



**Executive**  
11 February 2013

**Report from the Director of Strategy  
Partnerships and Improvement**

Wards Affected:  
ALL

**Collective Energy Switching in Brent**

**1. Summary**

This report considers Collective Energy Switching (CES) as a way of obtaining fairer energy prices for the residents of Brent. Domestic energy is a significant cost for all Brent residents, with many paying more than they should be. By purchasing energy collectively the cost of procuring energy can be reduced. This report discusses the various options, implications, costs and benefits of CES and seeks Executive approval to the introduction of a collective energy switching scheme for Brent residents in association with a number of other London authorities.

**2. Recommendations**

- 2.1 The Executive approve the introduction of a collective energy switching scheme for Brent residents as set out in paragraph 3.6 – 3.8 of this report
- 2.2 The Executive approve the Council's participation in a collaborative procurement with sixteen other London boroughs leading to the appointment of an organisation to assist residents with collective energy switching should the Director of Strategy Partnerships and Improvement favour the joint establishment with other London boroughs of a collective energy switching scheme.
- 2.3 The Executive approve the Council's participation in a collaborative procurement with sixteen other London boroughs leading to the appointment of legal and procurement consultancy services.
- 2.4 The Executive approve the collaborative procurement exercises described in Recommendations 2.2 and 2.3 being exempted from the normal requirements of Brent's Contract Standing Orders and Financial Regulations in accordance with Contract Standing Orders 84(a) on the basis that there are good operational and / or financial reasons as described in paragraphs 3.6 and 3.8.

### **3. Details**

#### **3.1 Context**

3.1.1 It is estimated that every year people in the UK waste £4 billion on their energy. Energy bills are now one of the biggest costs that families face, however the complexity of the various tariffs on offer – currently over 400 – means that it is estimated 80 per cent of people are paying too much for their energy. Households are now spending twice as much on energy to power their homes than they were ten years ago; more than 5 million households in the UK are estimated to spend more than 10 per cent of their income on energy and are classified as living in ‘fuel poverty’. Records show that in 2010 as many as 11,584 Brent households (11.5 per cent) were in fuel poverty.

3.1.2 The impact of impending cuts to benefits and lower wages means that many people will turn to debt to pay their bills. Officers estimate that the government’s package of welfare reform measures is likely to have a disproportionate impact in Brent – over 3,000 households in Brent are at risk of losing their homes from April 2013. Combined with changes to the Council Tax benefit regime, many Brent residents are likely to be significantly worse off. The Council’s social care services will continue to come under considerable strain. Brent’s demographics show below that residents are likely to be more financially challenged than others across the country and it is therefore imperative that they can reduce as many of their outgoings as possible:

- Median earnings for employees living in Brent are significantly lower than the average in London – £493.60/wk in Brent in 2011, compared to £610.20/wk in London as a whole. (GLA figures show Brent has the second lowest levels of pay in London with 30% of employees earning less than the London Living Wage)
- The average rent level for a 2-bed property in Brent is £1,344, which is 74% of median earnings
- Rents in Brent are increasing 2.9% per year – they are now the 5<sup>th</sup> highest in London
- It is estimated that 3,000 households will see a reduction in their housing benefit from the cap
- It is estimated that at least 1,000 families in Brent will have less income under universal credit, by up to £83 per week from 2013
- An 11% increase is predicted in the population aged 65+ between 2012 and 2020 (most of this age group will no longer be receiving a salary)

#### **3.2 What is Collective Energy Switching?**

3.2.1 Collective energy switching (CES) is one way of attempting to respond to these financial issues. CES refers to the process that occurs when a negotiation is made with an energy provider to obtain a better deal for the bulk purchasing of gas, electricity or other fuels. By buying energy in bulk, local people can then be offered

the chance to switch energy providers and benefit from a cheaper energy tariff<sup>1</sup>. Residents register to express an interest by providing some basic details on their current energy usage. Once sufficient people have registered then negotiations for the best tariff can begin with electricity and gas suppliers. Once a tariff has been agreed this is then communicated to all those who had signed up as being interested in joining the scheme. It is not compulsory for people to make the switch, however having found people a better deal it is anticipated that many will. Switches that have already taken place in the UK suggest that approximately 40% of those who initially registered will commit to making the switch.

