

Corporate Policy and Strategy Committee

10am, Tuesday, 24 February 2015

Energy for Edinburgh

Item number	7.4
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to update the Committee on progress towards the establishment of the energy services company (ESCO) Energy for Edinburgh. A workshop has been held with external partners to discuss some of the key issues in developing the ESCO. Positive feedback and contributions were received with offers of further support. Specialist legal advisers have been appointed and work is progressing on appointing advisers to the Board with the appropriate skills and experience.

A key issue for the ESCO is the need to identify start up funding to provide the new vehicle with specialist project management capacity to be identified as well as allowing further specialist advice to be commissioned.

Links

Coalition pledges	P50 P53
Council outcomes	CO18 CO19
Single Outcome Agreement	SO4

Energy for Edinburgh

Recommendations

- 1.1 It is recommended that Committee:
- note the progress to date in progressing Energy for Edinburgh and that interim advisers will be appointed to support the Board;
 - note that funding of £150,000 was approved at Council on 12 February 2015 to support the development of the company including any further specialist and technical advice; and
 - notes the intention to submit a further report in May 2015 on the detailed business case for the company.

Background

- 2.1 The Council has already set out its commitment to the carbon agenda and to addressing energy resilience across the city. The Sustainable Energy Action Plan (SEAP) contains a number of specific actions aimed at reducing carbon emissions and identifies substantial social, economic and environmental benefits from this plan. These include: alleviating fuel poverty, providing energy at less volatile, more consistent and reasonable cost, greater energy security and new jobs.
- 2.2 An ESCO is seen as an important mechanism in achieving the SEAP's objectives and a key response from the Council to delivering affordable energy for Edinburgh's residents and businesses.
- 2.3 A report to Full Council on 25 September 2014 approved the next steps in establishing an ESCO for the Council with interim Directors for a year and appointed three elected members to the Board with Councillor McVey as Chair.

Main report

- 3.1 Work has progressed on establishing the ESCO. A working group has been set up with officers from legal, finance, procurement, economic development, housing, communications and corporate policy. Meeting on a regular basis, the group has focused on identifying the issues in the development of the ESCO. These have been categorised into legal, financial governance and activities. Many of these will be key elements of the detailed business case.

- 3.2 A half day workshop was held in November to which a number of key external stakeholders were invited. These included Scottish Government, Scottish Futures Trust, Changeworks, Scottish Enterprise and Community Co-operative Scotland. The aim was to use the expertise of the external stakeholders to advise on the development of the ESCO. The discussion and outputs from the workshop confirmed the approach being developed by the Council and provided constructive feedback and positive input to the development of the ESCO. There were also offers of further help and assistance to the Council from the external stakeholders.
- 3.3 From the workshop, recommendations were made to Council on the:
- mechanisms for the effective governance;
 - the need to engage specialist advice in the development of the detailed business case; and
 - the level of resource required.

Governance

- 3.4 Governance arrangements need to cover the shape and function of the Interim Board as well as internal Council governance. These include the appropriate management structures to ensure effective delivery and performance. The relationship between the ESCO and the Council will also be an important governance issue.
- 3.5 A recent meeting with the three members elected to the ESCO Board also considered a report on governance covering a number of issues. Members agreed:
- any appointed Directors need to have the appropriate skills set including commercial experience;
 - there should be a mix of private and public sector representation;
 - Additional Directors will be appointed once all legal work has been concluded;
 - technical Advisors be appointed to support the Board; and
 - a Council Project Board be set up to ensure effective internal governance.
- 3.6 A number of potential technical advisers have been identified who could provide support and advice in developing the ESCO and it is the intention to approach these individuals and seek their agreement to support the ESCO. This would be until such time as Directors are formally appointed and all legal work and formalities are completed. Any advisers would have not only the appropriate skills, knowledge and expertise but also strategic thinking and ability to scrutinise decisions, acting as a critical friend to the Board.
- 3.7 It is also proposed that a Project Board be established, chaired by the Director of Economic Development, with four senior managers from Legal, Finance,

Property and Governance. It is proposed that this Board be supported by the Corporate Programmes Office and the Senior Manager chairing the ESCO Working Group.

- 3.8 This Project Board would provide an overview of progress and would support the working group. Once the ESCO is established and operational, it is proposed that the Project Board remain in a key client role with the ESCO.

Specialist Advice

- 3.9 The workshop also highlighted the need for specialist advice. A key element is legal input. Brodies LLP have now been appointed as the Council's legal advisers. A key task will be identifying the type of legal structure and the development of the ESCO's Articles of Association. These will provide more detail on the responsibilities of the Directors, their role and remit and will also address other governance protocols, the relationship with any delivery vehicles such as special purpose vehicles, and risks for the Council.
- 3.10 The Board have instructed that the legal structure should give the Council flexibility, not just over the range of future projects but the options for revenue generation.
- 3.11 The Governance structure will be included in a detailed business case back to the Committee in May 2015.

Resource

- 3.13 It was clear from the consultation, that there is a need to further resource the ESCO. To take forward the ambitions of the city, specialist project management skills will be required. As these ambitions are multi stranded and of scale, this will require a small specialist team.
- 3.14 In the first instance, mindful of the constraints on the Council budget, the elected members have asked officers to seek out possible external funding which perhaps might act as a match for internal capacity and resource. There may also be an opportunity to draw secondees from relative specialist organisations. Further detail on costs will be provided in the business case.

Measures of success

- 4.1 The success of the ESCO will be measured by tracking the number of energy projects developed and managed; and the contribution of those projects to the SEAP's objectives of:
- Reducing the number of people in fuel poverty.
 - Reducing energy consumption.
 - Increasing the proportion of energy sourced from renewable.
 - Creating jobs through sustainable energy projects.
 - Reducing carbon emissions.

Financial impact

- 5.1 In developing the detailed business case, advice from other established ESCO's has indicated the need to engage specialists to provide technical, financial and legal advice.
- 5.2 Council approved funding of £150,000 as part of the Act of Council on 12 February 2015.
- 5.3 There is now an indication that other partners will support this work by providing match funding for the funding identified by the Council.
- 5.4 The funding will be used to support the development of the company including any further specialist and technical advice

Risk, policy, compliance and governance impact

- 6.1 Brodies LLP have been appointed to provide specialist support on the legalities of setting up this new company.
- 6.2 Dedicated resources and additional specialist advice will also be required.
- 6.3 A detailed business case will be submitted to Committee in May 2015.

Equalities impact

- 7.1 By delivering affordable energy and reducing fuel poverty, the Council ESCO will contribute positively to key equalities outcomes of reducing inequality, poverty and deprivation.

Sustainability impact

- 8.1 The creation of a Council ESCO will have a significant impact on the sustainability of the city. By taking a strategic role and overseeing energy initiatives across the city, it will contribute positively to the Council's pledges and targets on carbon emissions reduction. The ESCO will be a key delivery mechanism for the Sustainable Energy Action Plan.

Consultation and engagement

- 9.1 Consultation and engagement will form a key component in the development of Energy for Edinburgh. There will be ongoing engagement with a range of key stakeholders in the public and private sectors including community groups particularly in the development of the Business Plan.

Background reading/external references

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Links

Coalition pledges	P50 Meet greenhouse gas targets, including the national target of 42% by 2020. P53 Encourage the development of Community Energy Co-operatives.
Council outcomes	CO18 Green- we reduce the local environmental impact of our consumption and production. CO19 Attractive Places and well maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards and maintenance of infrastructure and public realm.
Single Outcome Agreement	SO4 Edinburgh’s communities are safer and have improved physical and social fabric.
Appendices	None