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Scrutiny Briefing on the Closure of White Rose Energy

Purpose

This report provides Scrutiny Members with brief details of the closure of White Rose Energy to help learn lessons for the future. It includes:

- The rationale for establishing White Rose Energy and an outline of the contract with Robin Hood Energy;
- The reasons for the sale of Robin Hood Energy;
- The impact of the sale on White Rose Energy customers and the council, together with steps that we took to mitigate the impacts;
- A summary of the main achievements of White Rose Energy;
- Lessons learnt and potential future options.

Background to White Rose Energy

The council has a long standing commitment to addressing the scourge of fuel poverty by improving the energy efficiency of homes, reducing the cost of energy and raising incomes for the lowest paid.

We knew that many residents did not actively switch tariffs and were unwittingly stuck on expensive variable rate tariffs and, as a result, were paying too much for energy. At the time, there was some lobbying for Leeds City Council to establish a fully-fledged energy company, but this was felt to be a risky move.

Therefore, as part of our Affordable Warmth strategy the council took the decision to establish White Rose Energy as a 'white label' energy brand in 2016 under Nottingham City Council's not-for-profit energy company Robin Hood Energy.

This aimed to give customers peace of mind that they were paying a fair and consistent rate and to reduce the average energy price paid by Leeds residents. The council had three principal routes to attract customers:

1. A void switching service for Leeds council homes, to ensure that new tenants started their tenancy on a fair tariff and to install smart meters where possible;
2. Promotion to residents across the city, via free of charge council and partner marketing channels and use of targeted social media campaigns and above the line advertising;
3. White Rose Energy had a geographical coverage of the whole of Yorkshire so the council also benefitted from residents from across the region taking the tariff and signed formal partnership agreements with Bradford and Calderdale councils, who promoted to their residents.

The arrangement meant that residents could benefit from preferential energy costs with no investment from the council, other than officer time and a small marketing budget. It also meant there was no financial risk to Leeds City Council and provided the council with a small income from White Rose Energy customers.

Sale of Robin Hood Energy

The energy market has changed dramatically since Nottingham established Robin Hood Energy.

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At the time, the market was dominated by the established big 6 suppliers, with only a small number of small challengers. There was a perception that customers were paying too much, particularly those who did not regularly switch suppliers, and that large suppliers were making super profits. This led to an influx of new entrants, such as council backed companies such as Robin Hood Energy and Bristol Energy, together with many purely commercial ventures. This led to significant reductions in consumer energy prices in an increasingly competitive market.

However, the introduction by government of tariff caps bunched up the market. This, together with a sharp increase in commodity prices, meant that many companies were locked into supply contracts that lost money and forced at least 16 energy suppliers out of business during 2019 and 2020.

Following losses by Robin Hood Energy in 2018/19 and forecasts for continuing heavy losses, Nottingham City Council commissioned an external audit and strategic review over the spring and summer of 2020.

This concluded that the only viable options open to Nottingham City Council were to either halt further funding for Robin Hood Energy, which would have bankrupted the company, or to seek a buyer.

Fortunately, Nottingham managed to avoid the worst option of a bankrupt company and made the decision to sell Robin Hood Energy's energy supply business and customers to British Gas. British Gas were essentially only interested in acquiring the customers and all c250 Robin Hood Energy Staff were made redundant and all white label arrangements were terminated.

The sale was announced on the 4th September and concluded on the 16th of September. Customers were migrated to British Gas during October and November and Robin Hood Energy placed in the hands of administrators. It is now being wound up.

Impact of Sale on Customers and Council

When we were first alerted by Nottingham City Council of their intention to sell Robin Hood Energy, our principal concern was to protect White Rose Energy customers, particularly tenants who had been switched via the council house void switching service.

We therefore worked closely with Nottingham City Council and Robin Hood Energy to ensure that they had appropriate contractual protection for all customer, prior to signing a deed of termination with Robin Hood Energy. Key points included:

- That British Gas agree to offer rates as good as, or cheaper than, every customer's existing tariffs.
- That there were no exit fees leaving customers free to switch to a different supplier should they wish.
- That where customers have arranged debt management plans, British Gas have agreed to honour these arrangements and will work with customers in debt but without debt management plans to put these in place.
- That British Gas will offer the Warm Homes Discount to all eligible White Rose Energy Customers.
- That no customers would be left behind, with any customers that did not proactively choose to switch to British Gas being automatically switched.