### 3.2.2 Collective switching is considered to bring three significant benefits:

- It can help more people to participate in switching, bringing savings to greater numbers of people, faster, and potentially making this available to those who are not internet-literate or already better-off
- By using group purchasing power it can also help drive more advantageous bargains<sup>1</sup>
- It can help to drive competition and attract more players in the market, reducing barriers to entry by helping smaller suppliers access more customer opportunities, more quickly. (When Co-op Energy won the Big Switch auction this year they doubled their customer base.)

### 3.2.3 As a result implementing collective switching in Brent will:

- Enable residents to make savings on their energy bills (officers estimate that by signing up households could save between £20 and £200 a year on their energy bills)
- Help to reduce the number of people in fuel poverty and thereby help reduce the demand on social care
- Provide an opportunity of get across to residents messages about energy efficiency, managing personal finances, etc
- Help to increase partnership working in the borough as organisations work together to promote and develop the collective switching scheme

### 3.2.4 The Department for Energy and Climate Change (DECC) has shown strong support for collective energy switching, with Ed Davey Secretary of State for Energy and Climate Change stating his priority to help consumers reduce their gas and electricity bills. In March 2012 he wrote to all domestic gas and electricity suppliers stressing the importance of their engagement in collective purchasing and switching. In July 2012 all local authorities were encouraged to become involved in collective purchasing and switching schemes to help residents get a better deal on

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<sup>1</sup> It must be noted, however, that energy suppliers are not currently able to offer cheaper deals through collective switching schemes than are already available on the market, which significantly undermines these schemes. It is understood that Ofgem is reviewing its guidance to ensure that it does not prevent cheaper tariffs from entering the market and that this review is also intended to have the effect of allowing suppliers to offer tariffs that are cheaper than those on the existing market through collective switching schemes. This review will take some time, however, including testing that the revision will have the desired effect in practice, to remove this significant barrier.

their energy bills and at the end of the year £5 million of funding had been made available for councils to set up and undertake collective switching schemes.

3.2.5 Councils are using their position as local leaders to run purchasing schemes for their residents with the support of 'switching specialists' to get them a better deal. There are several examples of schemes currently being run across the country, from Cornwall to Oldham, South Lakeland to Tower Hamlets.

### **3.3 Process for Setting up a Collective Switching Scheme**

3.3.1 The initial stage of such a scheme involves its promotion (how it works, the benefits, etc.) to people and enabling those people considering participating in the scheme to register their interest. This is often done by people registering online, however there is generally also a method of registering for people who do not have, or are not confident with, internet access. This might be achieved by providing internet access and support for registering or and offering alternative ways of expressing interest such as by telephone and/or paper applications.

3.3.2 Once the target number of people or the time period for interest to be registered (whichever is chosen as the target) has been reached and it is known how many people are interested in the scheme (this expression of interest does not commit them to switching) then a 'reverse auction' is held. This is where energy companies are invited to put forward their lowest price per kilowatt of electricity and cubic metre of gas for the number of people interested in participating.

3.3.3 After securing a deal this is then offered to those who signed up during the registration phase. These people then decide if they would like to switch energy providers or not. Those who do want to switch will change energy providers and benefit from the savings from the cheaper energy tariffs. The energy companies also often pay the CES scheme a sum for each person that switches. This sum is paid in part or whole to the energy switching provider to enable the scheme to continue to operate effectively.

3.3.4 Officers consider that the introduction of a collective switching scheme along the lines described above for Brent residents and businesses fits perfectly with Brent's three priorities<sup>2</sup>. By negotiating a better price for their energy the people of Brent are offered a fairer price for their energy thereby helping to tackle residents' debt problems and improving the prosperity of the borough.

