
May 2017 Monitoring Report

This month's monitoring report considers three examples from English local government of commercial initiatives intended to serve both a business and a social purpose, two of them in the energy sector and targeting a range of objectives including reducing the district's carbon footprint, reducing costs for households and businesses, creating local jobs and generating income for the Council.

As well, two of the examples are looking at innovation in the financial sector.

After discussing the three examples this report considers whether they offer a precedent for New Zealand local government.

The first example, Peterborough City Council, was one of the first English local authorities to become actively involved in energy initiatives on behalf of its community. The remaining two are both very recent initiatives reflecting the interest of councils in pursuing commercial opportunities which may add value for them and/or their communities.

A local authority energy company

Peterborough City Council through a Council owned company partnered with Honeywell with an initial focus on improving the efficiency of energy usage in council facilities, and reducing its own carbon footprint. Following the success of that initiative, the Council in partnership with Honeywell then began offering energy efficiency services to other local authorities. More detail on its experience can be found at:

http://www.modbs.co.uk/news/archivestory.php/aid/15309/Energy-performance_contracts_that_deliver.html

Currently, through another company, Peterborough Energy, a joint venture with OVO Energy a private sector energy retailer, the Council provides energy services to residential customers within its district. It's a conscious endeavour on the part of the Council to use its leverage to enable residents to purchase energy more cheaply than they would be able to do contracting as individuals. (See: <https://www.peterboroughenergy.co.uk>)

More generally, the Council has also undertaken significant research on the different possibilities which changing technology offers in areas such as energy efficiency. See: www.eelga.gov.uk/documents/conferences/2014/.../john_harrison_ppt_26.09.14.pdf

A specialist funder of community energy projects

Swindon Borough Council has recently been in the news for its community funding scheme to raise part of the funding needed to support two new solar farms (the balance of the funding is provided by the Council). The initiative is part of the Council's strategy of developing a low-carbon economy by 2030.

The community funding scheme relies on an innovative on-line financier, Abundance. The homepage of its website (<https://www.abundanceinvestment.com/>) describes its activity as

“Investments that build a better world. Abundance offers investments that create something good for the environment and society, and a good financial return too.”

Abundance was established by a team of specialists, investment bankers and others with a long track record of working within the city of London's investment banking sector. Abundance specialises in funding renewable energy projects and has developed innovative products, cleared by the UK regulatory authorities, which enable individuals to invest as little as 5 pounds in debentures as part of project finance.

Swindon's solar farm initiative offers a return of 6% per annum on a 20 year debenture. Debentures themselves are tradable. As part of the agreement between Abundance and the Council, Abundance has put in place special measures to make the investment available to people who do not normally have the opportunity to invest in market securities.

The Abundance track record in projects which it has put together over the five years during which it has been operating is one of successful project funding, with all projects to date meeting expectations.

It can be seen as an innovative approach to democratising project funding, building on crowd funding techniques to offer long-term tradable funding products which fully satisfy regulatory requirements. There is an expectation that other councils will follow Swindon's lead looking to an additional source of funding for what are inherently community projects but generating a commercial return.

