

Finance and Resources Committee

10.00 am, Thursday, 27 August 2015

Our Power: Tackling Fuel Poverty for Council Tenants

Item number	7.21
Report number	
Wards	All

Executive summary

The Health, Social Care and Housing Committee on 16 June 2015 considered a report by the Acting Director of Services for Communities seeking approval for the Council, as a social housing provider, to join Our Power and enter into agreement with the company as the preferred supplier for its empty homes.

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Terms of Referral

Our Power: Tackling Fuel Poverty for Council Tenants

Terms of referral

- 1.1 The Health, Social Care and Housing Committee on 16 June 2015 considered a report by the Acting Director of Services for Communities seeking approval for the Council, as a social housing provider, to join Our Power and enter into agreement with the company as the preferred supplier for its empty homes.
- 1.2 Details were provided of Our Power which was a new, non-profit distributing Community Benefit Society, set up by a consortium of Scottish Housing Associations, led by Edinburgh based housing association Castle Rock Edinvar.
- 1.3 Our Power would be a nationwide supplier of affordable and renewable energy with a main objective to tackle fuel poverty through the supply of affordable and renewable energy to social housing tenants. Social housing tenants would be the core customers of the company.
- 1.4 The Health Social Care and Housing Committee agreed.
 - 1.4.1 To approve the proposal for the Council, as a social housing provider, to join Our Power and enter into agreement with the company as the preferred supplier for its empty homes.
 - 1.4.2 To note the relationship with Energy for Edinburgh, the Council-led ESCo, and opportunities for collaborative working.
 - 1.4.3 To refer this report to Finance and Resources Committee for ratification.

For Decision/Action

- 2.1 To approve the proposal for the Council, as a social housing provider, to join Our Power and enter into agreement with the company as the preferred supplier for its empty homes.

Background reading / external references

Health, Social Care and Housing Committee 16 June 2015.

Carol Campbell

Head of Legal, Risk and Compliance

Contact: Blair Ritchie, Assistant Committee Clerk

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	See attached report

Health, Social Care and Housing Committee

10am, Tuesday, 16 June 2015

Our Power: Tackling Fuel Poverty for Council Tenants

Item number	7.14
Report number	
Executive/routine	Executive
Wards	All

Executive summary

Our Power is a new, non-profit distributing Community Benefit Society, set up by a consortium of Scottish Housing Associations, led by Edinburgh based housing association Castle Rock Edinvar. The Society will operate a licensed energy supply company.

Our Power will be a nationwide supplier of affordable and renewable energy. Its main objective is to tackle fuel poverty through the supply of affordable and renewable energy to social housing tenants. Social housing tenants will be the core customers of the company.

It is proposed that the Council joins Our Power to benefit Council tenants by providing access to affordable energy and exemplary customer service.

Links

Coalition pledges	P28, P50
Council outcomes	CO8, CO10, CO18, CO26
Single Outcome Agreement	SO1 SO2

Our Power: Tackling Fuel Poverty for Council Tenants

Recommendations

It is recommended that Health, Social Care and Housing Committee:

- 1.1 Approves the proposal for the Council, as a social housing provider, to join Our Power and enter into agreement with the company as the preferred supplier for its empty homes.
- 1.2 Notes the relationship with Energy for Edinburgh, the Council-led ESCo, and opportunities for collaborative working.
- 1.3 Refers this report to Finance and Resources Committee for ratification.

