


Going Dutch

Local Government and Fuel Poverty

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New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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Introduction

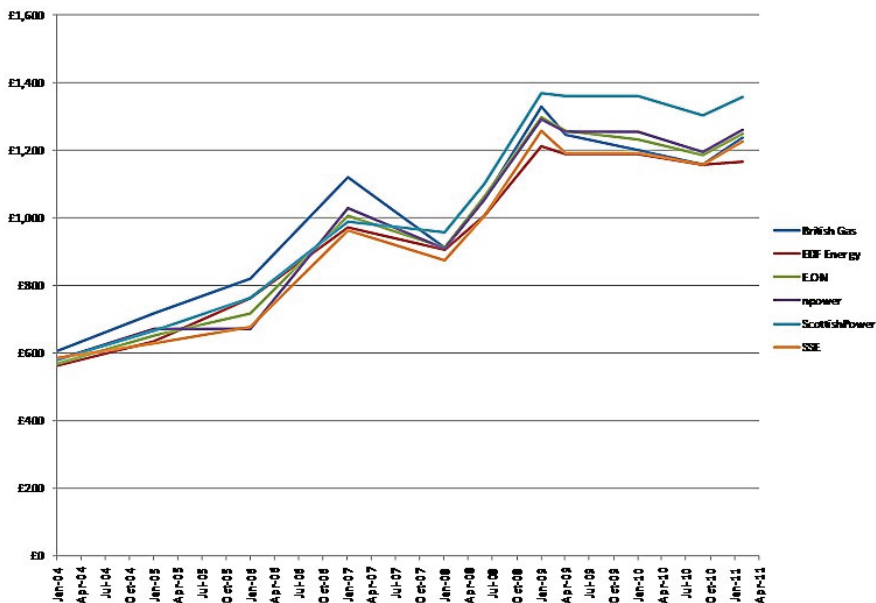
This paper explores the challenge of rising household energy costs and draws on international inspiration to suggest a new model of support that councils can adopt to help citizens.

More broadly, this paper calls on local government to consider new ways of engaging with citizens above and beyond traditional relationships. By encouraging local government to be more enterprising and creative NLGN believes there are a host of new ways that councils can become forces for good in the lives of their communities.

Fuel prices rising... and rising... and rising...

Retail energy prices have exploded over the last ten years. With costs almost doubling, it is not surprising that fuel poverty sits high atop the government's agenda. In recognition of the issue's importance, in March of this year (2011) the Secretary of State for Energy and Climate Change recruited Professor John Hills of the LSE to conduct a new review into fuel poverty. Fuel costs are now one of the biggest financial outlays for households and increased prices disproportionately hit poorer families.

In 2004 the annual average dual fuel bill for a household stood at roughly £600. By April of this year (2011) the average annual dual fuel bill was a staggering £1,250.¹



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¹ Uswitch.com

Whilst the graph shows a steady increase, overall fuel prices exploded in both 2006 and 2008, tracking rises in fuel prices

With potential further crude oil price increases on the horizon due to heightened regional instability in the Middle East and rising global demand, citizens will feel the pinch financially. In Britain, the high level of inflation (5.2% in May 2011)² could exacerbate the problem further for households already taking multiple financial hits in static pay, falling benefits and rising commodity prices.

² <http://www.statistics.gov.uk/cci/nugget.asp?id=19>

Getting a better deal

These shifts in fuel prices are largely driven by forces beyond the control of ordinary households, but people can make a difference to their energy bills by switching suppliers. The problem is that very few of us do switch, and poorer families are least likely to do so.

In a 2008 Ofgem-commissioned study it was found that those who are confident consumers in the energy market (sourcing the best deals, trusting information, confident that switching will cause little to no problems) are in the minority, whilst most consumers, both vulnerable and non-vulnerable, lack knowledge or confidence. Specific barriers to switching supplier noted by the report were ‘fear that something may go wrong’ and ‘loyalty to existing provider’. A high level of passivity or laziness was noted as a barrier, meaning even a small degree of effort in sourcing a better deal would be seen as too much.³

Combining the likelihood of rising prices with citizens’ sometimes limited ability to acquire the best deal, fuel poverty will become a more acute problem. Government responses to rising fuel prices in the past have been simple: give citizens money to cover the cost, for example through the winter fuel allowance. But the pressures of deficit reduction mean that the state will struggle to find this additional money.

