Public Document Pack

Extraordinary Full Council

Supplementary Information

Date: Thursday, 11 February 2021

Time: 5.00 pm

Venue: **Virtual Meeting – via Zoom**

Issued by: Louise deCordova, Democratic Services
City Hall, Bristol, BS1 9NE
Tel: 0117 92 23846
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Date: Friday, 05 February 2021

www.bristol.gov.uk

4. Public Forum (Questions)

Extension of Public Forum Questions Deadlines

As the Supplementary Information for this meeting was not available at the time of dispatch the Chair has agreed to extend the public forum questions deadline for this information, until **5pm, Monday 8th February 2021,** at the latest. A maximum of 2 questions per member of the public is permitted. Questions should be addressed to the Mayor or relevant Cabinet Member.

Members of the public who wish to present their public forum in person during the video conference must register their interest by **5pm, Monday 8th February 2021.**

Please note: public forum is permitted for this Extraordinary Full Council provided that it relates to the business for which the meeting has been arranged (i.e. the items on the meeting agenda).

Submissions will be treated in order of receipt and **as many people shall be called upon as is possible within the time allowed within the meeting (normally 30 minutes)**.

Further rules can be found within our Council Procedure Rules and Virtual Meeting Procedure Rules within the Constitution.

Public forum items should be e-mailed to democratic.services@bristol.gov.uk

6. Grant Thornton Review of Governance Arrangements for Bristol City Council's Subsidiaries 2019/20

(Pages 3 - 28)

Extraordinary Full Council

11th February 2021

Report of: Monitoring Officer

Title: Executive Decision Making and Scrutiny of Council-owned Companies – Supplementary information

Summary

A request has been received from Councillor Gary Hopkins to include with the public papers for this Extraordinary Full Council meeting all exempt information considered by Cabinet in March 2020 and June 2020 in relation to Bristol Energy that can now be made public. Both reports and appendices have been reviewed by Council officers, representatives from Bristol Holding Company and Ernst & Young, the Council's external advisers.

1. The March 2020 Cabinet report is relevant supplementary information to the Value for Money (VFM) report prepared by the external auditors as it covers the period immediately after the timeframe considered by the external auditors in their VFM work.

2. The Cabinet report and appendices considered by Cabinet on 3 March 2020 are no longer considered to be exempt and are being published subject to one redaction of personal information.

3. The Cabinet Report and Appendices considered by Cabinet on 2 June 2020 are not relevant supplementary information to the VFM report as they relate to future strategic options in respect of Bristol Energy rather than the governance of the Council companies and therefore are not within the ambit of the request to be included in the papers for this meeting.

4. Additionally, the documents remain exempt under Part 1 of Schedule 12A of the Local Government Act 1972, para 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information). The commercial interests of the Council remain paramount until the final details of the commercial transaction have been completed. The public interest in ensuring the Council achieves the best possible outcome for taxpayers from this transaction outweighs the need for transparency at this time. The position will be kept under review.

Appendices

1. Exempt Cabinet Report Bristol Energy Operational Update
2. Exempt Appendix A1 – Further Background – Bristol Energy Operational Update
3. Exempt Appendix J1 – EY Cash Flow Findings Report (Redacted)
4. Exempt Appendix J2 – Commentary on Bristol Energy Operational Update

This report is not for publication under Part 1 of Schedule 12(A Local Government Act 1972, para 3 (Information relating to the financial or business affairs of any Particular person (including the authority holding that information)

Decision Pathway – Report

PURPOSE: Key decision

MEETING: Cabinet

DATE: 03 March 2020

TITLE	**Bristol Energy Limited Operational Update March 2020**	
Ward(s)	All.	
Author: Penny Fell		**Job title:** **Director Commercialisation, Citizens and Shareholder Liaison**
Cabinet lead: Cabinet Member for Finance, Governance, Performance and Shareholder		**Executive Director lead: Executive Director, Resources**
Proposal origin: City Partner		
Decision maker: Cabinet Member **Decision forum:** Cabinet		

Purpose of Report:

To provide an operational update in relation to Bristol Energy Ltd (BE), in response to market conditions and an early indication of the changes that may be required to ensure BE is appropriately restructured in relation to City Leap.

Given the current market conditions and critical dependency between BE and the City Leap programme, Ernst and Young have been commissioned to provide professional advice to the Council. This work is underway and a number of actions have been identified which will need to be taken to mitigate the extent of any additional funding requirement from the Council beyond the existing agreed funding envelope.

Early feedback from the City Leap bidders indicates that Bristol Energy may need to be reformed or restructured in some fashion. Options in relation to this are currently being considered in the work being undertaken by EY. A further report will be coming to Cabinet in June 2020 to outline any further options to be considered in relation to the company.

Evidence Base:

It is intended that the Mayor (or his/her appointee) will make most decisions concerning the Executive's role in respect of company interests, with the advice of the Shareholder Group.

In April 2019, Cabinet authorised the provision of a range of cash, credit, collateral, and guarantee support to Bristol Energy (on market terms) and has delegated authority to the council's s151 officer to negotiate, sign and enter into the necessary contracts and agreements (including appropriate loans and guarantees). The company's business plan was updated, and approved in January 2020. This Cabinet Report provides an operational update further to this business plan.

The first 3 decisions set out in this report are in line with the existing delegations approved by Cabinet in April 2019, namely for the Director of Finance (s 151 Officer) in consultation with the Deputy Mayor for Finance and the Director of Legal and Democratic Services, to agree any phasing of the draw-down and other details of individual funding arrangements, and to negotiate, sign and enter into the necessary contract and agreements (including appropriate loans and guarantees in respect of such funding envelope), subject to compliance with the approved Business Plan.

Cabinet Member / Officer Recommendations:

That Cabinet:

1. Note that, pursuant to the Bristol Energy Business Plan approved by Cabinet in January 2020 for the period 2020/21-2024/2025, the following approvals remain in place:
   a) a cash funding envelope of £37.7m, to support the core energy supply Business (for the avoidance of doubt, this total cash funding includes any funding provided to BE to date); and
   b) a limit of £17.6m on the collateral support by way of parent company guarantees.

2. Note that, in addition to the above BCC (City Leap Programme) has entered into a contract for £2m with the company for innovation services in readiness for City Leap. The first £1.2m was paid in January 2020 under this contract and the company is due to receive the remainder £0.8m in April 2020.

3. Note that, in respect of the total cash funding envelope of £37.7m, the Council intends to accelerate the availability of the residual funds of up to £2.7m. Subject to a determination that further investment remains in the public interest the funds could be drawn-down intermittently between March 2020 and June 2020 in order for the company to meet obligations as they fall due within that period.

