financial benefits which can be realised from reduced exposure to hyper-inflation on 'traditional' energy bills.

Engagement and communications

29 Stay close to the policy agenda, commercial, financial and legal issues by engaging with relevant government departments (DECC), other local authorities and organisations active in the field. Become a member of the GDFC

30 Develop plan for maximising supply chain, employment and training opportunities for Bristol businesses/residents.

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31 Develop communication and engagement strategy for different elements of investment programme (working with partners as appropriate) for different housing tenures, private landlords, commercial, community groups, students, elderly, etc. The Council will need to consider how it plans to engage e.g. set up a web-site and advertise using leaflets, posters, community groups, local events, etc. Appendix F provides some thoughts on approach to Householder Engagement in relation to domestic retrofit.

32 Develop communication and engagement strategy for different elements of investment programme (working with partners as appropriate) for different housing tenures, private landlords, commercial, community groups, students, elderly, etc. The Council will need to consider how it plans to engage e.g. set up a web-site and advertise using leaflets, posters, community groups, local events, etc. Appendix F provides some thoughts on approach to Householder Engagement in relation to domestic retrofit.

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Appendix I – Long list of funding options

The tables which follow summarise key characteristics of the funding options that we have considered broken down into European and UK sources. We have also sought to characterise the Applicability of the funding source through a 1-5 Ranking system which operates as follows:

Applicability
5 = Excellent
4 = Very good
3 = Good
2 = Low
1 = Not applicable

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Table 5.3.2 : Overview of European funding sources

Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
EIB	£70m-100m (up to 50% of total funding requirement); term up to [30] years	Senior debt: EIB cost of funds + 50bp (municipality)	Senior debt	Yes but higher interest rate and stringent approvals and credit requirements, where counterparty is not the municipality	ELENA investment programme consistent with eligibility requirements	Will lend to the municipality or via an approved financial institution. Facility size and match funding requirement - too large for present BCC ELENA programme alone. Potential to revisit if ELENA is part of a larger BCC or WoE investment programme.	Score 2 Minimum amount is a problem

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
EEE-F	€5-25m; term up to 15 years	Market rate therefore junior debt and equity likely to be of greatest interest	Senior debt, mezzanine debt, equity, leasing	Yes but where lending to an SPV, this is to be owned at least 60% by the municipality	Supporting investment in public sector assets. EE and RE measures achieving at least 20% carbon savings	Limited availability – 18% sub limit for UK (€46m); 15 year tenor is short Where an SPV structure is used, EEE-F will not approve loan/investment until they have seen all contract documentation and are satisfied with the contractor risk. European approval processes are slow	Score 3 Junior debt

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
ELENA/ KfW	Up to €50m or less. Lending is through eligible Participating Financial Intermediaries (PFI)	Determined by the PFI	Senior and junior debt	Yes – at ESCO level	Loans are to municipalities and ESCOs Similar requirements to EIB/ELENA	Aimed at small/medium municipalities whose projects are not of sufficient size to qualify for EIB funding. There are currently no approved PFIs in the UK so process could be slow. A pilot scheme for Welsh HAs was abandoned following Dexia withdrawal Approval processes can be slow.	Score 2 Further exploration needed

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Table 5.3.2 : Overview of UK funding sources

Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
PWLB	Unlimited (subject to prudential borrowing limitations). Term: long and short term availability.	UK govt Gilts + 1%	Senior debt	No	N/A	Generally the cheapest and most flexible source of borrowing for local authorities although there is a risk of further margin increases Competing capital projects within BCC will limit its flexibility Care must be exercised re state aid	Score 4 All elements but Council retains risk

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
HRA	Subject to HRA budgets e.g. £5.7m allocated to heating systems including air source heat systems in 2012-13	NA	NA	NA	Council housing stock only	Already planned investment which can count towards leverage factor HRA reforms will increase levels of spending on key landlord services	Score 3 council housing retrofit/DH

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
Salix Finance	£20m across UK for 2012, loans repayable by instalments over 4 years. New CX working to treble amount of available funding.	Interest free loan	Senior debt	No	Payback < 5 years Lifetime CO2 cost < £100/tonne	There is significant experience of securing Salix funding at BCC and as it is interest free the Council is keen to maximise its future use. Can be part of funding mix together with PWLB and private finance. New Salix CX is keen to expand the amount of funding available under Salix, with up to £2m pa being available over a period of 4 years for suitable programmes. Manchester CC is doing a large scale social housing retrofit project (GD pilot) using Salix funding.	Score 3 Public sector bldgs (potentially council housing retrofit per MCC?)

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
						Historically small allocations (generally < £500k).	
Direct investment from Green Investment Bank (GIB) or UK Green Investments (UKGI) - predecessor to GIB pending state aid approval	UKGI has £750m to lend/invest in 2012/13. Will lend 50% of total funding required	UKGI - Market rates GIB potentially below market rates subject to state aid approvals	Senior, junior, equity	Yes	At ESCO or LEP level/large scale investment programme required Significant private sector involvement in delivery required to attract GIB/UKGI interest	Opportunity to be a UKGI "pilot". GIB requested to provide sub debt to GDFC	Score 2
						Opportunity to be pilot is time limited and requires substantial resource. .As part of its city deal, Greater Manchester announced in March 2012 plans to form a 50/50 JV with UKGI - Greater Manchester Green Developments Ltd	

