Income Generation – Independent Review

Chorley Council

08 February 2017

REVISED DRAFT

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08 February 2017

Dear Gary

Income Generation – Independent Review (Revised Draft)

We have pleasure in enclosing a revised draft copy of our report (the 'Report') containing the findings from our Independent Review of Income Generation by Chorley Council (the 'Council'). We have incorporated your feedback dated 07 February 2017 in this revised report. The scope of the review was agreed with you in our Letter of Engagement dated 22 November 2016. Notwithstanding the scope of this engagement, responsibility for management decisions will remain with the Council and not with Grant Thornton UK LLP.

Limitation of liability

We draw the Council's attention to the limitation of liability in clause 9 in the Terms and Conditions of the Letter of Engagement between the Council and Grant Thornton UK LLP dated 22 November 2016.

Forms of report

For the Council's convenience, this report may have been made available to the Council in electronic as well as hard copy format, multiple copes and versions of this report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

Confidentiality and reliance

We accept no duty of care nor assume any responsibility to any person other than the Council in relation to this report and our work. Any third party who chooses to rely upon this report or our work shall do so entirely at their own risk.

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General

The report is issued on the understanding that management of the Council have drawn attention to all matters, financial or otherwise, of which they are aware which may have an impact on our report up to the date of signature of this report. Events and circumstances occurring after the date of our report will, in due course, render our report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date report. Additionally, we have no responsibility to update this report for events and circumstances occurring after this date.

We would like to thank all stakeholders for making themselves available during the course of the review.

Yours faithfully

Guy Clifton

Director and Head of Local Government Advisory
For Grant Thornton UK LLP

Executive Summary

Introduction

On 22nd November 2016 Grant Thornton UK LLP was commissioned by Chorley Council ('the Council') to undertake an independent review of the Council's income generation. This report sets out our findings based on the evidence made available to us.

Background

The Council is a recognised entrepreneurial authority in Lancashire and nationally, for instance as a direct investor and facilitator of commercially successful major regeneration schemes ranging from the acquisition of the Market Walk shopping mall to being a key driver for the establishment of the new Digital Health Park.

Officers and members are keen to stay at the forefront of innovation when it comes to potential new opportunities to generate income. These are opportunities for the Council on its own and in partnership with others. In particular, the Council is interested in options that deliver multiple outcomes for the same spend, yielding both financial and social returns to maintain a vibrant Chorley economy. Social benefits may include, for instance, creating local decent jobs and leveraging support for SMEs and caring for vulnerable residents.

The Council has recently undertaken work to benchmark its current performance on income generation and to identify a long list of options for new income generation. This is a key part of its plan to address its forecast budget gap as follows: 2017/18 (£2.5m), 2018/19 (£3.4m), and 2019/20 (£4.1m).

Our review objectives

Regarding the new options identified by Chorley, the Council was interested in securing further insight and intelligence of the markets, risks and possible returns in relation to:

- Loans for housing providers
- Care homes.

The overall purpose of this project was to undertake an independent review of the Council's income generation to provide senior officers with the latest insight on good practice from across these three sectors to inform the Council's development of outline business cases.

Our work as an independent reviewer and critical friend was to set out the options, but due to our external audit relationship, it is not be possible to make any recommendations.

The following were out of scope:

- advice on the legal and tax aspects relating to the options
- financial modelling of the options.

This report is the outcome from our review and will be accompanied by direct feedback to the Chief Executive and the Director of Policy and Governance.

Our report sets out the methodology we implemented for our review, the findings that have emerged and our conclusions.

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Methodology

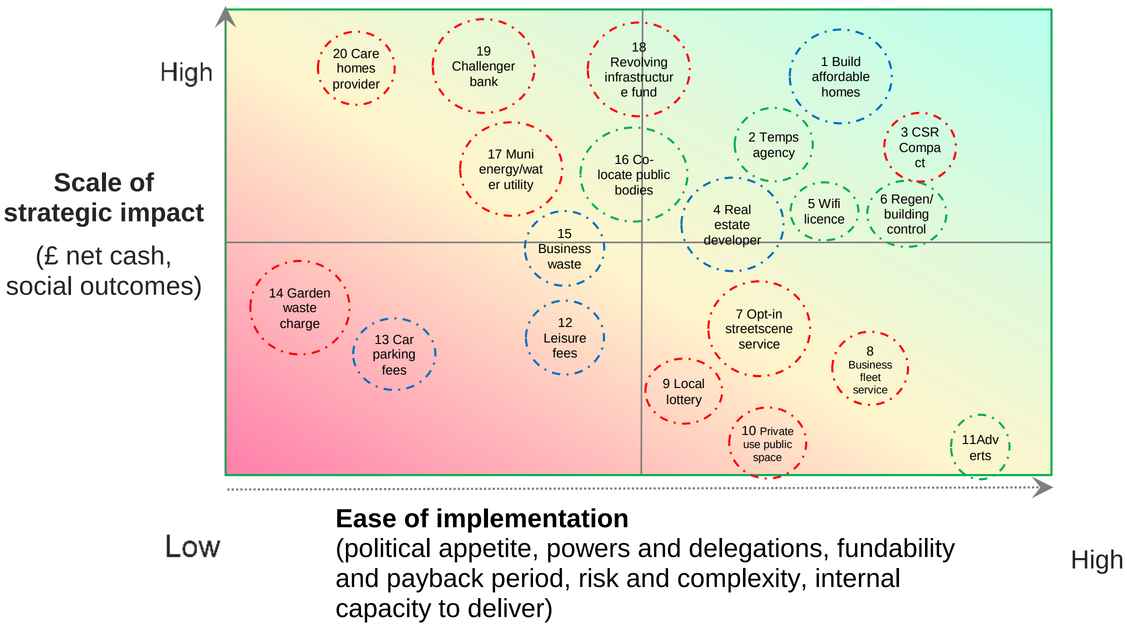
We have applied our quality framework for income generation and aligned to the Council's requirements. This framework outlines the fundamental principles that underpin good business development on income generation in all its forms, to deliver whole-system and integrated prioritised outcomes. These have been developed based on our wide and varied experience of working with local government, as well as drawing on nationally recognised best practice and academic thinking in the field of income generation.

