

Summary Sheet

Name of Committee and Date of Committee Meeting

Overview and Scrutiny Management Board – 28 November 2018

Report Title

Community Energy Switching Scheme

Is this a Key Decision and has it been included on the Forward Plan?

Yes.

Director Approving Submission of the Report

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Wards Affected

All

Executive Summary

This proposed community energy switching scheme would be open to all Rotherham residents and would reduce the number of households paying high tariffs for gas and electricity and reduce fuel poverty. Although the scheme would be open to all residents it should be particularly beneficial too hard to reach and vulnerable tenants that are generally the groups that need the greatest support to identify and change to a cheaper tariff. Residents could save around £200 to £300 per year in an average 3 bedroom semi-detached houses.

A Community Energy Switching Scheme report was discussed at the former Cabinet and Commissioners' Decision Making Meeting on 9 July 2018. At this meeting Cabinet agreed that a feasibility study be undertaken and this report be brought back to Cabinet for consideration.

Having completed the feasibility study the purpose of this report is to obtain approval to carry out an OJEU procurement process to identify a potential partner to develop a community energy switching scheme and inform a business case that will be developed based on the results of the tender.

Recommendations

1. That Overview and Scrutiny Management Board consider the report and proposed recommendations that will be presented to Cabinet on 17 December 2018 which set out below:-
 - a) That Cabinet approves the OJEU procurement process to identify a potential partner to develop a community energy switching scheme and inform a business case that will be developed, based on the results of the tender. The business case and Tender Evaluation Report will be submitted to Cabinet for approval.
 - b) That Asset Management engages with community groups, voluntary sector groups, Housing and Neighbourhood Services, Customer Information and Digital Services, Communications & Marketing and Equality & Diversity to inform the development of a marketing and communication Strategy.

List of Appendices

Appendix A	Feasibility Assessment Notes and Operating Arrangements of Community Energy Switching Schemes
Appendix B	Initial Equalities Impact Assessment
Appendix C (Exempt)	Financial Feasibility Results and Details of Typical Commission Received.

Background Papers

Community Energy Switching Scheme – Former Cabinet and Commissioners’ Decision Making Meeting – 9 July 2018.

Consideration by any other Council Committee, Scrutiny or Advisory Panel
Cabinet – 17 December 2018

Council Approval Required
No

Exempt from the Press and Public

While the main report is an open item, exemption for Appendix C is requested under paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A of the Local Government Act, as it contains sensitive commercial information with regards to the Council’s contracts

Community Energy Switching Scheme

1. Background

- 1.1 A Community Energy Switching Scheme report was discussed at the former Cabinet and Commissioners' Decision Making Meeting on 9 July 2018. Further details were requested to assess the feasibility of developing a scheme and to bring this back to Cabinet for consideration.
- 1.2 Twelve potential community energy switching scheme organisations have been assessed for feasibility through a process of internet searches; telecons and meetings. Feasibility notes and details of operating arrangements are at Appendix A. Financial information and commercial confidential data is at the exempt Appendix C.

2. Key Issues

- 2.1 There are numerous organisations operating community energy switching schemes, many with different methods of operation and management. The Council will need to select a provider and potential partner that provides the best financial and quality option for a new scheme through the procurement process. It is important to note that the Council itself would not obtain any financial benefit from such a scheme in relation to tariff reductions, the beneficiaries would be residents.
- 2.2 The operating arrangements of a scheme should ensure that :-
 - The Council should develop a scheme that offers fair, simple and clear prices and good customer service. The scheme will be open to all Rotherham residents.
 - The Council should receive a commission from the partner organisation selected, this will be used to fund the additional resources required to develop, market and support the scheme in Rotherham. A breakdown of the potential commission to support a scheme is at Appendix C.
 - An initial budget would be required to set the scheme up for marketing, support and operation. Resource requirements include:
 - Community Energy Officer. Responsible for developing, operating, marketing, communication and supporting residents joining the scheme. It is envisaged that 1 officer will be required for year 1 and an additional officer will be required in years 2 and 3 once the scheme expands.
 - Marketing and communication. Promoting the scheme through different media, arranging public marketing events and communicating to all stakeholders.
- 3.3 Initial revenue and cost projections illustrate that any up-front costs should be repaid through the money received from the partner organisation for each meter signed up for a year. However, this is dependent upon the speed of take-up by residents, so there will be a period when revenue funding is required to support the project. Void Council properties would need to be included in the scheme to make it financially viable.

