

# CHESHIRE EAST COUNCIL

## Cabinet

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<b>Date of Meeting:</b>	14 <sup>th</sup> October 2014
<b>Report of:</b>	Chief Operating Officer and Director for Economic Growth and Prosperity
<b>Subject/Title:</b>	Cheshire East Energy Supply Offer
<b>Portfolio Holder:</b>	Councillor Peter Raynes, Finance/Councillor Don Stockton, Housing and Jobs

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### 1.0 Report Summary

- 1.1 Cheshire East Council is developing an ambitious energy agenda and aims to be at the vanguard of local authority involvement in this field. A number of key aims and objectives that put local residents and businesses first have been identified.
- 1.2 The alleviation of fuel poverty amongst our residents is a key priority for the Council and it has been investigating a range of potential initiatives to address this. A number of local authorities are looking at mechanisms for reducing fuel poverty in their areas but Cheshire East Council has developed a real opportunity to achieve this and also create an energy offer that could benefit all residents in Cheshire East.
- 1.3 This solution, one of the first of its kind in the UK, will see the Council take a lead role in a strategic partnership with registered housing providers to enter into a formal contractual arrangement with an energy supplier. The Council's partnership with the energy supply company, (preferred bidder), will enable competitive energy pricing for all residents but with the added benefit of supporting those in fuel poverty, who are currently unfairly penalised by their circumstances.
- 1.4 In order to identify and appoint an experienced industry partner, the Council has undertaken a fully compliant OJEU competitive dialogue procurement process in collaboration with the registered providers.

### 2.0 Recommendations

The following recommendations are submitted for approval:

- i. To approve the selection of Bidder B as the preferred industry partner based on the Summary Bid Evaluation Report set out in Appendix 1 following a fully compliant OJEU competitive dialogue process.

- ii. To authorise Officers (in consultation with the Registered Providers) to undertake clarification and fine tuning of the contractual arrangements with the preferred bidder identified in the report at Appendix 1.
- iii. To delegate the authority to The Chief Operating Officer as Section 151 Officer to negotiate and enter into a Strategic Alliance Agreement with the Registered Providers whereby the Council will be appointed the Lead Partner.
- iv. To delegate the decision to award the contract to the Preferred Bidder to The Chief Operating Officer as Section 151 Officer in consultation with the relevant Portfolio Holder and The Head of Legal Services and Monitoring Officer.
- v. To authorise the negotiation of an agreement with the Preferred Bidder in relation to the use of the “Cheshire East” brand and logo for the purposes of promoting the energy supply offer and to authorise the Head of Legal Services and Monitoring Officer to complete the relevant agreement.
- vi. The Chief Operating Officer as Section 151 Officer and The Head of Legal Services and Monitoring Officer be authorised to take any necessary and consequential action arising from the above recommendations as set out in (i) to (v) above, only to be exercised in consultation with the Leader of the Council and the Finance Portfolio Holder.

### **3.0 Reasons for Recommendations**

- 3.1 The project relates directly to the Council’s commitment to putting Residents’ First and the key priority to *develop resilient communities*. It is also prioritised in the Council’s Three Year Plan and corporate performance framework:
  - Outcome 1 – *Local communities are strong and supportive*
  - Outcome 4.5.2 – *We will help to reduce the number of households in fuel poverty.*
- 3.2 Many households experience pressure in paying their energy bills and these pressures tend to be most acute for households on lower incomes. Providing lower cost energy will assist in ensuring homes are adequately heated, in line with the Councils goal of helping people live well and for longer. A reduction in energy bills will also increase disposable income contributing to our goal of creating a stronger and more resilient community.

## **4.0 Wards Affected**

- 4.1 All wards

## **5.0 Local Ward Members**

- 5.1 All wards

## **6.0 Policy Implications**

- 6.1 The proposals put forward in this report are considered to be aligned to the Government's stated intention to tackle fuel poverty as a priority, as set out in 2013 Fuel Poverty: Framework for Future Action.
- 6.2 The proposals put forward are also aligned and complementary to the following aspects of the Council's Three Year Plan:
  - Outcome 1 – Local communities are strong and supportive. The project will aim to reduce fuel poverty amongst vulnerable residents and subsequently encourage their independence.
  - Priority 7.6 – Develop resilient communities. By addressing fuel poverty amongst residents, the project will help to improve the resilience of communities in the context of rising energy prices and insecurity of energy supply.
- 6.3 In addition to this, the reduction of fuel poverty is also an outcome measure within the corporate performance framework:
  - Outcome 4.5.2 – We will help to reduce the number of local households in fuel poverty

The project also supports the Council's 'Ambition for All' Sustainable Communities Strategy (2010-2025) by promoting a step change in local supply of energy and working closer and in partnership with registered social landlords in the Borough.