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- That all outstanding commission payments to the council up to the date of the sale to British Gas would be made.

Whilst we were not able to support individual customers during the sale, we worked closely with Robin Hood Energy to ensure that good communications went out to all customers, using letters and emails where available, plus updated the White Rose Energy website and issued press releases. We also briefed key services, such as The Leeds Money Information Centre, Home Plus Leeds and the Green Doctor so that they were able to support individual residents to take the right decision about their future energy supplier.

We had no means to track what every customer chose to do, as Robin Hood Energy were forced to make all staff redundant who were not key to the sale, to reduce losses to the council. However, following the initial letter to customers Robin Hood Energy confirmed that around 90% of customers who had left them had transferred to British Gas. We anticipate that well over 50% of the 7,500 active White Rose Energy customers, including around 3,000 social housing tenants, transferred to British Gas.

Now that the sale has concluded, we have no way of tracking what ex-customers of White Rose Energy who were switched to British Gas decide to do: whether they remain as British Gas customers or switch to an alternative supplier.

In addition to the work required to help ensure all customers were protected following the sale of Robin Hood, the council also needed to establish a new void switching partner. As part of the contract with RHE, they provided a full council house void switching service for Leeds City Council, using the WRE branding. Under this void switching arrangement, RHE undertook all activities required to take over the energy supply of the property. This had a number of benefits:

- Incoming tenant is automatically on supply with a competitive supplier;
- The administrative burden on the voids team is significantly reduced;
- Smart meters are installed automatically where needed and suitable;
- RHE do not charge standing charges for an agreed period during voids, minimising the cost to the council;
- A small annual commission is received by the council for every property on supply, which is reinvested in energy savings.

Without a dedicated voids switching service, the Voids Team are not able to deliver an efficient voids service and require additional resources. For example:

- Voids officers have to research current gas supplies via a website and electric suppliers via a call to Northern Power Grid.
- Voids officers must contact every existing supplier to request the account is put in the council's name during voids and request the appropriate gas cards, RTI codes etc; these calls alone can take upwards of 2 hours per property.
- There are significant delays in receiving new cards and RTI codes from suppliers and additional visits are required by council Officers to retrieve cards, top up, etc.
- As we have no agreement with other providers when we report Meter Tampering a visit needs to be made to the property. Energy companies do not call ahead for access, as RHE do, so officers may have to wait at the property all day.
- The council must close the account manually via another phone call to the providers once a new tenant has moved in.

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The council therefore reviewed the market and, as void services are a specialist area, no suitable frameworks have been found. The council has instead awarded a contract to Energy Angels, who previously provided services to the ENE ALMO. Key elements of the Energy Angels service include:

- Comprehensive void management service, using a dedicated portal to manage data flow between the council and Energy Angels.
- Choice of 3 pre-vetted energy suppliers to switch voids to.
- Installation of smart meters which can be switched to credit mode remotely in all voids. Any tenant on a pre-payment meter will be offered the choice of moving to credit mode as this is generally a cheaper tariff.
- Waiving of standing charges during the void period.
- When tenants move in they are offered advice on the best tariff and helped to switch energy companies if they wish, with no exit fee.
- A commitment to a 4 hour service level agreement with compensation if this target is missed in any month.

Suitable due diligence was undertaken (financial and references from other clients) and a 12 month contract was awarded to Energy Angels. Since contract award, Energy Angels rapidly established the systems for Leeds then systematically worked through the backlog of voids that had been created by the end of the Robin Hood Energy contract and the pandemic. Feedback from officers is that the service from Energy Angels continues to be excellent.

What the Partnership Achieved

During the four years that we operated White Rose Energy in partnership with Robin Hood Energy we achieved some real benefits in the fight against fuel poverty.

