

Report to Cabinet

Meeting on the 4th June 2020

By the Cabinet Member for Finance and Assets



**Horsham
District
Council**

DECISION REQUIRED

Not Exempt

Appointment of an energy procurement company to provide energy procurement services

Executive Summary

The Council has participated in a flexible energy procurement arrangement since 2015 under a Framework contract with LASER (a Public Sector Buying Organisation). This contract is now due for renewal and it is proposed that this arrangement should continue.

LASER provides the aggregated, flexible and risk-managed approach route to procurement in line with the Government's guidelines for energy-buying by local authorities. LASER effectively acts as a buying club whereby HDC joins together with other authorities and optimum prices are achieved by pooling their energy requirements.

This report proposes the Council's continued participation with LASER over the next contract period running from 1 October 2020 to 30 September 2024 but it does not commit the Council to a particular energy supplier or tariff.

The contractual arrangements cover the supply of gas and electricity to the Council's operational buildings and have achieved significant savings for the Council.

Recommendations

That the Cabinet is recommended:

- i) Given the estimated savings and the flexible procurement strategy, it is recommended that the Council continue its arrangement with LASER and participate in the framework contract for the 4 year period from 1 October 2020 to 30 September 2024.

Reasons for Recommendations

1. LASER benchmarks its purchasing performance each year and shares this information with its customers. This benchmarking exercise indicates that LASER has been able to deliver prices to customers at 4.6% below the market average over the last 4 years.

2. Government policy recommends that to spread market risk, and avoid buying during periods of peak market pricing, “all public sector organisations adopt aggregated, flexible and risk-managed energy procurement” as provided under the LASER framework.
3. LASER offers full flexibility to secure energy In line with the Council’s policy to reduce its carbon footprint

Background Papers

None

Wards affected: All

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Background Information

1 Introduction and Background

- 1.1 The Council has had a long standing arrangement with LASER (Local Authority Energy Buying Group) who purchase energy on the Council's behalf under a framework agreement. LASER currently manages the energy procurement for 160 local authorities including West Sussex, Horsham and Mid Sussex, with a total annual spend of £450 million.
- 1.2 Historically these energy contracts were tendered under fixed price arrangements which, in a relatively stable market, secured best value for the Council. However, wholesale energy price volatility over short periods in recent years made this an increasingly high risk strategy and therefore the Council switched to a system of flexible energy procurement as per Government guidance.
- 1.3 A wholesale flexible procurement arrangement enables the buyer to purchase blocks of energy at varying times both before and within the contracted supply period. The arrangement removes the risk of settling a LASER Member's requirement on a single day. Aggregating the volumes of members within the arrangement enables effective market hedging.

2 Relevant Council policy

- 2.1 The appointment is consistent with 5.3 of the Corporate Plan to provide quality, value for money services.
- 2.2 The contract arrangements provides for use of a green tariff, which supports 4.1 of the Corporate Plan to prioritise protection of the environment and increased biodiversity.

3 Details

- 3.1 LASER is a part of the Commercial Services Group, wholly owned by Kent County Council. It is fully European Union regulation (OJEU) compliant and LASER undertakes this role on behalf of 200 public sector organisations including over 130 local authorities throughout the UK with an annual spend of £450m (approximately 2% of the UK's non-domestic energy demand).

A small number of alternative Public Sector Buying Organisations (PBOs) provide a similar framework to LASER. Independent benchmarking of LASER's performance has been carried out by the Major Energy User's Council (MEUC) – an independent consumer organisation representing large energy users in the public sector, industry and commerce. Based on the MEUC's benchmark figures for the 2018/19 period, LASER delivered an outturn price 4.5% below the MEUC member's average for gas and 10.4% below the MEUC member's average for electricity. Analysis of other PBOs shows a high degree of variability in customer service – with LASER scoring well.

LASER has now completed the tender process for the next flexible energy framework contract which will run from October 2020 to September 2024 and requires

confirmation from its member authorities that they wish to participate in this new contract. The successful suppliers under this contract are:-

| | | |
|-------------|---|-------------------|
| Electricity | - | Npower |
| Gas | - | Total Gas & Power |

The Council has a green tariff under the existing contract with LASER. A green tariff means that the energy that the Council buys is matched by purchases of renewable energy that the energy supplier (Npower) makes. These can come from a variety of energy sources including wind and solar.

If the Council decides, in the future, to buy from a specific energy provider, such as a local wind farm, LASER can arrange this through a Power Purchase Agreement. This will be considered as part of a separate report which has been commissioned to determine how the Council can move towards a zero carbon footprint.

- 3.2 The framework contract covers electricity and gas supplies to the Council's operational sites with an estimated value over the 4 year contract term of £300k per annum (gas and electricity combined).
- 3.3 An early commitment is required by LASER from authorities wishing to participate in the new contract due to its nature which may involve energy purchasing on the wholesale market 12 months or more prior to the contract start date. LASER cannot commence forward purchase on behalf of Council sites until a commitment to join the framework contract has been received.

4 Next Steps

- 4.1 To complete the contract documentation.

5 Views of the Policy Development Advisory Group and Outcome of Consultations

- 5.1 The Policy and Development Advisory Group had no comments on the report.
- 5.2 The Monitoring Officer and S151 Officer comments are incorporated in the report.

6 Other Courses of Action Considered but Rejected

- 6.1 The relationship with LASER is an approved Framework procurement exercise and is OJEU compliant. There are a number of alternative bodies providing similar services, many of which are smaller, with less buying power. LASER's main competitor is Crown Commercial Service (CCS), another public sector procurement organisation, which could provide the same service but without additional benefits such as bill validation and invoicing services. Any change of supplier would mean changing the billing arrangements which would be disruptive, without any guarantee of financial benefit. Given the existing relationship with LASER, which provides a high quality customer service, there is not considered to be any advantage in moving to another supplier.

7 Resource Consequences

- 7.1 There are no adverse financial consequences, this is a renewal of an existing contract. The appointment provides a resource that the Council does not have and supports the Council in managing billing.

8 Risk Assessment

- 8.1 The intention of the appointment of LASER is to reduce the risk of the Council purchasing energy direct because the Council does not have this expertise.

9 Other Considerations

- 9.1 There are no other impacts.