

**COLLECTIVE ENERGY SWITCHING
22nd January 2013**

Report of the Head of Community Engagement

PURPOSE OF REPORT				
This report sets out the background to the Collective Energy Switching scheme and potential options for Lancaster City Council in taking this agenda forward				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision		21 December 2012		
This report is public				

RECOMMENDATIONS OF COUNCILLOR EILEEN BLAMIRE

- (1) That Cabinet agrees to a pilot collective energy switching scheme for the Lancaster district and collaboration with other interested Local Authorities to achieve the best deal for residents, subject to there being no additional call on City Council resources.
- (2) That any income generated by the scheme through the referral fees be incorporated into the Council's revenue budget.
- (3) That a review of the pilot project is undertaken upon completion and a report submitted to Cabinet to evaluate the possibility of future collective energy switching schemes.
- (4) That the Head of Community Engagement be given delegated authority to accept any grant funding, up to £15,000, which is awarded following the recent application to the DECC "Cheaper Energy Together" fund and that the General Fund Revenue Budgets be updated accordingly.

1.0 Introduction

- 1.1 In 2004 the average household fuel bill was £600. This had risen to £1,250 in 2011. Low income households are affected more by increases in fuel prices because they spend a higher proportion of income on fuel. A household is classed as being in fuel poverty when it spends more than 10% of its disposable income on fuel. Recent figures produced by Department of Energy and Climate Change (2010) demonstrate that 24% of homes (approximately 14,300 households) in the Lancaster district are in fuel poverty. Rising fuel prices are the No1 concern for people in Britain today [Which? June 2011] and financial worries have an impact on wellbeing. 48% of people in Morecambe and Heysham, (low incomes wards), said their homes are too costly to heat [LCC Housing Needs Survey 2011].
- 1.2 The Lancashire Mental Health and Wellbeing Report (Joint Strategic Needs

Assessment, 2011) identified that fuel poverty is increasing inequality in the county. Addressing affordable warmth has been established as one of the initial priorities of the Lancashire Health and Wellbeing Board.

- 1.3 Evidence from elsewhere suggests that residents are often paying up to £300 per year more than they need to for energy costs because they are not on the most efficient energy tariff. It has been suggested that traditionally there has been unwillingness for citizens to individually shop around for energy services and switch to the cheapest provider due to the complexity of the information and the time involved in switching. Whereas many residents do this regularly for products and services such as car and home insurance generally, for energy services, they do not.
- 1.4 However, in recent months, a number of organisations, including local authorities and community groups, have established collective energy switching schemes which aim to stimulate residents to reduce the amount they are paying on their energy bills. Such schemes are based on the principle of conducting an auction with energy providers to obtain the lowest feasible energy price; a process for which any household can sign up with no obligation. This enables consumers to benefit from reduced energy bills and, as referral fees can be claimed from energy companies, can be used as a means of income generation for the organisation leading the project.

2.0 Proposal Details

- 2.1 The aim of Collective Switching is to stimulate residents to reduce the amount they are paying on their energy bills. The scheme is based on the principle of conducting an auction with energy providers to obtain the lowest feasible energy price; a process for which any household can sign up with no obligation.
- 2.2 The scheme involves four principal stages; (1) Registration – lasting approx 2 months; (2) Auction – Conducted over one day; (3) Acceptance of winning offers – lasting one month; and (4) Close out – Transfer of customers to new providers. All the applications are grouped anonymously and the price offered by the suppliers is independent of the number of participants who make the switch. The more people sign up the more likely suppliers are to give an additional discount. Residents are not obliged to sign up to the scheme once a provider has been chosen, but those that do, could benefit from reduced bills.
- 2.3 Collective energy switching is still in its infancy so, should Lancaster City Council choose to deliver a scheme, it would be advantageous to undertake an initial pilot scheme, with the results used to inform the viability of undertaking future schemes.
- 2.4 There are currently two appropriate options for collective energy switching:
 - a) *Independent Lancaster Scheme*
- 2.5 To overcome a lack of experience in delivering a collective energy switching scheme, it would be appropriate to procure the services of an external Broker who could use their knowledge, experience and skills to deliver an effective scheme. In selecting a broker it would be necessary to undertake a formal public tender exercise to appoint a specialist switching partner to deliver the pilot scheme.
- 2.6 It is expected the Broker would:
 - Market the scheme effectively to residents of the Lancaster district through appropriate methods in liaison / coordination with the Council
 - Handle enquiries on the scheme and sign up interested residents

