

Collective Switching Framework

Purpose

This report sets out the options available to the Board once the current collective switching framework comes to a natural end in November 2015.

Summary

Collective switching of energy supplies is a process whereby consumers band together in a sufficiently large group to arrange a 'reverse auction' with energy suppliers.

In November 2013 the LGA launched a collective switching framework, which is due to come to a natural end in November 2015.

This report sets out the available options in relation to the collective switching framework and also provides detail of alternative methods used by some councils to support their residents to reduce their energy bills.

Recommendations

Members are recommended to:

1. consider the options set out in paragraphs 14-25 of the report regarding the LGA collective switching framework and determine a preferred way forward. The recommended option is to retender for a framework (Option B) to begin during 2016 (paragraph 26).
2. consider the alternative or supplementary methods of support and determine whether any options warrant further investigation (paragraph 27-34).

Action

Officers to pursue the activities in the light of member guidance.

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Background

Collective energy switching

1. Department for Energy and Climate Change (DECC) figures released in March 2015 show there has been a gradual decline in the number of households switching energy supplier. From a peak of almost 1.5 million electricity customers switching supplier in quarter three of 2008, the number fell to 900,000 for the same quarter in 2014. Similarly, over 1.1 million gas customers switched supplier in quarter 3 of 2008, whereas less than 500,000 switched in the same quarter in 2014.
2. With the reduction of transfers and dominance of the 'big six' energy companies that control over 95 per cent of the UK domestic energy market, it is increasingly likely that many customers are not getting the best available price for their energy requirements.
3. The purpose of a collective energy switching scheme is to allow consumers to group together to increase their buying power and to negotiate a better deal from gas and electricity suppliers.
4. Since 2014, energy suppliers have had to reduce the number of tariffs offered to consumers to four core tariffs. However, offers made through the process of collective switching can come outside of these tariffs, giving energy suppliers the ability to offer a bespoke, market leading rate to potential switchers through a 'reverse auction' process.
5. Collective energy switching can negotiate better energy deals for consumers on all tariffs, including consumers on pre-payment meters and can provide an 'offline' switching service for those without access to the internet.

The LGA collective switching framework

6. The LGA launched a collective switching framework in November 2013. The framework is open to all English local authorities as well as small and medium enterprises (SMEs). The framework offers councils and SMEs a free, OJEU compliant solution to procuring a switching partner on behalf of residents. There are a number of ways in which enabling councils to do this adds social value, including:
 - 6.1 supporting those in fuel poverty to get a low price for their energy as well as preventing more people slipping into fuel poverty
 - 6.2 supporting financial inclusion
 - 6.3 ensuring that the needs of vulnerable residents are met (for example, the elderly or those with disabilities).
7. The LGA worked in partnership with the North East Procurement Organisation (NEPO) to develop a framework that streamlined the procurement process for councils, as the supplier had already been assessed for their health and safety, equality and diversity, environment and sustainability, and quality.

8. NEPO are responsible for the ongoing framework and contract management and whilst the aim of the framework is to simplify the process by covering all procedural compliance matters, it is recognised that sometimes specific guidance, advice or assistance may be required and NEPO provide this support at the request of councils looking to call off the framework.
9. The framework procured the service of a single 'switching provider', iChoosr, and this organisation runs periodic 'reverse auctions' – the 'reverse' element referring to the fact that it is the buyer and not the seller who initiates the auction. The auctions procure energy at prices accessible to local authorities that have signed up to the framework and put themselves forward to participate in that particular auction. Energy suppliers have the advantage of being able to sell to a packaged number of buyers and can offer more favourable prices.
10. Over the three auctions held in 2014, over 21,000 households from 40 councils switched using the LGA collective switching framework. Results for the February 2015 auction were even stronger with over 15,000 households registering for this single auction and over 5500 of those switching through the LGA framework. All auctions run through the LGA collective switching framework have produced bespoke, market leading tariffs for most payment options. The latest auction, held on 19 May 2015 resulted in four bespoke market leading tariffs and one market leading tariff, meaning 91 per cent of registrants could be offered a more favourable tariff than any available through a price comparison website or by dealing directly with the supplier.

Policy/regulatory environment

11. In determining whether to renew the collective switching arrangement, it is important to confirm that the regulatory environment has not changed or is not due to change in a way that undermines the original model. Officials at DECC have advised that there are no policy options currently being considered that will impact on collective switching.
12. The Competition and Markets Authority is investigating the retail energy market and the findings of this review are due at the end of July 2015. We are advised that it is unlikely that the final report will contain anything that would adversely impact collective switching.

