

CABINET MEETING – 12 MARCH 2014

EXECUTIVE SUMMARY SHEET – PART I

Title of Report:

Collective Energy Switching Scheme

Author(s):

Executive Director of People Services

Purpose of Report:

The purpose of the report is to seek Cabinet approval to enter into a contract with iChoosr to deliver a collective energy switching scheme for the City

Description of Decision:

1. To agree to establish a collective energy switching scheme for both domestic and SME businesses in the City.
2. To agree the use of the NEPO procurement framework for Collective Energy Switching Schemes with I-Choosr as the switching agent.
3. To agree on the timescale of the first switching process.
4. To agree for any income received over and above costs be used to support future fuel poverty initiatives.

Is the decision consistent with the Budget/Policy Framework?

Yes/No

If not, Council approval is required to change the Budget/Policy Framework

Suggested reason(s) for Decision:

As fuel costs continue to increase putting more of the city's residents in fuel poverty, it is vital that we do whatever we can to try to provide options for reducing fuel poverty. Establishing a Collective Energy Switching Scheme will be another strand in our approach to reducing fuel poverty and making warmth affordable for the city's residents.

Alternative options to be considered and recommended to be rejected:

1. Do Nothing – Taking this approach would be nil costs and nil effort for the Council. A reliance on national campaigns to raise awareness to residents. This would mean that energy costs would remain high for tenants, residents, businesses and Voluntary and Community sector organisations in the City.
2. Work collaboratively with other regional local authorities – This approach will build on the existing partnership arrangement with Warm Up North scheme. Although none of the North East local authorities have a scheme currently, Gateshead, Durham and Newcastle have expressed an interest with NEPO. This approach will provide an opportunity for a wider regional participation but will require additional officer time to develop an approach that meets all authorities involved.
3. Join an existing local authority scheme – There are a number of schemes in existence such as Peterborough and Greater Manchester and these make a direct charge for joining a collective with subsequent charges for each auction.

Impacts analysed:

Equality Privacy Sustainability Crime and Disorder

Is this a “Key Decision” as defined in the Constitution? Yes

Is it included in the 28 day Notice of Decisions?

Yes

Scrutiny Committee

REPORT OF THE EXECUTIVE DIRECTOR PEOPLE SERVICES

COLLECTIVE ENERGY SWITCHING SCHEME

1. Purpose of the Report

- 1.1 The purpose of the report is to seek Cabinet approval to enter into a contract with iChoosr to deliver a collective energy switching scheme for the City.

2. Description of Decision (Recommendations)

- 2.1 To agree to establish a collective energy switching scheme for domestic and SME businesses in the City.
- 2.2 To agree the use of the NEPO procurement framework for Collective Energy Switching Schemes with I-Choosr as the switching agent.
- 2.3 To agree on the timescale of the first switching process.
- 2.4 To agree for any income received over and above costs be used to support future fuel poverty initiatives.

3 Introduction/Background

- 3.1 Households are finding it increasingly difficult to pay for fuel. Retail energy prices have more than doubled in the last 7 years. In 2004 the average household fuel bill was £600, this rose to £1300 in 2013.
- 3.2 The government has recently set out the new definition of fuel poverty which it intends to adopt under the Low Income High Costs (LIHC) framework.

Under the new definition, a household is said to be in fuel poverty if:

- they have required fuel costs that are above average (the national median level)
- were they to spend that amount they would be left with a residual income below the official poverty line

The key drivers behind fuel poverty are:

- The energy efficiency of the property (and therefore, the energy required to heat and power the home)
- The cost of energy
- Household income

3.3 In 2007, there were 13,145 (12.3%) of households in the City defined as being in Fuel Poverty. In 2010 this increased to 25,281 (21.3%). The tables below set out the national and regional fuel poverty statistics.