- White Rose Energy customers have *always* paid less than Ofgem's 'Default Tariff Cap' and our rates have consistently been within the best value quartile of all tariffs available.
- We achieved rapid customer growth, hitting approximately 6,000 customers one year after launch. Numbers then rose less quickly and peaked at around 8,500 2 years after launch. With high attrition rates when attractive fixed rates ended, we then plateaued at 8,000 to 8,500 until the 2019, with numbers then falling steadily until Robin Hood was wound up.
- It is very hard to quantify savings, due the number of variables and the recent introduction of bundled tariffs (e.g. British Gas offering 'free' boiler care through some tariffs) we have typically been over £100 cheaper than the big 6 suppliers.
- We estimate that in total, customers have saved c£3.1m over the 4 years of White Rose Energy.
- The council has received around £400k in commission payments from Robin Hood Energy over the last 4 years. This has been used to fund the service (i.e. operations, marketing, charges in the council house void period, etc) to pay commission to Bradford and Calderdale with the surplus invested in fuel poverty, energy and environment projects. These include:
 - A contribution of £50k to the Discretionary Fuel Poverty Fund, which typically attracts an additional c£3.80 of external investment for every pound we invest.
 - Investment of £30k in 37,040 LED light bulbs to install in council houses through the voids process in partnership with Housing Leeds. These are expected to save tenants over £2m over the life of the bulbs.
 - A contribution of £15k to purchase over 14,000 trees for planting by schools and to create the Baby Week Forest in Weetwood, in partnership with Children's Services.
 - A further £135k is yet to be allocated.

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In addition to these cashable benefits, the council has also received benefits which are harder to quantify. One of the chief amongst these was to gain experience of the workings of the energy market through our partnership with Robin Hood Energy, without the significant financial exposure and losses incurred by Nottingham and Bristol. We also benefitted from a market leading void switching service (which we were able to shape especially in the early days) with good standards of performance combined with attractive tariffs for customers and a commission to the council. This also helped to install smart meters in many of our council homes much earlier than would otherwise have been the case.

Lessons Learnt

Although there were many benefits to running White Rose Energy, there were some disadvantages that we hadn't anticipated and a number of lessons learnt during project delivery. Some of the principle lessons learnt were:

1. That the energy market is fiercely competitive, very complex and highly regulated and requires a very experienced management team and a heavy financial investment in excellent systems and the ability to forward buy energy extremely well in order to compete.
2. Customers are very price sensitive and only a small number are persuaded to stay with a company for social good. Over 50% of customers left White Rose Energy during the 4 years of operations (i.e. over 16,000 customers switched but over 8,000 left).
3. The energy market is a very political market and government policy changes can fundamentally alter the market extremely quickly.
4. That even companies with extremely clear aims and social values have to change if the market changes to avoid going out of business and that even contracts with close partners do not allow us to have sufficient influence over their business direction.

Options

The council has the following broad options:

1. To establish a white label arrangement similar to White Rose Energy.
2. To seek to create an alternative and less intensive type of partnership with an energy company, focussed on delivering lower costs to residents.
3. To participate in an existing collective switching service, to 'bulk-buy' special deals for any interested residents. This could not include voids.

However, in addition to the change to the market outlined above, COVID-19 has severely stretched council resources. Government has recognised that it is important to try to stimulate new jobs and is focussing heavily on a green recovery. Leeds has been extremely active and has secured over £12m of funding to deliver in extremely challenging timescales, on top of the commitments already in place for £24m of ERDF funding and the existing Housing Leeds investment programmes. This means staff resources are under intensive pressure.

Given this and the lessons learnt, the council is therefore not seeking to establish another partnership similar to White Rose Energy.

Also, in the short term we feel that our limited time is best spent delivering energy saving projects, rather than seeking another energy supply deal.

In the medium term, we propose to explore both options 2 and 3 in more detail, potentially with a pilot, and would seek a decision from Executive Board if we think there is merit in formalising an arrangement.

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Summary

Although it is extremely disappointing that Robin Hood Energy has ceased trading, we understand Nottingham City Council's decision, given the unsustainable scale of losses and the changes to the market.

By finding a buyer and avoiding liquidation, all customers have been spared the worst-case scenario of 'Supplier of Last Resort', where any customer in debt would have had no protection and no customer would have had a guarantee about continuing with a competitive tariff.

The council is confident that the creation of White Rose Energy led to significant benefits to Leeds, with many thousands of customers saving over £100 per year, compared to not switching.

In the medium term, we will evaluate other options to related to energy supplies, but have no immediate plans to re-enter the market or establish another white label.