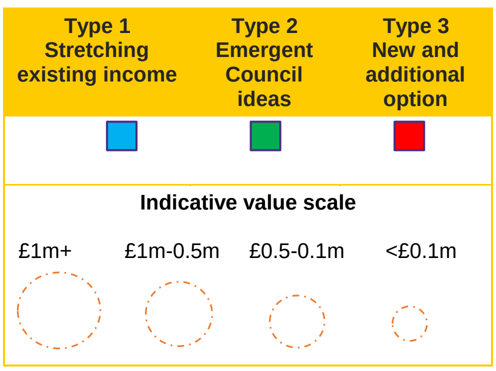
A key aspect of this quality framework is an options appraisal. Choosing the best opportunities available to the Council given its unique context requires prioritisation to filter a long list of options to arrive at a short list.

The opportunity matrix depicted below is an illustrative sample from an anonymous council. It helps to appraise all possible options to arrive at a list of the most appropriate ones. It contrasts the potential contribution to strategic priorities (financial and non-financial) with the level of difficulty to implement (risk and effort). The most promising income opportunities populate the top right hand corner of the matrix.

In order to complete our review we have undertaken the following activities:

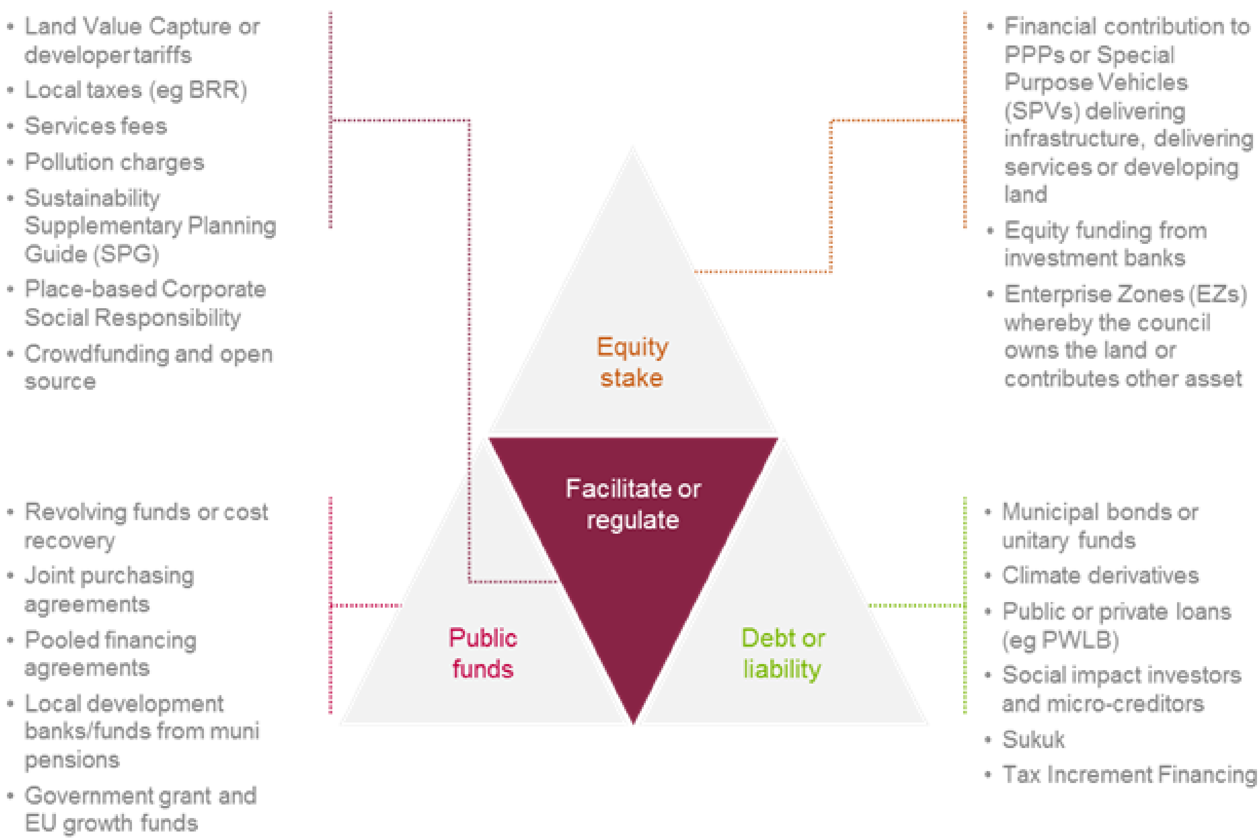
- Document review of key information including the Council's draft income generation strategy, outline business cases (if and where they exist), Local Plan, and Transformation Strategy.





