

Council

22nd February 2024



Title	Procurement of Bureau Service and Energy (Gas & Electricity) Contract
Purpose of the report	To make a decision
Report Author	<i>Russell Davis Property Accounts Manager</i> <i>Hilary Gillies Interim Head of Procurement</i>
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community Affordable housing Recovery Environment Service delivery The recommendations in the report will address all of the Corporate Priorities.
Recommendations	Council is asked to: 1) Approve the Council entering into a contract for the provision of a Bureau Service and Supply of Energy (Gas and Electricity) with Kent County Council (KCC) LASER for a period from October 2024 to September 2028; and 2) Authorise the Group Head of Assets to agree terms in respect of any necessary contract arrangements with KCC LASER; and authorise the Group Head of Corporate Governance to enter into a contract with the KCC LASER.
Reason for Recommendation	The current contract with KCC LASER for the provision of the Bureau Services and energy supplies will end on 30 th September 2024. Given the nature of energy procurement, the Council are advised to commit to entering into a new contract. Entering into a contract now will allow sufficient time for KCC LASER to include our energy requirements in a purchase in advance (PIA) energy contract, which will commence in October 2024.

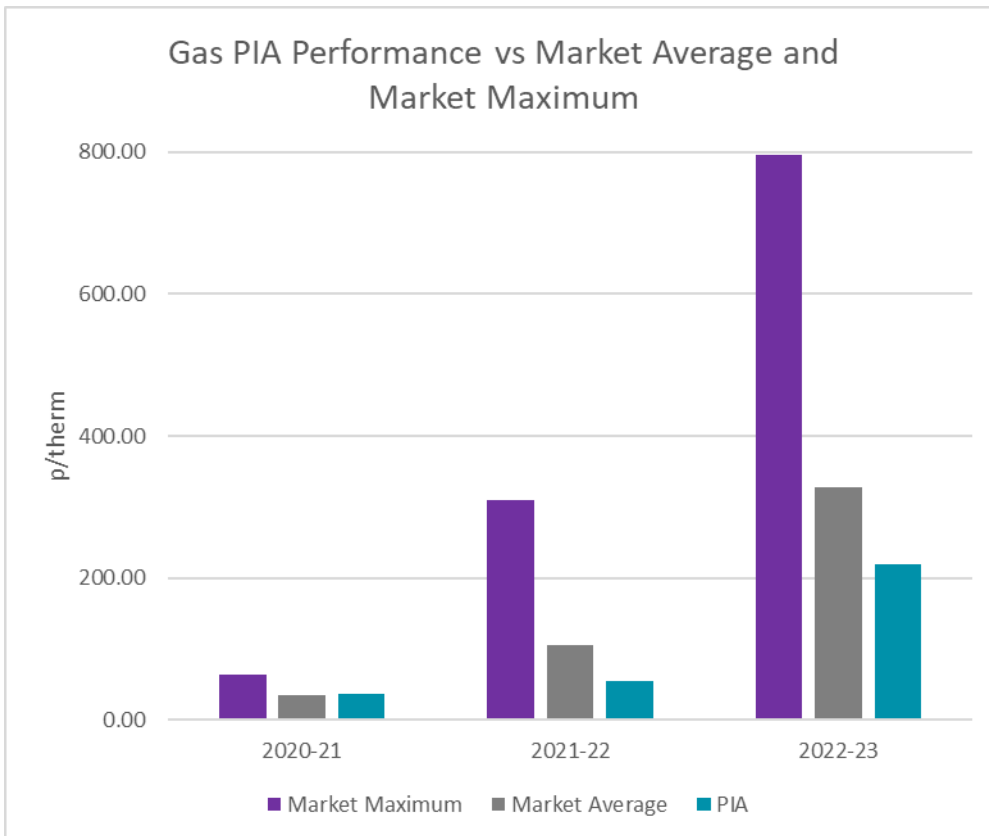
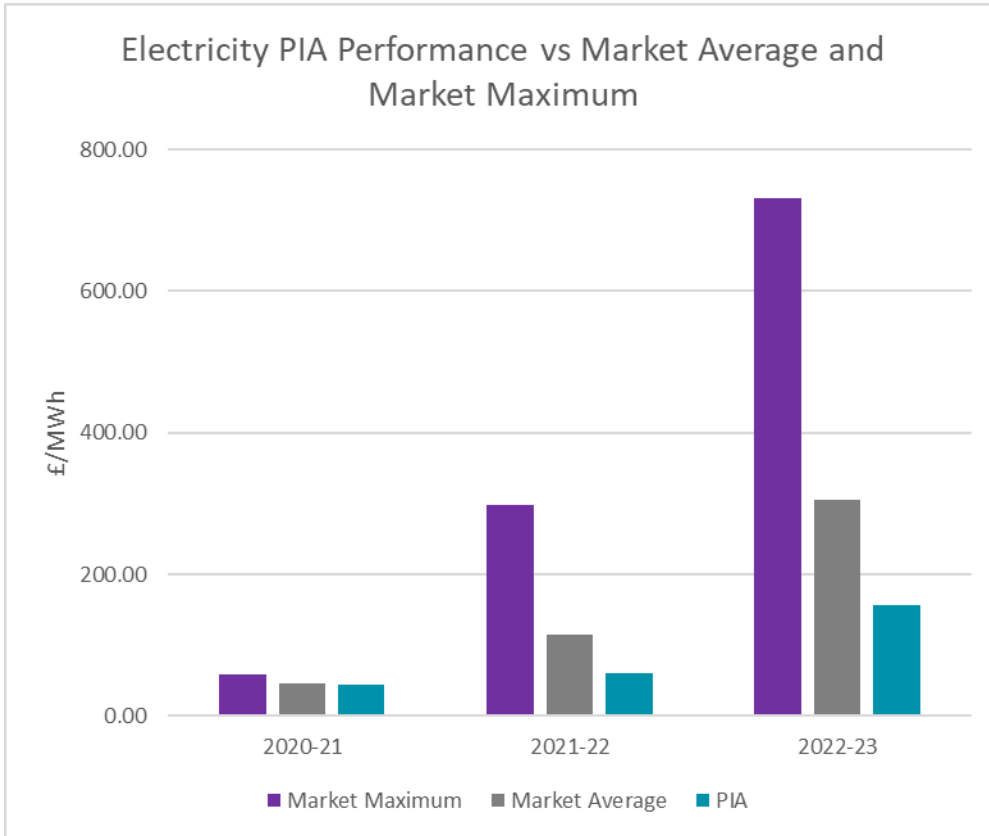
	If The Council do not enter into a back-to-back contract there is a risk of varying energy rates and provision once the existing contract expires.
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1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> The current contract with Kent County Council (KCC) LASER will end on 30th September 2024. The Council now needs to enter into a new contract to ensure that we aren't at risk of large price increases, from out of contract rates. 	<ul style="list-style-type: none"> To ensure that the Council continues to have very strong budget certainty. Also, to try to keep our prices as low as possible and with less seasonal fluctuations. Blocks of electricity and gas are purchased throughout the proceeding 12-18 months. The reason for this is to try to avoid short term pricing fluctuations by purchasing blocks of electricity and gas, in advance.
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> We would like to directly award a services contract for Bureau Services to KCC LASER and for LASER to procure our gas and electricity. There are currently two basket strategies available to us with varying risk appetite and budget certainty. These are Purchase Within Period (PWP) and Purchase in Advance (PIA). Purchase Within Period offers poor budget certainty and is exposed to much greater market volatility than the PIA option. We would like to continue with the PIA option. 	<ul style="list-style-type: none"> It is recommended the Council now enters into a new contract with KCC LASER. This will ensure the Bureau Service they currently provide to manage our utility provision continues (which to date has delivered £112k of savings); and to enable our energy requirements to be taken to market in sufficient time to procure gas and electricity supply from October 2024 onwards.

