

## **Cabinet – 24 April 2013**

### **Domestic Collective Fuel Switching – Tackling Fuel Poverty**

**Portfolio:** Councillor Adrian Andrew, Deputy Leader, Regeneration

**Related portfolio:** Councillor Christopher Towe, Finance and Personnel

**Service:** Strategic Housing

**Wards:** Borough Wide

**Key decision:** Yes

**Forward plan:** Yes

#### **1. Summary**

The council and its partners have been at the forefront nationally of home energy improvements and conservation for many years. The council has led the way from the:

- nationally acclaimed Walsall Health Through Warmth Scheme; to the
- first Community Energy Saving Programmes to start in the country; and
- some of the highest Carbon Emissions Reduction Target funding secured in the Midlands region.

Investment to the end of December 2012 will have totalled over £30 million.

This report seeks Cabinet endorsement in line with the Council's Contract Rules to undertake a procurement process to seek and to subsequently appoint an Intermediary Provider for a domestic collective fuel switching service for households in the West Midlands. This is in line with the Council's commitments to tackle fuel poverty and address excess winter deaths and the Council's Home Energy Conservation Act (HECA) Action Plan.

#### **2. Recommendations**

- 2.1 That Cabinet is recommended to approve undertaking a procurement process to seek an Intermediary Provider to undertake domestic collective fuel switching for the West Midlands for a maximum period of 3 years.
- 2.2 That any referral fees (income) paid to the Council from the collective fuel switching providers be allocated as follows:
  - 2.2.1 50% towards continued support for tackling fuel poverty initiatives in Walsall including future promotion activity for successive rounds of collective fuel switching;

2.2.2 the remaining 50% as 'windfall' income to the Council.

2.3 That Cabinet delegate authority to the Executive Director of Regeneration in consultation with the Portfolio Holder – Regeneration, to:

2.3.1 accept tenders and award the contract for the services set out in recommendation 2.2 above and to sign or authorise the sealing of any deeds, contracts and other related documents in relation to such services;

2.3.2 agree the priorities and expenditure of income under 2.2.1 above for tackling Fuel Poverty in Walsall.

### **3. Report detail**

3.1 The council was one of the first in the country to publish its Home Energy Conservation Act Action Plan, in October 2012, in advance of the deadline of end of March 2013.

3.2 Our Action Plan *'Improving Home Energy Together'* commits to the continuation of a range of activities to tackle the combined and inter-linked relationships between:

- Energy inefficiency of homes
- Fuel poverty (defined by the Warm Homes and Energy Conservation Act 2000 as a household that is living on a lower income in a home which cannot be kept warm at a reasonable cost.)
- Physical and mental health impacts of cold and damp homes including excess winter deaths
- Domestic carbon emissions.

3.3 In many instances residents do not have fair access to affordable energy tariffs, evidence tells us that generally the poorest people use the least amount of energy but pay the most. Office of the Gas and Electricity Markets ("Ofgem") report (2012 conducted by IPSOS MORI )that nationally 63% of consumers have never switched energy supplier for gas and 65% have never switched for electricity. This is despite the fact that retail energy prices have risen significantly over the last ten years, and that fuel costs are now one of the biggest financial outlays for households. Tackling this is key to tackling fuel poverty in the borough. Schemes such as collective fuel switching and or encouraging residents to investigate fuel switching thorough a single contact point can help in this.

3.4 A collective energy switching scheme offers the opportunity for residents to join a group auction for gas and or electricity and then switch energy tariffs if the auction result offers them a better deal. The group auctions are most commonly arranged and co-ordinated by an Intermediary Provider (ie not an energy provider or company). This Intermediary Provider undertakes the marketing (typically jointly with another organisation, for example Council or interest group) to secure as high a potential interest in the collective switch as possible. The Intermediary Provider then undertakes, commonly via a reverse e-auction with energy providers who indicate the cost of their various tariffs (ie direct debit or alternative etc). The rationale for the marketing and involvement of an organisation such as a Council is that theoretically the more residents that join a scheme the higher

potential interest that is likely to be shown by energy providers in the reverse e-auction and consequently the greater potential for lower cost tariffs.