Methodology (continued)

- A desk-top review of the latest innovative and market practices related to energy supply, loans for house providers, and care homes. The 9 case examples included here are as follows: Care homes (Northamptonshire, Norfolk, anonymous Midlands council), loans or debt for housing (Manchester, Warrington, Oxford), and energy supply (Bristol, Nottingham, Camden). Our selection of peer examples is shaped by placing a special focus on the risk-reward of particular opportunities and the different mechanisms that councils can employ to fund and deliver new income opportunities – one or a combination of facilitation and regulation, public funds, debt, and equity – as depicted below.
- We held discussions with the Council's corporate and service leads to offer critical challenge on draft outline business cases (if and where they existed). This comprised interviews with officers relevant to and responsible for outline business cases in the areas of energy supply, loans to housing providers and care homes (Chief Executive, Director of Policy and Governance, and Principal Management Accountant).
- We then focused on reaching our conclusions, which distils our work with you and sets out your options for going forward.



Key Findings and Conclusion

Market intelligence on risk-reward

Chorley's approach to income generation places a strong emphasis on investing to earn with a financial and a social return.

Based on sectoral insights, the three income areas of potential interest to the Council (care homes, loans housing provision, energy supply) could all potentially achieve multiple outcomes, but to different extents.

Comparing the three income areas at a high-level, the return on investment for providing loans or debt for housing provision is relatively better than for energy supply (if setting up a company) and care homes (if owning and operating).

The primary reasons for this are the complexity of demand management and staff transfer (care homes) and the high regulatory cost of licensing (energy supply).

Options to limit entry costs

The Council has already explored scenarios to reduce the high set up for energy supply through the proposed Central Lancashire offer (so costs and benefits are split three ways).

Chorley may want to consider spreading the cost and risk further for energy supply and care homes too by exploring the feasibility of a JV with established local authority trading companies.

In terms of care homes, Norse Care now offers JVs outside of Norfolk. With regards to energy supply, Robin Hood Energy Ltd already provides a national offer.

In exploring the feasibility of a JV for energy supply, the Council should include in its discussions with potential JV partners the additional option of wider utility services such as water services. This is so you can possibly exploit the benefits from economies of scale in bundling multiple utility services together (for example issuing one invoice to the same client for a variety utility services), such as the new opportunity arising from the impending liberalisation of the water market from April 2017 onwards.

An additional benefit to the Council of refining its business case in this way, is that it provides scope for further diversifying and investing in other new income options. Which in turn is likely to make Chorley more resilient.

Key Findings

Care homes

Care Homes

Local market

According to www.Carehome.co.uk there are 36 Care Homes in the Chorley area. Only 2 of these had any vacancies recorded on their system.

The demand for care homes in the Chorley area is likely to increase given that approximately 25% of the local population will be over 60 by 2020.

Funding model

Most people have to pay something towards their own care and some will have to pay for all of the costs. The relevant local authority, in Chorley's case the County, may cover some or all of the cost of care in some circumstances, dependant on means-testing. Therefore the amount an individual will pay depends on what their needs are; how much money they have, and what level and type of care and support is required.

Local authorities will not provide care services if an individual has more than £23,250 in savings and property (your "capital"). However, from April 2020, this threshold will rise alongside the introduction of the cap on care costs, so more people will be eligible for help sooner.

This should mean that, as an income source, it should be relatively secure given the funding. In the north-west, the average fee per person for residential care is £539 per week.(source: Which – research by KnightFrank).

Whilst the 2016 changes to the council tax social care precept from 2% to 3% over the next two years are welcome, they do not provide additional funding. English council social care budgets have been cut by 31% in real terms since 2010, with the most disadvantaged communities less able to meet rising cost demands (source: Grant Thornton 2016).

Alternative Delivery Mechanisms

There are several different ADM's that supply social care, but these tend to deliver day care. These include the following

Local Authority Trading Companies:

- Buckinghamshire Care – supplies home-based, community and some specialist services (e.g. helping people in to employment)
- Essex Cares Limited – supplies support in home and community
- Individual Solutions SK – supplies home support
- Olympus Care Services (OCS) - delivers a wide range of services for adults to improve quality of life and independence, including: a place to live
- Sefton New Directions – provides a full range of services including residential care.
- Your Choices – home and community services, with some respite provision

Community Interest Companies:

- Focus (North East Lincolnshire)
- Independence Matters.

Overleaf we present three examples of current or innovative practice in terms of key features, finance, quality, risk, control, and success factors.