4. Note this operational update in relation to Bristol Energy Ltd and the extension of the contract with Ernst & Young (of approximately £150k plus expenses, to be funded from the approved City Leap programme budget) to review the Bristol Energy financial position in detail and consider options and next steps in view of City Leap.

5. Note that a further report will be prepared for Cabinet in June 2020 to provide; an update on this work, further actions taken under delegated authority, and seek approval for any proposed next steps.

6. Authorise the Deputy Mayor for Finance, Governance, Performance (in his role as Shareholder Representative), subject to affordability and within delegated authority, to approve variations to the existing Bristol Energy business plan specifically to enable the company to:

   a) mitigate the extent of any additional further funding requirement beyond the peak working capital cap of £37.7m

   b) make improvements to the performance of the company, which may include restructuring, particularly with a focus to prepare the company, and/or enhance the value of the company as part of the city leap partnership proposal.

7. Authorise the Deputy Mayor for Finance, Governance, Performance (in his role as Shareholder Representative), in consultation with the Director Finance (s151 Officer), to make an emergency payment to BE from the Council's risk reserve (according to the scheme of delegation) should this be deemed prudent to protect the Councils investment.

Corporate Strategy alignment:

Bristol Energy's Business Plan aligns with the key theme of Wellbeing, supporting Bristol to be on course to be run entirely on clean energy by 2050 through investing in renewable energy generation, and developing innovative products to both reduce domestic fuel consumption, and tackle fuel poverty.

City Benefits:
Bristol Energy was established to support the city towards the following objectives:

1. Keep Bristol on course to be run entirely on clean energy by 2050 by delivering £800m to £1bn of investment in the city's low carbon, smart energy system.
2. Improve our environment to ensure people enjoy cleaner air through supporting the further deployment of renewable energy generation and electric vehicles.
3. Improve physical and mental health and wellbeing by making residents' homes warmer and cheaper to heat, reducing inequalities and the demand for acute services.
4. Tackle food and fuel poverty by reducing energy bills.
5. Create jobs, contributing to a diverse economy that offers opportunity to all and makes quality work experience and apprenticeships available to every young person.

Consultation Details:
Discussion with the Bristol Energy Board, Bristol Holding Ltd board, Shareholder Group, and with Cabinet.

Revenue Cost	**See Appendix**	**Source of Revenue Funding**	**See Appendix**
Capital Cost	**N/A**	**Source of Capital Funding**	**See Appendix**
One off cost ☒	**Ongoing cost** ☐	**Saving Proposal** ☐	**Income generation proposal** ☐

Required information to be completed by Financial/Legal/ICT/ HR partners:

1. Finance Advice:

See Exempt Appendix J2

Finance Business Partner: **Date**:

2. Legal Advice:

While all funding to BE to date has been assessed as falling under the Market Economy Investor Principle, and so permitted, it will need to be considered whether any future funding (and in particular any emergency funds) will comply with this principle in view of the information contained in this report. Legal advice will need to be sought prior to making any payments to ensure they do not constitute State aid.

Legal Team Leader: Sinead Willis , Commercial and Governance Team Leader, Legal **Date:** 21.02.20

3. Implications for ICT:

- **Bristol Energy** - No anticipated impact on IT Services

ICT Team Leader: Simon Oliver, Director of ICT and Digital Transformation **Date:** 21.02.2020

4. HR Advice:
No HR implications evident for employees of Bristol City Council. Any impact on employees of the companies will be identified and managed by the companies themselves.

HR Business Partner: James Brereton, Resources HR Business Partner **Date:** 21.02.2020

EDM Sign-off	**Executive Director of Resources**	**25.02.2020**

Cabinet Member sign-off	**Cabinet Member for Finance, Governance, Performance and Shareholder**	**25.02.2020**
For Key Decisions - Mayor's Office sign-off	**Mayor's Office**	**24.02.2020**

Appendix A – Further essential background / detail on the proposal • Exempt A1. Bristol Energy Operational Update March 2020 – Further information	**NO**
Appendix B – Details of consultation carried out - internal and external	**NO**
Appendix C – Summary of any engagement with scrutiny	**NO**
Appendix D – Risk assessment	**NO**
Appendix E – Equalities screening / impact assessment of proposal	**NO**
Appendix F – Eco-impact screening/ impact assessment of proposal	**NO**
Appendix G – Financial Advice	**NO**
Appendix H – Legal Advice	**NO**
Appendix I – Combined Background papers Previous Business plans of the companies. 1. Cabinet report April 2019: Bristol Energy Limited Business Plan 2019/20 –2023/24 2. Cabinet report January 2020: Bristol Holding Group company business plans 2020/21 – 2024/25	
Appendix J – Exempt Information Exempt Appendix J1. EY short term cash flow findings report. Exempt Appendix J2. Exempt Financial commentary	**YES**
Appendix K – HR advice	**NO**
Appendix L – ICT	**NO**

This report is not for publication under Part 1 of Schedule 12(A Local Government Act 1972, para 3 (Information relating to the financial or business affairs of any Particular person (including the authority holding that information)

Appendix A1

Exempt Appendix A1: Further Background Information

Bristol Energy Operational Update March 2020

Background and Context

1. Bristol Energy has been supplying Energy to residents of Bristol and nationwide since its full launch in February 2016.

2. The volatility of the energy market since the time of the launch has been reported on a number of occasions to Cabinet, notably in September 2018 and April 2019, when it was reported that significant steps had been taken by the company in restructuring the company's' business operations, and repositioning its strategy to align with the council's strategic objectives.

3. The revised direction reflected key changes in strategies, including product offer, pricing strategy, marketing strategy, margins of tariffs, and overhead structure. All of which were aimed at pursuing a realistic plan for a sustainable core supply business.

4. In order to support the drive to sustainability, in April 2019 Cabinet agreed to increase the total core cash funding envelope available for BE from the previously approved £31.3m to £37.7m, (including funding provided to BE up to that date) specifically to support the core energy supply business with the aim of building a sustainable energy service for the city, and to support Bristol to hit ambitious social and environmental goals as part of the City Leap venture.

5. In January 2020, a revised business plan was approved with no changes to this funding envelope, albeit with the acknowledgement that the company was still facing significant challenges.

Current Market Pressures impacting Bristol Energy

6. The number of active suppliers in the domestic retail market fell to 61 in Q3 2019 from 64 in Q2 2019, due to one new entry and four exits. Between October 2019 and January 2020, both Breeze Energy and Toto Energy ceased to trade. During the same period, a number of exits via trade sales were also completed. These include: Co-operative Energy (acquired by Octopus); Green Star Energy (acquired by Shell Energy); and SSE (acquired by Ovo).