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
UKGI/GIB Non-domestic energy efficiency fund	Fund managers appointed for two £50-m non-domestic energy efficiency fund to be in place 3Q 2012	Market rate	Equity	Yes	Fund managers must raise private match funding. Maximum project size £30m. Building retrofit, district heating eligible	Fund will be looking for early projects in which to invest- "shovel ready". Due diligence requirements may be substantial	Score 3 Public buildings retrofit and district energy
Corporate/utility debt and equity	Depends upon the organisation but appetite for on balance sheet is generally limited	Market rate - Will be based on their cost of capital and IRR	Senior, junior and equity	Yes	SPV/ESCO where the private sector is a majority shareholder or similar contracting structure	Removes onus of raising finance from BCC. Reduced timescales to reach close without third party finance Clear route to refinancing needed.	Score 3 Yes all elements

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
Bank debt	Unlimited in principle; only a few banks now prepared to lend long term; others funding on basis of soft mini perms (cash sweep after year 5 -7).	Market rate	Senior	Yes but risk appetite is low in new markets and for consumer finance risk (e.g. Green Deal)	Longer tenors may be reserved to key client relationships	Well established market in areas such as CHP and FITs.	Score 4 Yes all elements
Green Deal Finance Company	Unlimited in principle though will depend upon ability to secure significant GIB/UKGI risk tranche and refinance in capital markets; term of up to 25 years subject to meeting Golden Rule	~6% estimated but initial rates could be higher	Blended rate	Yes (consumer risk)	Green Deal plans meet the Golden Rule and other GD eligibility requirements	GDFC intend to act as universal financier, aggregator and route to capital markets for whole UK GD market Not in place yet, pending confirmation of GIB funding. Launch unlikely until 2013. . Will not finance non GD elements of EE e.g. RHI and FITs	Score 4 Green Deal elements of domestic private and social housing retrofit

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
Pension fund (LG or other)	At present, would need to be agreed on a case-by-case basis – Manchester is first example (pension fund investment in £25m housing project)	TBC	TBC	Unlikely	Needs to meet pension fund investment criteria approved by trustees	Good match of LT assets and liabilities. Govt is actively trying to devise structures for pension funds/insurance companies to invest in infra projects – with banks potentially taking construction/development risk. Could recycle Avon pension fund investment into local economy and have wider application than ELENA programme Little market precedent and will take time to develop, needs convincing of trade unions who are against this at the moment	Score 2/3

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
Wessex Home Loans (a Community Development Finance Institution (CDFI)	Under current scheme council provides [£1.4m] subsidised loans to private homeowners for home improvements which may include energy efficiency	4% current rate	Secured home improvement loan	Taking risk on householder but loan is secured by second mortgage so good credit experience	Private homeowners referred by Council	Could be scope for expanding to support early development of private domestic retrofit market – delivery framework already in place – see also Big Society Capital At present reliant on council funding support via PWLB or reserves and as payback periods are long funds are not quickly recycled	Score 3
Business Growth Fund	Equity (£2-10m)	Market rate	Equity	Yes	Low carbon/renewable energy an area of focus	Looking for private equity returns and exit within 5-7 years	Score 2
Leasing	Unlimited in principle, preferred deal size > £25m for DH	Market rate	Senior	Yes but will want strong off-take agreements	Asset-based finance	Limited applicability to ELENA with exception of district heating and solar PV	Score 3

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
Municipal (wholesale) bond	£150m+ minimum issue size	Depends on rating but can be sub PWLB levels	Senior	No		Too large for ELENA programme and risk remains with council	Score 2
Municipal retail bond	£50m+ minimum issue size, maturities of up to 20 years	Depends on rating but all in cost on a £50m/10-15 year comp w PWLB	Senior	No		Rates competitive with PWLB; broadens Council funding base; potential for residents to invest Risk remains with Council. More suited as an alternative to PWLB than a source of project funding	Score 2/3
Revolving Infrastructure Fund (RIF) established by	TBC	TBC – interest free or subsidised rates	Senior	Yes	Likely to be determined by an investment	Could be suitable for DH particularly if EZ is one of the sites under consideration.	Score 3

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
City or LEP		possible			committee	Under discussion but RIF not yet in place and will take time to establish Competition from other investments including those with shorter payback period	
Community funding models	Bath & West Community Energy (BWCE) raised £721k in its recent share offer – min investment £500, max £20k	BWCE estimate 7% (based on solar PV portfolio)	Equity	Yes		Successfully used for community renewable energy projects. Potential for Model to be adopted for community Green Deal untested although pilot schemes are in development (Severn Wye) Relatively small sums raised so may only be a complementary source of funding	Score 2/3 DH

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
DECC – Innovation funding	£10m across UK	Grant				Funding for the application of pre-commercial technologies which can achieve significant energy savings in existing non domestic buildings. Deadline for submissions was May.	Score 1
DECC – Early Adopters Incentive	£200m across the UK to incentivise early investment in domestic energy efficiency - £30m in 2012 and £170m in 2013	Grant	NA	NA	TBC	Likely to be for capital works in the form of vouchers/cash back etc, although consultation response has indicated there may be scope community schemes to access. More detail awaited from DECC.	Score 3 Community-based pilots for Domestic retrofit
Big Society Capital (Bank)	New £600m bank to fund loans between £500k and £15m	4.5 – 5% est	Loan	Yes	Lending is only via a Social investment finance intermediaries (SIFI) and must be to support social investment with a revenue stream	Potential for expanding Wessex Home Loan scheme if it qualifies as SIFI or Building a Better Bristol (BBB) Limited to domestic retrofit (fuel poor) and poss DH?	Score 2-3 Domestic retrofit/DH