### **3.4 Working in Partnership**

3.4.1 Because of the skills and experience required in organising a CES scheme and undertaking a reverse auction, the amount of work involved and the number of households necessary to sign up to the scheme for a switch to be viable, Officers

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<sup>2</sup> Brent Council's work is to be guided by three priorities:

- 1) to make Brent a fairer place – tackling inequality and injustice and ensuring all our residents have the opportunities they are entitled to expect in London today;
- 2) to pursue growth and prosperity for the Borough. This means more jobs, more opportunities and better pay across Brent;
- 3) to preserve and strengthen our sense of community.

consider that it is preferable for the project to be undertaken in partnership with other organisations. The chief partner is the organisation that liaises with residents to arrange the switch itself. There are a number of organisations that specialise in energy switching e.g. Cornwall County Council used uSwitch, whilst many others such as Oldham and Peterborough City are using iChoosr as their preferred switching partner. The latter has had much experience of organising energy switches across Europe since 2008.

3.4.2 Switching energy supplier is complex, time-consuming and a worry to residents and as such is not popular. However working with an experienced energy switching organisation addresses this, allowing the energy switching organisation to identify the best energy deal, often through running a reverse auction. They liaise with the preferred energy supplier, offering “hassle free” switching, which is neither complex nor time consuming for residents. As success of CES is demonstrated, switching is now becoming increasingly popular.

3.4.3 Working in partnership allows the work to be shared: Brent Council is the trusted “brand” best able to communicate the scheme to its residents and carry out the marketing and customer satisfaction surveys, whilst the energy switching company does the rest.

3.4.4 Benefits to the Council include:

- an innovative service which could improve its reputation
- the opportunity to dovetail other energy-related initiatives to the scheme
- a way to reach out to vulnerable groups in society
- building a stronger sense of community

### **3.5 Options for Consideration**

#### **3.5.1 Independent Brent scheme**

One option available to Brent Council is to undertake a collective switching scheme as a single borough in partnership with the energy switching organisation and other interested organisations. This is the route Cornwall County Council went down in partnership with the Eden Project, backed by uSwitch, EnergyShare, the NHS and Community Buying unLimited.

3.5.2 However significant amounts of knowledge and expertise would be required to set up an independent scheme which currently does not exist in the council. Furthermore, on the experience of Cornwall County Council, this is likely to be a costly option. Whilst there is the potential for £35 to be received for every switch that occurs, this would be needed to pay for overheads of organising the switch. Therefore only a small net proportion of this sum would be retained by Brent or passed to residents. The amount received would be very little in comparison to the financial and human resource investment required to get the CES scheme up and running. Setting up an independent scheme would also place a significant demand on staff time as the work not undertaken by the energy switching organisation would have to be carried out by Brent staff.

### 3.5.3 **Joint scheme**

The other option is to join with other councils in a CES scheme by either:

3.5.3.1 establishing a new CES scheme with other councils; or

3.5.3.2 joining a pre-existing CES scheme that has already been established by another council.

3.5.4 By undertaking a joint scheme the Council can benefit from:

- 'Piggy backing' on the skills, research and experience of others – reducing the need to have to develop the expertise in Brent
- It will not matter how many Brent residents have signed up to the scheme (to make the auction - and subsequently the switching - viable) as numbers will be supplemented by residents from other councils
- Buying power as a result of a higher number of households from across the region undertaking the switch - Brent will obtain a much better deal for its residents through economies of scale
- Sharing resources e.g. promotional literature
- Less costly than setting up the council's own scheme
- Much less time-consuming than developing the council's own scheme
- Reputational risk is reduced as the scheme is not run directly by the council

Appendix 2 sets out the comparison of collective energy switching options as between an independent Brent scheme and a joint scheme with other authorities.

3.5.5 For the reasons detailed above, Officers favour a joint scheme. Officers have therefore been in discussions with other London boroughs regarding the possibility of setting up a joint scheme or else joining a pre-existing CES scheme. Sixteen other London boroughs have indicated an interest in participating in some form of joint scheme.

