

**REPORT TO:** CABINET

**DATE:** 20 JULY 2017

**TITLE:** ENERGY PROCUREMENT FRAMEWORK REVIEW

**PORTFOLIO HOLDER(S):** COUNCILLOR DANNY PURTON, PORTFOLIO HOLDER FOR ENVIRONMENT

**LEAD OFFICER:** GRAEME BLOOMER, HEAD OF PLACE (01279) 446270

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**This is a Key Decision**

**It is on the Forward Plan as Decision number I007307**

**Call-in Procedures may apply**

**This decision will affect no ward specifically.**

**RECOMMENDED that:**

- A** Cabinet agrees to switch from the Council's existing gas and electricity procurement framework to the Procurement for Housing Flexible Collective Framework agreement from April 2018 to April 2021.
- B** A review is undertaken in year three (2020/21) to assess whether the framework has provided best value for money and determine whether the two year contract extension should be triggered.

**REASON FOR DECISION**

- A** By committing to a long-term flexible collective energy supply contract, the Council is able to achieve better value for money by taking advantage of favourable market conditions when purchasing energy.
- B** By switching framework providers, the Council will create financial savings and operational efficiencies as the new Framework Provider will directly liaise with energy suppliers on all matters to ensure the Councils energy consumption and expenditure is as accurate as possible.

## BACKGROUND

1. The Council's spend on energy for 2007/08 was approximately £1,010,000, however due to dramatic increases in market prices in 2008/09 this figure rose to £1,600,000.
2. Energy prices have continued to rise over recent years. However, the Council has mitigated expenditure spikes through reduced consumption and active management of supply framework agreements.
3. As a result of these interventions the Council's energy spend for 2010/11 was £950,000, which was a 34 percent saving when compared to 2008/09. The Council has maintained these savings with expenditure in 2015/16 remaining steady at £983,964.76.
4. With the geography of resources not corresponding with the geography of consumption, the UK is one of many areas which are not energy self-sufficient. As a result the UK is will continue to be affected by wider market forces and global price fluctuations.
5. Projections and forecasts for energy consumption are particularly difficult, with uncertainty surrounding long-term sustainable rates of economic growth, the severity of climate change policies, and the cost and availability of energy supplies.
6. In light of this instability, and the volatility of energy markets, it is imperative that the Council continues to actively manage supply framework arrangements. Active management will give the Council the opportunity to drive efficiency savings and mitigate the Council's exposure to external market forces.
7. The Policy and Resources Committee agreed to enter into a framework agreement with the Government Procurement Service (GPS), now known as the Crown Commercial Service (CCS) for provision of gas and electricity contracts in March 2008. In 2015, Cabinet agreed to continue with the contract for a period of three years until September 2018.
8. CCS operates as a consortium representing a number of public sector organisations. This approach allows energy procurement against a large aggregated volume thus creating an economy of scale and improving buying power.
9. CCS adopt the futures flexible purchasing method under which an analysis continually tracks changes in the wholesale energy market and subsequently procures blocks of energy when conditions are favourable.

10. Using this method the Council can take advantage of any future fall in wholesale energy prices. This approach also reduces the Council's exposure to any future spikes in energy prices.
11. Such arrangements are OJEU compliant and remove the need for the Council to undertake regular, costly and lengthy energy procurement exercises.
12. The current cost CCS providing the existing procurement framework arrangements totals £21,000 per annum.

## **ISSUES/PROPOSALS**

13. Whilst over the course of the Council's existing contract with CCS significant saving have been realised, the Council has recently experienced operational issues in relation to financial budget monitoring, billing and stakeholder engagement.
14. The lack of regular market information supplied by CCS regarding future pricing has led to a requirement for a significant amount of Officer time to be dedicated to forecasting for the following financial year. This lack of information has also provided a higher level of uncertainty when undertaking budget monitoring.
15. Furthermore, the level of customer satisfaction between all stakeholders has diminished significantly. Officer time is regularly being devoted to querying bills sent by suppliers, with some queries not being resolved for long durations.
16. The Council have also identified instances of incorrect charging for abortive meter reads, inaccurate historical billing and the transferring of energy supplies without the consent of the Council.
17. In light of these operational issues, and in the interest of testing the market to drive further efficiency savings, Officers have completed a detailed mini competition to identify alternative energy procurement framework providers.
18. This mini competition was conducted to explore alternative framework options and whether these options provided best value for money and a broader, better quality service when compared to current framework arrangements.
19. Due to the six month notice period required to end the Council's involvement in the existing framework agreement and in order to coincide with the Council's next energy procurement batch, a decision on whether or not to continue must be made and communicated to our existing provider by September 2017.

