

**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

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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 23<sup>rd</sup> in the league table of pricing, and even at 0% gross margin it is still only 13<sup>th</sup>. 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

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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

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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.