## 3.6 **London Councils' Proposed Collective Energy Switching Scheme**

3.6.1 Initial discussions between the seventeen London boroughs and London Councils favoured the establishment of a new London wide CES scheme. On behalf of the seventeen local authorities (including Brent) the London Councils' partnership has overseen a successful bid to DECC for £686,655 (the bid is attached in Appendix 3) which it is proposed will fund collective switching activities leading to an auction to be held in March 2013. The bid identifies the seventeen London boroughs.

3.6.2 The bid proposed that it will:

- enable participating boroughs to engage directly and clearly with their own residents through local community groups, trusted partners and councillors to ensure consumer protection
- promote collaborative working across borough boundaries and with partner agencies to target the most vulnerable, share expertise and maximise the use of resources

- generate a range of engagement activities including a communications toolkit and community outreach workers to promote a comprehensive message around energy empowerment and education
- encourage one-to-one support, where appropriate, to engage and help the most vulnerable residents
- deliver, by working with local partners, existing energy efficiency programmes and other services to maximise the potential for reducing consumers' energy bills
- include robust, independent evaluation of the benefits to consumers, particularly the vulnerable, and customer satisfaction; assessment of its success at reaching vulnerable consumers, considering both energy use and savings achieved
- include exploring the opportunity to minimise the switching fee from each customer to maximise their potential savings
- include exploring the option to increase the carbon-saving opportunity by considering whether and how a robust renewable-energy tariff could be one of the options offered

3.6.3 The money was awarded to the London Councils' joint bid at the end of December 2012. If this option is pursued, it is proposed that the authorities will sign a Memorandum of Understanding (MOU) setting out governance arrangements between the authorities and outlining how the energy switching organisation and consultancy services will be procured as well as how CES scheme will operate. Once an MOU is signed, work will begin to procure an experienced energy switching organisation and set up and promote the energy switching scheme in Brent and the sixteen other participating boroughs. A Joint London Boroughs' Collective Energy Switching Scheme Governance Framework will also be developed to clarify responsibilities and decision-making process.

3.6.4 It is anticipated that any capital costs involved in setting up the CES scheme will be covered by funding from DECC. There will be a requirement for staff time and some additional existing resources to support the funded scheme.

3.6.5 Consultancy advice will be paid for with the DECC funding to provide procurement and legal expertise. This will assist the group in selecting a switching provider and developing legal arrangements for participating local authorities with the prospective provider. However it will not override Brent's own legal advice.

3.6.6 London Councils in conjunction with participating local authorities is currently developing a proposal on how to choose a switching provider. It is proposed that a Council (not Brent) will lead on the procurement on behalf of the seventeen boroughs and its own contract standing orders and financial regulations will apply to the procurement. London Council will assist with the procuring of legal and procurement consultancy service to manage the process of appointing a switching provider. It is estimated that such contract would be classed as a Low Value contract under Brent's Contract Standing Orders. Similarly, London Councils will assist the lead council with the appointment of an energy switching provider. It is also estimated that this would be classed as a Low Value contract under Brent's Contract Standing Orders. Since there are only a small number of organisations

offering the service of energy switching provider, there will be a limited number to choose from. It is anticipated that two weeks will be given for the receipt of responses, with a panel of representatives from perhaps four participating boroughs undertaking the selection process. During the procurement of the CES scheme and after its establishment, all participating local authorities will have the option of withdrawing from the scheme.

- 3.6.7 It is expected that the London Councils' CES scheme option will also include the provision of a website and staff training by the energy switching organisation.
- 3.6.8 As indicated at paragraph 3.3.3, energy companies will generally pay the CES scheme a sum for each person that switches. It is anticipated that all participating local authorities will not receive any money for each switch that takes place but instead this sum will in whole or part be paid to the energy switching provider to help fund the scheme. It will however be explored whether an element of the sum paid by energy companies can go directly to the residents to further help further reduce their fuel poverty.