Background

- 2.1 Our Power is a new Community Benefit Society (CBS) set up to address the pressure in the current energy sector to tackle fuel poverty for social housing tenants. The housing associations developing Our Power found that significant investment to their homes was not addressing fuel poverty for their tenants, due to low incomes and high energy costs. Our Power is a non-profit distributing membership organisation. It is asset-locked to ensure that the public benefit or community benefit of any public funding is maintained, and cannot be of private benefit.
- 2.2 Under this structure, it will set up a licensed energy supply company, aiming to provide long-term affordable energy prices for social housing tenants. The Our Power Business Plan has been completed by a consortium of Scottish housing associations led by Castle Rock Edinvar. The company is currently in the final stages of raising the necessary working capital, to enter the market.
- 2.3 Our Power approached the Council in 2013, as part of discussions on co-operative and collaborative working. This led to a Scottish Government Warm Homes funded feasibility and case study on how a local authority could become involved, and how Council tenants could benefit from the Council's membership of the supply company. The study found that there were opportunities for collaboration to deliver the Council's ambitions, goals and targets in reducing fuel poverty and carbon emissions, through supporting the licensed energy supply company and the wider goals of developing a renewable generation pipeline and engagement in district heating.
- 2.4 Energy for Edinburgh is the Council-led Energy Services Company which is under development. A report on this was considered by the City of Edinburgh Council on 25 September 2014. It will be set up as an arms length company to

deliver energy projects. The first projects will focus on energy retrofit of non-domestic buildings, renewable energy generation and district heating. The Council ESCo does not plan, at this stage, to become an energy supply company. Its purpose is to drive the implementation of the Sustainable Energy Action Plan (SEAP), enabling and coordinating, with a strategic remit across the energy agenda. Housing and Regeneration projects are included in the SEAP and the service has been included in consultation on this plan.

- 2.5 The City Housing Strategy 2012-17 Annual Review and the Homes and Energy Strategy were considered at Health, Social Care and Housing Committee at its meeting of 17 June 2014. Alleviating fuel poverty is a key a priority of the City Housing Strategy. Consultation with Council tenants has established that reducing energy costs is one of the four investment priorities for the Housing Revenue Account (HRA), along with building new affordable homes, providing a quality repairs service and investing in neighbourhoods.

Main report

- 3.1 The Homes and Energy Strategy approved by Health, Social Care and Housing Committee, in June 2014, identified four priorities:
- building new energy efficient homes;
 - improving existing homes;
 - reducing the cost of energy and; and
 - providing and promoting education and advice for Edinburgh residents to help them save money and energy.
- 3.2 Tenant feedback through the Tenants' Survey 2013 and the 'Your Rent Your Priorities' consultation on the Council's future rent strategy showed that tenants are concerned about energy prices and the negative effect that price increases have on their incomes. The Tenants' Survey showed that 37% of tenants said they have had trouble affording to heat their homes, and 52% said they knew little or nothing about using energy efficiently.
- 3.3 Membership of Our Power gives the Council an opportunity to have an impact on the cost of energy for tenants. Our Power aims to provide competitive tariffs, replace prepayment meters with pay as you go services on standard tariffs, and provide smart meters to help tenants use energy efficiently. Membership of the Community Benefit Society offers the Council the opportunity to work with Our Power as a partner, and in collaboration with around 40 housing associations and other local authority landlords in Scotland.
- 3.4 Social housing tenants are the intended core customers for Our Power. The company expects to be able to offer its customers an estimated £100 reduction in the price of energy per customer, per year, with additional energy efficiency gains as a result of having a smart meter. It also anticipates that this will improve the quality of life for the majority of these customers, through being able to top-

up their energy account from home, as well as having an improved customer experience. Our Power also aims to offer eligible tenants the Warm Homes Discount, which is currently £140.