Care Homes

Norfolk County Council

Key features	Financial	Quality	Risk	Control	Success factors
• Norse Care are Norfolk's largest care home provider, managing residential Homes and Housing with Care schemes across Norfolk.. • NorseCare are part of the Norse Group Ltd, a holding company, wholly owned by Norfolk County Council. • Norfolk County Council's residential care homes transferred to the company in April 2011.	• The company posted profits of £276k for the year ending 31 March 2016 based on turnover of £40.6m • The profit made is described in the accounts as being 'attributable to the owners of the parent • Property, plant and equipment is £41m .	• CQC accreditation is maintained for all care establishments • CQC have published the results of the inspections on their website	• There is exposure to the same risks as the rest of the market • The accounts recognise the risk of funding issues in the public sector the length of the contract with the County Council and potential for other customer income mitigates this	• NorseCare are part of the Norse Group Ltd, a holding company, wholly owned by Norfolk County Council. • The vast majority of the company's business is with Norfolk County Council.	• Focus of attention has been to reduce labour costs • Also looked to increase occupancy rates and maintain high levels of care and service quality.

Sources:

1. Norse Care Limited Website
2. Companies House information
3. CQC website information

Care Homes

Anonymous Midlands Council

Key features	Financial	Quality	Risk	Control	Success factors
• The local authority identifies a social care provider who is struggling • The authority buys out the provider and takes over the running of the care home • Alternatively the Council identifies suitable empty properties in the area and turns these in to care homes	• Review of the care home .co.uk website has 7 care homes in the north-west that were listed for sale during 2016. • The value of these range from £425k in Cumbria through to £1.9m for a confidential sale • Two of the properties list 'earnings before interest, tax, depreciation and amortisation (EBITDA) of over £100k	• Would be for the individual organisation to determine quality standards • May expect that where there is a sale there is a higher chance of some quality issues • Would need to ensure that there is appropriate CQC accreditation maintained for all care establishments	• There is exposure to the same risks as the rest of the market • Would need to ensure there was no legal issues to prevent the Council offering the service • Would need to attract new residents if setting up from new	• Could be direct control. • Alternatively the Council could set up a Local Authority Trading Company to run the business	• Profitability and quality would be the key success factors • Also looked to increase occupancy rates and maintain high levels of care and service quality.

Sources:

1. Anonymous - Midlands Council

Care Homes

Northamptonshire County Council

Key features	Financial	Quality	Risk	Control	Success factors
• Olympus Care Services (OCS) is a limited company formed in 2012 by Northamptonshire County Council (NCC) • OCS delivers a wide range of services for adults to improve quality of life and independence, including: a place to live (care homes, supported housing) and services in the home (reablement, equipment and home care)	• Turnover in 2015 of £31 m, with total shareholder return of £2.1m • 91% NCC contracts, with other from NHS and private customers • 10,000 annul customers and 1,200 team members	• Developed from being a NCC division to better address growing older population, immature provider market, increased self or co-funding • Partnerships with housing association and primary health care	• There is exposure to the same risks as the rest of the market • Negotiated change and amendments to terms and conditions for transferred staff, and introduced new terms and conditions for new employees	• OCS is wholly owned by NCC • The vast majority of the company's business is with NCC	• Focus of attention has been to increase customer experience whilst also reducing labour costs • Responded quickly to put in place new 24 hour services to reverse failing care.

Sources:

1. APSE. Developing a wholly owned company model for adult social care services. Olympus Care Services. 11 September 2014.

Loans for housing providers

Loans or debt for housing provision

Local market

The Chorley Local Plan 2012-2026 and the Central Lancashire Strategic Housing Market Assessment (SHMA) 2009 forecast that due to natural growth the population of Chorley was set to rise by 13% to 111,582 between 2007 and 2017. Consequently the regional spatial strategy set a new annual housing provision target of 417 units. In terms of the requirement for affordable housing, Chorley has an estimated annual shortfall of 723 units.

Funding model

Most people pay all of their mortgage or rent and those in receipt of welfare often pay something towards their costs. In Chorley the average overall local property price is £169,279. Private sector rents in Chorley range from £275-£400 per month (for a 1 bedroom apartment) up to £500-£600 per month (for a 3 bedroom semi-detached property). The median gross household income in Chorley is £29,642, which gives a house prince to income ration of 1:5.7.

The Council do not own or manage any properties as it transferred its stock to Chorley Community Housing in March 2007 and so work with Registered Providers (RPs) to meet local housing need. The services it provide includes:

- Access to social housing via the Selectmove Choice Based Lettings system
- Housing options advice including homelessness, help to access private sector housing, help with mortgage advice, and also help to access to housing related support including accommodation based service and also floating support.
- Cotswold Supported Accommodation for homeless families
- Home Improvement Agency for help with adaptations and energy efficiency
- Help and support to access affordable housing to part share or buy
- Support and advice for Private Landlords in Chorley.

