

<b>Cabinet Meeting</b>		<b>Agenda Item: 7</b>
<b>Meeting Date</b>	10 September 2014	
<b>Report Title</b>	Procurement of utility supplies	
<b>Cabinet Member</b>	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance	
<b>SMT Lead</b>	Mark Radford	
<b>Head of Service</b>	Anne Adams	
<b>Lead Officer</b>	Sharon Edmead	
<b>Key Decision</b>	Yes	
<b>Classification</b>	Open	
<b>Forward Plan</b>	<b>Reference number:</b>	
<b>Recommendations</b>	1. That Cabinet approve that the current arrangement for energy purchasing via the Laser Energy Buying Group continue for the period October 2016- September 2020	

## **1 Purpose of Report and Executive Summary**

- 1.1 This report makes a recommendation to Cabinet regarding purchase of energy supplies for the period October 2016 – September 2020.
- 1.2 Due to previous good performance and changes recently made to the working arrangements of the Laser Energy Buying Group it is recommended that Swale Borough Council join this framework for a further four year contract to purchase electricity and gas supplies for all council owned buildings and external lighting.

## **2 Background**

- 2.1 In 2013/14 total spend on electricity was £93,714 and on gas was £31,108. Expected contract value over four years therefore exceeds £499,000, making this procurement a key decision for Cabinet.
- 2.2 There are three main methods of buying energy:
  - traditional fixed price contract (where prices for two years are based on the figure applicable on the date of the offer, which may be artificially high)
  - flexible fixed price contract (which allows the purchase of raw energy to be fixed over a number of trades from the wholesale market)
  - flexible variable price contract (where purchases are made as required, following the trends of the energy market, resulting in little budget certainty)
- 2.3 The Pan Government Energy Project, now part of Cabinet Office, recommended that all Public Sector organisations adopt flexible fixed price energy procurement as the best solution to cost reduction in this complex and volatile market. This

approach does need technical knowledge of the energy markets, requiring external support in the procurement of Swale Borough Council's energy supplies. In response to this need, Laser Buying Group was set up by Kent County Council's Commercial Services Unit and now purchases energy on behalf of 115 local authorities and 45 wider public sector bodies.

- 2.4 Within the Laser Group framework there are different purchasing arrangements, according to each site's energy usage, which are tendered through the Official Journal of the European Union to meet compliance with legislation and standing orders.
- 2.5 To maximise cost efficiency and to spread the risk of purchasing in a volatile market, Laser Group purchase energy in response to changes in the energy market, sometimes 2 years ahead of when the supply is required. Contracts for public sector groups to access the framework are therefore for a four year period. The current contract with Laser Group expires on 30 September 2016 and purchasing of supplies from 2016 will be taking place from December 2014.
- 2.6 Buying energy as part of a large purchasing group increases resilience and reduces the risk of pre-purchasing too much or too little energy, as each member's different peaks in usage will be smoothed out in the overall requirement. As Laser Group was implemented by Kent County Council, the objective of the organisation is to deliver an expert energy service to public bodies, rather than to create profit levels. Laser's energy purchasing is overseen by a Governance Panel on which there are industry experts as well as customers.
- 2.7 Where Trusts and community groups have taken on management of council buildings they have been permitted to purchase their energy supplies from Laser also to access bulk purchasing arrangements.

### **3 Proposal**

- 3.1 It is proposed that the council continues to purchase energy supplies via Laser Buying Group for the period 1 October 2016 to 30 September 2020, with Property Services leading organising contract renewals for each site on a category management basis.
- 3.2 As future energy costs cannot be predicted or tendered before a contract award is made, as would be the usual approach in procuring supplies, the proposal to purchase energy via the Laser Group framework is made due to the good service received and savings made to date. In the period September 2009 to October 2013, participation in the Laser Buying Group flexible framework has saved Swale Borough Council £24,100 against the maximum market prices that may have been secured if the council did not have access to technical expertise on predicted fluctuations in the energy market.
- 3.3 In the last year Laser has reorganised its management and staffing structure to provide a more tailored service to each council, and as a result Swale Borough Council has received added value in this contract, such as provision of free

specialist advice, in addition to more proactive contract management. As community groups have taken on responsibility for the management of council buildings, they have also been able to benefit from the council's arrangement with Laser.

- 3.3 As part of the commissioning process some benchmarking work was carried out on approaches taken to energy procurement by other Kent local authorities; all of the Kent councils that responded procure their energy supplies through Laser except one, which is planning to return to Laser when their current energy contract expires.

## **4 Alternative Options**

- 4.1 Laser Group has begun to offer an alternative to a four year contract: a two year rolling contract is now being offered where the contract can be terminated on the first contract anniversary after two year's notice has been given by the council. This has not been recommended as a two year commitment restricts the financial benefit that the council may gain from longer term energy purchases.
- 4.2 Tendering could be carried out internally or by an external consultant, however this approach would not allow the council to access the wholesale prices that Laser is able to obtain through aggregating the demand of 160 public sector customers. In addition, this approach would require accepting the energy prices offered at the point of tender in two-yearly cycles, as the council would not have the facility or required technical knowledge to pre-purchase energy at the time of lowest prices, creating a risk of buying energy at the peak of the market and increasing costs.
- 4.3 Alternative energy purchasing frameworks have been investigated, in particular Eastern Shires Purchasing Organisation (ESPO) which is based in eastern England), and from our investigations we have no reason to believe that ESPO will provide better value for money than Laser buying group. As Laser already has a successful track record of working with Swale BC, along with the majority of councils based in the South East of England, it is considered that there would be no benefit to changing to another buying group that offers the same services.
- 4.4 Crown Commercial Services provide separate single supplier frameworks for electricity and gas on a rolling two or three year basis, but this arrangement does not provide the same range of procurement choices that are available via Laser buying group.

## **5 Consultation Undertaken or Proposed**

- 5.1 The advice of the Procurement and Commissioning teams was taken and confirmation was given that use of this framework complies with contract standing orders and legal requirements.
- 5.2 Consultation of neighbouring local authorities has taken place to assess service and value for money of Laser Buying Group.

## 6 Implications

<b>Issue</b>	<b>Implications</b>
Corporate Plan	None at this stage
Financial, Resource and Property	Using a buying group to purchase energy provides value for money advantages, both in terms of savings achieved through bulk purchasing, and in much reduced staff time in tendering for supplies for each site.
Legal and Statutory	Statutory requirements are met using the Laser framework, as all energy procurement is carried out in line with the Public Contracts (Amendments) Regulations 2009. Use of frameworks for procurements is supported in the council's procurement strategy and approved in contract standing orders.
Crime and Disorder	None at this stage
Sustainability	Option to purchase 'green' energy is made available during procurements, at an additional cost per kWh.
Health and Wellbeing	None at this stage
Risk Management and Health and Safety	None at this stage
Equality and Diversity	None at this stage

## 7 Appendices

None

## 8 Background Papers

None