

# Report to Cabinet Members for Resources and Planning & Environment

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**Decision to be taken on or after 23 July 2019**

**Decision can normally be implemented at least  
3 working days after decision has been signed.**

**Cabinet Member Report No. PE07.19**

<b>Title:</b>	<b>Procurement of electricity &amp; gas supplies for 2020-2022</b>
<b>Date:</b>	15 July 2019
<b>Author:</b>	Ed Barlow, Head of Energy & Resources
<b>Contact officer:</b>	Lloyd Little, Senior Energy Officer
<b>Local members affected:</b>	None

*For press enquiries concerning this report, please contact the media office on 01296 382444*

## **Summary**

The current gas and electricity supply contracts used by Buckinghamshire County Council (BCC) are due to expire on 30 September 2020 and require renewing. BCC currently purchases its gas and electricity through the LASER 'flexible procurement' framework which allows forward purchasing of energy when wholesale market prices are low. It is recommended that BCC renews the gas and electricity supply contract through the current LASER framework. However, a departure from the normal 4 year contract period is recommended to be replaced with a 2 year contract, with two further 1 year extension periods allowed (to a maximum of 4 years). This is to ensure the future Buckinghamshire Council is able to change contracting approaches mid-contract if necessary.

## **Recommendation**

***Agree that Buckinghamshire County Council will use the LASER framework to procure gas and electricity supply contracts for the period October 2020 to September 2022, with the contract to include two additional 1 year extensions – the future Buckinghamshire Council to decide upon the use of these extensions.***



INVESTOR IN PEOPLE



***Delegate the decision on contractual purchasing approaches to Head of Energy & Resources.***

***Agree to permit schools, academies and Town and Parish Councils within Buckinghamshire to access these contracts, subject to the proposed controls.***

**A. Narrative setting out the reasons for the decision**

1. LASER is a public sector energy buying group and a not for profit organisation. Founded in 1989, LASER is part of Kent County Council's Commercial Services division. They are energy procurement specialists, with excellent market knowledge and long term track record within the public sector, currently purchasing energy on behalf of 150 Public Sector bodies, representing an annual spend of over £350million. LASER Energy Services aggregate gas and electricity volumes across all customers to enable supplier management fees to be kept to a minimum.
2. BCC has used LASER to purchase its energy requirements through "flexible procurement" since 1 October 2009. Flexible procurement allows volumes of energy to be purchased in advance and/or within the consumption period. Different purchasing approaches allows LASER to purchase wholesale energy costs when prices are low, reducing the cost to customers.
3. BCC currently uses the Purchase in Advance (PIA) purchasing approach to secure the necessary volumes of energy, through multiple trades in advance of each 12 month supply period (which run October to September). There is more detail about flexible procurement in the attached LASER information paper.
4. BCC currently has two contracts in place with LASER for energy supplies: a contract with npower to supply electricity and a contract with Total Gas and Power to supply gas. BCC has made these gas and electricity contracts available to schools in Buckinghamshire, including academies, and Town and Parish Councils. Including these sites increase the total contract values included in our purchases, helping all sites to achieve lower prices. As part of this approach, the Energy & Resources Team also provides day to day contractual support for sites accessing our contracts.
5. The tables below shows the current annual and total (i.e. 4 year) contract values for sites BCC pays for as well as non-corporate sites (i.e. schools and Parish and Town Councils).

<b>Energy type</b>	<b>Current Annual Contract Value</b>	<b>Current Total Contract Value (4 years, 2016-20)</b>
BCC Electricity (Npower)	£600k	£2.4 Million
BCC Gas (Total Gas & Power)	£200k	£800k
BCC (TfB) Streetlighting (Npower)	£1.4 Million	£5.2 Million
<b>Total BCC Contract Value</b>	£2.2 Million	£8.4 Million

<b>Energy type</b>	<b>Current Annual Contract Value</b>	<b>Current Total Contract Value (4 years, 2016-20)</b>
Non-corporate Electricity (Npower)	£2.6 Million	£10.4 Million
Non-corporate (Total Gas & Power)	£1.2 Million	£4.8 Million
<b>Gross Contract Value (all sites and supplies)</b>	£6.0 Million	£23.6 Million

6. The new contract values are not available at this time. This is partly because the energy prices will not be available until the contract begins and because the site list may change, principally depending on which schools renew, leave or join the contract. Due to the purchasing approach taken, energy may be procured up to the day before the start date of the contract. Whilst this approach helps to achieve a low price, it means that prices are not known until the contract has commenced.
7. While the new contract will not start delivering energy until October 2020, this approach to procurement requires that the contract be entered into in advance. The further in advanced the contract is agreed to, the longer LASER have to procure the necessary energy and so achieve a lower price.