- 3.4 An energy price cap has been proposed by OFGEM based on a typical dual fuel customer on a poor value default tariff. The cap should be set at £1,136 per year and should be confirmed in November and come into effect in December 2018. The cap is expected to save £75 a year on average and more than £120 a year for those on the worst tariffs.
- 3.5 The cap will affect around 11 million households and savings will vary depending on the tariff households are on, the amount of energy used, how it is paid for and the type of fuel used. The level of the cap will be updated twice a year in April and October and will last until 2023 at the latest.
- 3.6 A comparison was carried out on 14 September 2018 to assess the potential savings in addition to the energy price cap. There are hundreds of tariffs and variables so this has been based on:
- A standard variable rate (STR) with paper bills.
 - monthly direct debit payments
 - for a standard 3 bed semi-detached house

Using a comparison website there is a potential saving of:

	Before Cap	After Average £75 Cap
Using the same supplier with a different tariff	£108	£33
Switch using one of the big 6 suppliers	£317	£242
Switch with smaller provider	£383	£308

The comparison shows that significant savings may still be achievable after the cap is introduced.

4. Options Considered and the Recommended Proposal

- 4.1 **Option 1** – Do not develop a community energy switching scheme and let residents manage their own tariff changes through comparison websites such as uswitch, comparethemarket.com or moneysupermarket.com.
- 4.2 **Option 2** - Carry out an information campaign for residents to inform them of the potential savings; comparison sites; the big 6 energy companies; and run specified days at Riverside House (and other Council sites e.g. libraries) to assist residents (especially vulnerable residents) wishing to switch but lacking the confidence, IT knowledge or equipment. This would be a short term support programme.
- 4.3 **Option 3** – Develop a community energy switching scheme. A partner / provider would need to be awarded the contract through a fully compliant OJEU procurement process.

4.4 Option considerations:

- Options 1 and 2 would not require additional staffing resources.
- Option 2 would require a marketing budget. This option could be seen to be endorsing energy companies on the comparison websites without knowing a great deal about them. This could result in residents asking for further support and blaming the Council for any failures of energy companies. The Council would need to be careful that residents in receipt of warm home discount do not lose out by switching.
- Option 3 is the recommended option. This would require an initial revenue budget to develop and manage the scheme. This option is preferred as it would provide the greatest continuous benefit the residents of Rotherham and over a 3 year period would be cost neutral to the Council if the projected take up figures are achieved.

5. Consultation

- 5.1 Consultation was carried out with Housing & Neighbourhood Services. A concern was raised about including void Council properties and the benefits of a future scheme compared to current arrangements. The Voids Team will need to be involved in developing the scheme criteria used in the procurement process.

6. Timetable and Accountability for Implementing this Decision

- 6.1 If approval is given to the recommendation as presented above, this will be actioned immediately and the criteria developed and procurement process instigated.
- 6.2 The OJEU procurement process can take at least 6 months to complete. On completion of the bid evaluation a Tender Evaluation Report will be taken to Cabinet for award approval.
- 6.3 Estimated time frame to launch a community energy scheme if approved is 12 months taken into account the procurement process; award approval; partner pre-contract meetings; scheme development (brand, website, marketing plan and communication) and liaison with voluntary sector groups, community groups and relevant Council services.

