

Report to: Cabinet

Date of Meeting: 5 September 2016

Report Title: Energy Procurement

Report By: Tom Davies
Chief Auditor

Purpose of Report

To seek approval from Cabinet to re-new the Council's membership of the Laser Energy Buying Group and to participate in the flexible procurement framework established by Laser from October 2016 to September 2020.

Recommendation(s)

- 1. To continue to support and participate in the Laser Energy Buying Group's new flexible procurement framework for the period October 2016 to September 2020.**
- 2. To delegate authority to the Director of Corporate Services and Governance or her nominee to finalise the tripartite agreements associated with the framework.**

Reasons for Recommendations

The Laser Energy Buying Group is a government approved public sector buying agency (a trading arm of Kent County Council), providing an energy procurement service to some 210 member authorities in the South East of England, with a successful track record of purchasing performance for the period April 2009 to August 2016.

They have requested that they need an indication of commitment as they are unable to undertake any purchases until the contracts are in place which can take some time in terms of drafting the documentation based on each authority's individual requirements.

The Council's Constitution, Part 9 Financial Rules Section 3, requires Cabinet approval for expenditure exceeding £200,000.

Introduction

1. On 11 July 2011, Cabinet took the decision and endorsed the proposal continue to support and participate in the Laser Buying Group's flexible procurement framework for the period from September 2012 to October 2016
2. Following the EU compliant tendering exercise carried out by Laser, NPower is the preferred supplier for electricity and Total Gas for the supply of gas. In addition, the Council currently use EDF Energy (being the lowest price) for its smaller electricity sites (of which we have around 60) and Laser carry out the rate negotiation on the Council's behalf using market testing tendering methods. About 2/3rds of the Council's electricity spend is used in its main buildings (i.e. Town Hall and Aquila House) where we currently use Npower (being the lowest price for these larger sites), and 1/3rd is used in its numerous smaller sites around the Borough. This arrangement ensures that the Council is obtaining the best possible energy prices for its overall property portfolio.
3. Laser have also requested that they need an indication of commitment as quickly as possible as they are unable to undertake any purchases until the contracts are in place which can take some time in terms of drafting the documentation based on each authority's individual requirements.

Current Situation

4. The Council's total energy budget for 2016/17 is £306,160. This is made up as £248,170 for electricity and £57,990 for gas. This has been based on last year's budget provision but also takes account of energy efficient measures, for example, the new office accommodation.
5. As the Council spends in excess of £200,000 per year on its energy, there is a requirement under the Council's Financial Rules that approval must be obtained from Cabinet to enter into any new agreements.

The Laser (London & South East Region) Buying Group

6. The Laser Energy Buying Group provides a comprehensive energy management service to some 210 local authorities and therefore has one of the biggest energy client portfolios for public sector authorities in the country. There is currently no comparable agency that can provide a similar service which has such a large client base. This is an important factor when making comparisons as the total purchasing power is linked to the number of member authorities that participate in the flexible framework. Laser has a staffing organisation of around 60 whom dedicate themselves to all the detailed analysis of each authority's individual requirements but this is then extended into a consolidated purchase alongside all of the other participating members. Hastings Borough Council is relatively small compared with other authorities but the prices obtained via the flexible procurement framework are the same prices being paid by the larger authorities.

7. Laser do charge a small service fee of 0.081p (per kWh) for their gas accounts and 0.170p (per kWh) (Half hourly) and 0.213p. (per kWh) (Non-Half Hourly) for their electricity bills which covers the cost of providing a validation service on electricity accounts. These charges are the norm for a non-domestic user in the energy supply industry. Hastings Borough Council only use their procurement service which regulates energy prices. Supplementary services are available but at an extra charge which include planning, management, and energy/carbon management. More information is available on their website (www.laserenergy.org.uk).

East Sussex Procurement Hub

8. Energy Procurement led by the East Sussex Procurement Hub has been discussed. However, there are slightly differing requirements amongst the authorities, for example, one purchases a percentage of green energy but most significantly, those authorities with housing stock are statutorily obliged to consult with the resident associations which is a lengthy process and can take up to a year.

Value for Money

9. The Government recommends that local authorities buy their energy through a Public Sector Buying Organisation (PSBO) and there are a number that have frameworks in place for the purchase of gas and electricity. These are;

Crown Commercial Services (Formerly Government Procurement Service) (CCS)
Eastern Shires Purchasing Organisation (ESPO)
LASER (Kent County Council)
North East Purchasing Organisation (NEPO)
Yorkshire Purchasing Organisation (YPO)

10. Of these NEPO and YPO buy smaller aggregated volumes, do not go to the market as frequently and are not as well-resourced as other PSBOs. ESPO currently buy their energy through the same frameworks as LASER so there would be little advantage in using them in preference to LASER. CCS arrangements are similar to those of LASER in terms of price and service but do not offer a fully managed option and there would also be the cost of change in moving from one organisation to another.
11. Other considerations for using LASER are as follows;
Currently procures on behalf of 210 public sector bodies and negotiates energy supplies worth £400m rather than just Hastings Borough Council's £0.3m. LASER is independently benchmarked, whereas independent information is not often available for other PSBOs. The latest Value For Money Assessment by the London Energy Partnership confirms that LASER's past performance has been effective, averaging 4.9% below market average price.
The approach is compliant with EU procurement regulations
They provide aggregated, flexible, and risk managed approach and expertise in energy buying for local authorities.
Accurate and efficient invoice and bill validation service based on a competitive management fee levy.

Risk Management

12. The advantage with using the Laser Energy Buying Group's services is that they possess the necessary expertise to measure all the risks associated with energy procurement which by definition are many in the volatile energy markets which include changes to oil prices, gas supplies from Russia, natural disasters, political unrest, 'Brexit' etc. These risks are also shared by all the other member authorities of the framework.

Environmental Issues

13. The Council is committed to reducing on its carbon emissions. The Income Generation report to Cabinet on 4 July 2016 also indicates that there is will be a Renewable Energy Strategy developed in partnership with others. It has been confirmed with Laser that there would be a cost of breaking the tripartite agreements early but if adequate notice is given, these should not be cost prohibitive.

Economic/Financial Implications

14. The performance of the Laser Energy Buying Group has demonstrated that the Council has benefited from some pricing stability on both electricity and gas. It is impossible to predict with any accuracy the way energy prices will be. However, it is considered that the Laser organisation will continue to negotiate the best possible rates for all of the authorities that are a party to their framework and that the Council's budget allocation for 2016/17 total £306,160 should be sufficient to cover the authority's requirements.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

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