

Report of Director of Environment and Neighbourhoods

Report to Executive Board

Date: 12th December 2012

Subject: Bulk Fuel Purchasing

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The recent Fuel Poverty Scrutiny requested that the Director of Environment and Neighbourhoods leads on undertaking a cost-benefit and risk analysis for the Council to bulk purchase domestic heating fuel for householders.
2. DECC have recently announced a £5m funding competition to support innovative bulk fuel purchasing arrangements.
3. Following the evaluation of a range of options, a joint proposal, in partnership with CO2Sense and a number of other LCR authorities, has been submitted.
4. Due to the short deadlines available, this application has already been sent to DECC. We expect to know whether we have been successful or not before Christmas.

Recommendations

5. To support the funding application that has been submitted to DECC to deliver a bulk fuel purchasing scheme for Leeds.

1 Purpose of this report

- 1.1 To respond to recommendation 20 in the recent Fuel Poverty Scrutiny that the Director of Environment and Neighbourhoods leads on undertaking a cost-benefit and risk analysis for the Council to bulk purchase domestic heating fuel for householders.
- 1.2 To update Executive Board on the proposed bulk fuel purchasing grant submission that has been submitted to DECC in partnership with CO2Sense.

2 Background information

- 2.1 The recent Fuel Poverty Scrutiny Board Inquiry considered a range of ways to tackle fuel poverty within Leeds and published a report with 20 recommendations. These split broadly into three categories:
 - 2.1.1 Initiatives to improve the energy efficiency of properties across the city, in order to reduce overall energy demand and therefore reduce the likelihood of fuel poverty occurring in any property;
 - 2.1.2 Initiatives to target interventions at the most vulnerable people (typically the elderly, very young or those with long-term health conditions) to ensure that these people can afford to stay warm;
 - 2.1.3 Initiatives to increase incomes or reduce energy costs in order to reduce the likelihood of any individual experiencing fuel poverty.
- 2.2 This proposal fits into the final category and responds directly to recommendation 20.
- 2.3 The Council has been monitoring different approaches to bulk fuel purchasing underway both in the private sector and in other local authorities since early 2012. There are now some clearly differentiated approaches emerging:
 - 2.3.1 **Energy bill only models** which focus solely on maximising the reduction of energy bills, by passing on as much of the saving to customers as possible. These have the advantage of making maximum initial savings but do nothing to change behaviour or improve the energy efficiency of properties to make long-term savings. This is the type of model used by South Holland where the council is undertaking a procurement process to find a company to run the switching but the council runs the outreach work.
 - 2.3.2 **Added value models** which look to pass on a high proportion of savings to the customer, but hold back a percentage to invest in longer term behaviour change and energy efficiency initiatives in order to reduce energy requirements in properties. This is the type of model used by Cornwall Together which has been set up and is managed by existing community organisations, which local authorities then partner with.
- 2.4 The added value model is our preferred approach as it will reduce the impact of fluctuations in the energy market.

- 2.5 DECC have recently announced a £5m funding competition (launched 19th October, deadline for submissions on the 30th November, with a requirement to spend by the 31st March 2013) to support innovative bulk fuel purchasing arrangements. The key criteria are:
- 2.5.1 Engagement with vulnerable customers, including but not limited to the fuel poor.
 - 2.5.2 Innovation in terms of marketing to consumers or scheme design.
 - 2.5.3 Strategic fit – proposing a holistic approach to household energy efficiency advice, funding energy efficiency measures, including through the Green Deal and ECO or fuel poverty fund.
 - 2.5.4 Evaluation – schemes should capture and share learning in terms of the delivery approach and collect data on numbers switching, demographic and expected savings.
- 2.6 This provides an opportunity for the council to develop a bulk purchasing arrangement, with admin and marketing costs fully funded.