20. Given the clear benefits of adopting the above mentioned consortium based flexible approach to energy procurement, Officers are of the opinion that future arrangements will need to follow a similar format.
21. The mini competition results are attached as Appendix A.
22. The Council proposes to enter into a three year agreement with Framework Provider B, who will administer the Procurement for Housing (PfH) framework to purchase energy on the Councils behalf. The cost to implement this arrangement will be £24,390 per annum. The agreement also includes a possible two year extension.
23. Framework Provider B procures energy in a similar format to the current framework arrangement, thus not altering the Council's current procurement strategy.
24. The PfH framework is a national procurement consortium of public sector entities which aligns similar contracts of multiple customers in order to achieve optimum benefits when purchasing energy.
25. By purchasing energy in packets, Framework Provider B is able to take advantage of favourable market conditions should the wholesale cost of energy decline, or lessen any continuing increases in prices providing best value for money.
26. Framework Provider B manages the procurement risk on behalf of the Council. Therefore, the Council does not need to employ additional expertise in order to advise on movement in markets and forecasting of future energy prices which would dramatically increase its risk. Framework Provider B's expertise, experience and buying power mitigate this risk significantly.
27. In addition, Framework Provider B provides a number of additional services within the contract sum that the Council do not currently receive under the existing framework. These additional services include:
  - a) Dedicated Account Management – inclusive of liaising with suppliers on the Councils behalf;
  - b) Bill Validation and reporting outlining any discrepancies that will be raised directly with the supplier;
  - c) Performance, Service Delivery and Supplier Relationship Management of the contract undertaken by Framework Provider B;
  - d) Client Portal for use in accessing contract details, market information,

- e) energy consumption monitoring;
  - e) Connections and Metering Support including new meters and change of tenancies;
  - f) Voids/vacant process management;
  - g) Information regarding TRIAD Warnings;
  - h) RAG Analysis – a chart depicting the energy usage of a building throughout a set period of time, usually 24 hours; and
  - i) Period available supply capacity reviews for its Half Hourly electricity.
28. The above list offers significant scope for implementing financial savings, operational efficiencies and carbon reductions by ensuring that the Council's energy consumption is as accurate as possible.
29. The Council proposes to review this arrangement in 2020 to determine if an extension is favourable. A value for money report will be submitted to Cabinet for consideration.

## **IMPLICATIONS**

### **Place (includes Sustainability)**

This proposal will help to ensure that value for money is achieved and should provide an improved service to the Council's customers.

Author: **Graeme Bloomer, Head of Place**

### **Finance (Includes ICT)**

The proposals will provide a sound framework for planning and managing the costs of energy for the Council and will assist in the forecasting and budgeting in future year's financial plans.

Author: **Simon Freeman, Head of Finance**

### **Housing**

None specific.

Author: **Andrew Murray, Head of Housing**

### **Community Wellbeing (includes Equalities and Social Inclusion)**

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

### **Governance (includes HR)**

The use of a fully EU compliant framework is sufficient to discharge the Council's obligations under EU regulations and its Constitution, and mitigate the risk of challenge to the decision making process of the Council.

Author: **Brian Keane, Head of Governance**

### **Background Papers**

None

### **Glossary of terms/abbreviations used**

CCS – Crown Commercial Services

GPS – Government Procurement Services

OJEU – Official Journal of the European Union

PfH – Procurement for Housing

RAG – Red Amber Green

TRIAD Warnings - Triads are the top three half-hour peaks of energy demand across the National Grid, over the most energy intensive period of the year:

November to February

### **Appendices**

Appendix A – Energy Procurement Evaluation Matrix and Scores