Alternative Delivery Mechanisms

There are several different ADM's whereby councils directly or indirectly boost local housing supply by providing loans or debt. These include the following

Challenger banks or financial underwriters:

- Eastleigh - Borough council offers a 'guaranteed purchase' on developments which had stalled because investors were unsure if they could sell the houses
- Sunderland – home purchase plan (‘Genie’) which provides a discount on new build property through Section 106 agreement
- Warrington – providing loans to local Housing Associations to build new dwellings

Asset backed Joint Ventures (JVs):

- Barton Oxford LLP – a partnership between Oxford City Council and GDL
- Liverpool’s Strategic Housing Development Programme (SHDP) – a partnership comprises a consortium of Liverpool City Council, private housing developer Redrow Homes, affordable housing provider Liverpool Mutual Homes (LMH) and its building contractor Willmott Dixon.
- Matrix Homes – a partnership between Manchester City Council and the Greater Manchester Pension Fund

Overleaf we present three examples of current or innovative practice in terms of key features, finance, quality, risk, control, and success factors.

Loans or debt for housing provision

Warrington Council

Key features	**Financial**	**Quality**	**Risk**	**Control**	**Success factors**
• In 2016 the Council took its lending to housing associations to around £300m and 10 providers, with three more prospective deals in negotiation. • The driver is both to promote house building and regeneration, and to earn interest that is reinvested in frontline services. • Borrowers to date have included Warrington HA, Plus Dane, Helena, Your Housing and others.	• Warrington is taking advantage of the post-EU referendum low interest environment to borrow more money via the public works loan board (PWLB), alongside its decision to borrow £120m to lead its own town regeneration. • Interest payable was reportedly 1.25 per cent above the PWLB's rate at the date of each drawdown.	• A benchmarking exercise has been undertaken to determine the rate and its been independently checked by external consultants to verify its competitiveness. • It is one part of a wider development strategy, which also includes a plan to set up its own housing company having identified sites for 400 homes.	• Many of the Housing Associations they have lent to have moved into sales, so it comes down to governance and risk, given that one key area is around having the right skills. • There has been some concern in some areas at the local political level that associations are going into sales without putting the social purpose at the fore.	• The initiative is a part of the Council's Treasury Strategy, approved by Cabinet • Initially it will be focusing on Warrington but if the business case stacks up we will invest in schemes outside Warrington	• The council has carried out a full comprehensive risk assessment on the loan. This includes an independent due diligence exercise on Housing Associations and a detailed risk matrix drawn up in consultation with the council's treasury advisors, leading banking lawyers, bankers, our auditors and members.

Sources:

1. http://www.socialhousing.co.uk/warrington-council-lends-9
2. http://www.socialhousing.co.uk/council-takes-ha-lending-to-almost-300m/7017256.article0m-tohelena/7001973.article

Loans or debt for housing provision

Oxford City Council

Key features	Financial	Quality	Risk	Control	Success factors
• The Council is developing a new neighbourhood of 885 homes on its land at Barton Park., an area to the North-East of the city. Of these, 40% will be affordable homes for social rent. • In 2011 the Council formed a JV partnership; Barton Oxford LLP, with GDL. Work started on site in May 2015. • Planning permission was granted providing a minimum of 40% of the proposed homes were affordable housing. These will be social rented homes. • Additional affordable housing above the minimum 40% may include intermediate, shared-ownership or affordable rent homes.	• Estimates of financial requirement to deliver the development are £30.3 million. • The site required significant upfront investment before returns could be made through the sale of land. • The Council could have funded the project through borrowing, but would have been exposed to the full development risk. After carrying out an options appraisal the council agreed the JV, with GDL to secure investment against the value of the land	• The partnership is aiming for a particularly high quality development that can be held up as an 'exemplar' • The LLP appointed a architect at the outset to establish a design framework, including a review of best practice involving a study tour of leading Dutch housing schemes to learn lessons with the City Council officers and Members.	• The formation of a joint venture with an investment partner allowed a procurement which fell outside the OJEU procurement regulations • The JV was formed on an LLP basis • Barton Oxford LLP's Design Code, Parameter Plans, master plan and phase designs are all subject to Design Review by the independent Oxford Design Review Panel. • Oxford did not have significant prior experience of JVs and drew on external advice on tax and the accounting treatment.	• The JV is a true 50/50 vehicle with both the City Council and GDL represented equally at both Board and project group level ensuring that the overarching objectives set by the City Council are achieved. • The objectives are enshrined in the partnership documentation and as well as commercial terms include objectives around physical and social regeneration and maximisation of affordable housing. • By retaining control of the land the City Council has been able to work in partnership with an investment partner who had similar values and aspirations.	• The partnership, combines the council's land and vision for the new neighbourhood with GDL's expertise in place-making and funding capacity to deliver a high quality scheme with regeneration benefits for surrounding areas. • Taking the procurement outside OJEU allowed a simpler and faster appointment of an investment partner.

