

Cabinet Member for Finance

Procurement of Energy Brokering Services

July 2015

Report by Executive Director of Corporate Resources and Services and Executive Director Residents' Services

Ref No: FIN05(15/16)
Key Decision: Yes
Part I
Electoral Divisions: (N/A)

Executive Summary

The County Council currently uses LASER Energy Buying Group's Framework Agreement for the annual procurement of £5.8m of electricity and natural gas supplies to the corporate built estate, as well as electricity to Street Lighting Services. Most schools and academies in West Sussex also use this framework agreement, via Schools Forum, to deliver an additional £5.3m of annual energy supplies. LASER has sought commitment to procure supplies after the end of the current framework agreement (which expires on 30 September 2016) given the need to buy in the energy futures market.

Though the LASER proposal is competitive in terms of costs avoided, no new sustainable savings can be derived from the County Council's energy costs using a brokering approach such as this and, consequently, a new strategic approach toward energy is required. An interim position on energy purchasing is also required to ensure the county council is not financially disadvantaged whilst the strategic approach is in development.

Recommendations

- (1) That the County Council adopts an interim purchasing position for energy by using the LASER 2-year Rolling Access Agreement for the provision of circa. £5.8m of energy supplies to the corporate estate (including Street Lighting Services).
- (2) That the County Council develops a strategic approach toward energy purchasing that delivers sustainable savings from the corporate and school & academy energy contracts.

1. Background and Context

- 1.1 The County Council currently manages the risk associated with a volatile energy market by adopting a 4-year fixed term framework agreement with LASER to procure energy supplies flexibly, in advance and on the wholesale market for electricity and gas.

- 1.2 The total approximate annual value of the existing agreement with LASER is £11.1m, £5.3m of which is attributable to the on-going use of the corporate contract by schools and academies in the county. A financial breakdown of the contract is noted below:

Utility	Total corporate supplies inc. Street Lighting Services (£m)	Schools and Academies estate (£m)	Total (£m)
Electricity	4.9	3.2	8.1
Gas	0.9	2.1	3.0
Total	5.8	5.3	11.1

- 1.3 In-house analysis of the most recent national benchmarked cost of energy (as published by Department of Energy and Climate Change) shows that procuring energy supplies through LASER cut the energy costs in the financial year 2013/14 by approx. £0.63m. This represents an indicative 5.6% cost avoided on the total cost of energy incurred.
- 1.4 LASER are a competent and cost effective participant in the energy brokering market, but a like for like continuation of the current framework agreement is unlikely to generate a level of savings that track the targeted reductions in spend needed by the County Council. As a result, the County Council requires (1) a new strategic approach toward corporate energy and (2) an interim position on corporate energy purchasing.
- 1.5 A new strategic approach toward corporate energy should be expected to align the national reforms currently taking place in the energy markets with the energy generated through the 'Your Energy Sussex' Programme, the development of a solar farm at Tangmere, part of the PropCo programme of projects, the outcome of the Total Facilities Management (TFM) outsource exercise and seek to secure, at least, an additional 5% reduction in the overall cost of energy to the County Council.
- 1.6 The LASER proposal for the period beginning 01 October 2016 offers two procurement approaches; (1) a like for like 4-year Fixed Term Framework or (2) a 2-year Rolling Access Agreement. Either option could be used to administer the energy from the county council's planned solar farm at Tangmere into the corporate accounts on an interim basis.
- 1.7 A LASER 2-year Rolling Access Agreement is therefore the option best aligned to the requirement for an interim position on energy purchasing. Other options appear undesirable to the County Council either because there is an administrative burden associated with them for no clear benefit or because they hinder the County Council's options for better alignment with a more strategic approach toward energy.

2. Consultation

- 2.1 **External** – The content of this paper has been discussed with colleagues in the South East 7 group of Local Authorities (including Hampshire County Council, Surrey County Council, East Sussex County Council, Brighton & Hove Unitary Authority, Kent County Council and Medway Council) as well as energy suppliers and energy services companies.
- 2.2 **Internal** – This paper has been developed to include comments from officers from Street Lighting Services, Procurement Services, Legal Services, Financial Services, 'Your Energy Sussex' Programme Officers and the Sustainability Team.

3. Proposal

- 3.1 The County Council has used previous LASER framework agreements to avoid costs on the wholesale cost of energy. A new energy strategy is required in order to deliver further sustainable savings from the energy contracts. An interim position on energy purchasing should be adopted until that strategy has been developed. It is therefore proposed that:
- 3.2 The County Council adopts an interim purchasing position for circa. £5.8m of energy supplies by using the LASER 2-year Rolling Access Agreement for the provision of energy to the corporate estate (including Street Lighting Services); and
- 3.3 The County Council develops an energy strategy that delivers sustainable savings from the corporate and school & academy energy contracts.

4. Other Options considered

- 4.1 Extensive research and consultation has been undertaken to understand the current drivers and emerging opportunities associated with the energy market. There is considerable activity in the energy market by both traditional and new licenced suppliers, energy brokers (including LASER) and local authorities keen to derive additional value from the energy industry such as partnering with licenced energy suppliers. Some of these are not yet 'live' options and, as such, have been discounted from further examination. Examples of other options examined include:

- 4.2 Adopt another LASER 4-year Fixed Term Framework Agreement

The County Council is currently committed to a LASER Fixed Term Framework Agreement until 30 September 2016. It could adopt another 4-year Fixed Term Agreement to manage supplies up to 30 September 2020 as the financial opportunity to the County Council is similar to the proposed option. However, committing to an extended period could prevent the cost-effective alignment of the energy contracts and the Total

Facilities Management (TFM) solution currently being developed by the County Council.