Market environment

13. Since the start of the existing framework, Ofgem have tightened the controls on energy tariffs such that energy suppliers are permitted to have four core tariffs. Collective switching tariffs are a permissible fifth tariff meaning that energy suppliers are able to offer more favourable rates through collective switching than those available via energy switching sites or direct from the supplier. The willingness of energy suppliers to offer such bespoke, market leading tariffs is evidenced by the results achieved through the existing LGA collective switching framework. For example the May 2015 auction resulted in bespoke, market leading tariffs for four out of the five energy payment types and achieved an average household saving of £238 per year.

Issues

Collective Switching

Officers have considered four options for the future of collective switching:

14. Option A – extend the existing collective switching framework: The existing framework can be extended for up to 24 months on its current terms.

15. Advantages:

- 15.1. the 59 councils already calling off the framework will be able to continue participating in collective switching without any disruption
- 15.2. this option would be zero cost for the LGA as no further tendering exercise would be necessary until 2017
- 15.3. critical mass is achieved by using one switching provider for all schemes
- 15.4. NEPO have experience running and managing the framework.

16. Issues to consider:

- 16.1 the terms of the contract with the sole supplier on the current framework are fixed; therefore it would not be possible to negotiate a better deal for councils under the existing framework. There is now more competition in the collective energy switching market than when the LGA collective switching framework was established. This includes a variety of models of collective switching that offer more or less of a service and offer different switching contributions. In the LGA model, the switching contribution is the money received by the council for every switch. By extending the current framework, the LGA would be unable to access any offers that may provide a better deal for councils.

17. Option B – develop a new collective switching framework: A new framework could include a single supplier or multiple suppliers who can be called off via a mini competition against pre-published award criteria or via direct award depending on the precision of the terms laid down. Officers would ensure the framework is compliant with the relevant legislation.

18. Advantages:

- 18.1 the area of collective switching and the number of suppliers offering this service has grown over the last two years. Developing a new framework would allow a re-evaluation of the services councils want from a collective switching provider as well as providing the opportunity to access the new offers and models of operation now available
- 18.2 a framework can have multiple suppliers on it, allowing councils calling off the framework to have a greater choice as they will be able to set the terms of a mini-competition to choose between switching providers
- 18.3 the framework can be set for a specific period with an option to extend for a flexible amount of time, which allows some flexibility to take account of market circumstances.

19. Issues to consider:

- 19.1 this option would require investment of approximately £20,000 from the LGA to procure a partner to set up and manage the framework. This can be met from within the Procurement Programme budget
- 19.2 setting up a framework would take approximately six months, however it would be possible to extend the existing framework for a short period to minimise the disruption between frameworks whilst also allowing sufficient time for soft market testing
- 19.3 there can be no substantive change to the specification or the terms and conditions once the framework is awarded and therefore these must remain the same for the entire duration of the framework, regardless of changes to the market
- 19.4 councils currently calling off the existing framework would not automatically transfer on to a new framework.

20. Option C – develop a dynamic purchasing system: A dynamic purchasing system (DPS) is like a framework agreement except that during its life other suppliers may, if they meet the published criteria, join the system at any time. Officers would ensure the DPS was compliant with relevant legislation.

21. Advantages:

- 21.1 the area of collective switching and the number of suppliers offering this service has grown over the last two years and developing a DPS would allow a re-evaluation of the services councils want from a collective switching provider. It would provide the opportunity to access the new offers and models of operation currently available
- 21.2 a DPS differs from a framework in that it allows suppliers to continue joining throughout the lifetime of the DPS meaning that councils would be able to continue to access new offers and models of operation
- 21.3 a DPS can have multiple suppliers on it allowing councils calling off it to have a greater choice as they would be able to set the terms of a mini-competition to choose between switching providers.

22. Issues to consider:

- 22.1 this option would require investment of approximately £20,000 from the LGA to procure a partner to set up the DPS and manage the suppliers on the DPS. This can be met from within the Procurement Programme budget
- 22.2 a DPS provides no mechanism to limit the number of suppliers joining it. If residents were spread too thinly across too many suppliers this could weaken the reverse auction results or at worst discourage energy suppliers from engaging with collective switching
- 22.3 setting up a DPS would take approximately six months, however it would be possible to extend the existing framework for a short period to minimise disruption between the framework and DPS whilst also allowing sufficient time for soft market testing
- 22.4 councils currently calling off the existing framework would not automatically transfer on to a new DPS.