### **3.7 Joining a pre-existing Collective Energy Switching Scheme**

- 3.7.1 An alternative joint approach to the London Councils' proposed CES scheme is for Brent together with the other sixteen London boroughs to join an existing CES scheme. Officers from all the London boroughs and London Councils have been looking at a range of pre-existing schemes such as:

- Oldham Council's Collective Energy Switching Scheme

Residents are currently in the process of registering their interest for the energy switch. Included in Oldham's collective energy switch are UNISON; Rochdale Council, Norwich Council and the Labour Party. Other councils have also expressed an interest to join.

Following the registration period, a reverse auction will be held to find the best energy deal. The energy switching partner iChoosr will provide free support and guidance throughout the registration and switching process.

- Peterborough City Council's Collective Energy Switching Scheme

In September 2012 Peterborough announced it is leading a collective energy switching scheme collaborating with other local authorities across the country to negotiate cheaper energy prices.

There is to be a collective switch in February. This is to be opened up to all councils to participate in, so London Councils and participating boroughs would be able to join in with this or future collective energy switches.

### **3.8 Conclusions**

- 3.8.1 In addition to helping save residents money it is hoped that a CES scheme will help spread the energy efficiency message, encourage sustainability and community



resilience and improve take-up of free insulation offers. With the promotion of multiple schemes it is anticipated that a better reach can be attained and a more holistic package offered to residents. With these combined aspects the council will have a better chance of reducing fuel poverty in the borough.

- 3.8.2 The pros and cons of Brent undertaking either a CES scheme independently, or joining other councils in a partnership are set out in Appendix 2. As detailed in Appendix 2 sharing with other local authorities will not only reduce cost and time input but will also reduce the pressure for Brent to secure a minimum of 5,000 households (this is generally considered to be the minimum number required) interested in switching, which from the experience of other councils such as Cornwall and Tower Hamlets would be a struggle.
- 3.8.3 It is therefore recommended that Brent Council undertakes a collective energy switch in partnership with other local authorities.
- 3.8.4 Officers are currently in discussion with the sixteen other London boroughs and London Councils regarding the best joint approach. The intention is to procure independent legal and procurement advice to assist with these discussions and thereafter proceed with the favoured approach. Following receipt of initial legal and procurement advice, the Director of Strategy Partnerships and Improvement will make a decision as to which joint approach to pursue should members agree to the introduction of a CES scheme.

#### 4. Financial Implications

- 4.1 Although taking the scheme forward in partnership with other local authorities and receiving shared funding there will be some minimal costs required to run the collective energy switching scheme in Brent as follows:

Aspect of the Project	Cost (£)
Member of staff to manage the project – to be funded from existing resources	Staff time
Promotional design and materials	To be covered by DECC funding - but may require an additional £2,000-5,000 for more local promotions.
Legal and procurement expertise on the setup of the scheme	To be covered by DECC funding.
Provision of a phone line (non-automated) for residents to register offline (it is hoped this would be shared with other participating authorities, or would use an existing Brent customer services number)	To be covered by DECC funding

- 4.2 Residual costs of up to £5,000 may be required to target local promotions and this will be funded within the departmental budget.