7. In addition, the Big 6 have been pricing aggressively over this period, making many players uncompetitive: and for the first time in some years, the net switch away from the Big 6 to other players has reversed, with the Big 6 adding customers. This trend is affecting the company's ability to attract and retain the required volume of new customers.

8. Since October 2019, Bristol Energy customer losses (based on both customers switching within their terms, and non-renewals) have exceeded customer additions. Customer numbers are reducing each month, with the gap between losses and additions getting wider each month. Historically, Bristol Energy has attracted more

customers during winter months; however, based on January figures to date, this does not appear to be happening this year.

9. At Bristol Energy's' target gross margin it is ranked 23rd in the league table of pricing, and even at 0% gross margin it is still only 13th. Bristol Energy are required to settle in cash with wholesale suppliers any difference between the margin of sale, and the margin of the 'hedged' energy supply purchased. With recent reduction in gas and electricity purchase costs (-30% over three months) this had placed significant pressure on unplanned cash demands from counterparties.

10. Whilst the company has been progressing a series of actions that were envisaged to improve the position including reviewing direct debits, debt collection, progressing improved digital customer journeys, and overhead cost reduction, progress on such actions has been slow and the market pressures are such that they will fail to sustain the customer acquisition volumes required to deliver the current business plan.

Immediate funding requirements for the company until June 2020

11. In addition to the £1.3m share issue agreed by the Shareholder on 3 February 2020, (that brought the cumulative funding to £35m in line with the updated draw-down schedule for 19/20), the implications of the cash flow position presented by the company are as follows:

    i. A further £1.5m of funding is required in March 2020 to be brought forwards from the 20/21 funding profile.

    ii. The remaining £1.2m of the 20/21 funding profile would need to be paid in April 2020, bringing the company up to the overall funding cap of £37.7m.

    iii. The remaining £0.8m of the £2m innovation funding provided under the City Leap programme would need to be paid in April 2020. The first £1.2m was paid in January 2020.

12. The council is able to agree these drawdowns under the existing delegation for the Director of Finance (s 151 Officer) in consultation with the Deputy Mayor for Finance and the Director of Legal and Democratic Services, however a portion will need to be accelerated into this financial year.

13. The EY review of the BE cash flow forecast also indicates a potential short fall of c.£4.5m required in August 2020 in order to meet the £8m renewable obligations (ROC) payment to Ofgem.

Please see further detail in exempt Appendices J1 and J2

Alignment with City Leap

14. The model for City Leap given to bidders to comment on included Bristol Energy as a combined Energy supply and services company; the venture will have a key role in providing a route to market for new and innovative consumer propositions and

services which sit around local energy generation assets. This would include delivering assets into the field through a network of locally-engaged suppliers and installers and operating the assets over the long term to produce value for customers and investors (the Council and its Strategic Partner).

15. In response to current market developments, and considering early indications from bidder feedback to date, point to a requirement for Bristol Energy to be reformed or restructured in some fashion, in order for the company to be able to most efficiently meet the City Leap aims and objectives.

Response and actions initiated

16. The Bristol Energy Board of Directors, supported by the Bristol Holding Board, have challenged the management team rigorously over the accuracy of their financial forecasts and performance against extant recovery plans. They are now overseeing the production of a set of options for a revision to the current operational plan, which will minimise further investment demand from BCC beyond the £37.7m cap as set by the Shareholder.

17. The Council has stated that it is reluctant to provide a further injection of funding, and has initiated urgent action outlined below to support the company.

18. Ernst & Young are currently supporting Bristol City Council with the City Leap Programme and as an extension of their existing due diligence work will be supporting Bristol Energy over the coming months, to consider options to operate within the current cash cap, as well as options for restructuring the company.

12. The extended scope of work will comprise the following elements:
    i. Financial due diligence on the latest forecasts, forecasting processes and the options available to the Company to mitigate the extent of any additional funding requirement identified.

    ii. A ‘Strategic Options Review’ to include potential performance improvements, which may include restructuring, particularly with a focus to prepare the company, and/or enhance the value of the company as part of the city leap partnership proposal.

    iii. Provide advice to the council regarding alternative options for the company.

13. It is expected that a number of short, medium, and long term decisions regarding the operations of the company will need to be made by the Bristol Energy Board, prior to any further formal cabinet decision being made in June 2020, and so therefore this report seeks authorisation for the Shareholder to approve the variations to the existing Bristol Energy business plan specifically to enable the company to:

    a) mitigate the extent of any additional further funding requirement beyond the peak working capital cap of £37.7m

b) make improvements to the performance of the company, which may include restructuring, particularly with a focus to prepare the company, and/or enhance the value of the company as part of the city leap partnership proposal.

14. The report also seeks authorisation, prior to any further formal cabinet decision being made in June 2020, for council to make an emergency payment to BE from the Council's risk reserve (in line with existing processes in the Councils scheme of delegation) should this be deemed prudent to protect the Councils investment.

Project Leap II

DRAFT
Phase 1: Cash Management

Reliance Restricted

21 February 2020 | Version 1.0 (Draft)

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Project Leap II **21 February 2020**

Dear Sirs

In accordance with our Framework Agreement dated 20 August 2019 and scoping letter dated 13 February 2020, we have undertaken a initial review of the affairs of Bristol Energy Limited ('the Company').

Purpose of our report and restrictions on its use

This draft report was prepared on your specific instructions solely to assist you in connection with assessing the financial position and future prospects of the Company and should not be relied upon for any other purpose. Because others may use it for different purposes, this draft report should not be quoted, referred to or shown to any other party (other than your professional advisers acting in that capacity in connection with assessing the financial position and future prospects of the Company provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. Ernst & Young LLP assumes no responsibility whatsoever in respect of or arising out of or in connection with the contents of this report to parties other than the Company and Bristol City Council. If other parties choose to rely in any other way on the contents of this report they do so entirely at their own risk.

Scope of our work

This review has encompassed the matters set out in Phase 1 of our scoping letter.

Limitation on the scope of our work

Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based on enquiries of and discussions with Management, a review of accounts and other documents made available to us and analytical procedures applied to data provided to us. We have not, except to such extent as you requested and we agreed to undertake, sought to verify independently the accuracy of the data or the information and explanations provided by Management. As highlighted in our engagement letter, we have commented on the underlying assumptions to the financial forecasts, however, the responsibility for these forecasts and the assumptions upon which they are based rests solely with the directors of the Company.