Sources:

1. APSE / Housing the nation: enabling councils to deliver more and affordable homes / 2015
2. ww.oxford.gov.uk/PageRender/decN/newsarticle.htm?newsarticle_itemid=52985 / September 2014
3. www.bartonparkoxford.com/updates/ current
4. www.oxford.gov.uk/PageRender/decN/newsarticle.htm?newsarticle_itemid=56915 / May 2015
5. LGA / Supporting Housing Investment / 2014
6. http://www.gmpf.org.uk/documents/panels/2015/06032015/item6e.pdf

Loans or debt for housing provision

Manchester City Council

Key features	Financial	Quality	Risk	Control	Key success factors
• Matrix Homes, founded in 2014, is a joint venture between the Council and Greater Manchester Pension Fund (GMPF) to build 240 new homes on five sites across the city. As a result, 119 homes will be available for rent at market prices and 121 for sale. • The development model uses available land owned by the Council (including a site offered by the HCA) for the investor GMPF to build on. • The houses were launched in phases, becoming available from November 2014 and is due for final completion in early 2016.	• The project is funded through a "Housing Investment Fund" (HIF). • The HIF is a funding vehicle created in response to increases in demand for housing, the lack of development and mortgage finance and to attract investment. • GMPF invested £25m to fund construction costs • The Council invested £5 million of land. • The HCA, though not a member of the JV, also invested a site. • MCC and GMPF aim to take a revenue return from market rentals and capital return on sales receipts.	• This mix of 119 rental and 121 sales has been developed to ensure each location meets the property requirement for the local area. • The development was designed to meet the demand for high quality, family-friendly, yet affordable homes in the city.	• The partnership model is that of a Limited Liability Partnership • The aim is to stimulate home building, while reducing the usual risks associated with a development – minimising the overheads for a contractor, who will also have no sales risk.	• Matrix Homes Limited Partnership established in April 2014 • Wates Living Space will design and build the homes, with GVA providing technical advice. Pozzoni are the architects. • Plumlife handle sales enquiries, TouchStone Residential handle rental enquiries • Places for People will act as agent and lease and manage the rental properties.	• Buy-in and extensive work by all partners to form the JVC. • The innovation of the partnership approach and willingness on the part of the GMPF to invest in the opportunity. • High demand for affordable housing and ready return on investment. • The development has created 14 apprenticeships in the area – contributing to the Council's regeneration priorities.

Sources:
1. Tom Lawrence/LGiU Pension Funds – Working together, investing in Communities & Growth / June 2014
2. www.manchester.gov.uk/news/article/6852/manchester_s_innovative_housing_investment_fund_given_green_light
3. www.matrixhomes.org.uk/about_matrix/index.html / Curremt
4. www.plumlife.co.uk/matrixhomes/Pages/default.aspx / Current
5. www.socialhousing.co.uk/manchester-pension-fund-invests-25m-in-council-joint-venture/7003315.article / June 2014
6. Paul Beardmore, Director of Housing MCC / Housing Investment Fund Report / April 2014

Energy supply

Energy Supply

Local market

Chorley like other councils in the country has the legal right to become an energy supplier should it choose to do so. The Local Government Act 2003 provides a General Power of Competence for councils to trade, and Ofgem's New Energy Trading Arrangements 2001 liberalised the market to encourage new entrants due a perceived lack of competition. (For the same reason, from April 2017 onwards under the Water Act 2014, local authorities can also enter the non-residential water retail market too).

In 2016 the Council has developed an outline business case for the establishment of a company for Chorley to become an energy supplier. Working with local firm Utiligroup it proposed a Central Lancashire offer (including Preston and South Ribble) on the basis it would only be viable on a greater and regional scale.

Funding model

In 2015/16 the Council's annual energy bill was £410k (plus a further £142k for water). The average household bill was £1,334 per annum.

The outline business case for an energy company developed by Chorley and Utiligroup forecast up to 30,000 customers at an average household spend of £1,000 per annum. On the basis of a £1.2m set-up cost (split three ways) and a turnover of up to £30 m it was forecast to generate a 4-5% return (split three ways). The company was likely to be set up through internal borrowing. The large set up cost is related to: market entry, licence purchase, website development for marketing, pricing and sales analysts, local advertising, transmission and distribution agreements, IT, and legal charges.

Alternative Delivery Mechanisms

There are several different ADM's whereby councils directly or indirectly boost local energy supply. These include the following

Local Authority Trading Companies:

- Robin Hood Energy Ltd – Nottingham City Council operated energy generation and supply infrastructure, including heat network
- Bristol Energy and Technology Serviced Ltd (BETS) - Bristol City Council's low-carbon energy generator and supplier

Performance Contracts (EPCs):

- Somers Town District Energy Network – London Borough of Camden combined heat and power plant which supply to itself and nearby commercial users
- Blue Sky Peterborough – energy from waste partnership between Peterborough Council and waste management company Viridor

White labelling:

- Fairerpower – Cheshire East Council teaming up with a licensed electricity supply company (Ovo) and providing a local tariff

Community Interest Companies:

- OxFutures – crowdfunded low carbon hub for local communities and school

Overleaf we present three examples of current or innovative practice in terms of key features, finance, quality, risk, control, and success factors.

At the time of writing, no local authority has entered the market for water given this market only opens from April 2017 onwards. Grant Thornton is aware however through a number of confidential conversations with anonymous councils that some organisations are considering the potential new income opportunity arising from this imminent market change, particularly if a council has already invested in becoming an energy supplier. That is, the possibility to exploit the benefits from economies of scale in bundling multiple utility services together, such as issuing one invoice to the same client for a variety of utility services (for example energy, water, wifi, and highways).

