

Report of: Executive Member for Environment and Transport

Executive	Date: 10 March 2016	Ward(s): All
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SUBJECT: Islington Energy**1. Synopsis**

- 1.1 This report proposes the setting up of a partnership between the Council and OVO Energy to promote gas and electricity sales to residents through Islington branded energy tariffs. The proposed brand (possibly 'Islington Energy') will be developed to identify the service with the Council and be promoted and marketed through all available channels.

2. Recommendation

- 2.1 To agree to enter into a strategic partnership agreement with OVO Energy for the marketing of gas and electricity to local residents.

3. Background

- 3.1 The UK has experienced significant year-on-year price rises for domestic energy over the past decade. Since 2006, average year on year rises have reached 15% with a compound rise of 71% in average dual fuel bills, rising from £760 in 2006 to £1,320 in 2013.

At the same time, energy reduction programmes have reduced domestic energy consumption by 9.1% for electricity and 6.8% for gas. Retail customers are therefore paying more for less.

- 3.2 In October 2014 the Environment and Regeneration Scrutiny Committee commenced a scrutiny which has now reported with recommendations that include:
- **That consideration be given to working with an intermediary to provide a scheme for Islington residents with energy tariffs set by the Council.**
 - **That work take place to consider how the number of smart meters could be increased.**
- 3.3 In June 2015, the Office of Gas and Electricity Markets (OFGEM) produced a report titled 'Treatment of white label providers in the domestic retail market' (www.ofgem.gov.uk/publications-and-updates/treatment-white-label-providers-domestic-retail-market) which changed the regulations around

branded energy companies. This opened up the market and made it easier to use brands such as 'Islington Council' to promote the sales of gas and electricity.

3.4 Nationally in 2015, around 3.5 million energy accounts holders have changed supplier with 113,780 electricity accounts switching to small suppliers in Nov 2015 alone.

3.5 On average, those that change energy supplier have their bills reduced by £200 per year with 20% saving over £300.

It is also considered likely that Council branded tariffs would be particularly attractive to elderly and more vulnerable residents, as well as those who use pre-payment meters. The latter are known to be less likely to change energy company and so typically pay more than average. It is also likely that some of the cost reduction will go to reduce under heating in vulnerable properties, but the remainder will be available to residents to improve their own economic wellbeing.

3.6 Islington has above average pre-payment meter usage at 21% across the borough. Research shows that on housing estates the rate of pre-payment meter usage can be in the region of 40-50%. These pre-payment meter users are likely to see significant savings by changing to Islington tariffs.

3.7 The proposed partnership fits well with our fuel poverty agenda. Residents who may otherwise be reluctant to change energy supplier will be offered the chance to make savings on their energy bills and reduce the levels of fuel poverty that they face.

3.8 The Council has examined the market and approached several suppliers and based its conclusions on their responses. After much consideration, the Council has decided to work with OVO Energy.

3.9 OVO are unique amongst the non 'big six' branded energy providers in that;

- They offer the Warm Home Discount
- Have won awards for their customer service
- Have experience of delivering this service with other local government organisations
- Can start quickly and allow us to expand in the future
- Have a priority service register for vulnerable residents
- Can provide the Council with ECO funding towards insulation and other programmes

3.10 OVO match or exceed the big six and other branded energy providers in that;

- They have a good offer for Prepayment Meter (PPM) customers
- Install smart meters for PPM customers for free
- Have online and offline top-up methods for PPM users
- UK based customer service team
- Provide branded websites and bills etc.
- Provide dedicated branded phone numbers

Partnership Details

3.11 The proposed minimum target for the scheme is 3% of Islington households switching to the Islington brand in the first year. This translates to approximately 3,000 households in year one.

If the above target is met, the economic benefit to the borough (primarily to elderly and more vulnerable residents) would be in the region of £600k.

Targets for subsequent years will be set on a rolling basis based on the previous performance.

3.12 OVO have committed to pay for the set-up costs of the scheme, as well as all the marketing costs and any operational costs incurred by the Council.

3.13 The partnership will last for 3 years with the opportunity for a 2 year extension.

3.14 As part of the partnership, the Council will:

- Appoint a day-to-day manager of the scheme, responsible for co-ordinating and delivering

marketing activities and stakeholder engagement.

- Designate a senior level staff member for overseeing the scheme who has the authority to approve marketing materials etc
- Designate a high profile champion within the council (i.e. Chief Executive / Leader / portfolio holder) for activities such as adding quotes to press releases, signing 'direct mail' letters that are sent to residents, and being interviewed
- Release a minimum of 6 press releases during each year of the scheme
- Promote the brand prominently through existing Council assets, including the website, social media etc.

3.15 As part of the partnership, OVO will:

- Invest in and deliver 'white labelled' tariffs to an agreed launch date
- Provide energy to the customers, including provision of all customer-facing services, to the same high standards provided to OVO's direct customers
- Invest in and deliver marketing of the tariffs to achieve the agreed targets
- Report on sales and customer services levels to the Council
- Have transparent pricing and will notify customers in good time of any price changes, highlighting when there is a cheaper or better value tariff that the customer can switch to

3.16 The Council will be ethical in its marketing and activity used to generate interest and promote switching which will include:

- Direct mail campaigns, with letters signed by the scheme's high profile champion
- Telesales
- A resident engagement 'face to face energy saving' scheme
- Promotion in Council publications (e.g. IslingtonLife, Your Home etc.)
- Local press adverts and articles
- Council web, social and email promotion (e.g www.islington.gov.uk @IslingtonBC, Facebook, Residents E-bulletin)
- Leisure Centre screen advertising and electronic estate noticeboards
- Large format posters in the bus shelters and the Council's Customer Centre
- Comparison sites
- Advertising on rent statements and communications from Councillors
- Frontline staff briefings
- Intranet advertising

3.17 The name and branding of the energy tariff will be key to the success and any future expansion of the scheme. Therefore the name will be closely linked to Islington, but also be able in principle to be used outside of the borough at a future date. This will be similar to the partnership between OVO and Cheshire East called Fairer Power (www.fairerpower.co.uk).

