

CABINET

12 February 2013

Title: Collective Fuel Switching Scheme	
Report of the Cabinet Member for Housing	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Divisional Directors: Ken Jones, Divisional Director of Housing Strategy	
Accountable Director: Darren Henaghan, Corporate Director of Customer Services	
Summary: <p>The Department for Energy and Climate Change recently estimated that 9,000 households in Barking and Dagenham suffer from fuel poverty by spending more than 10% of their income heating their homes and it is predicted that domestic dual fuel bills may increase by 21% in 2013. Given this and that the Council is committed to helping local households through these tough economic conditions, there has been a focus from the Housing and Environment Department to help tackle fuel poverty by leveraging in external investment to insulate homes and improve energy efficiency.</p> <p>This report recommends the establishment of a collective fuel switching pilot with an international switching broker called iChoosr. Collective fuel switching is a method of forcing market change and reducing gas and electric prices supported by a majority of consumer watchdogs, progressive movements and the Department for Energy and Climate Change.</p> <p>The report sets out the basic framework in which the Council can use its trusted brand to support a pilot, encouraging residents to actively participate in a scheme to reduce their fuel bills, potentially by up to £200 a year, with minimal effort.</p> <p>The fuel switching scheme will compliment the Council's extensive insulation programme as well as the Warmer Homes, Healthy People project action plan drawn up with the voluntary sector to provide affordable warmth, practical assistance and referral routes for those who are fuel poor or at risk of winter-related illness.</p>	
Recommendation(s) <p>The Cabinet is recommended to agree that the Council, in partnership with Thurrock Council, enters into an agreement with the international switching broker iChooser for the introduction of a collective fuel switching pilot for the benefit of residents in Barking and Dagenham and Thurrock, on the terms detailed in the report.</p>	

Reason(s)

To assist the Council in achieving its Community Priorities of 'Raising Family Incomes'.

1. Introduction and Background

- 1.1 Britain's six major energy suppliers recently announced fuel energy prices will rise by as much as 21% in 2013 meaning that the number of fuel poor households in Barking and Dagenham could significantly rise from the current 13.5%.
- 1.2 With 9,000 households estimated to be spending 10% or more of their incomes on heating and with continuing economic difficulties pressurising household budgets the challenge of assisting residents in driving down their costs has never have been greater.
- 1.3 Although the Council is actively engaged with delivery agents and energy suppliers to roll out loft, cavity and solid wall insulation across all tenures to provide affordable warmth, we need to positively encourage residents to examine the cost of their fuel tariffs as part of a holistic strategy which recognises public health objectives such as reducing seasonal health inequalities.
- 1.4 Fuel switching will help tackle fuel poverty by ensuring residents have access to some of the lowest fuel tariffs in the market. It will compliment our priorities of increasing thermal comfort and reducing excess cold winter deaths thorough insulating properties as well as mitigating against energy waste by encouraging energy efficiency and reduced fuel consumption.
- 1.5 The purpose of this report is to provide a brief overview of the proposal for fuel switching, how it works and set out financial, legal and other implications.

2. Proposal and Issues

- 2.1 Collective fuel switching is a relatively new innovation in the UK and is being tested on scale through pilots being run by a Belgian company called iChoosr. Following their success in the Netherlands and the Low Countries, the British pilots have the backing of the Department of Energy and Climate Change, the GLA and the statutory watchdog, Consumer Focus.
- 2.2 The basic model encourages consumers to register a 'no obligations' interest online over a two month period and the broker, iChoosr, acts as the communications intermediary allowing energy suppliers to offer deals over the period of a one-day auction. Suppliers will be able to out-bid a rival and the lowest offer on the table will then be put to consumers as a one year dual fuel contract.
- 2.3 It will be for the consumer to accept the offer and those who do will be given a statutory 30 day cooling-off period. When that contract expires, those registered can participate again in another auction the following year.
- 2.4 The local authority and local voluntary sector organisations, with their ability to reach wider audiences, will have a sign-posting role only. The boroughs and third sector agencies will use their trusted brands to promote the scheme in the interest of reducing fuel bills and assisting households in moving away from expensive

standard tariffs and pre-pay meter arrangements. Discussions have taken place with local voluntary sector organisations such as DABD, CAB, CVS, the Volunteer Bureau and the Credit Union who have expressed a strong commitment to participate with the Council to help tackle fuel poverty.

- 2.5 The Council will use a small budget to promote the scheme and register hard-to-reach groups over a two month period in the run-up to the one-day auction date, expected to be in the first week of April 2013. There will be no role in administration, billing, contracts or arrears.
- 2.6 The scheme would be open to all residents of the Borough and all staff members. The inclusion of Thurrock in the scheme provides a wider consumer base, almost doubling the potential bulk market from 70,837 households to 129,322. This makes the scheme more attractive to suppliers as the purchasing power is stronger and should encourage lower price offers and additional discounts.
- 2.7 The Councils will share in a small fee (potentially £10) awarded to the broker by the winning energy supplier for each household that switches and that remuneration will be reinvested in promoting future switching cycles in the programme.