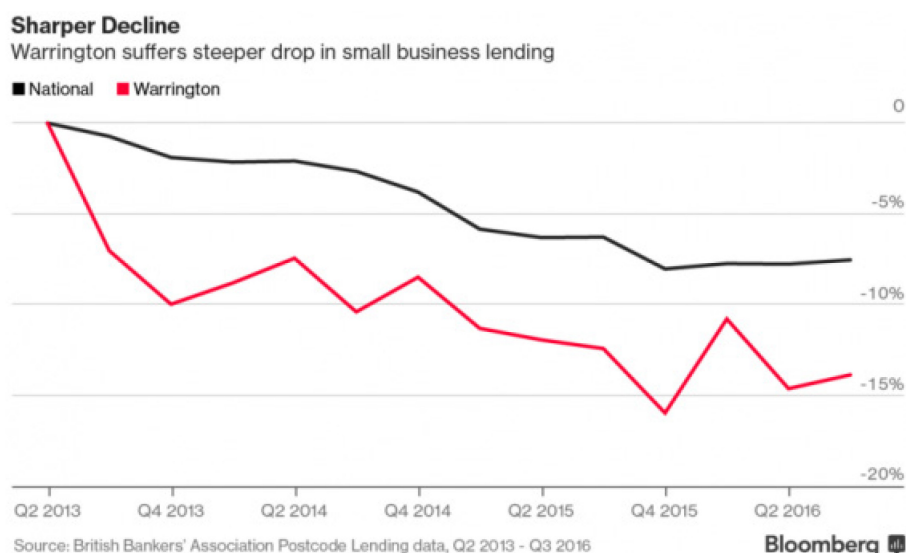
Investing in a challenge bank

The past few years has seen the establishment in the UK of a number of what are termed 'challenge banks'. These are typically relatively small local banks formed with the objective of offering alternatives to the major banks which have become seen as relatively unhelpful, especially in meeting the funding needs of small and medium enterprises.

Warrington Borough Council, a commuter town midway between Liverpool and Manchester, has just completed an investment of £30 million to take a one third stake in the capital of Redwood Bank, a start-up bank which has just been licensed by the Bank of England.

The investment has been controversial with critics expressing doubt about whether the Council has the necessary capability and competence to be an effective monitor of its investment and ensure that it does deliver the benefits which the Council is expecting - basically a better service for small and medium enterprises in need of bank finance. This is especially the case as the Council itself has acknowledged it does not have anyone with the necessary skills and experience required to qualify them as a member of the board of the bank so that the Council itself is not actually represented at board level.

The Council's response is first that it is relying on the Bank of England's regulatory process as having ensured that the bank does have a competent board and management, secondly that the bank is establishing a branch in Warrington specifically to service the small and medium business sector (the bank's head office is in southern England) and thirdly that existing lenders have failed to meet the needs of the borrower's small and medium business sector can be seen from the following graph:



The Council is also looking to earn an above average return on its investment as a means of helping compensate for ongoing reductions in government funding.

A precedent for New Zealand local government?

In each of these three examples the council involved is looking to use its leverage to create opportunities both for itself and for its communities which would not necessarily be available if left entirely to the market. Indeed, two of the examples, Peterborough City Council and Warrington Borough Council, are quite explicitly responses to what councils have seen as market practices (market gaps) which were disadvantaging local residents and businesses.

Similar concerns exist in New Zealand in areas such as energy efficiency, cost of and access to energy services (although the New Zealand market has been becoming more competitive) and certainly access to finance for small business especially outside major metropolitan centres.

In considering whether the English experience provides a precedent for New Zealand local government, it's important amongst other things to look at issues of scale. The Abundance platform as a specialist financier of renewable energy projects with a strong social enterprise element is very much a function of the scale of the finance sector in the UK. The majority of the executives involved in running Abundance's business do so on a part-time basis, combining their Abundance roles with working in mainstream finance sector jobs. Quite apart from the employment aspect, another important factor is the scale available in England compared with the equivalent in New Zealand. Abundance needs to gain a much smaller share of the potential market for funding renewable energy investment than an equivalent entity would in New Zealand, making it somewhat more difficult for a market-based version of Abundance to emerge here.

The scale of local government itself, and the scope of its responsibilities, is also significant. English councils work much more closely with many of their less well-off residents than is the case in New Zealand (the responsibility for benefit payments such as housing benefit is one example of a function which will naturally bring councils in contact with people for whom the cost of energy can be a very real issue).

If New Zealand councils were to take a similar approach of seeking to use their leverage to enable better outcomes for residents and local businesses than they themselves get from the market, it's much more likely councils would want to combine together to create a jointly owned centre of expertise. This would be specifically tasked to work on defined areas and across a relatively large number of councils so as to share the cost, spread the risk and to have the prospect of operating at a scale sufficient to make activity viable in at least the medium term.