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
CERT and CESP	There is still availability in the 2012 pot	Grant			CESP = whole house approach, community-based, identified low income LSOA within Bristol CERT = directed at householders, increased focus on priority groups (on benefits, over 70)	Targeted approach by Council (see Sustain report) scheme could boost investment in 2012 and help with early engagement w/ utilities on GD and ECO Limited amount and ends Dec 12. However government has clarified that overachievement of CESP and CERT targets will count towards ECO.	Score 3 Domestic retrofit /DH
ECO (Energy Company Obligation)	Estimated at £1.3bn pa for domestic energy efficiency across UK determined on basis of achieving a specified level of carbon savings. Govt	Grant	N/A	N/A	There are 3 elements: **Carbon Savings** (HTT cavity and SWI): £760m; **Carbon Savings Communities** (CESP-type measures targeted at 15% most	Scheduled to be available from autumn 2012 to complement Green Deal. Proposed brokerage system will require energy companies to broker [50%] of their entitlement – amount subject to further consultation.	Score 4 (domestic energy efficiency only incl DH as

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
	Consultation response has provided more detail.				deprived LSOA areas: £190m **Affordable Warmth** (private sector fuel poor only, all eligible GD measures): £350m DH not yet included in eligible measures but to be included under Carbon Savings when delivered as part of a package which includes SWI or non-standard cavity.	Competition for ECO will be high and targeted at achieving the lowest investment cost per tonne of CO2	noted)
Community Infrastructure Levy (CiL)	Will largely replace s 106 agreements for new developments and is based on a	N/A	Developer obligation	N/A	N/A	There is a requirement for a portion of CiL to be invested in the area in which it is raised and this could help to fund DH infrastructure	Score 3 (DH)

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
	formula determined by the Council – size and character of development are factors. The Council estimates CiL of £13.5m over the next 5 years of which £8.5m is unallocated.					There will be competing infrastructure priorities for funds raised through CiL including the enterprise zone.	
Allowable Solutions (AS)	Developer contribution arising from proposed requirement under new Building Regulations which require all new homes to be "zero carbon" from 2016.	N/A – developer obligation	N/A	N/A	The government is still consulting and the extent to which Local authorities can direct AS into investment into local low carbon infrastructure via their own Community Energy Fund (CEF) rather than a developer of	Probably most suitable for CHP and DH	1 (due to timing) although could be relevant for later stages

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Funding Source	Amounts & Term	Rates	Investment types	Will take project risk?	Eligibility requirements	Advantages/ Disadvantages	Applicability to ELENA 1=N/A, 5=Excellent
	Amounts will depend upon price set for Carbon and housing type and price				central govt fund is still TBC. Cambridgeshire Horizons (precursor to LEP) advocated such an approach.	Emerging policy area with lack of detail – further consultation to be undertaken.	

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Bristol City Council

Value for Money Conclusion Follow-up of Recommendations

Final September 2012

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Appendices

A Action plan

1 Our audit approach

Introduction and background

During 2010-11, we completed a number of detailed reviews to support our Value for Money (VfM) conclusion. These reviews were reported to Bristol City Council (the Council) and included a number of action plans.

We have assessed progress against the recommendations in these reports or through our other detailed reviews, such as the Financial Resilience and Change Agenda reviews. This report documents our assessment of the progress made. It addresses recommendations outstanding from our 2009-10 work, from work done in 2010-11 and also from work completed in 2011-12.

Where further progress is required, we have either repeated the original recommendation or revised the recommendation to reflect current arrangements and circumstances. We have consolidated all our remaining or revised recommendations where further work is needed by the Council in Appendix A to this report.

In summary this report includes the following:

- Section 2 - Overall arrangement, one recommendation which aimed to improve overall arrangements relating to completion of recommendations by the Council;
- Section 3 - progress to date on recommendations raised in our 2010-11 follow-up report which originally arose in our 2009-10 VfM conclusion report;
- Section 4 - progress to date on recommendations raised in our 2010-11 follow-up report which originally arose in our Review of Capital Projects Management Arrangements; and
- Section 5 – progress to date on the recommendations raised in our 2011-12 review of Corporate Performance Reporting.

We have not assessed progress against the recommendations raised in the 2010-11 follow up of Asset Management Arrangements that are reproduced in Appendix B.

The target date for these recommendations was agreed as December 2012. Follow of this review will be completed in 2012-13.

Code of Audit Practice

Under the Code of Audit Practice, we are responsible for issuing a conclusion on whether we are satisfied the audited body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our VfM conclusion for 2011-12 will be informed, in part, by the findings within this report.

Use of this report

This report has been prepared to advise the Council of the matters arising from our work and should not be used for any other purpose or be given to third parties without our prior written consent.

Our report is part of a continuing dialogue between the Council and ourselves, and should not be relied upon to detect all opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking its own specialist advice as appropriate.

We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

Acknowledgements

We carried out this work through discussions with Council officers, and by reviewing key documentation. We would like to record our appreciation for the assistance and co-operation provided to us during our work.