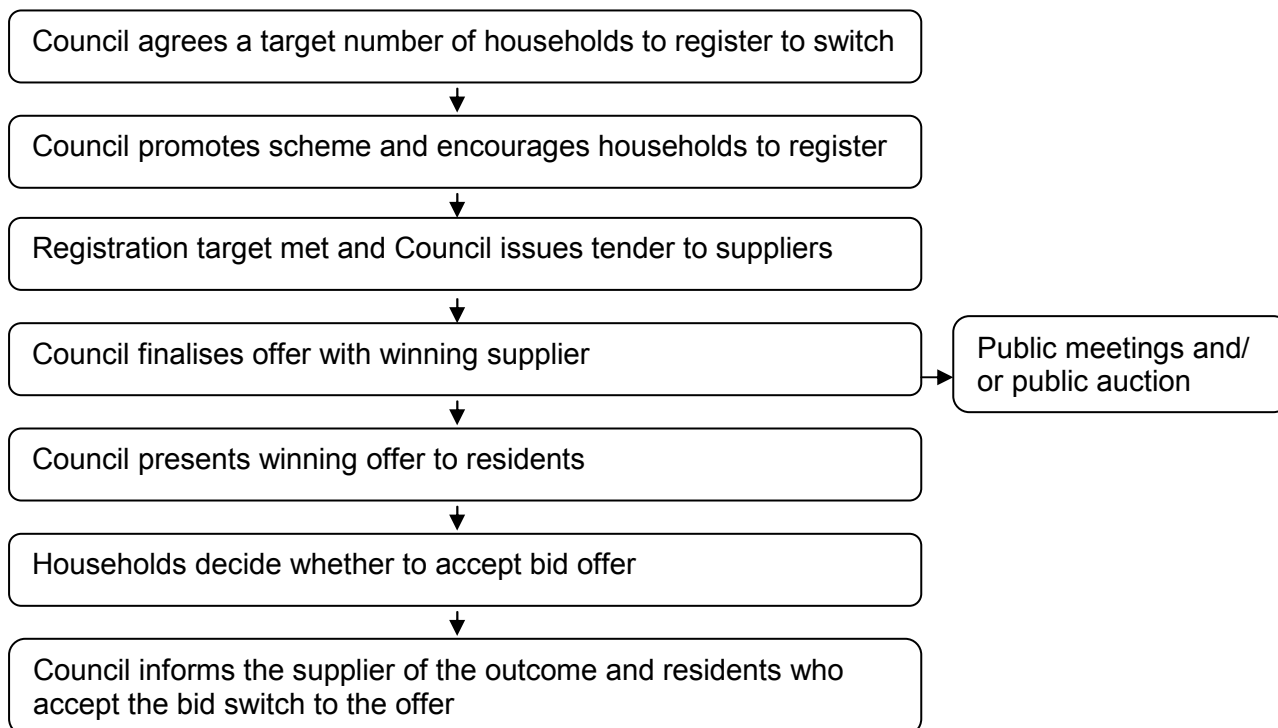
3 Main issues

- 3.1 Both the council and government believe that there are opportunities to reduce the costs of domestic fuel bills, by setting up bulk purchasing arrangements. These can use collective purchasing power to negotiate good deals and be structured to enable smaller energy suppliers (such as internet only suppliers) to be accessible to all, regardless of internet connectivity.
- 3.2 The Environment Policy Team considered a variety of pilot projects and potential approaches to carry scrutiny recommendation 20 forward. Our main aims were to identify an approach which would provide:
- Returns to the householder in terms of reduced bills, to maximise their available income;
 - Access to the vulnerable fuel poor, including households with no or limited internet access;
 - Added value in terms of behavioural change, links with energy efficiency projects and continued support of households to ensure that they received a longer term benefit than just the time limited decrease in costs afforded by the bulk purchase of the fuel itself.
- 3.3 DECC's funding competition now provides the opportunity to attract external resources to cover the costs of developing a bulk purchase offer for Leeds. The main options considered to deliver this initiative were:

No	Title of Option	Assessment and Reason for Selection / Rejection
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1	Direct procurement. Leeds City Council individually undertake procurement to secure a company to manage a bulk purchase contract. Responsibility for marketing scheme rests either with the council or the contractor.	Rejected. Whilst this may have some advantages in that we can fully specify our preferred approach and reduce payments to third parties, the risk is that with the pressure on the Fuelsavers team to deliver c£2m of energy efficiency initiatives by March 2013, this scheme would not be promoted to its full potential.
2	Partnership with CO2Sense and other LCR authorities. CO2Sense have formed a partnership with local cooperatives and other LCR authorities and have submitted an application to DECC to run a local bulk purchase scheme that will provide bill savings and other added value services.	Preferred. This matches our aims to provide both bill savings and longer-term energy demand reductions, and has the strong advantage of being locally managed in partnership with other LCR authorities. It also has a minimal staffing requirement from the council.
3	Partnership with another national initiative. A number of initiatives are being run by regional/national groups (such as the people behind Cornwall Together and some local authorities) to just provide the financial benefits of switching.	Rejected. Whilst some of these are good, none of these has the potential of the CO2Sense approach to deliver energy savings over the longer term and link to the proposed LCR Green Deal initiative.

- 3.4 Given the very short timescales and the current pressure on resources within the Fuelsavers team, a partnership with CO2Sense was the preferred option.
- 3.5 The DECC funding would allow us to cover initial set up costs, marketing and engagement activities.
- 3.6 We believe that in addition to meeting the DECC requirements outlined in section 2.5, a successful bid should fit with other initiatives and existing support mechanisms and encourage local engagement of respected organisations and community leaders.
- 3.7 Therefore, the model that we are proposing to work with CO2Sense to deliver will use collective fuel switching to provide an ongoing saving on fuel bills to vulnerable householders as well as guiding them in the direction of a more energy efficient lifestyle. Like all bulk fuel purchasing schemes, the model begins with a collective auction to secure an energy deal that households can either sign up to or reject.
- 3.8 Unlike many other schemes, ours will aim to use a proportion of the savings to generate a small fund to be invested in further energy saving measures. These include the following possible options:
- The installation of smart meters to enable households to monitor their own energy use;
 - The provision of powerdown devices to help reduce everyday energy use;
 - Assessments for Energy Company Obligation grants (ECO) and the Green Deal where appropriate to provide larger scale energy efficiency measures;
 - Community renewable installations to provide a dividend to the householder.
- 3.9 The standard stages in the bulk fuel purchasing process are:



- 3.10 CO2Sense will lead this process on our behalf, including developing marketing materials in partnership with us and engaging a third party switching agent (via a competitive selection process) to carry out the auction process and run the switch.
- 3.11 The switching agent will undertake an auction to attract the best available rates from energy companies (usually a discount on the best tariffs). The auction is made up of separate auctions for different types of customer, such as dual fuel, electric only, pre-payment meter, direct debit etc.
- 3.12 Once the auction has taken place, the switching agent will contact the interested households with a breakdown of their current bill and how much they would save if they choose to take up the offer. The householder is then given a time limit by which to respond to the switching agent and sign up to the new deal. The householder can opt not to change to the new tariff.
- 3.13 Once the time limit to respond is over (typically 1 – 2 months) the switching agent will switch those customers who have decided to go ahead to the new tariff, which will be fixed for a year.
- 3.14 Because most fuel switching schemes are largely web based, any attempt to reach fuel poor households will require a considerable amount of outreach work in the community. In addition to this, traditional sales techniques such as those used by the energy suppliers have been largely discredited in the eyes of the public; therefore a new approach is required to promote the scheme to hard to reach and vulnerable communities.
- 3.15 Our proposal is to use a trusted third party such as CO2Sense, along with other community partners, to engage directly with households, generating further interest in the local communities, as well as ongoing interest which should persuade people to stay with the scheme to reap its longer term benefits.