The Council's marketing team are working with OVO on suitable suggestions.

3.18 The Council will own all intellectual property rights on the partnership name and its subsequent use.

Risks

3.19 Reputation is a key risk. Energy prices go up and go down, and it cannot be certain that the Islington branded offer will always remain one of the most competitive. There will also be residents who get into debt, and that debt will need to be recovered.

3.20 OVO have won many awards, including USwitch Supplier of the Year for 2014 and 2015 and coming 1st in 11 out of the 12 categories. (www.uswitch.com/gas-electricity/campaigns/uswitch-energy-awards-2015/)

However, OVO have expanded rapidly and the Council will monitor the situation to ensure that OVO continue to give excellent customer satisfaction to residents and customers of the Islington brand.

- 3.21 As with any company, OVO may at some point cease trading for any variety of reasons. In such circumstances, OFGEM has rules to make sure that households are transferred to a different supplier.

4 Implications

Financial implications:

- 4.1 The proposed partnership with OVO will operate at zero cost to the Council, with OVO funding initial set-up costs and all marketing activity. Any operational costs incurred by the Council will also be paid for by OVO.

Legal implications:

- 4.3 The proposed relationship between the Council and OVO is in the nature of a 'sale of service arrangement' with the Council being paid a fee by OVO for each household that switches to 'Islington Energy'. This relationship will be established in a service contract between the Council and OVO.
- 4.4 It is expected that the revenue derived by the Council under the service agreement will be no more than the costs incurred in providing the service to OVO, with the benefit being realised by residents taking advantage of the energy tariff. Therefore the Council may rely on the general power of competence to enter into partnership with OVO as proposed in the report (Localism Act 2011, s1(1) and (2)). The Council may charge for the services that it provides OVO under the provisions set out in s1(4)(b) of the Localism Act 2011.
- 4.5 White label energy providers are regulated by OFGEM. Such regulations apply to OVO as the licence holder. They have no implications for the Council.
- 4.6 The Council's Financial Regulation 5.13 sets out the following requirements:
The Corporate Director or Assistant Chief Executive of any department or division that is entering into contractual arrangements to work for a third party or external body shall be responsible for ensuring that:
- appropriate insurance arrangements are made
 - all potential risks are identified and actions to mitigate these risks put in place
 - wherever possible, payment is received in advance of the delivery of the service
 - such contracts do not impact adversely upon the services provided by the Council
 - proper contractual documentation is maintained
 - proper accounting and reporting arrangements exist.

- 4.7 Potential State aid:

The agreement with OVO will not provide for any direct payment to OVO by the Council nor a profit guarantee, both of which would be likely to give rise to State aid.

However, under the terms of the proposed agreement, the Council will perform some marketing and promotion which may incur a minimal cost to the council and a potential cost saving to OVO. These activities are expected to be of only nominal value and the Council should be able to rely on the €200,000 "de minimis" threshold below which a private enterprise can receive aid aggregated from all public bodies over a three-year period without triggering State aid.

The Council will require OVO to undertake to monitor the State aid received by it from all sources to ensure that the de minimis threshold is not met during the first three years of the partnership.

Public Contracts Regulations 2015:

The proposed arrangements with OVO do not fall within the scope of the Public Contracts Regulations 2015 as the Council will not be receiving or purchasing services or supplies from OVO and therefore a competitive procurement exercise is not required to be undertaken.

Environmental implications

- 4.8 There are no foreseen major environmental implications for this service. Because of OVO's use of renewables as part of the mix, the proposals in this report will likely have positive environmental impacts in increasing the amount of low carbon energy used and reducing the amount of fossil fuels, thereby reducing the carbon footprint of the borough. The minor impacts are likely to be from producing marketing materials, office usage, and include energy and resource use, and waste generation. The Council has measures in place to ensure that energy usage is minimised and that waste is reduced and recycled as much as practically possible.

Residents Impact Assessment

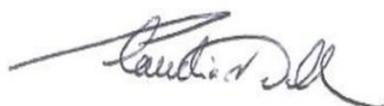
- 4.9 The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The Council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The Council must have due regard to the need to tackle prejudice and promote understanding.

A RIA has been undertaken and concluded that outcomes will be positive for all residents, and especially so for more vulnerable groups. There are also no additional equalities or safeguarding implications that are not in place already given the current work that the Energy Advice Team undertake.

5. Reasons for the recommendation / decision:

- 5.1 The service outlined in this report is a Council priority insofar as lowering residents' energy bills will help them cope with the cost of living and allow for warmer homes helping to reduce the impacts of cold damp homes and improving health and quality of life.

Signed by:



Date: 2 March 2016

Executive Member for Environment and Transport

Appendices - none

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