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2 Overall arrangements

Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
1	The Council should introduce formal arrangements to ensure recommendations from external bodies are addressed. *Internal Audit, the Performance and Improvement Team (P&I) and the External Auditor (EA) to work together to ensure that all external reports are followed up and recommendations addressed. Internal Audit to work specifically on reports from the EA, where the EA themselves are not following up, and the P&I Team taking forward progress against recommendations for all other high risk external reports.* *(March 2012)*	H	A protocol describing the links between Internal and External Audit has been drafted, but has yet to be agreed by the Council's Audit. Committee. While this protocol covers links between internal and external audit, it does not explain how recommendations from other external bodies, such as OFSTED, will be addressed. We understand that recommendations from external bodies are monitored through the relevant scrutiny commission, although the scope of our follow-up work has not extended to assessing these arrangements. This recommendation remains outstanding	**The Council should introduce formal arrangements to ensure recommendations from external bodies are addressed.**

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3 VfM Conclusion Report 2009-10

Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
2	**Managing spending** The Council should improve how it provides evidence and demonstrates to Members the impact of their spending decisions, in relation to: • the budget setting process; • and equality impact assessments, to ensure they are completed consistently and to a high standard. *Because the Council is undergoing significant transformational change to achieve budget reduction targets the 12-13 budget process has not enabled more detail to be provided within budget options. However, detailed proposals will be produced for Members in through the approval process of the change agenda.* *The standard and quality of EQIAs has been improved for the 12-13 budget setting process. A document showing the cumulative impact of savings across the Authority has been included in the budget report to Cabinet on 26.1.12.* *(April 2012)*	H	The Council has introduced standardised documentation to support the equality impact assessments. This has improved the quality and standardisation of assessments. All equality impact assessments were completed by 26 January 2012 and are available for review on the Council's public website. A summary document was provided to Cabinet setting out the cumulative impact of the proposed changes and identified where full assessments will be required if the changes are proposed. The proposals for members provided as part of the change agenda have been reviewed as part of our separate review.	**No further recommendation**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
3	**Delivering efficiency savings** The Council should ensure the VFM Strategy and supporting toolkit is adopted by all Directorates and Service Managers, prior to the annual analysis planned for February 2012. *The P&I Team are driving forward the implementation and application of the VFM Strategy, having already provided appropriate training to senior officers and specific/targeted training where required. The P&I Team continue to work with service areas to support their VFM aspirations and give guidance on VFM measures. All Services are required to submit a VFM Self-assessment by 31 December 2011, with a quality review by the P&I Team and IA scheduled to take place mid-January 2012.* *(February 2012)*	H	This recommendation has not been achieved in the timescale planned. A detailed review has been completed of the VfM Strategy. We concluded that "The VfM Strategy has taken longer than anticipated to be adopted across the Council and implementation requirements have been locally interpreted resulting in inconsistencies between Directorates". Ten recommendations have been raised within our report titled 'Review of Implementation of the VfM Strategy'. Progress against these recommendation will be followed up separately and will inform our VfM opinion for 2012-13	**Addressed through our Review of Implementation of the VfM Strategy**
4	The Council should ensure that the achievement of its savings are monitored as well as the actions intending to deliver savings. *Progress against target savings, as well as alternatives are reported to SODB monthly. The Council has achieved it's 11-12 target of £28m saving.*	H	Progress against savings plans is monitored within the Directorates on a monthly basis, and is reviewed across the Council by the Strategic Operations Delivery Board (SODB). Member scrutiny is limited to the Executive Member Lead reviewing the SODB commentary report. Progress against savings plans is not reported to Cabinet or any of the Council's Scrutiny Commissions. Reporting to Members on performance against budget (revenue) should be improved to ensure effective scrutiny. Performance should be reported quarterly, on a timely basis and be consistent across the differing scrutiny commissions.	