3. Options Appraisal

- 3.1 As an innovative new project there are few alternative models to compare and iChoosr are an exemplar in their field, which is why a large number of local authorities are using them to test such pilots.
- 3.2 Failure to engage in this scheme will compound the financial difficulties suffered by the fuel poor in Barking and Dagenham and Thurrock and would represent a missed opportunity to encourage residents to responsibly engage in managing their finances and ensuring the energy market becomes more competitive.

4. Consultation

- 4.1 The proposal has been discussed with the Cabinet Member for Housing and members have been briefed informally. Thurrock Council's Director of Housing and relevant members have also agreed to progress with this scheme and all relevant procurement, legal and communications departments and voluntary sector organisations involved have been consulted.

5. Financial implications

Implications verified by: Jon Bunt, Divisional Director of Finance

- 5.1 In consultation with procurement services, this report notes that a competitive tendering process for the appointment of iChoosr was not deemed necessary because the scheme is run at no cost to the Council, all bar the authority voluntarily providing a small amount of funding to promote it in the borough.
- 5.2 Although the authority will receive a small remittance for each household that switches which will be reinvested in the publicity scheme, procurement services have confirmed that no gain-share consequences arise.

6. Legal Implications

Implications verified by: Eldred Taylor-Camara, Legal Group Manager

- 6.1 Cabinet's approval is being sought to enter into an agreement with an intermediary, iChooser, for the collective fuel switching scheme pilot.
- 6.2 The Public Contracts Regulations allows local authorities to enter into contracts with providers, following a competitive tendering process, and to select a provider to provide particular goods or services.
- 6.3 This Report however indicates that the scheme will be made available to residents of the borough at no financial cost to the Council, and to residents on a no obligation basis. Residents have the option of registering with iChooser to be part of the scheme, and thereafter the option to accept or reject offers made by energy suppliers.
- 6.4 There will not be any procurement undertaken by the Council for the delivery of the fuel switch scheme as it is offered at no cost to the Council. The Council will however enter into an agreement with iChooser which will incorporate their warranties, liabilities and indemnities to the Council. This will offer legal protection to the Council in relation to the scheme they are providing.
- 6.5 In deciding whether or not to approve proposed scheme, Cabinet must satisfy itself that the proposed agreement will represent value for money for the Council.

7. Other Implications

- 7.1 **Risk Management** - The most significant risk is that the Council's reputation suffers as a consequence of this project and that negative publicity ensues. However, providing that the Council's role is clearly defined as sign-posting residents to the opportunity of lower fuel bills through the scheme and that the promotional material is transparent in its explanation of how the switch works, such risks should be minimised.
- 7.2 **Contractual Issues** - This report seeks approval for the Legal Practice to enter into agreements regarding the operation of the scheme and the remittance awarded to the borough per household that switches.

The broker anticipates that the next large-scale one-day auction is due to take place in early April 2013 meaning that failure to sign agreements will exclude Barking and Dagenham from the scheme and disenfranchise residents from the opportunity to cut their fuel bills.

- 7.3 **Staffing Issues** - Although iChoosr administer the entire customer experience, it is important to note that there will be internal staffing requirements covering registration, publicity and promotion, overseeing and monitoring the project, legal support and tenant engagement and consultation events.
- 7.4 **Safeguarding Children** - There are no safeguarding children implications.
- 7.5 **Customer Impact** - The projected 21% increase in fuel bills will affect most people however it will have a greater impact on low income households who tend to live in poor energy efficient housing.

With 9,000 fuel poor households in Barking and Dagenham, a fuel switching scheme should proactively encourage residents to examine the price of their fuel bills and drive down their costs.

The support of the voluntary sector in rolling-out registration represents a dedicated effort to target the scheme at vulnerable households identified by their services including those in receipt of benefits and hardship funds.

The registration process also seeks to target the elderly who maybe anxious about internet usage; BME community groups who may not speak English as a first language and where possible allow residents who are paying 15% more on their bills using pre-pay meters access to the scheme also.

The transparency of the promotional material and website will also be critical to ensure that no accusations of mis-selling can arise.

With these risks managed it is not considered that there will be a negative customer impact from the promotion of collective fuel switching.

7.6 Health Issues - The proposed scheme will have a positive impact on health issues locally and recognises the need to reduce seasonal health inequalities. The fuel switch seeks to increase thermal comfort, reduce excess winter cold deaths and lower fuel tariffs and therefore alleviate the level of fuel poverty in the borough.

7.7 Crime and Disorder Issues - There are no identified crime and disorder issues.

7.8 Property and Asset Issues - There are no identified property or asset issues.

Background Papers Used in the Preparation of the Report:

- Ofgem guidance on Collective Fuel Switching May 2012:
<http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/collective%20switching%20open%20letter.pdf>
- Letter to local authorities on collective fuel switching from Rt Hon Ed Davey MP, Secretary of State for Energy & Climate Change:
<http://www.decc.gov.uk/assets/decc/11/funding-support/5944-letter-from-edward-davey-to-local-authority-ceos-o.pdf>
- South Lakeland District Council collective fuel switching website for first UK pilot:
<http://southlakeland.ichoosr.com/Product/index.rails?actionId=232>

List of Appendices: None