- Carry out the energy auction with the energy market to determine the lowest tariff
 - Complete the handover process with the successful energy company for residents who wish to go ahead and switch provider
 - Carry out the necessary supporting activities in line with the points above.
- 2.7 It is expected that the Council would:
- Provide overall project management for the scheme delivered by the Partnerships Officer (Sustainability) for approx 1-2 days per week for the duration of the project
 - Provide communications support / advice for the marketing activities and access to Council communications channels e.g. Your District Council Matters, etc.
 - Highlight / signpost the scheme to citizens who may be interested through frontline services that regularly engage with customers eg the Contact Centre, Debt Advisors, Housing Officers etc.
 - Provide additional support / advice for vulnerable residents who may be interested in the scheme.
- 2.8 Alternatively, the council could take advantage of a contract developed by another local authority. For example, Appendix 1 details the arrangements developed by the Association of Greater Manchester Authorities (AGMA), who are offering the opportunity for other authorities throughout the UK, to use a contract that has been developed following a formal public tender exercise.
- 2.9 The timings of delivering a scheme would have to be agreed, with consideration given to procurement requirements and to maximising the financial benefits to residents and the council.
- 2.10 There will be some costs involved with the administration of a pilot scheme, but these are expected to be minimal. In addition, a marketing strategy is being established to maximise the use of existing communication channels with any costs to be met from existing budgets. The scheme could also generate additional income for the City Council through a percentage of the referral fee paid to the broker by the energy company.
- 2.11 The experience of local authorities who have previously delivered similar schemes would suggest that most customers choosing to get involved will not require any assistance so any increase in enquiries to the council's customer service centres is expected to be within manageable levels. As our customer service centres are currently working to full capacity we may need to review resource requirements and take appropriate action within existing budgets should demand be significantly more than anticipated.

b) Lancashire Scheme

- 2.12 A number of other local authorities within Lancashire are currently preparing collective energy schemes for their jurisdictions. Should all local authorities within Lancashire decide to run schemes independently of one another, there would be a large duplication of local authority resources. In addition, there could be a situation where multiple schemes would be operating within a small area which could offer confusion for residents and unnecessary competition for registrations.
- 2.13 To avoid this situation, interested authorities could combine resources to operate as a single scheme. This would see the co-ordination of the principal stages of collective switching (detailed in Paragraph 2.2) to maximise the

impact of marketing campaigns. Furthermore, greater numbers of residents involved in the auction increases the financial gains of collective switching.

- 2.14 Lancaster City Council has been in negotiations with other local authorities within the Lancashire area to discuss collaborative proposals. The response has been very positive with thirteen of the fourteen Lancashire District Authorities expressing an interest in taking a joint initiative forward.
- 2.15 Project management arrangements would need to be agreed with partner authorities, with the dates of registration periods and the auction being timed to be mutually acceptable. However, a Lancashire Scheme could operate in a similar manner to an independent Lancashire scheme and would benefit from undertaking a procurement exercise, as per Paragraph 2.4. However, although the Broker would undertake activities as detailed in Paragraph 2.6, it may be appropriate for the activities and costs detailed in paragraphs 2.7 and 2.8 to be undertaken by each individual authority. This would ensure that each local authority is able to take advantage of the referral fees for residents from their specific localities.
- 2.16 The timings of delivering a scheme would have to be agreed with partner authorities, with consideration given to procurement requirements and to maximising the financial benefits to residents and the councils involved. In finalising any arrangements for a pan-Lancashire scheme, officers would not enter into any agreement that would incur extra costs for Lancaster City Council without seeking further approval from Cabinet.
- 2.17 Alternatively, partner Lancashire authorities could collectively take advantage of a contract developed by another local authority (as discussed in Paragraph 2.8 and Appendix 1).
- 2.18 Although a Lancashire scheme has yet to be finalised, the Department of Energy and Climate Change (DECC) recently announced a funding stream called 'Cheaper Energy Together'. This £5 million fund is designed to support the development of innovative collective switching schemes which have a focus on vulnerable consumers. Blackburn and Darwen Borough Council have submitted a bid on behalf of Lancashire Authorities. Any funding awarded would cover the marketing costs for a Collective Energy Switching campaign across Lancashire. Promotional activity would encompass a broad range of marketing techniques, from radio, bus shelter advertising, leaflets, posters, and websites as well as through the emerging media of Facebook and Twitter. Additional assistance would be undertaken through a range of external partner organisations and networks, for example, the Affordable Warmth Group. Whilst Blackburn and Darwen Borough Council will be principally using the funding to finance generic pan-Lancashire marketing, should Lancaster City Council choose to be part of a Lancashire scheme, funding could be made available for Lancaster specific marketing. The amount received by Lancaster City Council would need to be agreed through negotiations with partner authorities but would be unlikely to exceed £15,000.

3.0 Details of Consultation

- 3.1 The proposals within this report have been formulated through discussions with representatives from local authorities within the Lancashire footprint. In addition, the Council's Procurement, Legal and Communications teams have been consulted throughout the preparation of this report and its proposals.