Energy Supply

Nottingham City Council

Key features	Financial	Quality	Risk	Control	Success factors
• The Council launched Robin Hood Energy Ltd in 2015 due a concern by the prices and poor service by the largest gas and electricity supply companies • Robin Hood Energy is offering services to all of the UK market • It is a not-for-profit entity, but aims for full cost recovery. To remain price competitive in the market, it keeps overheads low such as directors do not receive remuneration or staff bonuses.	• Business cases and plans were produced to allocate £2m of set-up costs on 2014. This enabled them to purchase customer relationship management (CRM) systems, billing software, payment systems, metering services. • The district heating scheme cost £5m, with funding by other sources too, but the majority of the Homes and Communities Agency	• The council has needed to become a fully licensed energy supply company with the regulator • Part of the set-up costs included 'licence in a box' through the purchase of a pre-existing energy trading company (Europa Energy Ltd)	• Lessons learned as 'first mover', in terms of media interest, regulatory compliance, multiple contract management, industry delays with smart meter and pre-payment, credit worthiness, and educating disengaged consumers • A key response is recruitment of experienced management team from energy industry, in particular with regards to modelling for breakeven volume	• Wholly owned by Council, with a board of elected members	• Strong political support as the company was a public commitment in the ruling party's local election manifesto • The company has helped the east midlands move from 7^{th} to 1^{st} for position for price competitiveness. It saves customers over £200 on average and is on track to meet its target to recruit 50,000 customers

Sources:

1. Grant Thornton – Joining up local energy production, 2016
2. Robin Hood Energy Ltd,

Energy Supply

London Borough of Camden

Key features	Financial	Quality	Risk	Control	Success factors
• The Somers Town District Energy Network is one of two council-led low carbon district energy projects. It involves the council building and operating its own energy network serving commercial and domestic buildings next door to the British Library and St Pancras International/King s Cross railway stations. • The business case for London Borough of Camden's investment is a significant net present value improvement over business as usual during the 15 year operation and maintenance contract once electricity sales commence.	• Capital expenditure of £4.9 million for the Phase 1 and 2 project is funded partly by a Section 106 Agreement with the third party developer (£3.8 million) and by invest-to-save council funds (£1.1 million). • The Section 106 Agreement also contained a condition relating to the future supply of electricity from the energy centre to the building in question.	• The project is split into three phases: • Phase 1 – heat only energy centre to 339 Camden homes. • Phase 2 – CHP installation at the energy centre and a proposed private wire electricity supply to a high profile commercial third party building in 2016/17 (the 3rd party building is currently under construction). • Phase 3 – proposed extension to a redeveloped local primary school and new Council led housing development in 2016/17.	• Phase 2 is conditional on the finalisation of the electricity supply agreement, but a memorandum of understanding is in place between the parties which defines, as far as possible, the detail of the supply terms. The combined Phase 1 and 2 project has been awarded to Vital Energi. Phase 1 is due for completion in summer 2015. • Phase 3 extension feasibility is currently being assessed using DECC Heat Network Delivery Unit funding. Subject to a positive conclusion to this assessment, connection will form part of the planning requirements for the new school and Council led housing development.	• Wholly owed by the Council • Industry suppliers and users procured as needed during different phases of development.	• Development is self-financed, with nil net additional cost • Political buy-in to business case includes ability to manage rising energy demand of local major users

Sources:

1. http://camden.gov.uk/ccm/content/housing/housing-and-the-environment/combined-heat-and-power/
2. APSE Municipal Energy study 2015

Energy Supply

Bristol City Council

Key features	Financial	Quality	Risk	Control	Success factors
• Establishing the Bristol Energy and Technology Serviced Ltd (BETS) is a central element of the Bristol City Council's commercial agenda and vision as a European Green Capital. • BETS will generate and supply low-carbon and affordable energy.	• Following an initial investment of £3.25 million from the council's general fund and European Investment Bank's ELENA programme • BETS is forecast to deliver a 12% return within five years and a 35% return within a decade, with a £10m turnover.	• BETS is one subsidiary of the parent Bristol Holding Company, along with Bristol Waste which provides waste management and street scene services. • The Council was unhappy with the performance of its outsourced waste contract to Amey, and so saw the opportunity to increase profit and impact by bringing it back in house.	• Long pay back period of 5-10 years	• Wholly owed by the Council • Industry suppliers and users procured as needed during different phases of development.	• Business for investment through a mix of internal borrowing and EIB funds • Political buy-in to business case includes ability to manage rising energy demand of local major users and retain brand as European Green Capital

Sources:

1. Bristol City Council. Business planning update on Companies which the Council wholly own, and governance of managing those companies. Cabinet – 12 January 2016.
2. Bristol City Council. Establishment and trading of an energy and technology company. Cabinet – 06 July 2015