23. **Option D – allow the collective switching framework to come to a natural end:** If no action is taken, the LGA collective switching framework will come to a natural end in November 2015.

24. Advantages:

24.1 there are no discernible advantages to this option given the minimal resource implications for the LGA of continuing to operate a framework, as set out in paragraph 25.

25. Issues to consider:

25.1 all benefits would cease upon expiration of the framework meaning that councils already calling off it would have to procure a switching provider should they wish to continue offering a collective switching service to their residents

25.2 the framework has proven popular with a steady stream of new councils calling off it, including councils moving over from alternative frameworks

25.3 the ongoing running of the framework is zero cost to the LGA and requires minimal officer time as NEPO contract manage the framework.

26. Any of these options are open to the Board, but in view of the benefits of collective switching, the fact that the collective switching market has matured since the framework was last tendered and the risks associated with the lack of control over the number of suppliers on a DPS, it is recommended that we retender for a framework (Option B) to begin during 2016. It is recommended that a framework lasting 24 months with the option to extend for up to a further 24 months provides a sufficient length of time to encourage councils to call off the framework whilst also providing the opportunity to review the market conditions with appropriate frequency.

Alternative methods of support

27. The LGA recognises that collective energy switching is just one of many ways in which councils can help their residents to save money on their energy bills. In addition to behaviour change campaigns, councils across England have adopted various methodologies. Members are asked to indicate which of the following options the LGA should consider supporting.

28. **Alternative collective purchasing models:** Councils in Norfolk are piloting the UK's first large-scale solar photovoltaics (PV) collective purchasing scheme. The scheme aims to reduce the price of solar PV panels and installation through a collective purchasing model. The initiative has already achieved success in 70 local authorities in the Netherlands and Belgium where a total of nine schemes led to the installation of over 15,000 systems; a total of 40 MW of power. The results of the first auction in the UK are not yet available but it is estimated that more than 1000 residents will purchase solar PV through the scheme.

29. Potential LGA input in this area could include developing a framework or dynamic purchasing system, to reduce the procurement burden on councils interested in participating in collective solar PV purchasing. If members wished to pursue this option, officers would investigate further and report back to the Board later in the year.

30. **Alternative methods of supporting residents to switch energy provider:** Sevenoaks District Council provides a platform for residents to compare energy providers and to switch if it would be beneficial for them to do so. The process takes consideration of the household circumstances to provide the most appropriate recommendation and the service can be accessed in a variety of ways: internet, free telephone service, face to face assistance at the council offices, or face to face help at outreach surgeries. The scheme has achieved a conversion rate of 18 per cent with an average household saving of £262. The only direct cost to the council is for promotional materials including leaflets, banners and easy-to-read information flyers, however these costs are partly recovered through the switching contribution received by the council which is £16 for a single fuel or £32 for dual fuel.
31. A number of councils have developed their own energy comparison websites, providing live up to date information allowing residents to identify the cheapest tariff available to them and using the council 'brand' to increase trust in the process for people who may otherwise not switch.
32. Potential LGA input in this area could include developing a training programme, information pack and marketing advice for officers to provide face to face support to vulnerable groups.
33. **Supplying energy to residents:** A number of local authorities have sought to become even more involved in the energy market by generating energy and supplying it to residents. There are a variety of technologies and operating models including waste to energy facilities and district heating. Nottingham City Council will soon be launching 'Robin Hood Energy', a council owned energy company.
34. Such schemes are large and complex and the opportunity for LGA involvement is therefore modest in comparison to the overall resources required. The LGA is already supporting councils in this area by developing guidance for councils interested in energy generation. As part of a wider energy programme, the productivity team has commissioned a report that seeks to bring together information on the various opportunities for councils to generate renewable and low carbon energy as well as details of the financing options available to councils. The report is due for publication in July 2015.

Next steps

35. Officers will carry out soft market testing or prepare arrangements for the chosen option in relation to the collective switching framework.
36. Officers will prepare a report for the autumn on the alternative options Members want the LGA to consider supporting.

Financial Implications

37. There are different financial implications for the different options ranging from zero cost to approximately £20,000. These are set out above alongside further details of each option in paragraphs 14-25. Financial implications for the LGA supporting alternative methods of support to collective switching are currently uncoded but would need to be met from within the Productivity Programme budget.