Prospective Financial Information (PFI)

We have made factual findings and recommendations about specific assumptions and components of the PFI herein, where we had sufficient evidence to provide a reasonable basis for them. Except as otherwise noted, we have not analysed or commented on macroeconomic or geopolitical conditions that could impact the PFI. We have not provided any opinion, conclusion or any type of assurance about specific assumptions or components of the PFI.

There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievement of projected results.

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Basis of our work

The financial information contained in this report has been based on Management's 13 week cash flow forecast for the period ended 15 May 2020 and medium term forecast to week commencing 24 August 2020.

During the course of our work, we have also relied upon the following sources of information:

- Various supporting information and schedules provided by Management in response to EY requests for information; and
- Meetings and discussions with various of the Company's personnel.

Due to time constraints, the contents of the report and our key findings have not been reviewed with Management and therefore the factual accuracy of our report has not been confirmed at this time.

Structure of this report

The report is divided into two sections: our conclusions and commentary on the Company's short term cash flow forecast and then associated appendices. We stress that, whilst we have identified key issues in the body of the report based on your instructions, there may nevertheless be other issues raised in the appendices and therefore the entire report should be read for a full understanding of our findings and advice.

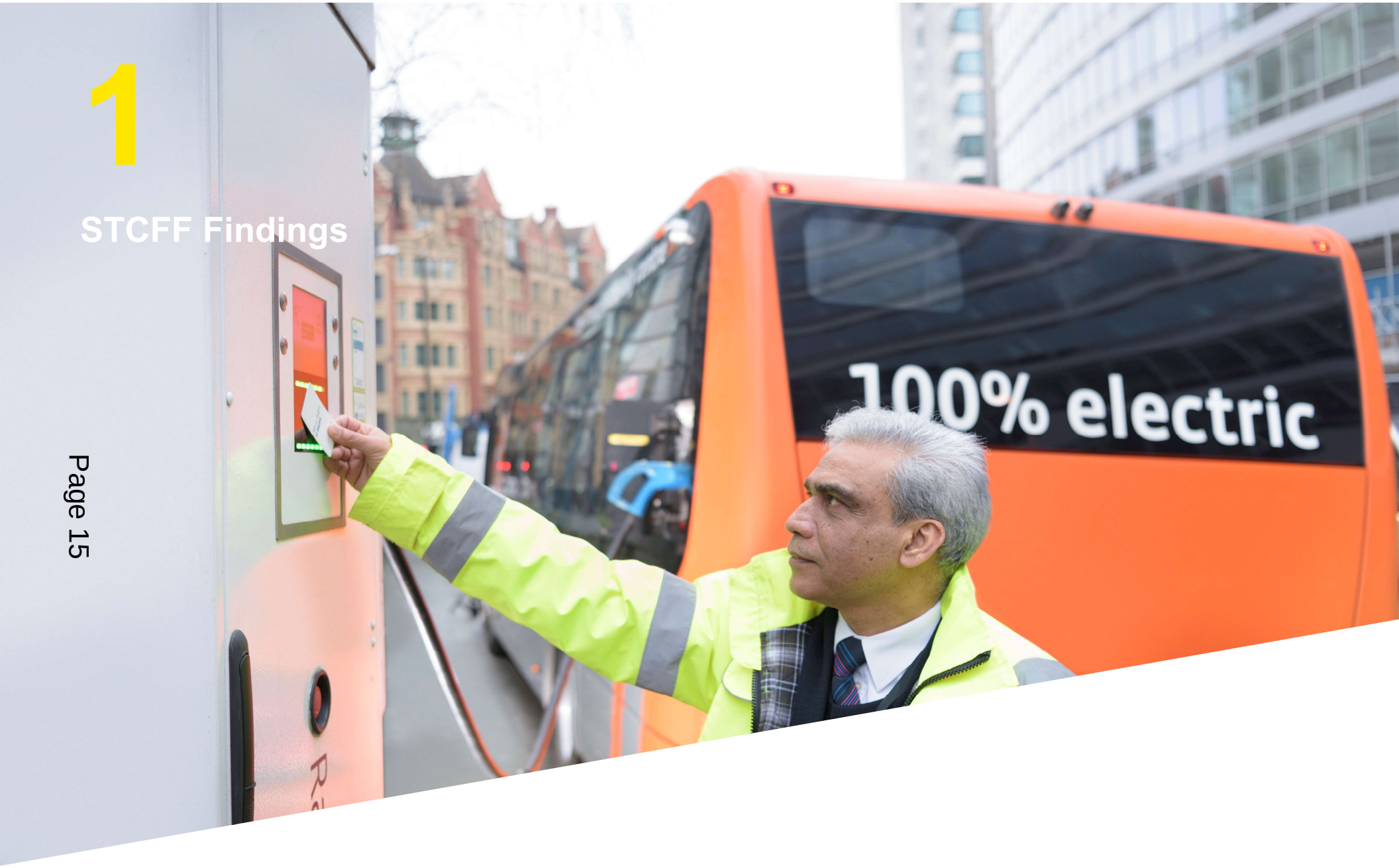
Each page is headed by a headline which is intended to be an introduction to the page and should be read in conjunction with the page as a whole. The headline should not be regarded as a conclusion, opinion or recommendation.

Yours sincerely

[redacted]

1

STCFF Findings



1 STCFF Findings
Introduction

Phase 1 – Cash Management

As an extension to the work that EY colleagues are performing in respect to Project Leap, we have been asked to undertake a more detailed analysis of the Company's short-term cash flow forecast ('STCFF') for the period ending 15 May 2020 and medium-term cash flow forecast to August 2020. We were also requested to review the cash flow forecast to March 2021.

From the inception of our work, it was apparent that the cash position of the Company was critically stretched and therefore the initial focus of our work was on the STCFF, to identify any key risks and sensitivities whilst understanding the robustness of the STCFF itself.

Whilst we have been able to review at a high level the medium-term cash flow forecast to August 2020 and the implication of the ROC payment (due to be paid in August), we have given particular focus to the immediate concerns arising from the shortfall in cash that the Company will experience in March and April.

Therefore, this interim report highlights our key findings on the robustness of the Company's STCFF and sets out potential options to mitigate the extent of any additional funding required in the forecast period.

Phase 2 – Strategic Options Review

In phase 2, we will gain a deeper understanding of the Company's business and operations as well as the market environment in which the Company operates.

We will perform further work exploring the opportunities available to the Company in respect to the options detailed in this paper (at page 8).

We will seek to critically analyse and set out the comparative advantages and disadvantages of Managements options in resect to the Company as well as suggesting any interim measures that may help the Company more broadly which will focus on the possibility of an accelerated sale of all or part of the business and explore the possibility of "White Labelling".