National	All Households	Fuel Poor Households	Percent Fuel Poor
London	3,049,047	330,783	10.8%
South East	3,473,397	401,054	11.5%
South West	2,247,536	342,497	15.2%
West Midlands	2,245,848	484,870	21.6%
East of England	2,387,114	380,969	16.0%
East Midlands	1,879,629	341,390	18.2%
Yorkshire and the Humber	2,230,755	415,324	18.6%
North West	2,966,585	601,052	20.3%
North East	1,120,015	237,993	21.2%
Regional			
Gateshead	88,326	19,980	22.6%
Newcastle upon Tyne	113,957	24,153	21.2%
North Tyneside	89,508	16,996	19.0%
South Tyneside	68,105	14,526	21.3%
Sunderland	118,680	25,281	21.3%

3.4 Households can make a difference to their energy bills by switching suppliers, however a study by Ofgem in 2008 found that “confident consumers” who were proficient at sourcing better deals, were in the minority and that most customers lacked confidence and knowledge to switch.

3.5 In July 2012 the Government wrote to Local Authorities to encourage the development of community switching schemes.

3.6 Local Authorities are well positioned to reach a wide audience, for greater sign up and where necessary are able to work in partnership and collaboration with other authorities., The Council is able to facilitate such a project and strong links with the community means that it is uniquely positioned to enable this interaction. A strong benefit of the collective purchasing model is that it is available to and supports everyone.

- 3.7 In July 2013 the LGA approached NEPO to put in place a national contract to appoint a switching agent. The contract was awarded to IChoosr, a specialist with over 5 years of experience in collective switching. There is no monies payable by the Council to IChoosr but the contract sets out to pay the Council a commission for every online successful switch. This equates to £5.50 per fuel (normally £11.00 in total if the property has gas and electricity supplies). The contract runs from Dec 2013 for 24 months with the option to extend for a further 24 months.
- 3.8 A financial profile based on the projected take up of the scheme is shown in Appendix 1. In other authorities any surplus after costs has been used to support schemes such as energy efficiency and debt management. It is proposed that the council use any surplus for similar such schemes to support reduction in fuel poverty.
- 3.9 IChoosr have developed the consumer registration process to collate the energy demand details, publicity material and auction method to provide a lot of support to Local Authorities taking this route. They also have support from official regulating bodies such as Ofgem and DECC.
- 3.10 A typical switching process takes 3 months:-
- 1-2 month registration period – interested households provide contact details and current energy use details online or offline.
 - 1 day auction – to seek the lowest price from energy suppliers.
 - 3 weeks for registrants to consider the winning offer – e mails / letters go out to all registrants with auction results and a personalised offer with the option to sign up and switch or opt out.
- 3.11 If the registrant decides to make the switch, the outcome is a minimum of one year fixed price tariff. The registrants' new contract is with the energy supplier they have switched to rather than with IChoosr. The offer doesn't change if only a small number of people decide to switch. At the end of the year it is up to the householder to decide whether they want to stay with the new tariff or switch again. They will be informed by the supplier that their existing deal is coming to an end.
- 3.12 IChoosr receive no payment from the Council for their service but receive a commission per successful switch paid by the winning energy supplier.
- 3.13 The registration and auction process is repeated at 4-6 monthly intervals depending on timetabled auction dates. Whilst promotion is local, the auction process to energy suppliers is national, with several different area/organisation collective energy switching registrants bundled together to ensure the largest number of people participating, and therefore the greatest buying power and potential for greater savings for the consumer.

The scheme is primarily focussed on domestic energy switching and there is an option for consumers on pre-payment meters to switch (provided that they are not more than £500 in arrears with their current suppliers). These customers generally pay higher energy costs. It is important that we try to benefit those on pre-payment meters as they are the most likely ones to be fuel poor and also have wider financial issues. In identifying those who are on pre-payment it is important that we make every effort to support and advise them on how they might manage their finances better so that they can take advantage on the better fuel tariff deals that are available.