4.0 Options and Options Analysis (including risk assessment)

	Option 1: Do nothing	Option 2: To agree to establish a collective energy switching scheme for the Lancaster District and for Lancaster City Council to work independently to achieve the best deal for residents.	Option 3: To agree to establish a collective energy switching scheme for the Lancaster district and to collaborate with other interested Local Authorities to achieve the best deal for residents
Advantages	<ul style="list-style-type: none"> No impact upon council resources 	<ul style="list-style-type: none"> Enables the council to address economic and social impacts associated with energy price increases The Council could receive a referral fee Greater flexibility in setting timescales and running auctions 	<ul style="list-style-type: none"> Enables the council to address economic and social impacts associated with energy price increases The Council could receive a referral fee A larger campaign increases effectiveness of any marketing. Increased financial benefits for residents and council with a larger scheme. Avoids competition for customers with other Lancashire authorities
Disadvantages	<ul style="list-style-type: none"> The council will have lost an opportunity to help vulnerable groups increase their resilience to periods of cold weather. 	<ul style="list-style-type: none"> Duplication of resources with other local schemes Possible confusion with other local schemes Unnecessary competition for registrations with other Lancashire authorities 	<ul style="list-style-type: none"> Reduced flexibility to organise registration periods and auction dates

Risks	<ul style="list-style-type: none"> • Lost opportunity to help the residents of the Lancaster district reduce their energy bills • Lost opportunity for the council to benefit from a new income stream 	<ul style="list-style-type: none"> • Procurement: An unsuitable external organisation is chosen to operate the scheme • Mitigation: Risk could be minimised by undertaking a formal public tender exercise or taking advantage of another authorities procurement methodology (as per Appendix 1) • Reputational: The council receives negative publicity should the scheme be unsuccessful. • Mitigation: Public and press responses to schemes already declared have been positive and so the risk of reputational damage to the authority is considered low. • Low uptake of the scheme as residents prefer to be involved in a scheme operated by another authority 	<ul style="list-style-type: none"> • Procurement: An unsuitable external organisation is chosen to operate the scheme • Mitigation: Risk could be minimised by undertaking a formal public tender exercise or taking advantage of another authorities procurement methodology (as per Appendix 1) • Reputational: The council receives negative publicity should the scheme be unsuccessful. • Mitigation: Public and press responses to schemes already declared have been positive and so the risk of reputational damage to the authority is considered low.
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5.0 Officer Preferred Option (and comments)

5.1 The officer preferred option is Option 3: To agree to establish a collective energy switching scheme for the Lancaster district and to collaborate with other interested Local Authorities to achieve the best deal for residents. This would provide the maximum potential benefits to residents and the council through the most efficient use of available resources.

6.0 Conclusion

6.1 Collective Switching offers an opportunity for Lancaster City Council to address economic and social impacts associated with increased energy prices. There would be cost implications involved for facilitating such schemes, but these could be offset by income generated through the scheme.

6.2 However, as collective energy switching is still in its infancy, it would be advantageous to undertake an initial pilot scheme, with the results used to inform the viability of undertaking future schemes.

RELATIONSHIP TO POLICY FRAMEWORK

Health and Wellbeing is one of the key priorities within the Corporate Plan 2012-15. In particular, one of the Plan's outcomes is "health and wellbeing improved and mortality rates reduced for vulnerable people in the district". Furthermore, the Corporate Plan includes a success measure of the "number of vulnerable individuals benefiting from Warm Homes initiatives". The provision of a Collective Energy Switching scheme will allow Lancaster City Council to achieve these outcomes and deliver the success measure.

Affordable Warmth is also being considered as a priority in the emerging county wide Health and well being strategy being developed by the Shadow Health and well being Board and is also being targeted for intervention by our local clinical commissioning group.

CONCLUSION OF IMPACT ASSESSMENT

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)

Collective energy switching will benefit residents across the district meet the rising costs of energy prices.

LEGAL IMPLICATIONS

The precise terms of a contract with any switching partner will need legal consideration and any contract award will need to be made in compliance with Contract Procedure Rules.

FINANCIAL IMPLICATIONS

Advice and consultation with authorities who have already undertaken similar initiatives indicates that the costs of conducting a one-off pilot scheme are minimal. It is therefore proposed to conduct such a scheme with all costs and officer time being met from within existing budgets and resources. Once this is complete Officers will be in a clearer position to review the scheme's success and report back to Cabinet with options for its long-term sustainability.

There is currently no information available which confirms the financial impacts from Collective Energy Switching schemes undertaken by other Local Authorities. It is therefore difficult to estimate the level of income that will be generated through the Council's share of referral fees as this will be based on the outcome of the auction and the final level of take up amongst residents in the district. However, a similar scheme operated in 2012 by South Lakeland District Council reported 517 residents completing a switch to a new provider. It is proposed that any income received from this pilot exercise would be used to support the Council's budget generally and a nominal amount of £5000 would be included in the budget should this pilot scheme be approved.

OTHER RESOURCE IMPLICATIONS

Human Resources:

There are no direct implications arising as a result of this report other than some use of officer time to progress and manage the project

Information Services:

There are no direct implications arising as a result of this report

Property:

There are no direct implications arising as a result of this report

Open Spaces:

There are no direct implications arising as a result of this report

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

none

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