NLGN believes that this problem creates an opportunity for local government to step in and support households in confronting rising energy prices. By stepping up to support citizens in new ways, local government can start to show how the public sector can embrace radically different approaches to tackling public policy problems.

³ <http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/non%20vulnerable.pdf>

The Idea

A new initiative from The Netherlands, known as Met de Stroom Mee – roughly translatable as ‘go with the flow’ - has saved consumers significant sums of money on energy bills by bringing them together to bulk purchase energy. We suggest that local government could play an equivalent role in England.⁴

Met de Stroom Mee sought the registration of 10,000 households who agree to let Met de Stroom Mee negotiate on their behalf, directly with the energy companies. Using the bulk purchasing power of so many households, Met de Stroom Mee then went about securing bids from energy companies at much lower than the average cost of bills that households were paying. Once Met de Stroom Mee had decided on the most favourable bid, it was then sent to those who had registered for their approval. There was no legal requirement for the individually registered households to accept the bid and they could still choose to continue with their own arrangements. However, out of the 10,000 registered households, a total of 6,630 decided to take up the bid and saved an average of 300 Euro per annum on their household energy bills.⁴

When one considers the average annual dual fuel bill in the Netherlands is 1520 Euro per annum, the saving delivered by *Met de Stroom Mee* represents a reduction in the average annual fuel bill of approximately 20%.⁵

Using the dual fuel bill average cost noted earlier in this paper of £1250 per annum, and based on the approximate 20% savings experienced in The Netherlands, NLGN estimates that even if local authorities were able to achieve a 10% reduction on average annual dual fuel bills this would result in a saving of £125 per household per annum.

⁴ <http://www.metdestroommee.nl/>

⁵ On the Economics of Energy Labels in the Housing Market, Maastricht University, Kok & Brounen

Concerns over whether energy firms would engage in this scheme can be answered by the sheer scale of the finances involved. If, as in The Netherlands, 10,000 households were to sign up to the 'aggregate to negotiate' model, it would equate to approximately £12.5 million per annum in buying power. Even broken down to the level of a large metropolitan council, the sums on offer would be large enough to provide a strong incentive for reticent energy companies to participate. This scheme would also create opportunities for new entrants to emerge, as they would have the opportunity to win a big initial contract with which to establish themselves.

Councils could propose that their negotiations be conducted publicly and/or there be a public auction where energy companies bid for the business on offer.

What is 'Met de Stroom Mee'?

Met de Stroom Mee is a voluntary collaboration between two private individuals. They set up the website following their professional experiences of the power of bulk purchasing to achieve significant discounts. Met de Stroom Mee is a trademark of Concepts Group BV and operates as an online group. It is free for individuals to join and there is no legal commitment to agree to the negotiated price and switch supplier. Met de Stroom Mee was set up in 2011 and ran for the single month of May (2011) to bring in 10,000 willing households as participants.

Why local government?

