
Meeting: Executive
Date: 15 March 2011
Subject: Energy Contracts
Report of: Cllr Jones, Portfolio Holder for Finance, Governance and People
Summary: The report proposes that Central Bedfordshire Council continues to use the Central Buying Consortium's flexible energy contract for electricity and gas supplies to Council buildings and Streetlighting for the period 1 October 2012 - 30 September 2016.

Advising Officer: Richard Ellis, Director of Customer & Shared Services
Contact Officer: Alec Edgar, eProcurement & Payments Manager
Public/Exempt: Public
Wards Affected: All
Function of: Executive
Key Decision Yes
**Reason for urgency/
exemption from call-
in (if appropriate)**

CORPORATE IMPLICATIONS

Council Priorities:

Obtaining value for money is critical to the Council's ability to meet its priorities. The purchase of energy on a flexible price basis is now established as best practice.

Financial:

The cost of ongoing electricity and gas supplies for properties (including Schools) is approximately £2.2M per annum. The cost of operating a flexible procurement service is approximately £22,000 per annum (see paragraph 11). 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.

There is a charge of approximately £800-£900 per annum for operating a flexible contract for streetlighting. This is a small cost (less than 0.02%) compared to the annual contract cost. On average flexible procurement outperforms fixed price contracts between 4% for "Purchase in Advance" (the procurement method used for buildings) and 4.85% for "Purchase within Period" (the method used for streetlighting) so the additional costs should be more than covered by the likely savings of circa £100k obtained from using a flexible approach.

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:

This flexible service is designed to avoid the potential for additional costs associated with fixed price agreements and enhance the control of expenditure in a volatile market.

Staffing (including Trades Unions):

None

Equalities/Human Rights:

None

Community Safety:

The flexible service provides ongoing gas and electricity provision, including to schools and street lighting contributing to community safety.

Sustainability:

Continued use of 'green tariffs' demonstrate a corporate commitment to low carbon and renewable energy. Whilst the flexible approach to energy procurement detailed in this report is designed to avoid the potential for additional costs, it should be noted that the measures in the Council's Climate Change Strategy and Carbon Management Plan, which details how the Council will aim to reduce energy use and carbon emissions, represent the best opportunity for the Council to reduce energy costs and to ensure that the financial burden on the Council of the Carbon Reduction Commitment (CRC) is minimised.

RECOMMENDATIONS:**That the Executive:**

- 1. endorses the proposal that Central Bedfordshire Council continues to use the Central Buying Consortium's flexible energy contracts for electricity and gas supplies to Council buildings for the period 2012-2016, and continues to make these contracts available for schools to use should they wish;**
- 2. continues to endorse the procurement of electricity on a 'green' tariff where there is no additional cost to the Council above non-green tariffs..**

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.*

Executive Summary

This report sets out a proposal in relation to energy procurement for schools, street lighting and Council-owned properties which meets with Council priorities and enables the procurement of electricity on a 'green' tariff.

Introduction

1. Energy for most Council properties and Streetlighting 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.
2. 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.
3. Electricity and Gas were traditionally purchased on 1 or 2 year contracts at prices fixed at the start of the contract. In September 2009, Central Bedfordshire Executive resolved to enter into 'flexible' contracts for the period to 30 September 2012 on the basis outlined below. In February 2010, the Executive similarly resolved to add Streetlighting to the flexible contracts from 1 April 2010 (at the expiry of the existing contract). Laser are now tendering for similar contracts to cover the period 1 October 2012 to 30 September 2016, and have requested that we advise our intention to use these by end of March.

Minimising Risk and Controlling Costs

4. 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 could be regarded as a low risk strategy, but doesn't necessarily secure the optimum price at any point in time.
5. Laser have developed a flexible procurement approach that is designed to avoid the potential for additional costs associated with fixed price arrangements in volatile market conditions. Flexible procurement means that 'blocks' of energy are bought at varying times both before and within the contracted supply period. 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.

6. All blocks of energy for a contract year can either be bought in advance before the start of the contract year (“Price In Advance”) or bought both in advance and within the contract year (“Price Within Period”). Price in Advance gives certainty of price for that year because all the energy has been bought and retains the flexibility for future years in the contract period, and is the method used and proposed for property energy. However, for streetlighting most authorities use Price Within Period which requires some reconciliation of charges but gives maximum scope to obtain better overall prices.
7. 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

8.
 - (i) Flexible procurement of energy allows users of the Laser service to avoid the potential for costs 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

9.
 - (i) As flexible procurement involves continual buying activity during the contract there are annual charges per site as set out in paragraph 10.
 - (ii) Flexible procurement avoids the potential for cost of entering into fixed price agreements 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

10. 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. There is a charge of approximately £800-£900 per annum for operating a flexible contract for Streetlighting. This is a small cost (less than 0.02%) compared to the annual contract cost. On average flexible procurement outperforms fixed price contracts between 4% (for Purchase in Advance) and 4.85% (for Purchase within Period), representing a likely saving of circa £100k so the additional costs should be more than covered by the likely savings obtained from using a flexible approach.

Schools

- 11 Schools currently take advantage of the Corporate energy contracts. A small administration fee is included in the billing rates to schools to cover the costs of this. It is proposed to continue this arrangement where schools wish, though they would be free to make their own arrangements at the end of the current contracts (October 2012) if they so wish.

Alternatives

12. The alternative to continuing the flexible arrangements into new Laser/Central Buying Consortium contracts would be to return to tendering fixed price – fixed term contracts. This would both be contrary to best practice advice, and involve considerable additional un-resourced workload for the Procurement Team.

Partner Organisations

13. 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. The Council demonstrates its commitment to reducing this in its Climate Change Strategy. There are two main ways to reduce this - taking steps to reduce the demand for energy and switching to renewable or low carbon forms of energy.

15. Electricity can be procured on “green tariffs” which include both renewable and low-carbon generation. Green tariffs carry a price premium because supplies are limited, but this can be offset by savings made because green tariffs are exempt from the Climate Change Levy. Green energy from a 100% renewable source (e.g. wind) commands a higher premium than low carbon electricity from “Good Quality Combined Heat and Power” (GQCHP) from efficient gas power stations. This has lower CO₂ emissions, but is not carbon free.
16. In September 2009 the Executive endorsed procurement of electricity on a green tariff only where there is no additional cost to the Authority. The Council’s current flexible procurement framework agreement provides GQCHP electricity at no additional cost (the price premium equals the levy savings). However, the future framework, to be let in October 2012, is likely to be a mixture of renewable and qualifying combined heat and power. Both types of electricity are exempt from the Climate Change Levy.
17. In the longer term, a programme of demand management of energy may have greater environmental (and financial) benefits and will reduce the financial burden on the Council of the Carbon Reduction Commitment (CRC). The Council’s approach to energy efficiency and carbon reduction are detailed in the Climate Change Strategy and Carbon Management Plan.

Conclusion

18. Central Bedfordshire Council is advised to 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.

Appendices:

None

Background Papers (open to public inspection):

None