### **Access to the BCC Energy Contracts**

8. BCC has permitted schools and academies to access its energy contracts since at least the start of the previous contract with LASER in 2012. Currently over 230 non-corporate sites are accessing the contract. Under this arrangement, the individual sites are able to access lower energy prices than they may otherwise secure and the Energy & Resources team is able to help sites resolve any queries regarding their energy bills.
9. The Energy & Resource team's contract management work is funded via a rebate applied to all supplies on the contract (i.e. this is applied at a meter level, not a site level). The team receives approximately £70k / year via this rebate (1.14% of annual contract cost), of which approximately £50k / year (70%) comes from non-corporate sites (e.g. schools and academies).
10. The number of sites accessing our contract has declined over time – this has declined from 260 prior to last renewal (30 fewer). This is often because following the conversion of a school to an academy the site decides to secure its own contract. As more schools become academies, this is expected to lead to a decline in the overall rebate value, creating a financial risk.
11. BCC is ultimately liable for any unpaid money owed by any site accessing our contract. Whilst this is a large potential sum, a site has never refused to pay its bill and required BCC to step in. In addition, should this situation arise, the contract allows BCC to move a non-paying site to an independent contract (i.e. off the BCC contract) so the liability would be removed from BCC. Again, this is not a step BCC has ever had to take.
12. In order to ensure that BCC can continue to support schools, academies and Parish and Town Councils within Buckinghamshire, the future gas and electricity supply contracts will be available to these end users.

### **B. Other options available, and their pros and cons**

13. Full consideration has been given to the following alternative options.

#### **I. Do Nothing or Delay Decision**

14. Allowing the current contracts to expire without securing a new contract will result in all supplies defaulting to emergency rates until such a time a new contract is in place. Emergency rates are typically 50-100% higher than contracted rates and would offer very poor value to BCC.
15. Delaying the decision will result in a shorter advance purchase window and may impact on secured prices, resulting in higher price for 2020-21. This therefore is not a preferred option.

## **II. BCC to independently secure a new contract**

16. Taking this approach would be possible however it would require a significant staff resource to undertake an EU compliant procurement. BCC would not bring the same purchasing power which LASER does to the contract and would therefore likely lead to a higher cost contract.

## **III. Contract through a Private Sector broker**

17. A number of private sector organisations offer energy procurement services, however an EU compliant procurement would still be required. In this scenario, the procurement work would be conducted by the broker who would then recover these costs from BCC.

## **IV. Contract through a different Public Buying Organisation (PBO)**

18. There are other public sector buying organisations (PBOs) and energy procurement options from several were reviewed in reaching this decision. These included those offered by ESPO and Crown Commercial Services (CCS). These bodies do not solely focus on energy procurement as a core function as LASER do and so are not as specialised in this field.

19. Moving to the ESPO or CCS frameworks would require the transfer of over 680 individual supplies (meters) away from current supplies and would lock the new Buckinghamshire Council into a 4 year contract from October 2020 (ESPO and CCS frameworks provide fixed 4 year contract lengths). The new Buckinghamshire Council, with a different building portfolio to the existing Buckinghamshire County Council may wish to procure energy differently and so this option does not provide the desired flexibility.

20. The Energy & Resources team has worked with APSE Energy to conduct a benchmarking project aimed at understanding the price differences between PBO's, as well as other procurement strategies which can be used to improve contract pricing. The initial findings of this project show that there is minimal price deviation between PBO's so transferring to another at this time would not benefit BCC financially.

21. The team obtained quotations for the Streetlighting supplies as benchmarking had indicated a possible opportunity to make significant savings, however the results of ESPO and West Mercia Energy's (WME) quotes showed there would be minimal and uncertain financial benefit to moving the 3 supplies.