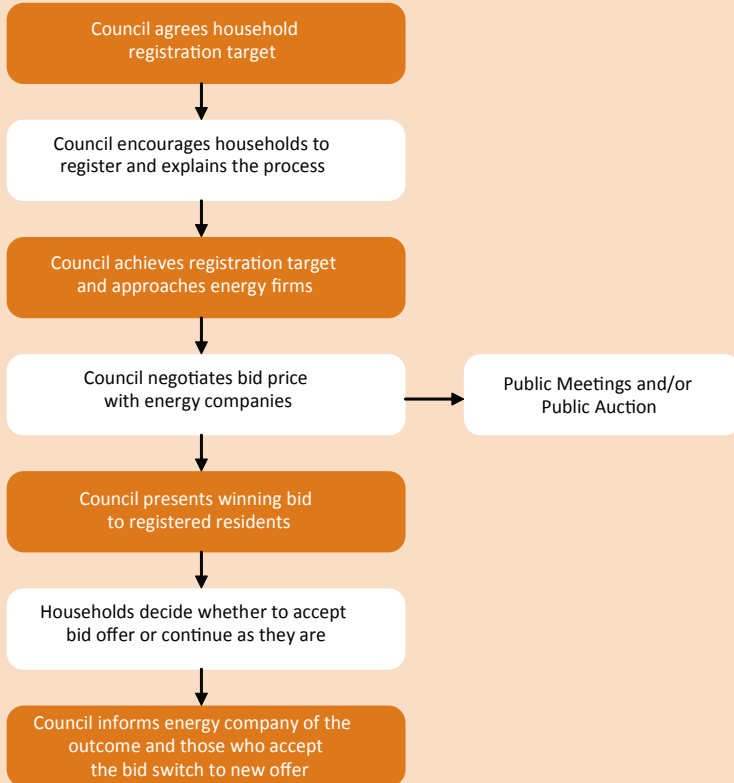
Whilst this was not a local authority function in The Netherlands, and does not necessarily have to be in the UK, the power of local authorities to reach the widest audience possible, positions them well to facilitate the best possible scale for such a project. The more that citizens can be brought together, the bigger the potential savings. Local government's infrastructure and strong community links mean that councils are uniquely positioned to facilitate this interaction.

Finally, one of the most compelling reasons for having the local authority facilitate such a model is that as consumers we're often not adept at securing the best deal for ourselves. Ofgem noted that consumers in the energy market are often very passive at sourcing the best price and a large proportion of people have trust issues around changing suppliers (believing that a change will result in things being worse).⁶

There is no reason why councils can't come together to collaborate to achieve even greater scale and ensure more bargaining power. As a trusted and recognised institution the local council would provide the appropriate reach and scale combined with the consumer confidence that citizens can often lack when dealing with their energy needs.

⁶ <http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/non%20vulnerable.pdf>

The Process



The Numbers

- 20% - The savings achieved using the 'aggregate and negotiate' model in The Netherlands
- £125 - A conservative estimate of potential savings for UK consumers on fuel bills (based on a 10% reduction in annual dual fuel bill)