- 3.14 There is an option within the NEPO Framework to support these SMEs through the switching process. Research by Ofgem indicates some 40% of small and medium enterprises (SME) have not switched their energy supplier in the past 5 years. 25% of businesses say they haven't switched their supplier because they believe the process is too complex. There are currently a number of energy brokers in the local area who specialise in supporting SME's to change energy suppliers. This scheme will complement their work and provide local businesses with a wider range of switching options.
- 3.15 The Council's role is to promote and communicate the scheme to local residents, encouraging registration, using its trusted brand, networks and local approach. The scheme should be marketed to everyone not just the fuel poor to ensure greater buying power.
- 3.16 Feedback from other authorities has emphasised the need to be all inclusive in terms of the marketing of the scheme and the use of housing providers and other voluntary sector organisations is highly recommended. With this in mind, initial discussions have been held with Gentoo, who are considering a similar initiative and there has also been contact made with Sustainable Sunderland who are also considering a community switching scheme as part of their work programme. For there to be maximum impact of collective switching there needs to be one approach for the city and therefore working in tandem with other organisations is crucial.
- 3.17 The scheme is web-based; however, for those residents who are offline, a paper registration process can be made available. Support for this is through our existing Customer Service Network and training for frontline staff is provided by iChoosr.
- 3.18 Sunderland City Council continues to work closely with Warm Up North to make homes in the City more energy efficient. This collaborative approach by Local Authorities and British Gas will result in around 5,000 homes in the city benefitting from energy efficiency works over the next 4 years. Collective energy switching needs to be seen as one part of our approach to reduce fuel poverty and improve family resilience on the city. It also needs to be set against the context of our broader Affordance Warmth Strategy which is in need of a refresh.

4 Current Position

- 4.1 Currently some 160 Local Authorities are taking part in the scheme either individually such as York or collaboratively as in the case of Peterborough and Greater Manchester authorities.
- 4.2 A total of 325,000 households nationally have registered with the scheme since it started.
- 4.3 A marketing campaign “Making Your Money Go Further” is being launched in the City and Collective Energy Switching should be seen as part of the overall approach.
- 4.4 A project group has been established to gain knowledge of the scheme, identify resource and liaise with IChoosr.
- 4.5 The timeline for the next switching event is:

Launch/registration	1 st April 2014
End of registration	Midnight 12 th May 2014
Auction	13 th May 2014
End of Acceptance period	24 th June 2014

There will also be a round in August 2014 for an October auction.

5 Reasons for the Decision

- 5.1 As fuel costs continue to increase putting more of the city’s residents in fuel poverty, it is vital that we do whatever we can to try to provide options for reducing fuel poverty. Establishing a Collective Energy Switching Scheme will be another strand in our approach to reducing fuel poverty and making warmth affordable for the city’s residents.

6 Alternative Options

- 6.1 Do Nothing – Taking this approach would be nil costs and nil effort for the Council. A reliance on national campaigns to raise awareness to residents. This would mean that energy costs would remain high for tenants, residents, businesses and Voluntary and Community sector organisations in the City.
- 6.2 Work collaboratively with other regional local authorities – This approach will build on the existing partnership arrangement with Warm Up North scheme. Although none of the North East local authorities have a scheme currently, Gateshead, Durham and Newcastle have expressed an interest with NEPO. This approach will provide an opportunity for a wider regional participation but will require additional officer time to develop an approach that meets all authorities involved.

- 6.3 Join an existing local authority scheme – There are a number of schemes in existence such as Peterborough and Greater Manchester and these make a direct charge for joining a collective with subsequent charges for each auction.

7 Impact Analysis

7(a) Equalities

The scheme has potential to positively impact those affected by Fuel Poverty in the City including:-

- Older people
- People with children under 16
- Those on benefits
- People with disabilities
- People suffering with long-term illness.

These groups will be supported to access the scheme by the customer services staff should they need to.

An Equalities Assessment has been completed for the scheme.

7(b) Privacy Impact Assessment (PIA)

A PIA is being developed for this scheme.