In addition to this we will also perform some high-level tax analysis on the forecast period.

Interim conclusions

- **The business is not sustainable in its current form without substantial immediate and indefinite ongoing investment.**
- **Even with that investment, the sustainability of all small retailers in the energy supply market is currently under considerable pressure.**
- **BE faces the additional challenge of a business infrastructure (in terms of IT systems, organisational design and potential for scaling) that lags behind its competitors.**

1 STCFF Findings
Overview

Short term cash flow forecast (STCFF)

Introduction to the STCFF

- The chart above illustrates Management's weekly STCFF through to mid May 2020 for the Original case, the Sensitised case and the cash position if no further funding contributions beyond those made to 20 February 2020 (totalling £34.9m). The medium term forecast to August 2020 is shown at Appendix B.
- The chart shows that without further funding from BCC, the Company will be unable to meet supplier commitments and pay staff wages in March 2020. **Technically, without confirmation of ongoing support, the Company is insolvent through an inability to pay its debt as they fall due.**

1 The troughs in cash position represent significant supplier payments that create timing issues from a cash management perspective.

2 The peaks in cash tend to fall early in the month when the bulk of direct debit payments from customers are received.

Funding position analysis	Core Funding	Innovation Funding	Cumulative Funding
	£m	*£m*	*£m*
Total amount of funding available	37.7	2.0	39.7
Drawdown of funds to 20 February 2020	(34.9)	(1.3)	(36.2)
Balance of funding remaining	**2.8**	**0.7**	**3.5**
Short term funding requirements			
Funding request in March 2020	(1.5)	-	(1.5)
Funding request in April 2020 (Original)	(2.0)	-	(2.0)
Total funding request in STCFF	**(3.5)**	**-**	**(3.5)**
Amount of agreed funding remaining	**(0.7)**	**0.7**	**-**

1 STCFF Findings

The Original STCFF requires funding in excess of the current funding cap of £37.7m

Original forecast - principal assumptions

- **Income projections** seem realistic with forecast reductions in customer numbers, but with an increase in ageing debt recovery through a debt adequacy programme.
- **Supplier payments** are significant and unpredictable, with aggressive payment terms. Failure to meet such terms would have immediate implications for the Company in terms of ongoing supply and may cause reputational damage.
  No provision has been made for ongoing rent payments to BCC.
- **Funding requests** – as shown in the table on the previous page, the forecast assumes further funding from BCC of £3.5m.
- Crucially, **this level of additional funding would breach the current cap of £37.7m by £700k** (if funds were taken solely from the core fund rather than the innovation fund).
- This results in a minimum cash position of £882k in w/c 11 May 2020, with the position fluctuating but generally rising until August 2020 when the ROC payment falls due.
- Management's medium term forecast to August 2020, included at Appendix B, includes funding from BCC of £4.5m primarily to meet the ROC payment (estimated to be c.£8.4m). This will take BCC funding well above the cap of £37.7m.
- A number of adjustments to the forecast were highlighted and discussed with Management, resulting in the Sensitised forecast, details of which are shown opposite.

Sensitised forecast - adjustments

- **Income projections** in the sensitised forecast apply a 50% reduction in assumed level of aged debt recovery.
- **Supplier payments** – given the nature of the sector, no sensitivity has been applied in respect of the energy providers.
  Due to the nature of the relationship between the Company and BCC, the sensitised forecast removes payment of rent arrears and interest due on the PCG (this approach would need to be agreed with BCC).
- **Funding requests** – Management's original request for £2m in April results in a more than adequate cash surplus, therefore the sensitised position has reduced this request to £1.2m.
- At this reduced level, the additional funding could be provided within the current core funding cap of £37.7m, leaving headroom for the future of £100k.
- As a consequence of the above sensitivities, the forecast cash requirement reaches a minimum position of £294k in w/c 20 April 2020 and then rises steadily until the ROC payment falls due in August 2020.
- At the lowest points in the forecast, the Company is left with a minimal cash cushion to protect against unforeseen costs and expenses – this needs to be closely monitored. This revised forecast also ignores BCC's requirement for the Company to maintain minimum cash levels of £1m.
- **No further material, short term mitigating actions have been identified that could improve the cash position of the Company and reduce the funding request.**
- Medium term options (with further details shown at Appendix C) could include,
  - arranging more favourable payment plans with suppliers (with BCC backed collateral) and HMRC
  - More rigorous debt collection arrangements
  - staff restructuring

1 STCFF Findings
Options

	1. Do nothing – no further funding is provided to the Company	2. Short term funding – minimum of £2.7m of funding (£1.5m in March and £1.2m in April)	3. Longer term approach – unquantified funding requirement

Implication and observations	► Company has no viable future and an insolvency becomes inevitable
	► Ofgem is given notice, and a SOLR process is commenced, with result being that customers are transferred to an alternative supplier
	► The Company's energy license is revoked by Ofgem
	► Administrator appointed to the Company to commence a winding up of the business and assets
	► Risk of reputational issues and public scrutiny for BCC as a consequence of business failure and redundancies
	► The Company can no longer be part of the City Leap opportunity
	► Directors and shadow directors of the Company should be taking legal advice regarding the associated risks of continuing to trade a business in this position
		► This short term support allows for the exploration of two key options:
		  ► Accelerated sale of all or part of the Company's business and assets or a share sale
		  ► Agreement with alternative energy license holder to provide an agreed level of support and back-office function under the brand of "Bristol Energy", known as White Labelling
		► A significant number of other councils are providing energy supply businesses through White Labelling as it does not require a separate legal entity, and consequently the ongoing costs are not publicly known
		► Further high level exploration of these options will be provided in Phase 2 of our report.
		► This option would not negate the need to undertake any immediate restructuring opportunities to mitigate the short term funding requirement
		► This option would enable business continuity from a customer perspective
		► The impact of this option on the City Leap procurement process needs to be considered
			► The Company would require ongoing BCC support, including:
			  ► Unquantified cap on future funding requirements; and
			  ► Uncertainty on outcome and timeframe
			► Other similar businesses of this size and scale are either struggling or have ceased to trade
			► Management's current projections show a reduction in customer numbers of 42% between now and March 2021, illustrating the enormity of the challenge that would be required to make BE viable and future fit
			► Early indications are that the quality of management information is currently inadequate to support restructuring decisions of this nature
			► Furthermore, the senior management team do not appear to be accountable or measured against the performance of the business