Conclusions

Conclusions

Market intelligence on risk-reward

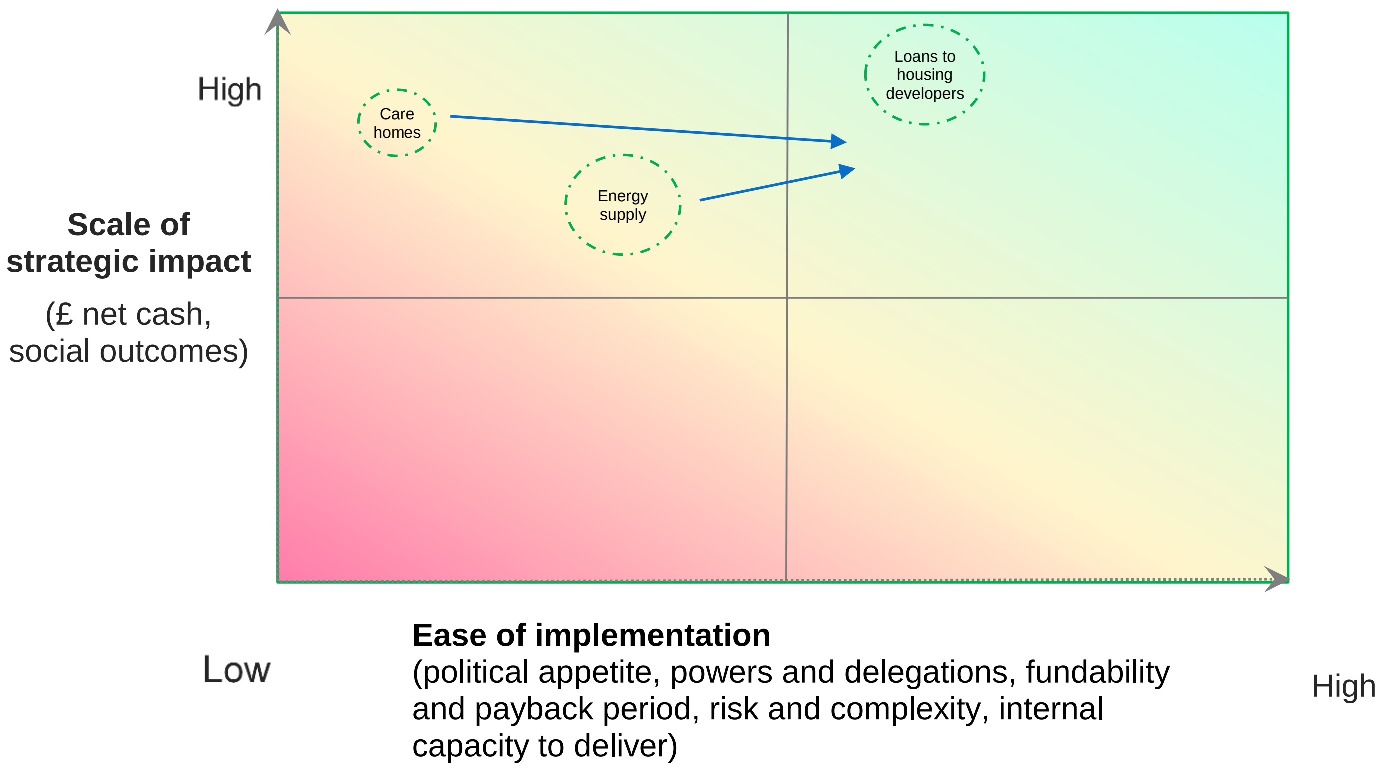
The Council's approach to income generation places a strong emphasis on investing to earn with a financial and a social return.

Based on sectoral insights, the three income areas of potential interest to the Council (care homes, loans housing provision, energy supply) could all potentially achieve multiple outcomes, but to different extents.

This is depicted in the options appraisal matrix below (actual, and where they could be if options to limit entry costs are explored).

Comparing the three income areas at a high-level, the return on investment for providing loans or debt for housing provision is relatively better than for energy supply (if setting up a company) and care homes (if owning and operating).

The primary reasons for this are the complexity of demand management and staff transfer (care homes) and the high regulatory cost of licensing (energy supply).



Options to limit entry costs

The Council has already explored scenarios to reduce the high set up for energy supply through the proposed Central Lancashire offer (so costs and benefits are split three ways).

Chorley may want to consider spreading the cost and risk further for energy supply and care homes too by exploring the feasibility of a JV with established local authority trading companies.

In terms of care homes, Norse Care now offers JVs outside of Norfolk. With regards to energy supply, Robin Energy Ltd already provides a national offer.

In exploring the feasibility of a JV for energy supply, the Council should include in its discussions with potential JV partners the additional option of wider utility services such as water services. This is so you can possibly exploit the benefits from economies of scale in bundling multiple utility

Conclusions (cont'd)

Options to limit entry costs (cont'd)

services together (for example issuing one invoice to the same client for a variety utility services), such as the new opportunity arising from the impending liberalisation of the water market from April 2017 onwards.

An additional benefit to the Council of refining its business case in this way, is that it provides scope for further diversifying and investing in other new income options. Which in turn is likely to make Chorley more resilient.

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