- 3.5 The schemes are free for residents to join and residents retain the right to decide whether they join or not (and this is following the auction has identified what the tariffs will be (ie and what savings a residents would gain over their existing ones. Not all residents will necessarily save and this depends for example upon their fuel usage and their existing tariff and method of payments.
- 3.6 In some schemes collective fuel switching schemes has led to an average saving per household of £200 per annum. Based on an estimated take-up by just under a third of households in the borough this would lead to a fuel cost saving of up to £6.5 million per year.
- 3.7 No Council has to date operated it's own fuel switching scheme in its entirety but instead have appointed an intermediary organisation. Whilst the organisations provide the fuel switch free to residents they generate varying levels of 'income' for this service and in some cases offer part of this income back to residents as an additional 'cash-back' and or as a referral fee to the Council.
- 3.8 Experience from successful examples of collective switching schemes operating in mainland Europe has shown that schemes run successively in the same area attract more consumers to participate each time. For Walsall based on analysis of other fuel switch schemes in operation in year one, the operational value of the contract to the Intermediary Provider is estimated to be up approximately £1million. This is based on three switching cycles and a £30 per switch fee). This reflects 3% of Walsall's dwellings participating in the first cycle, 10% in the second, and 20% in the third.
- 3.9 Whilst other Local Authorities (such as Oldham and Peterborough) have developed their own Frameworks for other councils to join they have set joining fees of circa £10,000. This fee does not include for marketing of the initiative to residents. There is currently no existing local framework that Walsall can join within the West Midlands. Evidence from other collective switching schemes is that the greater benefits can be potentially secured through higher participation and therefore the wider the geographic area (minimum of borough wide) the better for residents.
- 3.10 Appendix 1 contains an Options Appraisal for the collective fuel switching initiative. In summary it is proposed that to maximise potential 'take-up' by residents that an Intermediary Partner be selected who can operate throughout the West Midlands not just Walsall, therefore making the Framework available for other councils in the region to join should they wish to.

#### **4. Council Priorities**

- 4.1 The Council's work on helping address fuel poverty is in full accordance with the Corporate Plan in particular:

Economy – through creating living / housing environments that retain and attract the workforce required to develop our economy and reducing child poverty levels and improving family well-being

Health and Well-being – fewer infant deaths and gaps in life expectancy in the least and most deprived areas of the borough are reduced

- 4.2 Supporting domestic collective fuel switching is in full accordance with the Marmot Review – Fair Society, Healthy Lives (2010) in particular due to our focussed work with vulnerable households:
- Give every child the best start in life
  - Enable all children, young people and adults to maximise their capabilities and have control over their lives

## **5. Risk management and Options Appraisal**

5.1 The principal risk is insufficient ‘take-up’ by households to enable the Intermediary Provider to obtain a ‘switching offer’ for households. Through enabling councils throughout the West Midlands to participate (and by extension their residents) this risk will be substantially mitigated. Other than the cost involved in the Council carrying out the procurement there is no financial risk to the Council through this initiative.

- 5.2 The options available to Walsall (as assessed in Appendix 1):
- a) Do nothing
  - b) Procure an intermediary provider for Walsall.
  - c) Procure an intermediary organisation for Walsall and broader area (West Midlands and / or beyond). This involves limited extra resources to b) above.
  - d) Join an existing Framework (Oldham and or Peterborough etc and pay their joining fee circa £10,000)
  - e) Await another Framework with lower joining fees

## **6. Financial implications**

6.1 The Council secured from the Department of Energy and Climate Change (DECC), through a competitive bidding process, money to help tackle Fuel Poverty experienced by some of the most vulnerable private sector households in the borough. Work to date using this circa £350,000 award has been to provide central heating where none exists, fuel efficient boilers and a safety net scheme for emergency boiler repairs and for advice and support. The fuel switching initiative has been confirmed by DECC as eligible for support under this programme and a budget of up to £7,000 of revenue will be allocated to support promotion of the initiative in Walsall.

6.2 The DECC scheme complements the Council's own work and investment in this area. The Council has also been at the forefront in securing investment from energy providers and their intermediaries to help households throughout the borough with cavity wall, loft and solid wall insulation. The Council has set-aside in 2013/14 £470,000 of its own capital programme to help with a range of works

under the Health Through Warmth and housing retro-fit themes. This work will give a key opportunity to help attract households to sign-up to the fuel switching auctions.