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
5	**Commissioning** The Council should ensure its new approach to commissioning delivers clear outcomes and benefits. *The commissioning framework has been embedded throughout the Council. An electronic workflow system with review points and management reporting systems fully reflecting the framework, allow for an improved approach to analysis and planning, with greater focus on outcomes. This has been facilitated by a Quality Assurance process, which ensures compliance with the commissioning framework. The framework sets out the need for setting clear outcomes and Benefits at the start of all commissioning activity. Reporting through the Quality Assurance process, which takes place at the end of each of the 4 stages of the Commissioning cycle, ensures process and targets and outcomes are set, the measurement will be on going dependant on the deliverable requirements of each individual commissioning activity.* *Further development of the process to ensure on-going progress and benefits are measured and met through review arrangements in place by means of contract monitoring and monitoring through the intentions and the Enabling Commissioning Board.* *(September 2012).*	H	In order to meet the recommendation that *'the Council should ensure its new approach to commissioning delivers clear outcomes and benefits'*, two work streams have been set up (1) 'Outcomes and Value for Money' and (2) 'Governance and Accountability'. The work plan of the Enabling Commissioning Board shows an expectation that by September 2012 processes will be fully implemented to ensure that all new commissioning activity will be following the Enabling Commissioning Framework, and that governance mechanisms will be operating to ensure that outcomes and benefits are measured and reported. A 'Governance and Accountability for Commissioning' briefing paper is currently (at June 2012) being prepared that outlines several proposals regarding accountability and governance for commissioning. These proposals are likely to impact both on the Enabling Commissioning Board and Commissioners across the Council looking to implement the Framework by September 2012. By using the Framework, business cases and Quality Assurance processes, it is expected that the Council's approach to commissioning will assist in delivering clear outcomes, and that the benefits from these outcomes will be formally described, documented and reported. **Progress has been made and the work remains broadly on target for completion in September 2012. The target date has not yet been reached and this recommendation remains outstanding.**	**The Council should ensure its new approach to commissioning delivers clear outcomes and benefits.**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
6	***Partnership working*** *The Council's assurance arrangements should ensure that emerging and existing partnerships deliver their expected benefits and VFM.* ***Bristol Partnership*** *The Partnership has undergone a process of change in response to central Government removing the requirement for Local Strategic Partnerships and Local Area Agreements. Partners hope to reconstitute the Executive Board to be more responsive and engaging and focussed on key issues for the city, rather than focussed on monitoring and reporting. In accordance with this, the Council no longer provides dedicated partnership staff, but has incorporated the officer lead in to the Executive Office. Accountability to the Council will be provided through an annual report to Full Council.* ***West of England Local Enterprise Partnership*** *The new Local Enterprise Partnership covers the 4 West of England local authority areas and is focussed on job creation and growth for the sub region. It is an equal partnership between local authorities and businesses, and builds directly on the former, local authority only, West of England partnership. Elements of this previous partnership remain in place, principally the Stakeholder Group (based on the membership of the former West of England partnership board), and the Joint Scrutiny Committee, which are in place to hold to account the local authority engagement in the LEP, and deliver against an agreed LEP Business Plan.*	H	Since this recommendation was originally raised in 2009-10 both the Bristol Partnership and the West of England Partnership have decreased in importance. Resources within these partnerships to monitor performance have reduced and delivery of the primary objectives now generally takes place within the specific partnership groups or boards. Changes in the corporate monitoring arrangements have reduced costs and encouraged partnerships to look for alternative sources of revenue funding. Within BCC partnerships are held accountable to the Council through annual reports to either specific scrutiny commissions or Full Council. However, it should be noted that one high profile new statutory partnership has been introduced, the Bristol Health and Well Being Board. Therefore we consider that this recommendation remains relevant to enable the Council to ensure that partnerships are economic, efficient and effective in delivering their joint objectives. **As this is an on-going requirement we have not carried the original recommendation forward to the action plan, but will consider the role of the Bristol Health and Well Being Board and the transfer of Public Health to the Council as part of our VfM risk assessment in 2012-13.**	**No further recommendation**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
7	**Workforce** The Council should ensure it introduces an effective People Strategy supported by resource plans. *This will be achieved through the development of a business case.*	H	The outline business case (OBC) was discussed at SLT on15 May and it is currently expected that the full business case will be signed off in September. The costs presented in the OBC are illustrative but more robust costings will be included in the Full Buiness Case. The OBC shows a clear awareness of the need to move forward with a new approach to staffing in BCC, and sets down some detailed ideas for improvement to be achieved through six supporting workforce projects. The OBC includes both cashable and non-cashable benefits. The documentation itself identifies that further work is needed to test projected HR spend against different scenarios. **Progress has been made in establishing a People Programme and an OBC. The Programme is an enabling programme designed to improve organisational productivity and performance. It has an anticipated five year implementation period and we will consider this as part of our VfM risk assessment in 2012-13.**	**No further recommendation**
8	The Council should establish agreed service standards against which the HR Shared Transactional Services can be performance monitored. *Service plans are now in place.*	M	A schedule of service standards has been agreed with customers of HR – not just standards within Shared Transactional Service areas but across the full HR service. The standards document includes hyperlinks and runs to 10 pages and is designed to be a living document. At July 2012 it was evident that some work was still needed to decide how performance would be monitored. **We consider that this recommendation has been addressed. Although it is planned that the HR service will monitor performance, further work is required to put monitoring systems in place.**	**No further recommendation**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
9	The Council's HR service should continue to work with service managers to address individual employees under performance. *Under performance issues are being addressed – report considered by Resources and Scrutiny November 2011.* *Action to improve alignment of personal performance with organisational performance is part of the People Programme.* *(December 2012)*	M	The Bristol Leadership Pipeline document offers a statement of expected roles and responsibilities at various levels in the organisation. It explains how individual performance assessment will be based on objective-setting for all managers – and also defines 'dysfunction' as occurring when the cascade breaks down. The Pipeline is an integral part of the Council's employee and management performance management process (PMDS) framework and is being rolled out over the next year. There are clear procedures to deal with employees who do not meet performance expectations also set out in the Council's PMDS scheme. This includes when formal HR processes should be used. As the original management commentary said, *'action to improve alignment of personal performance with organisational performance is part of the People Programme'*. Projects within that programme – including project 2, Health, Well-being and Productivity – will help address this recommendation. **There has been some progress. The target date of December 2012 has not yet been reached and this recommendation remains outstanding.**	**The Council's HR service should continue to work with service managers to address individual employees' under performance.**

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4 Review of Capital Projects Management Arrangements

Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
Review of Capital Projects Management Arrangements				
10	Strengthen the process for completing Project Business Cases to ensure that they contain sufficient and robust information on the scope of the project and the associated costs and that the individual capital projects are using them as an effective tool in capital project management. *Considerable work has been done to improve business cases as part of a suite of project documentation.* *(February 2012)*	M	The process for completing and submitting business cases has been strengthened. All projects are required to have a business case, and those where spend is significant (the threshold is about £2m) go to the Council's Strategic Investment Board. Projects go through a PRINCE 2 Gateway process, Gateway 0 identifies the necessary information requirements. Over the last 9 to 12 months a new system for scoring prospective projects has also been introduced, which requires business cases to show which of the Council's objectives they are expected to address. **We consider that this recommendation has been addressed.**	**No further recommendation**
11	The Council should update its procurement guidance to ensure it addresses arrangements for joint authority capital projects, including the possibility of risk sharing and transfer. *Will be completed with the next update of documentation.* *(February 2012)*	H	Project procedures have been changed to incorporate arrangements for joint authority capital projects, including the possibility of risk sharing and transfer, but procurement guidance has not been updated. **There has been no progress yet updating the procurement documentation, so this recommendation remains outstanding.**	**The Council should update its procurement guidance to ensure it addresses arrangements for joint authority capital projects, including the possibility of risk sharing and transfer.**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
12	All risks on risk registers should have a risk owner and named individual. Where this is outside the Council, the organisation and a named individual should be listed. This requirement has been re-emphasised onto project managers	M	This requirement has now been addressed. **We consider that this recommendation has been addressed.**	**No further recommendation**
13	Ensure the PID sets out the risk transfer that is involved with the contract route and that the approach is in line with Council procurement guidance. *No current projects have contract routes with significant risk transfer. Contract discussions are part of all early project discussions.*	H	As no recent projects have involved contract routes with significant risk transfer, we consider this recommendation to be no longer required.	**No further recommendation**
14	Expand the financial regulations to cover situations where SLAs are required, for example, partnership and joint working schemes. *Will be completed with next update of documentation.* *(February 2012)*	H	The Council's partnership policy refers to the documentation needed for partnership working, but this material needs also to be accommodated in financial regulations, which need to be policed to ensure that regulations are met. The financial regulations should be the core document and updated accordingly. **There has been no progress yet updating the regulations, so this recommendation remains outstanding. The wording of this recommendation has been altered to accommodate this original recommendation and recommendations 15 and 17.**	**The Council should expand its financial regulations to cover:** • **situations where there are partnership or joint working schemes;** • **changing risk assessments; and** • **the need for member approval at different project phases.**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
15	Ensure the financial regulations and/or the procurement regulations include the requirement to formally report risk assessments to the Executive Member throughout the project. *Will be completed with next update of documentation.* *(February 2012)*	H	The Council proposes to amend the financial regulations Sec 14, Capital Expenditure Para. 5 to read as follows: "Strategic Directors must submit quarterly reports to the relevant Executive Member setting out the latest estimates of costs and phasing of the service's capital programme. The report will give details of changes in project costs and phasing, and include updated risk assessments. If there is a net increase in costs the report must contain proposals as to how the additional costs will be contained within the resources allocated to the service." **This draft wording is acceptable, but the update has not yet been completed so this recommendation remains outstanding. See recommendation 14 above.**	**See recommendation 14**
16	Update the financial regulations to include the process for setting the level of cost certainty required for major capital projects, where relevant. *Will be completed with next update of documentation.* *(February 2012)*	H	An internal review of procurement regulations is currently underway and cost uncertainty will be considered in that review. The Council has concluded that if cost certainty becomes a key decision in project approval again, it will update its regulations accordingly. **We consider that this recommendation has been addressed.**	**No further recommendation**
17	Include the financial regulations and/or supporting guidance the requirement for Member approval at different phases of capital projects. *Will be completed with next update of documentation.* *(February 2012)*	H	New wording has been drafted to update the financial regulations. **As the update has not yet been completed this recommendation remains outstanding. See recommendation 14 above.**	**See recommendation 14**
18	Update the Financial Regulations to include the process for approval of variations to the regulations. *Will be completed with next update of documentation.* *(February 2012)*	H	Financial Regulations have already been amended, ie Page 4, Para 11, "The Service Director Finance is responsible for ensuring that they are kept up to date as the need arises, and for an annual check that this has been done....The Service Director Finance is responsible for approving any variations to these Regulations." **We consider that this recommendation has been addressed.**	**No further recommendation**

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Rec No	Recommendation raised in January 2012, *management comments and (target date)*	Priority	Progress to date	Recommendation
19	Review the area of benefits realisation for major capital projects to ensure that the concept is considered and applied from initial business case planning, through to post project reviews, including the interim measures that can be made. *The Council has established a Benefits Realisation Board, both to monitor and ensure delivery of expected benefits.* *Further training has been put in place to emphasise this important aspect of project management.* *Gateway reviews also deal with the post project review aspects of this item.*	H	The extent of documenting benefits from capital projects has increased. A number of examples have been discussed including the education capital programme, the various City cycling initiatives and M Shed. While there has been progress, more could be done to formalise the use of Gateway 5 in documenting the benefits from projects, which in turn might encourage clearer thinking at project start-up (Gateway 0). **The wording of this recommendation has been altered to reflect the importance of Gateway 5 in assessing project benefits.**	**The Council should routinely use Gateway 5 to document and demonstrate the benefits generated from each of its major capital projects.**

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5 Corporate Performance reporting

Rec No	Original Recommendation 2010-11 and *management comments and (target date)*	Priority	Progress to date	Recommendation
1	The Council should ensure that its new Corporate Plan drives its performance reporting. *Performance reporting needs to be driven by the need to deliver the best possible outcomes. We need to retain enough flexibility in our processes to respond to changes in circumstances as well as reporting against plans.* *(On-going)*	H	The Council has adopted six outcomes to drive its performance reporting - four from the strategic partnership's 20:20 Plan and two others - one to maximise financial resources and another to optimise the productivity of staff. For each outcome, key objectives necessary for achieving that outcome have been identified by strategic outcome leads. The outcomes and objectives have been agreed by SLT. For each outcome, delivery measures have been agreed. Additionally, key indicators or milestones of progress against the key objectives are being developed for inclusion in the performance report. All this information will be used to inform the six Outcome Performance Reports. Officers are currently working to populate the performance reports with real data to see if the reports 'do the job' properly. The intention is to have this ready for SLT consideration on 15th May, and to start consulting members soon after. The aim is to use the new style performance reports for Q1 (2012-13) if the consultations go well. **We consider that this recommendation has been addressed.**	**No further recommendation**
2	The Council should introduce corporate performance monitoring – showing the full range of service performance against targets – that also enables links to be made between service performance, unit costs and budgets. *Significant progress has been made over the last 12 months. We do not feel this report fully reflects the progress made. The scorecards were always intended to be a first step. We will now complete our review of the best way to present performance information. This will take full account of the recommendations made. (April 2012)*	H	Progress against this recommendation indicates that there have been significant developments. The new reporting system is likely to run to 12-14 pages at most and be in a reasonable font and point size. It is being designed with the public in mind and to give a truly balanced picture of performance. (It will not predominately focus on the poorer aspects of performance as the current scorecards do). It is clear that this is major change to reporting, not least because the new system cuts across portfolios and directorates. **We consider that this recommendation has been addressed.**	**No further recommendation**