Conclusion

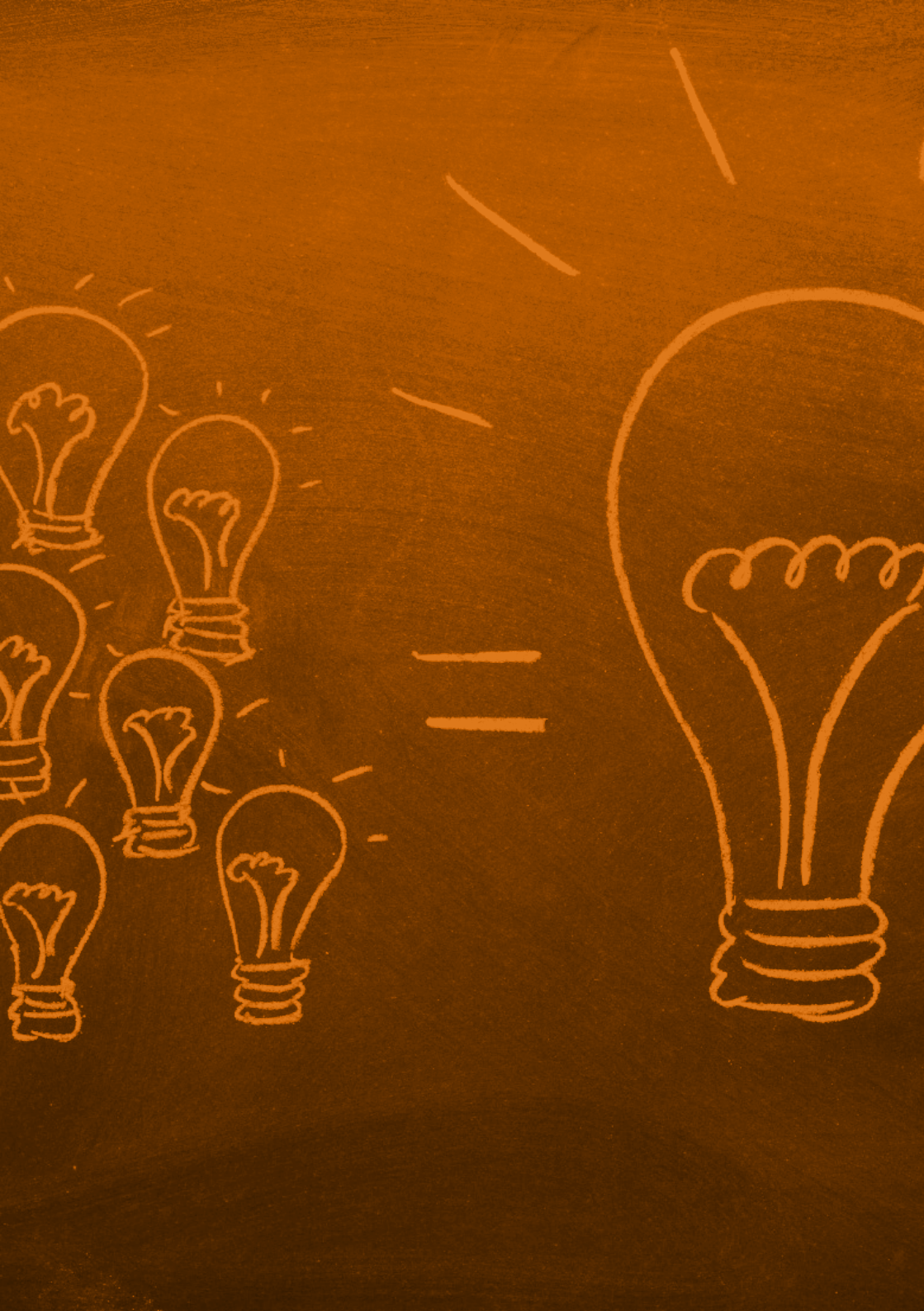
Further work into the implications for the energy sector is needed if this model is to realize its potential in the UK. However the lessons from The Netherlands are clear, where ‘aggregating and negotiating’ has led to significant savings for participants. With recent announcements highlighting the intensity of the fuel poverty crisis in Britain, we need to be considerably more ambitious in the models used to combat the problem. The example set by Met De Stroom Mee offers one viable route, not only to combating spiralling fuel costs, but to potentially offering consumers and citizens a mechanism for ensuring best value in their consumption of both public and private services

The implications

Whilst this paper focuses on the narrow question of rising household energy costs, these lessons serve only to highlight the very real truth that local government no longer has the resources to prop up its traditional models of service delivery. The choice for the local state then becomes one of retreat or re-invention. Does local government step back from supporting citizens or does it come up with radically different ways of helping them confront the challenges of 21st century life?

A strong benefit of the *Met de Stroom Mee* model is that it supports everybody. Councils spend the vast majority of their budgets and time on a very small percentage of their populations. This model of support actually shows the council helping many people who would otherwise have very limited interactions with the local state.

Councils must become more enterprising and creative in considering how they interact with individuals and how to make those interactions of greater value. By adopting the idea we have proposed in this paper, local authorities would be taking a step in the right direction to crafting a fundamentally different way of helping to support citizens.





This paper explores the challenge of rising household energy costs and draws on international inspiration to suggest a new model of support that councils can adopt to help citizens. More broadly it calls on local government to consider new ways of engaging with citizens above and beyond traditional relationships.

By encouraging local government to be more enterprising and creative, NLGN believes there are a host of new ways that councils can become forces for good in the lives of their communities.