3.16 We would expect an average household to save around £50 a year compared to average fuel prices in the first two years, followed by £80 in the third year and, where households decide to continue with the scheme, approximately £140 in following years.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 During the engagement process, we spoke to Community Energy Direct, which have developed a model based on local energy collectives. They have been working partnership with CO2Sense, and this has led to the joint development of the above model which we believe will best suit our objectives of gaining financial benefits for householders, whilst providing longer term added value

4.1.2 The DECC funding is designed to allow us to trial a number of different approaches including an understanding of how best to target vulnerable customer engagement. We will therefore use the funding, if secured, to evaluate the success of customer engagement.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 An equality, diversity cohesion and integration screening exercise has been carried out. This has affirmed that equality, diversity, cohesion and integration considerations have been effectively considered in relation to this proposal and that a full impact assessment was not required. Instead, it has indicated that by focussing the programme on vulnerable people we can immediately reduce the fuel bills of some of the poorest in society and help to achieve longer term energy efficiency improvements. This could make a relatively significant impact on people in fuel poverty, with consequent health and social benefits.

4.3 Council policies and City Priorities

4.3.1 The Vision for Leeds 2011 to 2030 acknowledges that climate change is one of the three major challenges that have emerged since the last Vision was published in 2004 and has a specific aim to ensure that “all homes are of a decent standard and everyone can afford to stay warm.”

4.3.2 The Vision is supported by the City Priority Plan 2011 to 2015, which brings together a number of key four-year priorities that will help us deliver the 2030 Vision. It is supported by five separate action plans that address the five key themes. Of these, two contain priorities which this proposal directly supports, namely:

4.3.3 Best city... for business:

- Improve the environment through reduced carbon emissions.

4.3.4 Best city... to live:

- Improve housing conditions and energy efficiency.

4.3.5 Council priority 23 covers energy efficiency which this proposal will help to deliver.

4.4 Resources and value for money

4.4.1 The scheme start up and outreach costs, will be covered through our joint application for £100,000 from the DECC grant.

4.4.2 The ongoing savings to the customer and management costs are paid for by the negotiated discount with the winning energy supplier. We would expect an average householder to save £50 pounds a year compared to average fuel prices in the first two years, followed by £80 pounds in the third year and, where households decide to continue with the scheme, approximately £140 in following years.

4.5 Legal Implications, Access to Information and Call In

4.5.1 This proposal does not have any significant legal implications.

4.5.2 Any legal agreements will be between the individual residents and an energy company, in the same way that happens currently. Our role in the programme is to promote the scheme to our residents and to work with CO2Sense and others to ensure that the offer that we are recommending is a genuinely good offer for our residents.

4.5.3 The recommended decisions are all open to Call In.

4.6 Risk Management

4.6.1 The most significant risk associated with this proposal is that we are not able to make sufficient progress within the time available. By working with a third party, the capacity constraints within the council are removed and we will be better placed to effectively spend the funding.

4.6.2 A separate risk log will be developed and will be monitored and updated throughout programme development and delivery.

5 Conclusions

5.1 The DECC funding opportunity provides an opportunity to respond to one of the specific requests from the recent Fuel Poverty Scrutiny.

5.2 The partnership with CO2Sense and other LCR authorities provides a way to test an approach to bulk fuel purchasing, within the current resource constraints.

5.3 The partnership has the potential to provide a long-term solution, with the added value of focussing on reducing energy demand, as well as the unit price of energy.

6 Recommendations

6.1 To support the funding application that has been submitted to DECC to deliver a bulk fuel purchasing scheme for Leeds.

7 Background documents¹

- 7.1 Bulk Fuel Purchasing Proposal – CO2Sense – November 2012 (confidential under Access to Information Procedure Rule 10.4(3) to avoid prejudicing the commercial interests of the Council and CO2Sense)

Appendix 1 – EDCI Screening

EDCI screening

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.