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Rec No	Original Recommendation 2010-11 and *management comments and (target date)*	Priority	Progress to date	Recommendation
3	The Corporate Plan and SLT should determine what appears on the scorecards and for how long. *We need to consider more fully the different audiences and the different requirements. The new arrangements need to be agreed with the respective audiences.* *(April 2012)*	H	Progress has begun but has been slower than originally expected. The responsible officers now aim to finalise work on the design of the performance reports and take these and a draft performance management framework to SLT in mid-May using Q4 data. This will be an opportunity to illustrate the difference between what was provided through the old score cards, and what could be provided in the future through the new performance reports for each outcome. The full expected timescale is that officers plan to consult with members via the Executive Member for Performance (on 23rd May), Cabinet Briefing (14th June) and RSC (20th July). If the revised approach is approved by Members, this timetable will give sufficient time to formulate the Outcome Performance Reports for Q1 of the new financial year to be presented in September. **This recommendation remains outstanding.**	**The Corporate Plan and SLT should determine what appears on the performance reports and for how long.**
4	The production of scorecards will need to evolve in line with changes in the organisational structure of the Council. *Agreed.* *(On-going)*	M	The new system is not departmentally based, but is instead based on strategic outcomes that cut across departments. Therefore departmentalism in reporting is no longer an issue. **We consider that this recommendation has been addressed**	**No further recommendation**
5	A separate domain for value for money indicators should be created, and efforts should be stepped up to make sure that VFM indicators are routinely specified and used. *Establishing appropriate value for money indicators is a key priority. A great deal of work has already been done and we will continue to improve our VFM reporting.* *(On-going)*	H	The use of VfM indicators remains under-developed in BCC and is the subject of another, separate audit review. Although there is a clear awareness within the Corporate Performance and Improvement Team (CPIT) of the need to develop VfM indicators, these officers also understand the scale of the likely difficulties in getting VfM indicators fully adopted and used throughout BCC. **The development of VfM indicators has been considered separately and addressed through our VfM strategy review.**	**No further recommendation**

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Rec No	Original Recommendation 2010-11 and *management comments and (target date)*	Priority	Progress to date	Recommendation
6	The relevance of reporting performance on the people (staff) domain should be reconsidered. *There is a clear correlation to between the quality of staff performance and the quality of service outcomes. We will look at the type of information included but feel it is important to have some information about staff performance.* *(April 2012)*	M	Staff productivity has been identified as the sixth corporate priority for BCC. Discussions with responsible officers have indicated that this has proved more challenging than any of the other five strategic priorities. Work remains on-going on this particular dimension. An outline business case (OBC) was discussed at SLT on 15 May). The OBC includes draft metrics to assess HR performance. **This recommendation remains outstanding. The wording of the recommendation has been changed to reflect the new approach adopted by the Council.**	**Responsible officers need to demonstrate that indicators of staff performance and productivity reported through the sixth 'outcome' are SMART and enable progress to be performance managed.**
7	The design of the scorecards needs to be reviewed so that the content is easier to read and understand. *Agreed.* *(April 2012)*	M	We consider that the content of the scorecards has been improved, but that the redesign is taking longer than expected. **We consider that this recommendation has been addressed**	**No further recommendation**
8	To reduce the incidence of avoidable mistakes in presentation, more attention needs to be given to checking and signing off data appearing on scorecards before the scorecards are published. *Agreed. Consistent reporting arrangements which map trends is fundamental to improving our performance reporting.* *(April 2012)*	H	Discussion with officers indicates an awareness of the importance of assuring data accuracy, but also uncertainties as to who is to be responsible for this. Our conclusion is that while there is evidence of some progress in thinking about data quality, this is still at the theoretical rather than a practical level. With the current reductions in staffing in CPIT, it remains unclear how data quality will be improved and checked in service areas. **This recommendation remains outstanding. The wording of the recommendation has been changed to reflect the new approach adopted by the Council.**	**To reduce the incidence of avoidable mistakes in presentation, more attention needs to be given to checking and signing off data before it is presented and published.**

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Rec No	Original Recommendation 2010-11 and *management comments and (target date)*	Priority	Progress to date	Recommendation
9	Systems analysis should be carried out to see if the time to produce scorecards from available data can be reduced. *Agreed. Current arrangements do not assist timely production of the scorecards.* *(April 2012)*	M	The Council is currently researching a solution that might decrease substantially the time between quarterly outcome performance reports being presented to SLT (for action), and being shared with Exec Members and Resources Scrutiny. One option is to consider sharing performance reports with all Executive members by email or post. **This recommendation remains outstanding. The wording of the recommendation has been changed to reflect the new approach adopted by the Council.**	**Systems analysis should be carried out to see if the time to present summary performance information from available data can be reduced.**