- 6.3 As highlighted in paragraphs 3.5 and 3.6 above whilst the Intermediary Provider provides the fuel switch free to residents they generate varying levels of 'income' for this service. This is from funds paid to them by the energy company (usually from for example their marketing budget) for this work in securing a new 'customer' to their organisation. In some cases, and depending upon the level of 'income' and arrangement between the Intermediary Provider and the energy company, the Intermediary Provider offers part of this income back to residents as an additional 'cash-back' and or as a referral fee to the Council.
- 6.4 Households will always retain the choice as to whether to choice to join or not join the collective switches. It is likely that not all households who will benefit from direct savings through the switch will have been in fuel poverty at the start. Therefore, it is not recommended that they be provided with the additional 'cash back' from the Intermediary Provider but instead that this is income that is paid to the Council 'pooled' for use as set out in paragraph 6.5 below.
- 6.5 It is recognised that whilst successive fuel switch auctions have the potential to generate greater take-up by households in the borough they will require continued publicity / marketing. As the DECC funding (referred to in paragraph 6.1 above) will have been used for the Round 1 auction it is proposed that as part of this ongoing initiative that any future referral fee income paid to the Council under this and subsequent rounds is used as follows:
- 6.5.1 50% towards continued support for tackling fuel poverty initiatives in Walsall including future promotion activity for successive rounds of collective fuel switching;
- 6.5.2 the remaining 50% be 'windfall' income by the Council.

## **7. Legal implications**

- 7.1 Legislation which enables local authorities to offer housing assistance (including energy efficiency works) is set out in the Regulatory Reform (Housing Assistance) (England & Wales) Order 2002. It allows councils to adopt a flexible approach to giving financial help reflecting local circumstances, needs and resources.
- 7.2 The procurement process to seek a partner will be undertaken in full compliance with the requirements of the Council's Contract Rules and the Public Contract Regulations 2006 (as amended).
- 7.3 The report is in line with DECC guidelines and requirements and the Home Energy Conservation Act (HECA) 1995.

## **8. Property implications**

The council has a very small portfolio of dwellings and the tenants of these will be eligible for any subsequent collective fuel switching programme.

## **9. Staffing implications**

The Housing Standards and Improvement Service supported by Corporate Procurement Team will undertake the procurement process. There will be no requirement for new staff resources to support this initiative.

## **10. Equality implications**

10.1 Collective fuel switching will be available for all residents in the borough and intensive marketing will be undertaken to maximise the take-up of the opportunity for vulnerable households.

10.2 Our partnership working with organisations such as AgeUK Walsall and NHS Walsall helps us proactively target assistance at key household groups such as:

- the elderly,
- disabled residents,
- households with long term illnesses made worse by damp or cold housing,
- households who have a child under the age of 5 who at birth was low-birth weight
- households with incomes of less than £21,000.

## **11. Consultation**

11.1 The procurement will be subject to formal advertising in accordance with Public Contract Regulations 2006 (as amended) - maximising the potential for competition. It will be undertaken through the established In-Tend web-portal. The procurement advert will also be advertised on the council website to afford maximum opportunity for companies within the West Midlands to submit a tender for the services.

## **Background papers**

Customer Engagement with the Energy Market - Tracking Survey 2012

<http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Customer%20Engagement%20with%20the%20Energy%20Market%20-%20Tracking%20Survey%202012.pdf>

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Tim Johnson  
Executive Director  
Regeneration

20 March 2013



Councillor Adrian Andrew  
Deputy Leader  
Portfolio holder – Regeneration

20 March 2013

### Appendix 1 Options Appraisal for Collective Domestic Fuel Switching

	<b>Option</b>	<b>Advantages</b>	<b>Disadvantages</b>	<b>Overall Score (1 is best)</b>
A	Do nothing	Nil direct resource cost	Limited take-up of fuel switching – negligible impact on fuel poverty Missed opportunity for council to be at forefront of tackling fuel poverty	5
B	Procure an intermediary organisation to arrange and manage a collective fuel switching programme including e-Auction for energy supplier and or tariffs for Walsall.	Opportunity for Council to be at forefront of tackling fuel poverty Control of timescale Procurement and finance rules followed fully Able to tailor to fully meet our needs	Staff resources to amend framework estimated at under £2K	2
C	Procure an intermediary organisation as per B above for Walsall and broader area (West Midlands and / or beyond).	As per Option B above and: Potential for increased cash-back / rebate from residents joining from outside the Walsall area.  Benefits for Black Country / West Midlands partners  Higher resident take-up could lead to lower fuel costs on average	As per Option B above may require slightly more staff resources (time approx ½ day estimated) in development of framework documents.	1
D	Join an existing Framework (Oldham and or Peterborough etc and pay their joining fee circa £10,000)	Documentation already in place Opportunity for council to be at forefront of tackling fuel poverty	Reliant on their timescale which may delay implementation until after Option B or Option C above Direct revenue cost of circa £10K Fully reliant on others. Still a need to ensure they have procured appropriately	3



E	Await another Framework with lower joining fees	As Option D but also lower revenue cost than Option D	No guarantee that this will occur. No control over timescales Fully reliant on others. Still a need to ensure they have procured appropriately	4
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