## 5. Legal Implications

- 5.1 If Members approve the introduction of a CES scheme, the intention is to collaboratively procure legal and procurement consultancy advice in relation to the best joint approach to introduce a CES scheme. If the option of establishing a CES scheme in association with sixteen other London boroughs is preferred, the proposal is to collaboratively procure an organisation to assist residents with collective energy switching. The proposal is that these collaborative procurements are carried out using the Contracts Standing Orders and Financial Regulations of one of the other local authorities working with London Councils. Under Contract Standing Orders 85(c) such collaborative procurements need to be tendered in accordance with Brent Standing Orders and Financial Regulations, unless the Executive grants an exemption in accordance with Standing Order 84(a). A request for an exemption under Standing Order 84(a) can be approved by the Executive where there are good operational and / or financial reasons, and these reasons are set out in paragraph 3.6 above.
- 5.2 If the preferred option is to establishing a CES scheme in association with sixteen other London boroughs, the procurement of an organisation to assist residents with collective energy switching will be classed as a service concession contract. Service contracts are not formally regulated by the Public Contracts Regulations 2006 (EU Regulations) although the general EU Treaty principles (e.g. transparency, equal treatment and non-discrimination) are relevant to the procurement. Similarly the contract for legal and procurement consultancy advice will not be formally regulated by EU Regulations as the estimated value is below the relevant EU threshold, with only the EU Treaty principles being potentially relevant.
- 5.3 Officers are in the process of liaising with the other sixteen London boroughs to ensure there are effective inter-organisation arrangements in relation to the procurements and also in relation to the subsequent operation of the CES scheme if selected. Officers will need to ensure appropriate legal, financial and other relevant advice is obtained in establishing suitable governance arrangements, to include clear accountability and liability of organisations.
- 5.3 Should the preferred option be to join a pre-existing CES scheme, full information regarding the establishment and operation of the proposed scheme will need to be reviewed to confirm that it is legally permissible for the Council to join such scheme.
- 5.4 Collective switching must comply with current standards of practice to include:
- A customer must not be sold a product or service that he or she does not fully understand or that is inappropriate for their needs and circumstances
  - Material about a customer's product or service must not be changed without clearly explaining to him or her why
  - A customer must not be prevented from switching product or supplier without good reason
  - Products that are unnecessarily complex or confusing must not be offered

- It must be made easy for customers to make an action is to be taken promptly and courteously to put things right when a mistake is made
- Collective purchasing activities will also need to comply with wider consumer protection requirements, the provisions of the electricity and gas supply licences (where relevant) and the current standards of conduct governing suppliers' interactions with customers.

It will therefore be necessary that any contract with the energy switching organisation clearly sets out such requirements to ensure that the CES scheme is operated to the highest standards.

5.5 Since the Council will be collecting personal data it will additionally need to consider its obligations under the Data Protection Act 1998, particularly with regard to security of data. These matters will need to be addressed not only in the contract with the energy switching organisation but also in the MOU between London boroughs.

## **6. Diversity Implications**

6.1 The Council is required to comply with the duties set out in the Equality Act 2010 when exercising its functions. This includes when reaching decisions about embarking on a collective energy switching scheme for residents. The Equality Act 2010 Section 149 requires the Council to pay due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between those who have a protected characteristic and those who do not. An Equality Impact Assessment has been carried out and is set out in Appendix 1. The scheme will be promoted to all residents and made accessible via multiple methods to ensure that everyone is included and the option is made available to as many people as possible. With regards to socially and economically disadvantaged households, who are, according to the analysis, more likely to be paying high service bills and less likely to seek alternative cheaper means by switching, specific steps will be taken to ensure that these groups are encouraged to participate and to engage. These are set out below in paragraphs 6.3 and 6.4.

6.2 Up until November 2012 customers who were in debt to their energy supplier of more than £200 were prevented from switching suppliers. This would have excluded some families from participating in the switch. However Government has raised this threshold to £500 effective from 1 November 2012, allowing many more Brent households to be able to switch to a better tariff if they find a cheaper deal.

6.3 The following will be undertaken to ensure equal access to the scheme:

- Promotion via Brent Magazine, Brent website, posters (e.g. in libraries, One Stop Shops, etc.), BHP, Housing Associations, etc. to make awareness of the scheme as high and equally accessible as possible
- To ensure that residents can sign up via more traditional methods to supplement expressing interest online (e.g. paper forms will be made

available, and it is hoped that registration will also be able to take place via telephone.

- 6.4 There is a risk that such a scheme will appeal to more educated, wealthier households. Therefore it will be important to place a particular emphasis on promoting and explaining the scheme to less economically mobile households (e.g. through housing associations, etc.).

## **7. Staffing/Accommodation Implications (if appropriate)**

- 7.1 A part-time member of staff resource to manage this scheme is required. This employee would represent Brent and contribute towards the London Councils' project, oversee local promotions (with support from Design and Communications) and undertake project management for the Council. It is proposed that the resource is diverted from the Environmental Projects and Policy team to support this scheme.
- 7.2 There will be no accommodation implications.

### **Background Papers**

Equality Impact Assessment  
Collective Energy Switching Options – comparison  
DECC funding bid

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