## **C. Resource implications**

22. Renewing the gas and electricity supply contracts with LASER requires the least resource to renew the contracts compared to the other options considered.

## **D. Modernising Local Government (MLG) Implications**

23. The timing of the MLG decision has had a notable impact on the energy procurement decision.

24. As the new authority cannot agree any contractual terms prior to its existence it is necessary for BCC to enter into a new contract for our sites ahead of its existence. However, procuring energy up to 2024 without the option to move beforehand restricts the new authorities options once created.

25. The LASER Framework allows BCC to depart from the normal 4 year contract period. Opting for a 2 year initial contract with two additional 1 year extensions offers a balance between flexibility for the new Buckinghamshire Council, whilst also providing sufficient forward buying time to avoid high energy costs for the new authority.
26. The new organisation will be fully responsible for monitoring the new contracts, inclusive of deciding whether the extension options will be taken or if new contracts should be procured.
27. The [Shadow Buckinghamshire Authority Spending Protocol](#) includes the principle that: "Councils should not enter into any new financial or asset-related commitments (beyond those specifically agreed within their approved budgets) on behalf of the new Council, or create any new liabilities without the agreement of the Shadow Executive".
28. With a contract start date of October 2020, this contract will affect the new Buckinghamshire Council. However as energy costs are a routine and planned expenditure, it is not necessary for these contracts to receive Shadow Executive approval.
29. The Energy & Resources Team has been working with District Council colleagues to understand their current energy procurement intentions during Unitary transition and in the first year of the new Buckinghamshire Council. This work is captured in the Procurement work-stream (under the Resources Board).
30. As part of this work stream we are working to align energy contracts for the new Buckinghamshire Council, as the new authority will initially have multiple energy contracts. This work will ensure that energy contracts are coordinated from vesting day. It is then likely that there will be single supply contract starting in October 2020 for all corporate sites.

#### **E. Value for Money (VfM) Self-Assessment**

31. In using a PBO, the Council is able to access the wholesale market which trades electricity and gas market in 'clips' i.e. it enables BCC to take advantage of bulk buying with reduced risks. The Council only pays for the energy it uses and will continue adopt energy reduction measures without any adverse effect.
32. Traditional energy procurement methods lock customers into a price for a sustained period of time without any regard to market conditions. Using LASER to procure our energy on the flexible framework supports effective cost management.

#### **F. Legal implications**

33. The LASER Flexible Procurement Framework is compliant with the Council's Contract Standing Orders Relating to Contracts as the Framework is set up in accordance with the Public Contracts Regulations 2015. The Official Journal of the European Union (OJEU) notice issued by LASER Energy Services allows the Council to access the framework contract for the purchase of gas and electricity supplies. The Council is able to access the LASER Framework, as the Framework is open to any public body subject to the agreement of the Contracting Authority. The award of a contract by the Council must be in accordance with the terms and conditions of the Framework including any restriction on the duration of Call-Off Contracts under the Framework. The Call-Off contract must be sealed in accordance with Rule 16.5 of the Council's Standing Orders Relating to Contracts.

## **G. Property implications**

34. This will affect all BCC properties and schools that have energy supplies on the current contract. There are a number of academies that access the contract, and non BCC sites.

## **H. Other implications/issues**

35. None.

## **I. Feedback from consultation, Local Area Forums and Local Member views**

36. No consultation with Local Area Forums of Local Members has been conducted.

## **J. Communication issues**

37. Once the decision has been taken, it will be communicated to all sites with supplies on contract. Communications with schools (including academies) will be a key area of focus to ensure their contracts are renewed seamlessly.

## **K. Progress Monitoring**

38. Energy consumption and spend is monitored and reviewed throughout the year and reported annually. Contract prices are renewed and reviewed annually throughout the lifetime of the contract.

## **L. Review**

39. Supply prices are reviewed annually within the four year contract period.

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### ***Your questions and views***

*If you have any questions about the matters contained in this paper please get in touch with the Contact Officer whose telephone number is given at the head of the paper. If you have any views on this paper that you would like the Cabinet Member to consider, or if you wish to object to the proposed decision, please inform the Democratic Services Team by 5.00pm on 22 July 2019. This can be done by telephone (to 01296 382343), or e-mail to [democracy@buckscc.gov.uk](mailto:democracy@buckscc.gov.uk)*