## **7.0 Implications for Rural Communities**

- 7.1 Many rural areas are not connected to the gas grid, making it more expensive to heat properties as there is a reliance on oil, LPG, and electricity. According to the Department for Energy and Climate Change, proportionately more households in rural areas are in fuel poverty than the national average, and the area to the west of Crewe has one of the highest proportions of households not connected to the gas grid in the North West.
- 7.2 For those rural households in fuel poverty, and particularly for those who rely on electricity for heating, the potential reduced daytime and

night-time tariffs which could be achieved through this solution can have a positive impact.

## **8.0 Financial Implications**

- 8.1 The commercial solutions provided during the competitive dialogue process have been comprehensively evaluated to ensure that the financial merits of each bidder's submissions have been identified, with the most economically advantageous bid scored accordingly.
- 8.2 The successful bidder is a company that we are satisfied can both deliver the outcomes identified in this report and also be financially stable in future years. Financial stability has been assessed by a review of the company's balance sheet to ensure confidence that the company can pay debts and manage cash appropriately.

## **9.0 Legal Implications**

- 9.1 The selection of the preferred bidder as a partner to deliver lower cost energy to the residents of Cheshire East followed a legally compliant competitive dialogue process.
- 9.2 External legal advice has been provided by Addleshaw Goddard LLP throughout the process.
- 9.3 The Council will enter into a strategic alliance agreement with the Registered Providers for the purposes of engaging with the preferred bidder to include, amongst other things, the following matters:
- Sharing of risk;
  - Sharing of project costs as appropriate (including the cost of appointing a contracts manager and external advisors);
  - Setting up a Strategic Management Board.
- 9.4 As Cheshire East Council will be the nominated lead party under the Strategic Alliance Agreement, it will enter into the contractual arrangements with the preferred bidder on behalf of the Procuring Partners.
- 9.5 Cheshire East Council will enter into a marketing/branding agreement directly with the energy supply company to allow the energy supply company to use the branding and logo of Cheshire East Council on marketing materials.

## **10.0 Risk Management**

- 10.1 An overview of risk has been assessed at each stage of the process by the Project Team.
- 10.2 The main risks to the Council and procuring partners are:

- Political and reputational risk if the established arrangement fails to deliver its objectives.
- Potential exposure to commercial risk
- A lack of expertise and experience which could increase the potential exposure to commercial risk.

## **11.0 Background and Options**

11.1 The Council is committed to Putting Local Residents first and recognises that any help in lowering household energy costs will help everyone. The meaning of the term 'fuel poverty' is given in the Warm Homes and Energy Conservation Act 2000: *"A person is to be regarded as living in fuel poverty if they are a member of a household living on a lower income in a home which cannot be kept warm at reasonable cost."*

11.2 The measure for fuel poverty for individual households is where:

- Their income is below the poverty line (taking into account energy costs), and
- Their energy costs are higher than is typical for their household type.

11.3 Fuel poverty is of an increasing concern for vulnerable residents against a backdrop of rising energy prices, welfare benefit reforms and decreasing energy efficiency activity. Many low income households are having to make a choice between heating the home at a price they cannot afford and cutting back on other essential expenditure, or reducing their use of gas and electricity, risking their health and wellbeing as a result.

11.4 Following a period of soft market testing and engagement, the Council and its partners agreed that the creation of an energy supply scheme was feasible and could be set up to:

- Deliver affordable energy supplies to all residents within the Borough, in particular vulnerable and RP residents.
- Minimise public sector financial commitment to the project
- Maximise private sector funding and expertise
- To allocate risk fairly and appropriately between the public and private sector partners with those parties most fit to manage that risk.

11.5 Due to the complex and evolving nature of the energy supply market, it is essential that the Council and its partners are supported and joined by a partner with sufficient experience and understanding of the market. Therefore, to identify and appoint an experienced industry partner, the Council has undertaken a fully compliant OJEU

competitive dialogue procurement process in collaboration with the registered providers.

- 11.6 This procurement aimed to identify a partner with specialist skills and capabilities to supply energy and to operate an energy supply scheme to help residents and businesses in the region with their energy costs. The competitive rate offered by the proposed energy supply scheme will benefit all residents in the region and in particular those in fuel poverty.

## **12.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

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