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A Action plan

Rec No	Recommendation	Priority	Management comments	Responsible Officer/ Target Date
1	The Council should introduce formal arrangements to ensure recommendations from external bodies are addressed.	H	A protocol between Grant Thornton and the Council is being developed. This document will clearly set out the responsibilities for both sides to respond and follow-up recommendations and will be presented to the Audit Committee in November 2012.	Chief Internal Audit (CIA) November 2012
2	The Council should ensure its new approach to commissioning delivers clear outcomes and benefits.	M		Sarah Kelly/Nick Hooper September 2012
3	The Council's HR service should continue to work with service managers to address individual employees' under performance.	M		Mark Williams December 2012
4	The Council should update its procurement guidance to ensure it addresses arrangements for joint authority capital projects, including the possibility of risk sharing and transfer.	H	The procurement regulations will be reviewed as part of a new scheme of delegation with the new Mayor.	Service Manager Procurement January 2013
5	The Council should expand its financial regulations to cover: • situations where there are partnership or joint working schemes; • changing risk assessments; and • the need for member approval at different project phases.	H	Financial Regulations have been amended to incorporate the first two bullet points. Third bullet point –not agreed as Members can only approve items through formal Cabinet meetings. Project gateway reviews are delegated to officers and approved by SODB (Strategic Options Delivery Board). Unless the scheme of delegation is changed it is not yet practical to address this point.	Corporate Service Manager Finance and s151 Officer Points one and two - complete
6	The Council should routinely use Gateway 5 to document and demonstrate the benefits generated from each of its major capital projects.	M	This is being addressed through ensuring early stages of projects emphasise the importance of benefit realisation management and following this through at each stage and Gateway Review for the project.	Service Director Major Projects August 2012

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Rec No	Recommendation	Priority	Management comments	Responsible Officer/ Target Date
7	The Corporate Plan and SLT should determine what appears on the performance reports and for how long.	H	Both senior management and Members have now approved Outcome Performance Reports (OPRs) based on the priority outcomes published in the medium term financial plan. The first set of live reports was considered by SLT on the 24 August and was approved for early release to Members via email and publication on the Council's Website. This process ensures that Member are provided with performance information as soon as it is available. OPRs will be reviewed for content every quarter and revised as required.	CIA /Corporate Performance Improvement Team (CPIT) 30 September 2012 On-going
8	Responsible officers need to demonstrate that indicators of staff performance and productivity reported through the sixth 'outcome' are SMART and enable progress to be performance managed.	M	Performance indicators which reflect the progress to achieving outcome 6 are still under consideration. The work underway within the People Programme will provide a better understanding of how this outcome can be measured and progress to achieving the measure clearly demonstrated. People Programme is on-going.	CIA/CPIT and Service Director HR. 31 March 2013
9	To reduce the incidence of avoidable mistakes in presentation, more attention needs to be given to checking and signing off data before it is presented and published.	H	Data quality audits are completed by Directorate Performance Leads to ensure the accuracy of information. Additionally, during the early stages of implementing the new OPR format, quality will be checked by CPIT and will be for at least the next 2 quarterly reports. After that a sample checking mechanism will be introduced.	CIA/CPIT On-going.
10	Systems analysis should be carried out to see if the time to present summary performance information from available data can be reduced.	M	Revised OPR process has streamlined the reporting process and it is envisaged that once the performance leads become familiar with the reports that production time will reduce. This reduction will however take time. The time taken for each quarterly report for the next 2 quarters will be monitored in order to show a clear trend and confirm whether the process has achieved greater efficiency.	CIA/CPIT 31 March 2013

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B Review of Asset Management Arrangements

Rec No	Recommendation	Priority	Management comments	Responsibility and deadline
Review of Asset Management Arrangements				
20	The Council should agree a mechanism for the development of a corporate approach to asset management, which is coherent and consistent across the Council, allowing for strong robust arrangements for effective corporate oversight of the full asset base. This mechanism should include steps for identifying good practice in asset management and applying this across the Council's full asset base. This could be achieved by either: • a single Corporate Property Division which has responsibility for and manages the Council's entire asset base; or • the current structure is maintained but robust mechanisms are rolled out across all divisions with responsibility for property to ensure that the approach to asset management is consistent and coherent across the Council.	H	Cabinet proposal to introduce a 'Corporate landlord'. This approach if agreed by Cabinet on the 26 January 2012 should ensure a "One Council" approach to Bristol's buildings and land assets to optimise best value and ensure asset management is driven and owned corporately.	Will Godfrey Strategic Director (Corporate Services) December 2012

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Rec No	Recommendation	Priority	Management comments	Responsibility and deadline
21	The Council should ensure that the existing asset base is reviewed and challenged at Directorate level and across Directorates, to ensure a high-level, corporate and council-wide view is always considered. This challenge and review should be carried out by Officers and Members.	H	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012
22	The Council should implement processes to ensure asset management across the Council is clearly linked to the Corporate and Directorate Objectives. These processes should enable VFM to be considered and obtained from across whole asset base.	H	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012
23	The Council should continue to work with others, both public, voluntary and private bodies to improve VFM across the Council's asset base.	H	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012
24	The Council should review the current arrangements to ensure that: • there is a corporately determined consistent and risk based approach to identifying and recording asset and stock conditions; and • the condition of all assets and stock is accurately and routinely recorded in the central asset register.	M	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012

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Rec No	Recommendation	Priority	Management comments	Responsibility and deadline
25	The Council should introduce a consistent approach to improve asset management performance across the Council.	M	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012
26	Introduce mechanisms within the Council to gather feedback at a Corporate level, once corporate systems have been introduced.	M	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012
27	Develop and implement a reporting mechanism for performance within asset management. There should be clear reporting structures and actions identified to drive performance forward.	M	This will be addressed through the proposed refocusing of property management.	Will Godfrey Strategic Director (Corporate Services) December 2012

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