7(c) Sustainability

A sustainability impact assessment is not required for this scheme.

7(d) Reduction of Crime and Disorder – Community Cohesion/Social Inclusion

8. Other Relevant Considerations/Consultations

- 8.1 No formal consultation was carried out in the preparation of this report however discussions have taken place with the Council's customer services, communications, finance, energy conservation and strategic housing.

- 8.2 Further consultation will take place with voluntary and community sectors through local area arrangements to both promote the scheme and also to seek their support with the more vulnerable in our society.

(a) Financial Implications/Sunderland Way of Working –

The Council do not pay IChoosr for their role as switching agents their costs are covered by a fee successful switch from the winning energy supplier.

There are however indirect costs associated with the scheme. Particularly for communication with offline residents:-

Communication Costs

- Nil – minimal costs for planning and delivery of marketing campaign using existing communication routes.
- Nil – minimal costs for promotion through partner agencies e.g. Gentoo.
- £20,000 for materials required for the running of the marketing campaign.
- £15,000 for communication / agency staff resource for first year.
- £5,000 for inclusion of information on Council website.
- £5 - £10,000 for general Direct Marketing costs.

These costs will be covered by the budget for the Welfare Reform programme.

Other costs

- Nil – minimal costs for advice and support in registering to the scheme on line through existing customer service networks.
- Manager and Officer time in the establishment and on-going management of the scheme.
- £2 plus VAT per registrant to IChoosr as a contribution to postal costs for offline registrants.

A financial profile has been established based on switching figures provided by IChoosr and this can be found in Appendix 1.

(b) Risk Analysis

- Collective switching may not necessarily offer the cheapest market offer to all consumers and it is possible that certain residents could get a better deal elsewhere.
- There is a reputational risk to the Council from any potential negative publicity associated with the scheme. However, IChoosr can provide details of what can and cannot be promised. We will also need to be clear about the role of the Council and its partners and why the Council and partners are supporting and delivering a Collective Switching Scheme.
- As we are delivering the scheme in a very tight timescale, and this is the first time we are attempting to deliver such a scheme in the City there may be risks that registrations, especially within the first round, may be lower than expected due to short publicity lead in time.

- Pressure on Council front line staff. The scheme is open to all, and staff will need to support those residents without internet access with offline registrations. Liaison with CSN is underway to ensure timescales of registrations is not in conflict with high dem and timescales e.g. council tax billing.
- Data protection. All data submitted as part of this initiative belongs to IChoosr. There is an option for the registrant to agree to share their data. IChoosr provide anonymised reports to the council on registrants which will allow identification on areas of the City but not individuals. The names and addresses are only released to suppliers once the registrant has agreed to the offer.

Further risks will be identified and managed throughout the scheme through the risk register as part of the council's project management framework.

- (c) Employee Implications – no additional staff are required for this scheme. It can be met from existing staffing structures.
- (d) Legal Implications – the council will be calling off a regional established framework that has followed a full EU tendering process. There will be no agreement between the Council and the registrants as the contract would be between them and their new energy supplier.
- (e) Policy Implications –
- (f) Health & Safety Considerations –
- (g) Property Implications – there are no property implications.
- (h) Implications for Other Services

Resource will be required from Customer Service to support those less able complete the online registration.

Resource will be required from administration should any offline registrations take place.

Resource will be required from Communications and media to support the marketing and promotion of the scheme.

- (i) The Public –
- (j) Compatibility with European Convention on Human Rights

Human Rights implications have been taken fully into account in the preparation of this report. It is considered that the recommendations of the report are compatible with the convention rights.

(k) **Project Management Methodology**

A project manager has been appointed from the Project Office to oversee the establishment of this scheme.

(m) **Procurement**

A full EU tender process was completed by NEPO in the formation of this framework.

9. Glossary

10. List of Appendices

Appendix 1 – Financial profile.

11. Background Papers

None