Membership

- 3.5 Our Power will be a membership organisation made up of housing associations and local authority housing services. Membership of Our Power would require the Council to transfer the energy supply for empty homes to Our Power. It is estimated that this would mean between 1300 and 1600 new accounts each year. As a member, the Council would also be expected to raise awareness of Our Power as an energy supplier to existing tenants.
- 3.6 Around 40 social landlords across Scotland have expressed an interest in joining Our Power, with a combined housing stock of around 220,000. The company will follow a controlled market entry plan, aiming to provide energy to 150,000 to 200,000 tenants over the next five years.
- 3.7 Our Power will also develop a number of other businesses, including metering services, district heating and energy advice. Membership is open to social housing providers across Scotland and the north of England. The cost of joining is £10,000.
- 3.8 Membership of Our Power will reinforce the Council's strategy to raise awareness of energy efficiency with tenants, address the cost of energy in tenants' homes and develop longer term investment plans to improve energy efficiency through upgraded heating systems and options for district heating.
- 3.9 Membership of Our Power would replace the current default energy supplier arrangement with Scottish Southern Electric (SSE), where empty homes are transferred to SSE. The benefit of this contract is primarily to ensure tenants have an energy supplier at the start of their tenancy, although tenants can change to any supplier once they move in. Three months notice is required to end the SSE contract.
- 3.10 The arrangement proposed is beneficial for tenants, as it links the roll-out of smart meters and competitive tariffs for prepayment customers, with enhanced energy advice and support from Our Power. With a default energy supplier offering a competitive deal from the beginning of their tenancy, tenants are at less risk of falling into arrears with their utility company.
- 3.11 Our Power's objective is to provide a competitive tariff to tenants, in particular those on prepayment meters. Prices for gas and electricity are not yet confirmed, as the company has not yet started trading. If the prices charged by Our Power to tenants were not competitive once the company launches, the Council may seek an alternative default energy supplier.
- 3.12 Our Power aims to begin controlled market entry throughout July and August 2015, as it is required by Ofgem to sign up the first 1,000 customers slowly to

ensure that its systems and processes work correctly. The Council would join once it has ended its contract with its current supplier.

Longer term relationship

- 3.13 Our Power has had advanced discussions with potential social impact investors to allow the company to enter into energy purchasing agreements with wholesalers.
- 3.14 There is a longer term opportunity for the Council and Our Power to form a partnership to deliver renewable energy and district heating schemes. As reported to Corporate Policy and Strategy Committee in January 2014, a study was funded by the Warm Homes Fund to scope:
- How Our Power could supply energy to new and existing tenants.
 - The opportunity for Our Power to deliver district heating schemes.
 - Energy generation opportunities from the housing estate, including renewable energy, and low carbon distribution such as district heating.
- 3.15 There is an opportunity for the Council to invest into Our Power on a commercial basis, in the form of debt funding. This would give the Council a return on investment and meet a range of social objectives on fuel poverty and employment. It would support the priorities of the Council-led ESCo. Becoming a member, and investing in Our Power, provides an opportunity for the Council to participate in shaping the company as it develops.

Measures of success

- 4.1 Measures of success will include a significant reduction in fuel poverty, reduced energy bills for tenants by around £100 per year, and satisfaction with Our Power as an energy supplier.

Financial impact

- 5.1 The cost of joining Our Power to benefit tenants directly through supplying affordable energy is £1 per home, capped at £10,000. Therefore with 20,000 homes the Council will pay £10,000. This can be contained within current HRA budgets.
- 5.2 As a member, an opportunity would exist to invest in Our Power in future. Up to £1.5 million could be invested from the HRA. This would generate a good rate of annual return to the HRA over five years, as income to the HRA to benefit tenants. A range of investment options are available to minimise risk to the Council. A social return is expected on the investment, potentially to include jobs based in Edinburgh, and savings on energy bills allowing tenants to spend more of their income in the local economy. The current assumption is that Our Power will secure support from a range of social investors. £1.5 million is indicative of a share between a group of four or five investors. Each £1 million in additional investment is expected to allow Our Power to provide energy to an

additional 13,000 customers. Any decisions on an investment proposal will be subject to a business case being agreed by the relevant Council committee.