Potential costs to BCC	► No immediate costs, but BCC debts unlikely to be recovered, including:
	  ► Investment costs (up to £36.2m)
	  ► Any intercompany balances, i.e. rent accrued, interest payable
	► Guarantees to suppliers from BCC called upon, a maximum current exposure c.£16m.
	► Contractual termination costs where BCC is contractor
		► Minimum £2.7m further funding to July 2020
		► Ongoing legal and professional fees to support the restructuring actions described above
		► Possible redundancy costs and possible breach of contract costs for certain suppliers
		► Risk of further calls for collateral and/or security from key suppliers
			► £2.7m upfront in March and April 2020
			► c.£4.5m funding in August 2020 to meet ROC payment obligations
			► Further funding in the future is inevitable and needs further investigation, however a very broad estimate based on current cost assumptions would suggest that a figure in excess of £10m per annum might be required

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Appendices

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Appendix A: Definitions and abbreviations

£m	Millions
£000	Thousands
AMA	Accelerated merger and acquisition
BE	Bristol Energy Limited
BCC	Bristol County Council
b/f	Bought forward
c.	Circa
CFADS	Cash flow available for debt service
CfD	Contracts for Difference
EBITDA	Earnings before interest, depreciation and amortization
EY	Ernst & Young LLP
FiT	Feed in Tariff
FY20	Financial years ending 31 March 2020
FY21	Financial years ending 31 March 2021
£Xk	Thousands
Management	The Company Senior Management team
£Xm	Million
Ofgem	Office of Gas and Electricity Markets
PCG	Parent Company Guarantee
p/w	Per week
ROC	Renewables Obligation Certificate
SoLR	Supplier of last resort
STCFF	Short term cash flow forecast
the Company	Bristol Energy Limited
the Council	Bristol County Council
VAT	Value added tax

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Appendix B: Management STCFF to August 2020

Management STCFF to August 2020

Currency: £	17/2/20	24/2/20	2/3/20	9/3/20	16/3/20	23/3/20	30/3/20	6/4/20	13/4/20	20/4/20	27/4/20	4/5/20	11/5/20	18/5/20	25/5/20	1/6/20	8/6/20	15/6/20	22/6/20	29/6/20	6/7/20	13/7/20	20/7/20	27/7/20	3/8/20	10/8/20	17/8/20	24/8/20
Balance b/f	**5,361**	**952**	**1,335**	**5,266**	**702**	**1,290**	**956**	**4,729**	**4,508**	**1,547**	**949**	**4,737**	**5,140**	**882**	**1,710**	**1,857**	**5,559**	**2,390**	**2,692**	**2,331**	**6,004**	**5,960**	**3,520**	**3,081**	**3,888**	**7,048**	**4,236**	**4,861**
Income	1,937	2,754	4,417	1,564	1,605	1,815	3,947	889	2,142	1,193	4,480	1,035	1,406	1,503	1,797	4,077	1,320	1,462	1,617	3,846	918	1,850	1,168	1,129	3,814	1,253	1,375	1,648
Power	(606)	(606)	-	(1,658)	(61)	(75)	-	(567)	(1,152)	-	(65)	-	(1,292)	(36)	(65)	-	(1,304)	(39)	(57)	-	(424)	(837)	-	(62)	-	(1,276)	(42)	(60)
Gas	(4,342)	-	-	(4,578)	-	-	-	-	(4,151)	-	-	-	(3,148)	-	-	-	(2,345)	-	-	-	-	(1,871)	-	-	-	(1,740)	-	-
PPA	(673)	(307)	-	-	-	(851)	-	-	-	(246)	(599)	-	-	-	(663)	-	-	-	(659)	-	-	-	(184)	(443)	-	-	-	(662)
DUoS	(308)	(471)	(36)	(450)	(52)	(659)	-	(34)	(487)	(641)	-	(33)	(440)	-	(573)	(39)	-	(484)	(626)	-	(43)	(461)	(584)	-	(47)	(403)	(70)	(590)
TNUoS	-	-	-	(504)	-	-	-	-	(541)	-	-	-	(420)	-	-	-	(438)	-	-	-	-	(414)	-	-	-	(416)	-	-
BSUoS	(20)	(53)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)
DCC	-	-	-	(182)	-	-	-	(188)	-	-	-	(193)	-	-	-	-	(199)	-	-	-	(205)	-	-	-	(211)	-	-	-
CmD	(15)	-	(110)	-	-	-	(110)	-	-	-	-	(110)	-	-	-	(110)	-	-	-	(110)	-	-	-	-	(110)	-	-	-
FiT	-	(32)	(64)	-	-	-	-	(66)	-	-	-	(59)	-	-	-	(61)	-	-	-	-	(56)	-	-	-	(56)	-	-	-
ROCs	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,350)
Metering	(90)	(205)	(70)	(96)	(218)	-	-	(73)	(100)	(228)	-	(76)	(104)	(237)	-	-	(78)	(107)	(242)	-	(79)	(108)	(247)	-	(79)	(109)	(247)	-
CfD	(54)	(108)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)
Other COS	(150)	-	-	-	-	(5)	-	-	-	-	-	-	-	-	-	-	-	-	(5)	-	-	-	-	-	-	-	-	-
Overheads - salaries	(150)	(371)	-	-	(330)	(520)	(2)	-	(252)	(398)	(2)	-	-	(228)	(360)	(2)	-	(228)	(360)	(2)	-	(228)	(359)	(2)	-	-	(228)	(359)
Other overheads	(177)	(218)	(150)	(103)	(167)	(264)	(6)	(126)	(229)	(223)	(5)	(105)	(72)	(117)	(185)	(107)	(70)	(114)	(180)	(5)	(100)	(181)	(177)	(5)	(95)	(66)	(106)	(168)
VAT	238	-	-	-	-	280	-	-	-	-	270	-	-	-	252	-	-	-	205	-	-	-	-	247	-	-	-	218
Funding	-	-	-	1,500	-	-	-	-	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,500
Rent	-	-	-	-	(87)	-	-	-	(87)	-	-	-	(87)	-	-	-	-	(87)	-	-	-	(87)	-	-	-	-	-	-
PCG interest	-	-	-	-	-	-	-	-	-	-	(235)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Courts	-	-	-	-	(46)	-	-	-	(46)	-	-	-	(46)	-	-	-	-	(46)	-	-	-	(46)	-	-	-	-	-	-
Balance c/f	**952**	**1,335**	**5,266**	**702**	**1,290**	**956**	**4,729**	**4,508**	**1,547**	**949**	**4,737**	**5,140**	**882**	**1,710**	**1,857**	**5,559**	**2,390**	**2,692**	**2,331**	**6,004**	**5,960**	**3,520**	**3,081**	**3,888**	**7,048**	**4,236**	**4,861**	**983**

