

Corporate Policy and Strategy Committee

10.00am, Tuesday, 29 September 2015

Energy for Edinburgh

Item number	8.5
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides an update on progress to date in setting up a Council Energy Services Company (ESCO). Progress has been made on the legal documents and key elements of a draft three year Business Plan have been developed. However there needs to be some final work on the financial forecasting and planning to ensure that there is a robust financial position before incorporating the new company.

Links

Coalition pledges	P50, P53
Council outcomes	CO18, CO19
Single Outcome Agreement	SOA4

Energy for Edinburgh

Recommendations

- 1.1 The Corporate Policy and Strategy Committee is asked to:
- To note the progress to date in the development of governance arrangements and a business plan for the ESCO;
 - To note that the business plan requires additional work, including rigorous testing of the financial plans before being considered at Committee; and
 - To note that the ESCO business plan will be brought to Corporate Policy and Strategy Committee within three cycles at the latest.

Background

- 2.1 The Council has agreed to investigate the setting up of an ESCO which would be a key delivery vehicle for the Sustainable Energy Action Plan (SEAP). The ESCO would implement strategic projects from the SEAP, which aims to reduce carbon emissions by 42% by 2020.
- 2.2 There are five strategic SEAP programmes which present opportunities for the ESCO including:
- energy efficiency;
 - district heating;
 - renewables;
 - resource efficiency; and
 - sustainable transport.
- 2.3 The Council approved the setting up of an ESCO in September 2014 and a follow up report was approved by Corporate Policy and Strategy Committee on 24 February 2015.

Main report

- 3.1 Since the last report in [February 2015](#), activity has continued in a number of key areas to progress with the establishment of an ESCO for Edinburgh named 'Energy for Edinburgh'.

Governance

- 3.2 The ESCO internal working group has continued to meet on a regular basis to progress the governance arrangements and contribute to the business plan for the ESCO. In addition an internal Project Board has been established to take an overview of progress and to progress operational decisions in relation to the setting up of the company.

- 3.3 A Technical Advisers group (Scottish Government, Scottish Enterprise, Scottish Futures Trust, Edinburgh Business Forum, Changeworks and the Green Investment Bank) has been established and has met on a regular basis. This group provides more specialised expertise and support to the Council in setting up the company.
- 3.4 These various groups will be rationalised and streamlined as the company is set up.
- 3.5 The Articles of Association (Articles) for the ESCO have been drafted. These are used to incorporate a company and set out its operating rules. The Articles propose the company is wholly owned by the Council and addresses issues such as confidentiality, conflict of interest and appointing Directors. The draft Articles also set out the activities of the company and are designed to provide flexibility over potential projects and initiatives.
- 3.6 A Shareholders Agreement has also been drafted. This is a legal document between the Council (as the single shareholder) and the ESCO. It details the relationship between both parties specifying the information and support each should provide to enable the company to fulfil its objectives. It also sets out the expectations in terms of performance and monitoring.
- 3.7 The Shareholders Agreement will be a key reference document for the ESCO and importantly there will need to be a mechanism for monitoring the requirements in the Agreement to ensure that the Council's interests are met and the Agreement complied with. A Shareholders Group is proposed to comprise senior officers and an elected member as chair the group. The remit and role of this group is being developed.
- 3.8 Both of the above documents cover the formal governance arrangements for the ESCO.

Business Plan and Project Activities

- 3.9 A draft business plan has been developed with dedicated support from Scottish Futures Trust. This covers a three year period and sets out the working arrangements of the ESCO, complementing the legal documents and ensuring synergies between them providing specific arrangements in terms of governance and operational management.
- 3.10 In addition to the four objectives already agreed for the ESCO, the business plan proposes an additional objective:
- access and leverage the use of private sector finance where appropriate.
- 3.11 This would provide further flexibility for the ESCO to take forward future projects, particularly larger infrastructure projects.
- 3.12 Much of the early focus of the ESCO will be in a development phase as it establishes its company processes, procedures and policies. It will need to

identify its future projects and engage with stakeholders gaining endorsement and developing partnership relationships.

- 3.13 Unlike other ESCOs which are very project specific, Energy for Edinburgh will have a strategic focus with a wider scope to include a range of energy projects. Potentially these include district heating, renewables and energy efficiency in both domestic and non domestic properties. However, this does present a complexity in ensuring that the company is appropriately set up, and importantly, financed to perform this role. In particular projects such as district heating have lengthy timescales and long paybacks which can complicate financial planning.
- 3.14 A key element in the business planning process is the development of robust financial plans and forecasts of future income and expenditure. A number of scenarios have been undertaken which explore options for the ESCO. A recent Project Board meeting (3 September) considered the draft Business Plan. The Board felt that the current plan needed further work and development before it could be submitted to members for consideration. In addition, to ensure flexibility for the ESCO, the Board also proposed other options be assessed including a transitionary in house team to support ESCO projects and potentially provide wider options in terms of future borrowing for projects.

Our Power

- 3.15 A number of new ESCOs have recently been launched including “Our Power” (a housing association led ESCO that the City of Edinburgh Council has joined). Our Power will supply energy to social housing however the company has indicated that it is also looking to move into other areas such as renewables and district heating. These are also areas of interest to the Council ESCO. Potentially there could be a very positive relationship between both parties for example if Our Power bought any energy generated by ESCO projects, this could be sold back to Edinburgh tenants. Further discussions with Our Power continue to be ongoing in respect of any overlap and also to assess the implications for financial planning.

Branding

- 3.16 There have been a number of meetings with Corporate Communications to look at the branding and identity for the new company. A number of concepts and brands will now be developed.

Next Steps

- 3.17 There has been considerable work undertaken to date. However before a finalised business plan can be presented there is still some further work to be undertaken on financial planning and other options to assist delivery. In addition further discussions are also needed with a number of partners to provide further clarity on potential projects.

- 3.18 Work will continue with Legal Services on the governance papers and with the internal working group on the business plan, specifically testing the robustness of the financial model. The Technical Advisers group will continue to provide expertise on the company and potential activities for the company to take forward.
- 3.19 The final detailed business plan and accompanying governance documents will be submitted to Corporate Policy and Strategy Committee within three cycles.

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 renewables;
 - creating jobs through sustainable energy projects; and
 - reducing carbon emissions.
- 4.2 In addition, the success of the company will be measured by Key Performance Indicators to be agreed between the Council and the ESCO once operational.

Financial impact

- 5.1 The financial modelling for the ESCO requires to be robustly tested to ensure that the commitments can be achieved within the resources allocated to the company and subject to any additional funding which can be secured.

Risk, policy, compliance and governance impact

- 6.1 A risk register for the company has been created and is monitored regularly, in line with the Council's arrangements for managing risk.
- 6.2 Testing the robustness of the financial model is crucial in terms of establishing the new company.

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 SEAP.

Consultation and engagement

- 9.1 The Technical Advisers group is made up of external representation from a range of key stakeholders. This group has been involved in the development of the ESCO and has provided positive consultation and engagement. As specific projects are developed further consultation will be undertaken with a wide range of stakeholders.

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