4.3 Adopting a different purchasing framework

Other participants associated with the purchase of energy for the public sector include the Crown Commissioning Service (CCS, previously known as the Government Procurement Service) and the East Shires Purchasing Organisation (ESPO). Through discussion with colleagues across South East 7, it was found that ESPO already utilises the LASER framework, and the CCS option offers fewer purchasing baskets, places a greater administrative burden on member organisations which potentially increases the overall cost.

4.4 Developing a new purchasing framework

The County Council, working with colleagues in Brighton & Hove UA and Surrey County Council, undertook an exercise to gauge the potential benefits of setting up a new framework. Expressions of interest were sought from potential participants as well as another framework supplier (Procurement for Housing). No new benefits were identified, and since then LASER has provided all Sussex member accounts (including Universities, NHS Trusts, and Local Authorities) into a single dedicated resource team, in order to better support members' ambitions.

4.5 Subsume energy sourcing in the proposals for a TFM outsourced solution

The possibility of subsuming the County Council's energy sourcing requirements in the proposed TFM contract has been considered as a means of not only generating ongoing cost savings to the County Council, but also as a means of fostering better energy efficiency outcomes for the corporate estate by encouraging the TFM provider to maximise energy efficiency in our buildings to reduce energy costs against a clear Gainshare commercial arrangement.

Whilst the TFM project is currently ongoing, it is not yet at the stage where any assurance can be given that this project will deliver all that is required. Due to the need to engage with and sign up in advance to the LASER arrangements, adopting the 2-year rolling access agreement offered by LASER would enable the County Council to still explore the opportunities under a TFM contract. In the event that the FM contract eventually offers the County Council significantly better outcomes than LASER can, the County Council will then be able to fully consider the cost/benefit of staying with LASER until 30 September 2017, 30 September 2018 or pulling out of that arrangement.

5. Resource Implications and Value for Money

- 5.1 The value for money associated with the proposed option compares favourably with the other options below. These figures are based upon the forecasted level of energy consumption; the published national benchmark for energy price; a comparison of delivered energy prices from LASER, Crown Commissioning Service and private sector procurers and suppliers; and a grouping exercise with Brighton & Hove City Council and Surrey County Council.

No	Option	Potential impact on 2-year energy cost (£)	Likely administrative burden	Exposure to energy market risk
1	LASER Rolling Access Agreement	Maintain existing value for money (£0.63m below national benchmark)	Low	Medium
2	LASER 4-year Fixed Term	As above	Low	Medium
3	Different purchasing framework	Up to £0.72m increase	Medium	Medium
4	New purchasing framework	Over £0.63m increase	High	High
5	Subsume energy into TFM outsource	Up to 0.63m increase	Low	High

- 5.2 If a LASER agreement is used to administer the energy generated from the solar farm at Tangmere, the installation could deliver an estimated additional £84k per annum income to the County Council in 2016.
- 5.3 The County Council employs a small Energy Management Team (an Energy & Data Manager and two analysts) to administer all energy contracts (estate, street lighting and schools) with an annual value of over £11m. No additional IT or property infrastructure is required to deliver this proposal. There are also no upfront costs levied by LASER to access either the Framework Agreement or the Rolling Access Agreement.
- 5.4 Adopting these proposals will support our efficiency agenda by protecting the difference between the prevailing market price for wholesale energy and the price paid by the County Council. This generated, in 2013/14, an avoided cost of £0.63m (which equates to an 8% reduction in price). Whilst the percentage reduction achieved is not expected to change significantly in future years, the overall level of cost avoided annually may change from £0.63m as (1) the prevailing energy market price fluctuates, (2) savings are generated elsewhere (specifically through fewer and more energy efficient buildings) and, as a consequence, (3) the County Council's reference price changes.

5.5 Adopting these proposals will allow the county council to cost-effectively align the corporate energy contracts with the strategic approach toward energy, the Total Facilities Management (TFM) outsourced solution and the Your Energy Sussex Programme (including the 'Sussex Tariff' currently in development). It will also allow an additional 5% reduction in the overall cost of energy to the county council to be identified.

5.6 Should the County Council serve notice to LASER on or before 30th September 2015, all supplies would be available for alignment on 30th September 2017. Similarly, should the County Council serve notice on or before 30th September 2016, all supplies would be available for alignment on 30th September 2018.

6. **Impact of the proposal**

6.1 **Equality Duty**

An Equality Impact Report is not required for this decision as it is a report which seeks to make an appointment to an outside body.

6.2 **Crime and Disorder Act Implications**

It is not envisaged that the proposal will affect the Council's responsibility to minimise crime and anti-social behaviour.

6.3 **Human Rights**

None

6.4 **Social Value**

The proposal will support and encourage closer engagement and collaboration opportunities from on-going and unavoidable energy utility costs incurred by the County Council alongside the Your Energy Sussex programme.

7. **Risk Management Implications**

7.1 The current contract is allowed to lapse leading to the county council being charged at 'out of contract' prices for electricity and gas supplies. This is likely to increase the annual cost of energy to the County Council by at least £0.63m but, owing to full exposure to energy market volatility, a possible doubling of energy costs.

This decision is requested 16 months before 'out of contract' prices would be raised.

7.2 Failure to secure the lowest cost, renewable and resilient energy sources in a timely fashion leads to a diminished contribution toward the Future West Sussex Vision as an efficient council.

An arrangement on a 2 year rolling basis provides both value and flexibility as a formal strategic approach is developed.

Peter Lewis

Executive Director Corporate Resources and Services

Cathryn James

Executive Director Residents' Services

Contact: Daire Casey (0330 2223005)

[Appendix – Sustainability Appraisal](#)

Background Papers

None