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Appendix C: Summary of mitigation considerations

Mitigation	Rationale	Observations	RAG
Suppliers	► Exploring extended credit terms to provide some breathing space to the Company.	Unlikely to be possible due to sector mechanics and any enquiries in this regard could create nervousness resulting in increased demands for collateral.	
Customers	► Acceleration of debt adequacy programme to target aged debtor ledger of c.£3.8m. ► Steps to consolidate customer direct debit dates may assist cash flow throughout each month but would take time to implement.	Given time pressure on Company cash flow, unlikely to yield a quick recovery.	
HMRC TTP	► Agreement with HMRC to have longer term arrangements regarding settlement of tax liabilities (PAYE/NIC). ► It should be noted the Company receives a monthly VAT refund (c.£250k).	Not feasible due to there being no significant arrears and with a monthly run rate of c. £228k for PAYE & NIC the impact of any deferment would be insignificant and short term.	
Staff restructuring	► We understand there is a limited restructuring plan agreed, which involves the redundancy of certain senior personnel as well as a decision to not back fill any roles lost through future resignation.	We do not expect this to have any impact on the STCFF.	
Temporary funding	► Explore options for interim / temporary funding (i.e. bridging loan) to enable the Company to progress a major restructuring plan without the need for BCC to fund it.	We understand initial inquiries by management did not identified any immediate solutions. It's likely that any funder would require security from the Company (the extent of which is limited) and/or backing from BCC.	

This report is not for publication under Part 1 of Schedule 12(A Local Government Act 1972, para 3 (Information relating to the financial or business affairs of any Particular person (including the authority holding that information)

Exempt Appendix J2: Exempt Financial Commentary – Bristol Energy Limited (BE)

1. Overview

1.1. Following receipt of the initial response of the bidders in the City Leap procurement and the operational update provided in February 2020, which indicated a deteriorating financial position (primarily due to market conditions); it has become evident that Bristol Energy (BE) will need to be restructured or transformed to align with the market changes and make it much more likely that the desired outcomes of the City Leap project will be achieved.

1.2. The financial position as outlined in the BE business plan has materially changed and following a high level review and assessment of the latest financial position, Ernst and Young(EY) has been commissioned to provide professional advice on the options available to the Company and Council. An interim report prepared by EY (See Exempt Appendix J1) has highlighted that at this point in time, without acceleration or additional funding the company would currently be unable to pay its debts as they fall due.

1.3. Work is on-going to fully assess the options available to BE and the Council in:

- mitigating the extent of any additional further funding requirements beyond the peak working capital cap;
- systematically examining potential threats, opportunities and make improvements to the performance of the company, which may include restructuring; and
- consider likely future developments in markets, which are at the margins of current thinking and could enhance the value of the company as part of the City Leap partnership proposal.

1.4. The commentary in this report does not focus on the above work as this is in its infancy and will be subject to a full report when more detailed information is available. It's important that the Council fully assesses the financial position and risks to which it may be exposed and ensures that any draw down of funds are, justifiable, affordable and undertaken in a planned manner. Therefore the primary focus of this report is the cash position and the potential impact on the Council's finances as the sole shareholder.

2. Business Plan Update

2.1. The latest version of BE business plan 2020/21 to 2024/25 was approved by Cabinet in 21 January 2020. To date (as at 24th February 2020), the Council has invested a total of £35.0m (sunk costs) in BE via Bristol Holding: £8.8m in ordinary share capital and £26.2m in 7% preference share capital. The plan submitted to Cabinet indicated that planned activity could be delivered within the previously set total peak cash funding envelope of £37.7m.

2.2. Based on current assessment the latest indicative funding requirement is outlined in the

recently received operating cash-flow forecast (see tables 1 and 2 below). Whilst these forecasts have not been formally approved by the Council, they indicate that without remedial steps, the previously authorised funding cap of £37.7m would be materially exceeded.

Table 1 – Operating Cash Flows Latest Forecast

Bristol Energy - Latest Forecast Cash Position February 2020 - £m

Month	Operating Cash Flows	Funding	Net Cash Flows	Cum Funding *	+/- Cap
					39.70
Jan-20	(1.12)	1.20	0.08	34.90	4.80
Feb-20	(2.02)	1.30	(0.72)	36.20	3.50
Mar-20	(0.97)	1.50	0.53	37.70	2.00
Apr-20	(1.97)	2.00	0.03	39.70	-
May-20	0.32	-	0.32	39.70	-
Jun-20	1.06	-	1.06	39.70	-
Jul-20	1.33	-	1.33	39.70	-
Aug-20	(7.23)	3.00	(4.23)	42.70	(3.00)
Sep-20	1.23	-	1.23	42.70	(3.00)
Oct-20	1.04	-	1.04	42.70	(3.00)
Nov-20	(0.08)	-	(0.08)	42.70	(3.00)
Dec-20	(1.16)	-	(1.16)	42.70	(3.00)
Jan-21	(1.28)	2.50	1.22	45.20	(5.50)
Feb-21	(1.57)	-	(1.57)	45.20	(5.50)
Mar-21	(0.69)	-	(0.69)	45.20	(5.50)
Total	(13.11)	11.50	(1.61)		
Cl COH			0.1		

** Including Innovation Fund £2m*

Table 2 – Funding Position based on Latest Forecast

Bristol Energy - Latest Funding Position / Request - February 2020 -

Month	Share Issues	PTD
		33.70
Jan-20	-	33.70
Feb-20	1.30	35.00
Mar-20	1.50	36.50
Apr-20	1.20	37.70
May-20	-	37.70
Jun-20	-	37.70
Jul-20	-	37.70
Aug-20	3.00	40.70
Sep-20	-	40.70
Oct-20	-	40.70
Nov-20	-	40.70
Dec-20	-	40.70
Jan-21	2.50	43.20
Feb-21	-	43.20
Mar-21	-	43.20
Total	9.50	43.20
Agreed Cap		37.70
+/-		(5.50)

2.3. The residual £2.7m (from the £37.7m envelope) is earmarked within the Capital Investment reserve for allocation in 2020/21. The forecast indicates that an acceleration of this fund is likely to be required in March 2020 (c. £1.5m) and April 2020 (c. £1.2m) for BE to meet obligations as they fall due within that period. The Council intends to accelerate the availability of the residual funds but given the risks that further funds may be required (which would need to be considered in conjunction with the option appraisal) and wider transformation that may ensue, **this draw down should be subject to a determination by the Section 151 Officer that further investment remains in the public interest.**

