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**Meeting:** Executive  
**Date:** 15 September 2009  
**Subject:** Energy Contracts  
**Report of:** Portfolio Holder for Corporate Resources – Cllr Maurice Jones  
**Summary:** The report proposes that Central Bedfordshire Council uses the Central Buying Consortium’s flexible energy contract for electricity and gas supplies to Council buildings for the period 2009-2012

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Advising Officer: Clive Heaphy, Director of Corporate Resources  
Contact Officer: Alec Edgar  
Public/Exempt: Public  
Wards Affected: N/A  
Function of: Executive  
Key Decision: Yes  
Reason for urgency/  
exemption from call-in  
(if appropriate): N/A

**RECOMMENDATIONS:**

- 1. that the Executive endorse the proposal that Central Bedfordshire Council uses the Central Buying Consortium’s flexible energy contracts for electricity and gas supplies to Council buildings (including Schools) for the period 2009-2012.**
- 2. that the Executive endorse the procurement of electricity on a ‘green’ tariff where this does not have a premium exceeding 2.5%.**

*Reason for Recommendations:* To ensure the Council procures gas and electricity supplies for Council buildings at competitive rates and according to recommended best practice for local government.

To reflect the environmental and sustainability priorities of the Council.

## **Introduction**

1. Central Bedfordshire Council inherited approximately 200 properties from the former County Council – schools, libraries, offices etc. The annual electricity and gas cost for these properties is about £2.2 Million.
2. Energy for most of the former County properties is supplied on contracts tendered by the Central Buying Consortium; a group of 17 local authorities including Central Bedfordshire. Using the Consortium enables the energy volumes of many organisations to be aggregated to obtain better prices and lower supplier margins.
3. Energy buying for a large property estate is a specialist task, and the Central Buying Consortium now works closely with ‘Laser’, a commercial service of Kent County Council. Laser are full time energy buyers, procuring energy on behalf of 87 local authorities.
4. Electricity and Gas have traditionally been purchased on 1 or 2 year contracts at prices fixed at the start of the contract. The current electricity and gas contracts terminate on 30 September 2009 and 31 October 2009 respectively.
5. It is proposed to commence two new ‘flexible’ contracts for the period to September 2012 on the basis outlined below.

## **Minimising Risk and Controlling Costs**

6. Energy prices are influenced by many factors including the weather, supply constraints, geo-political issues, exchange rates and market sentiments. They are therefore highly volatile. The approach of procuring energy at a fixed price for a fixed period can be regarded as a high risk strategy because of the high risk of fixing at a price which subsequently does not prove to be a low point on the price curve.
7. Laser have developed a flexible procurement approach that is designed to minimise the risk of fixing prices in volatile market conditions. Flexible procurement means that ‘blocks’ of energy are bought at varying times both before and within the contracted supply period. The arrangement removes the risk of settling an authority’s requirement on a single day. Aggregating the volumes of members within the arrangement enables effective market hedging. This means that Laser will take advantage of the market by buying more blocks when prices are relatively low and fewer blocks when prices are high.
8. All blocks of energy for a contract year are bought in advance before the start of the contract year. This gives certainty of price for that year because all the energy has been bought, but retains the flexibility for future years in the contract period.

9. The flexible contracts are available under an EU tendered framework. So far 56 of the 87 authorities for which Laser procure have signed up to the flexible contracts.

### **Advantages**

10. (i) Flexible procurement of energy reduces the high risk associated with fixing prices on one date.
- (ii) Because all the energy for a year can be bought in advance flexible procurement still provides the certainty of fixed annual prices for budget setting purposes.
- (iii) Flexible procurement of energy is recommended by the OGC (Office of Government Commerce), the RIEP (Regional Improvement and Efficiency Partnerships) and DCSF (Dept for Children, Schools and Families). The Laser flexible procurement model has been assessed as “Compliant” to best practice for energy procurement by the OGC Energy Review Project team.

### **Disadvantages**

11. (i) Currently Laser procures fixed price energy contracts on our behalf at no charge. Because flexible procurement involves continual buying activity during the contract there are annual charges per site as set out in paragraph 12.
- (ii) Flexible procurement removes the risk of a fixed price in a volatile or falling market. However, a fixed price may be more advantageous in a rising market. Unfortunately only hindsight can confirm this.

### **Costs**

12. Laser charge approximately £65 per annum for Gas sites; £100 per site for half-hourly electricity sites (larger sites); £30 per non-half-hourly site (most sites). The total management cost will be approximately £22,000 pa. This is less than 1% of energy spend. The cost of Laser is more than covered by the savings achieved by a specialist energy buyer.

### **Former District Council Properties**

13. It is proposed to add the former District Council offices (Priory House and High St North, Dunstable) to the flexible contracts as their existing arrangements terminate. Smaller supplies, such as ‘landlords’ supplies to the ex-South Bedfordshire housing stock will not be included as the costs would outweigh the benefits.

## Partner Organisations

15. Bedfordshire Police and Bedfordshire and Luton Fire and Rescue service have made use of the Central Buying Consortium contracts. Both have indicated they wish to use the flexible contracts.

## Sustainability

14. Energy use and its associated 'carbon footprint' is a significant environmental impact for the Council. There are two main ways to reduce this - taking steps to reduce the demand for energy and switching to renewable forms of energy.
16. Electricity can be procured on "green tariffs" which can include both renewable and low-carbon generation. Green tariffs carry a price premium because supplies are limited – usually in the region of 2-2.5% (around £25k additional annual spend). Because taking green tariffs makes a statement of the authority's priorities in terms of the environment it is proposed that green tariffs are taken, where these are available, without incurring excessive budgetary strain.
17. In the longer term, a programme of demand management of energy may have greater environmental (and financial) benefits, and would help meet the authority's obligations under the Carbon Reduction Commitment. The current trials and proposals on reducing energy use by Street lighting are a good example of this.

## Conclusion

18. Central Bedfordshire Council should take advantage of the Flexible Procurement framework offered by Laser through the Central Buying Consortium for gas and electricity supply in the period 2009-2012 in order to minimise the risk in energy procurement and to follow best practice recommendations for the public sector.

### CORPORATE IMPLICATIONS

#### **Council Priorities:**

The management of finances, the restraining of Council Tax and the delivery of value for money are key enablers for ensuring the successful delivery of the Council's Priorities (Central Bedfordshire's Strategic Plan).

#### **Financial:**

The cost of ongoing electricity and gas supplies for former County Council properties is approximately £2.2M per annum. The cost of operating a flexible procurement service is approximately £22,000 per annum (see paragraph 12). This will need to be met from energy budgets of each site but should only be about 1% of budgeted cost. and represents an overall saving.

**Legal:**

The use of the Central Buying Consortium's flexible energy contracts provides a cleaner approach in relation to procurement and presents no major legal implications.

**Risk Management:**

The flexible service offers to minimise the financial risk and enhance the control of expenditure in a volatile market.

**Staffing (including Trades Unions):**

None

**Equalities/Human Rights:**

None

**Community Safety:**

None

**Sustainability:**

Continued use of 'green tariffs' to demonstrate corporate commitment to low carbon and renewable energy.

**Appendices:**

None

**Background Papers (open to public inspection):**

None