7. Financial and Procurement Implications

- 7.1 The exempt Appendix C provides headline financial information received from potential bidders, as part of the feasibility work undertaken. In order to deliver the scheme, it has been assumed that 2 FTEs will be required, together with a small marketing budget. Projected resource requirements are:

Resource	Annual Cost (£)		
	Year 1	Year 2	Year 3
Community Energy Officer (Band D)	24,500	25,000	25,500
Community Energy Officer (Band A)		23,500	24,000
Marketing and Communication	4,000	3,000	2,500
TOTAL	28,500	51,000	52,000

7.1.1 A total cost for marketing, operation and administration, based on the scheme operating for 3 years is £122,546. On the basis of the anticipated take-up of the scheme, it is estimated the project will be self-financing over a 3 year period.

7.1.2 An initial revenue budget will be required, before take-up of the scheme begins to increase. The true financial position will not be known until the tender process has taken place. On the basis of the feasibility work undertaken, it is anticipated that the tender outcome will be marginal from a financial point of view, so the Cabinet may also wish to consider the wider social benefits that the project will deliver.

7.2 The report details that there is a competitive market capable of delivering the services detailed within this report. The Council therefore would need to ensure that any arrangements entered into are done so following a fully EU compliant procurement procedure.

8. Legal Implications

8.1 OFGEM introduced the Retail Market Review (RMR) reforms late in 2010 to make the retail energy market simpler, clearer and fairer for consumers. The domestic RMR recognised that white label partnerships have the potential to deliver greater consumer choice and competition. White label partnerships must comply with the RMR rules.

8.2 Charging for services is only permitted on a pure cost recovery basis, i.e. a surplus that equates to 'profit' cannot be generated without the formation of a trading company.

8.3 Other partnership arrangements being made by Local Authorities have a minimum 3 – 5 year contract. There are break clauses included in these contracts should one or both partners want to end the project. It is anticipated the Council would make similar arrangements.

- 8.4 The Council would enter into a partnership arrangement with a provider following an EU compliant tender in accordance with Utilities Contract Regulations 2016. The partner supplier would be responsible for the supply of gas and electricity to the customers of the partnership and the partner provider will be obligated to comply with the supply license conditions.

9. Human Resources Implications

- 9.1 The recruitment of additional staffing resources would be required should the business case and Cabinet report be approved following the OJEU procurement process as detailed in 3.2.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 The scheme should benefit households to reduce the cost of energy and reduce fuel poverty.

11. Equalities and Human Rights Implications

- 11.1 The energy supply offer will be made available to all households in Rotherham. An initial Equalities Impact Assessment has been carried out at Appendix B. The assessment is a working document and will be updated as more data, information and actions are obtained.

12. Implications for Partners and Other Directorate

- 12.1 The implications for Housing and Neighbourhood Services have been included in the report.
- 12.2 The success of the scheme will require support from all relevant Council departments to communicate and engage with hard to reach and vulnerable tenants that are generally the groups that will need the greatest support to identify and change to a cheaper tariff.

13. Risks and Mitigation

- 13.1 The Council or energy provider cannot guarantee that a given tariff will always be the cheapest. Online comparison sites may (but not always) provide the best saving, however a community energy switching scheme is aimed at residents that are unable or not confident enough to switch energy providers. The energy supply market is volatile and the cheapest market price can be superseded the next day by another provider.
- 13.2 There is a reputational risk for the Council. Consumer complaints about billing and the Council may receive the criticism for any price increases set by the partner energy company. Customer service and customer retention performance would have to be regularly monitored.

13.3 There is a financial risk to the Council if the number of residents that sign up to the scheme is insufficient to cover the marketing and administration costs. The energy cap that is expected in December will increase the risk and householders may believe the cap results in the best saving. Marketing and communication will need to address this. The Council would need to consider pulling out of the scheme in order to mitigate on going losses if this was the case.

14 Accountable Officers

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Bronwen Knight, Acting Assistant Director – Planning, Regeneration and Transport

Paul Smith, Head of Asset Management.