2.4. Ofgem issues the electricity generators with Renewables Obligation Certificates (ROCs) relating to the amount of eligible renewable electricity they generate. They can be traded, and ultimately are used by suppliers to prove that they have met their renewable generation obligations. The Renewables Obligation schemes provide support to renewable electricity generators and the UKs journey to a net zero emission economy by 2050. BE's legacy liabilities related to its Renewable Obligations and the level of unscheduled payments to Ofgem in relation to mutualisation across the industry from residual costs when companies become insolvent over the financial year(which generally have a time lag) is estimated to c.£8.4m. The current cash-flow (not approved) indicates a shortfall in August 2020 of £3.0m when this payment is due. If any supplier undermines the scheme by failing to comply with the payment deadline, Ofgem will take strong enforcement action that could lead to their licence being revoked. **The position in relation to sufficiency of BE's provision for this payment is being closely monitored.**

2.5. BE is being positioned by City Leap as 'the engine inside City Leap' to deliver energy

services propositions, energy infrastructure and heat retail. The City leap cabinet report approved £4m (earmarked capital investment reserve) for procurement activities, project team, professional advisors and the innovation funds to prepare and demonstrate the opportunities which will arise from City Leap. This figure is proposed to be increased by a further £1.5m in the budget recommended to Council giving a total of £5.5m for the project. **The extension of the scope of the EY contract (valued at approximately £0.150m plus expenses) is to be funded from the approved City Leap programme budget.**

2.6. The City Leap Programme has entered into a contract for £2m with BE for innovation services in readiness for City Leap. The City Leap Team have been working in collaboration with BE on a number of development projects to support critical delivery outcomes, providing information and the evidence base required to feed into the Invitation to Submit Outline Solutions, and maximising the value of the City Leap offer. **From this contract the first £1.2m was paid in January 2020 following release of the draft ISOS and further payment of £0.8m is anticipated in March 2020 under this contract.**

2.7. **The total additional funding to April (only) of £3.5m would remain within the agreed financial envelope and would be funded as planned from within the earmarked Capital investment reserve.**

3. Collaterals.

3.1. The Council has provided BE counterparties with a number of Parent Company Guarantees (PCG's) to support the credit lines required for standard business operation. These PCGs are in place to indemnify the supplier against any potential losses should BE, be unable to perform its obligations under the contracts with those parties. As agreed by Cabinet the maximum value of PCG's is limited (capped) at £17.6m. The actual level of PCG's currently issued (February 2020) is £16.45m (which is within the overall agreed cap of £17.6m). This figure is the actual agreement with counterparties not actual liabilities and not reflective of potential future exposure. BE's peak credit exposure for Gas and Electricity is during the winter months Dec / Feb, when maximum consumption occurs and is the key switching period. **Moving out of winter will reduces the peak monthly consumption to which the Council could potentially be exposed.**

3.2. An assessment is regularly undertaken in relation to the sufficiency of the Council's earmarked and general reserves and the Council's ability to mitigate this risk should the need arise and a regulator led disposal ensue. Regular reports are provided by BE to enable the Council to actively monitor the position during the course of the year and take the necessary action to reduce activity or increase the risks provision as required.

4. Accounting Treatment

4.1. Included in the financial accounts year ended **31st March 2019** is the fair value of the Council's investment in its subsidiary companies. In BE's case, the calculation was based on an Enterprise value (EV) per customer meter point, as if the company were to be sold on the open market as a going concern. Having sought advice at the time, £75 per customer had been reported (recognising that the transition to an Energy Service will see a significant increase in this value) as a minimum valuation, reflecting the current changes in the projected profitability and examples of recent market transactions. This produced a valuation of £12.4m (based on c.165.6k customer meter points) and led to £12.1m

impairment on the Council's investment. This was reflected in both the Council's accounts and Bristol Holding's accounts for 2018/19.

4.2. For the accounts year ending **31st March 2020,** If market sales prices remain in line with prior year (average £75), given the reduction in customer meter points to c.102k (38% reduction) December 2019 (to be updated March 2020) and increase investment to March 2020 (£36.5m) this will result in a further impairment in the 2019/20 accounts in the region of £16.8m. whilst this is an indicative position which will need to be updated to reflect actual year end position, it is clear that **there is likely to be a significant movement in the fair value in the accounts and it should be noted that impairment is an accounting treatment and the actual value of any investment will never be known until a disposal actually occurs.**

4.3. **Financial Instruments -** The Councils PCG's have previously been treated as contingent liabilities with a simple disclosure note in the Council's accounts. However following the introduction of IFRS9 an assessment needs to be made as to whether the contract between the Council and the holder of the PCG (Counterparty) represents a financial instrument. **The new assessment approach indicates that the PCG's create a liability for the Council contingent on the failure of BE to fulfil its contractual obligations.** As such the treatment of these financial instruments under IFRS9 is to value at Fair Value through the income and expenditure account. The indicative fair value calculation for the PCG's exposure at 31 March 2019 utilising a weighted probability is estimated to c. £0.854m. This methodology is still subject to the approval of the Councils External Auditors and if endorsed will be applied to PCG exposure levels as at 31 March 2020 (prior year adjustment in the 2018/19 accounts) and ongoing adjustment in the Risks reserve.

5. Other Risk

5.1. The actual level of customer debt, amount set aside for bad debts and the cash receipts position in terms of % billing recoverable is unclear. In addition the assumptions in relation to credit balances that could transfer with decrease in customer numbers is not transparently built into cash flow forecast – presenting an even greater risk to the deliverability of the latest BE cash-flow.

6. Risk Reserve

6.1. Given the changes required in the accounting treatment for PCG's and other potential risks and liabilities summarised in this report, there is a reasonable level of fund in the earmarked risk reserve of £7.3m, which it is anticipated could be used to mitigate these issues should they arise, it is recognised that a further report will be prepared for Cabinet outlining the next steps following conclusion of the EY assignment.

6.2. In the intervening period should the need arise to make an emergency payment to BE, delegated authority is sought for the Deputy Mayor for Finance, Governance, Performance (in his role as Shareholder Representative), in consultation with s151 Officer to consider this request in line with the scheme of delegations and drawing down the relevant funds from this risk reserve.

6.3. The proposal in this report does not result in any changes to the annual 2020 budget, the Councils general reserve or resilience reserve as recommended to full Council for approval.

It is recommended that the BE position and BE Board action plans are closely monitored for alignment with the City Leap market soundings, the Board and Council can act in an agile way in responding to market conditions and give appropriate consideration to the options appraisal and risks.

Denise Murray
Director of Finance