Risk, policy, compliance and governance impact

- 6.1 As a Community Benefit Society, Our Power is governed by a board of directors selected from its members, who may be housing association landlords, local authority landlords, energy co-operatives and community controlled organisations. Housing association members must always be in the majority on this board. Membership requires the purchase of at least one share in the Society; shares have a nominal value of £1. Members agree to participate in meetings and take an active role in the development of the business. As a member, there could be a reputational risk in the event of insolvency, but the liability of a member is limited to the amount of their shareholding.
- 6.2 As a member of Our Power, the Council would be required to allow Our Power to provide an energy supply to empty homes prior to them being let to new tenants. As they can now, Council tenants would have the ability to move to another energy provider if they were unhappy with the cost or quality of the service. The Council currently has a default energy supplier arrangement with SSE. If the Council agrees to become a member of Our Power, it would terminate the existing contract with the current supplier. The current contract allows for a three month notice to terminate the contract.
- 6.3 The membership requirement to provide Our Power with the opportunity to provide the energy supply to Council empty homes means that there is a potential risk of challenge from other private sector energy supply companies which have not had the opportunity to compete for this business. If a challenge was made a potential outcome would be that the Council may be required to end its membership of Our Power and tender this service.
- 6.4 There is potential in the future to develop a collaborative partnership between Energy for Edinburgh and Our Power and share expertise in the development of energy supply and generation. This could include the delivery of renewable energy and low carbon distribution projects. A detailed report on Energy for Edinburgh was considered by the City of Edinburgh Council on 25 September 2014.

Equalities impact

- 7.1 Council tenants would retain the option to switch their supplier. The Tenants' Survey (2013) shows few tenants switch supplier. If the default energy supplier is aligned with social housing providers to offer a good standard tariff to tenants, in particular those with prepayment meters, this would have a positive impact on equalities. It is estimated that just over 40% of tenants have prepayment meters.

Sustainability impact

- 8.1 Our Power aims to buy energy from a minimum of 30% renewable sources (70% from wholesale energy markets), investing in renewable energy generation such as wind farms, increasing this over time. Membership of Our Power contributes to meeting Council pledges on greenhouse gases and addressing poverty and inequality.

Consultation and engagement

- 9.1 The Tenants' Survey 2013 results showed that large numbers of tenants were concerned about their energy bills, had found it more difficult to pay their bills over the previous year, and did not know where to seek energy advice. The Edinburgh Tenants Federation (ETF) indicated support for the proposal contained in this report at the bi-monthly meeting with Housing Managers on 18 March 2015.
- 9.2 Our Power provided a briefing to the Convenors and Vice Convenors of the Health, Social Care and Housing and Transport and Environment Committees in September 2014.
- 9.3 The 'Your Rent, Your Priorities' consultation identified improving the energy efficiency of homes as a priority, and the tenants who responded to this consultation also felt that energy prices should be reduced to help address fuel poverty. Use of HRA funding to benefit tenants was identified as an important priority.

Background reading/external references

[21 January 2014, Corporate Policy and Strategy Committee, Energy Services Companies](#)

[5 June 2014, Finance & Resources Committee, Council Energy Services Company](#)

[5 June 2014, Finance & Resources Committee, Procurement of Default Energy Supplier Arrangement](#)

[25 September 2014, City of Edinburgh Council, Energy for Edinburgh](#)

[3 February 2015, Finance and Resources Committee, Housing Revenue Account Budget 2015/16](#)

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Links

Coalition pledges	<p>P28 - Further strengthen our links with the business community by developing and implementing strategies to promote and protect the economic well being of the city</p> <p>P50 - Meet greenhouse gas targets, including the national target of 42% by 2020</p>
Council outcomes	<p>CO8 Edinburgh's economy creates and sustains job opportunities</p> <p>CO10 - Improved health and reduced inequalities</p> <p>CO18 - Green - We reduce the local environmental impact of our consumption and production</p> <p>CO26 - The Council engages with stakeholders and works in partnership to improve services and deliver on agreed objectives</p>
Single Outcome Agreement	<p>SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all</p> <p>SO2 - Edinburgh's citizens experience improved health and wellbeing, with reduced inequalities in health</p>
Appendices	None