

City of Wolverhampton Council - Response to Ofgem consultation: Allocation of voluntary redress payments in the context of enforcement cases

1) General comments

The City of Wolverhampton Council welcomes the opportunity to reply to Ofgem's consultation on the above. Through improving the existing mechanism, the funding would target those most at need, while also making the process transparent and offer accountability.

The existing allocation mechanism requires improvements. Energy companies are allowed too much freedom in allocating the funds. There are occasions where funding is paid directly to their own charitable trust, giving them not only control over where the monies are spent, but also allowing them to gain positive publicity. There should also be a question raised over some of the charities or organisations regularly receiving funding and if they are best placed to manage fuel poverty/energy efficiency projects.

No local authorities have so far been able to benefit directly from voluntary redress funding, because of the preference of energy companies to allocate it to charities. There has been some indirect funding received by local authorities via competitive bidding processes. This only serves to prolong the process when local authorities are clearly well placed to manage and/or deliver energy efficiency programmes. Advantages of using local authorities include:

- They are central to existing local and regional partnerships particularly as local authorities as publicly accountable to residents
- They are trusted organisations with robust and transparent policies and procedures
- They have a strong local knowledge that benefits correct targeting of funding
- They are already involved in existing projects, including ECO, that could be supported and extended with the addition of redress funding

The consultation document fails to make it clear if local authorities will be offered funding opportunities as part of the new proposals. We would strongly recommend that local authorities are included in any bidding processes for the reasons outlined above.

2) Responses to questions

Chapter 2: What we want to achieve

Question 1: Do you agree with our objectives for the allocation of voluntary redress? If not, please explain why.

The primary objective “to maximise long-term benefits for energy customers by ensuring funding is well targeted” is a fair statement of intent.

The consultation document does not, however, provide a precise definition of which organisations will be able to receive voluntary redress funding. We would wish it to be made clear that Local Authorities **are** considered one of the organisations included that supports energy customers and, therefore, can be targeted for funding.

We would also wish for clarity on who the “experts” are that will be ensuring allocation decisions deliver maximum benefit, in order that the process is truly transparent.

Question 2: Are there any additional objectives or criteria we should consider when making a decision on our forward approach to voluntary redress? Are there things our approach should definitely include or absolutely avoid?

The criteria need to explicitly recognise that local authorities can bid for voluntary redress funding alongside other interested organisations.

The approach to voluntary redress should also:

- Support and enhance existing local schemes as well as ECO projects to ensure value for money and extension of out-puts.
- Ensure energy advice given is consistent and relevant to the local area
- Ensure that information obtained through monitoring the delivery and value for money of funded projects is shared widely and used to continually improve project delivery.
- Prevent those charities that have already received disproportionately more funding from benefiting again for a fixed period of time unless working with a named partner on an existing project. The named partner would be able to be a local authority. Any existing project should be able to prove continued social value and value for money.

Chapter 4: Overview of options

Question 3: What are your views on ‘Option 1: Current process with enhanced principles’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

The current process with enhanced principles is not supported by the City of Wolverhampton Council as the energy company at fault would still have control over where the funding was allocated, this does not appear to be a transparent process. The charities and organisations chosen to date are not always best placed to manage home energy programmes. Local authorities, who do have experience in this area, have been largely overlooked to date. We also strongly disagree with the energy company being able to support its own charitable organisation as, at best; this is a conflict of interest.

Question 4: What are your views on the possible additional principles outlined in 'Option 1: Current process with enhanced principles'? Are there further additional principles that would help meet our objectives?

Option 1 could only be supported if the following additional principles were applied:

The energy company will give equal consideration to bids submitted by local authorities, and will provide explicit evidence to Ofgem and all bidders to clearly justify the decision(s) made to allocate funding to a particular organisation in preference to others.

The energy company in question will not support its own charity or receive any positive publicity from projects supported by redress funding.

Question 5: What are your views on 'Option 2: Responsibility given to a third party with appropriate expertise'? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

Option 2 would be City of Wolverhampton Council preferred option, subject to:

- Local Authorities being classed as a qualifying organisation
- The **named** third party assessing the bids submitted and then proposing funding allocations to Ofgem, with the final decision being made by Ofgem.
- Bids should be invited on a case-by-case basis and be able to support existing projects where judged to meet the qualifying criteria.

It should be noted that, if the process is overly complicated and lengthy, organisations may be unable to apply due to already stretched resources.

Question 6: How should the costs of the third party associated with allocating redress be funded?

The costs should be covered through investment returns and interest earned, supplemented by payments from the energy companies that have been investigated.

Question 7: Should the company that made the redress payment have an input into the approval of recipients under this option?

The third party and Ofgem should be accountable for making the final decision. Appeals from the energy company should be only on the grounds of the project not complimenting the originally reason for the enforcement notice being served.

Question 8: How can we ensure that smaller potential recipients can bid and are not disadvantaged compared to larger potential recipients?

Ultimately, the final decision is at the discretion of the third party and Ofgem, but:

- There could be a sliding scale of grant size to ensure diversity of bids for instance a series of thresholds – up to £10k, £10-25k etc. this would give small projects the chance to bid for smaller awards that could be less complicated to manage and deliver.
- Smaller organisations could form part of a partnership approach in order to be included in larger bids

Question 9: What are your views on this ‘Variation on Option 2 – Voluntary redress payments go to a charitable trust set up by Ofgem’? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider, particularly in relation to the DAF provider model set out above?

To set up a new charitable trust would be time consuming and costly, when the skills to deliver the third party option are already available. Existing organisations, for instance NEA, SHAP and other local energy agencies, could administer funds and appraise projects independently.

Question 10: How should the costs of running a charitable trust set up by Ofgem is funded?

If a trust were to be established, the costs would have to be either met by Ofgem, the energy companies, or by using money that would otherwise be allocated to assist vulnerable customers. Each of these options is likely to be unpopular, but there is obviously a cost to be met for appraisal and monitoring. “Top-Slicing” the redress funding awarded to cover this could be an option.

Chapter 5: An additional consideration

Question 11: What are your views of the idea of using part of voluntary redress payments to support specific schemes? What are the advantages, disadvantages, risks or costs relating to this idea? What existing schemes could be considered under this approach?

It is felt that specific and well established local schemes that support vulnerable, fuel poor households could benefit hugely from receiving funding from the redress scheme. These programmes are likely to support the overall objectives, while set-up and administration costs will have already been met.

Larger, national schemes should continue to receive funding from their current source, although schemes like ECO could benefit from added value to the schemes, for example decent energy advice that has effective mechanisms that enable it to be easily accessed.

Under no circumstances should redress money be used to support energy companies existing obligations, including advice and information that they already have a duty to supply.

Chapter 6: Overall view

Question 12: Which of the options in this consultation do you think should be used and why?

Option 2 should be used provided consideration is given to the points laid out in question 5. It should also be noted that energy companies should have no influence on the allocation of funding and should in no way benefit from the delivery of these schemes.

Question 13: Should any other options be considered? If so, please provide an outline explanation of your suggested alternative option(s). Please also outline any associated benefits and costs with the alternative option(s).

No other options are suggested.

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