1.1 This report seeks to gain approval from the Council to enter into a new contract with the Council's current utility manager (KCC LASER) for the provision of utility management service (known as a Bureau Provider), and to procure our Gas and Electricity supply contracts.

- 1.2 The current contract with Kent County Council (KCC) LASER will end on 30th September 2024. Given the nature of energy procurement, the Council is able to secure favourable energy prices by purchasing our electricity and gas 18-24 months in advance.
- 1.3 This earlier commitment allows the supplier to take our usage requirements to market in advance of contract commencement (known as Purchase in Advance (PIA)) and to achieve lower market prices, based on the economies of scale.
- 1.4 Having reviewed procurement options, and taking into account the nature of our property portfolio (and associated tariffs), PIA presents the lowest risk of short-term market volatility to the Council and comes with very strong budget certainty. This should help to keep our prices as low as possible and with less seasonal fluctuations.
- 1.5 Blocks of electricity and gas are purchased throughout the preceding 12-18 months, by KCC LASER, as part of a 'flexible basket' and then a fixed price is set for the coming year, each October. The reason for this is to try to avoid short term pricing fluctuations by purchasing blocks of electricity and gas, in advance. This approach has helped us to avoid the massive increases businesses and private consumers have been seeing over the last few years.
- 1.6 We understand this to be true because of the level of rates SBC has had on the energy contracts. The Council has not even been eligible for some of the discounts the government introduced, as our price was already lower than the rate set to obtain a discount. This was a very good measure of how well the current 'Purchase In Advance' strategy is and how it has worked for us to date.
- 1.7 There are currently two basket strategies available to us with varying risk appetite and budget certainty. These are Purchase Within Period (PWP) and Purchase in Advance (PIA). Purchase Within Period offers poor budget certainty and is exposed to much greater market volatility than the PIA option.
- 1.8 It is recommended the Council now enters into a new contract with KCC LASER. This will ensure the Bureau Service they currently provide to manage our utility provision continues (which to date has delivered £112k of savings); and to enable our energy requirements to be taken to market in sufficient time to procure gas and electricity supply from October 2024 onwards.
- 1.9 The majority of the savings come from purchasing in advance, rather than within the period of consumption. This avoids market fluctuations due to economic factors outside of our control. The graphs below show the performance of the PIA strategy (purchasing in advance) against the market maximum and market average costs for the last 3 years.



In line with the Council's Climate Change Strategy, the objective is to procure 'green' energy wherever possible. The Council continued to procure 'green' electricity (REGO) in October 2023 when the current years consumption ended. Green gas (RGGO) for the same period was not purchased, primarily due to the additional cost being disproportionate to our total Gas spend.

2. Key issues

- 2.1 Spelthorne Borough Council has a contract with KCC LASER to provide a Bureau Service, and to procure our gas and electricity. The Bureau Service includes:
- a) Bill Validation, where our suppliers' prices are checked and any errors corrected before bills are issued to us
 - b) Query Management
 - c) Adding or Removing Supply Management
 - d) Monthly Portfolio Reviews
 - e) Energy Usage Data
 - f) Energy Manager Live Platform access to all of our energy data

LASER are able to purchase much larger volumes of energy than the Council would be able to, independently, which also results in lower management fees.

- 2.2 As a Local Authority trading company, LASER has a large number of public sector clients and provides a competitive service. LASER was established by Kent County Council in 1989 to collaboratively procure energy on behalf of the public sector.
- 2.3 LASER is a Public Sector Buying Organisation and Kent County Council remains the Contracting Authority for all procurement frameworks established by LASER.
- 2.4 LASER's frameworks are established in accordance with the Public Contracts Regulations 2015, allowing other public sector bodies to utilise LASER's frameworks without having to run a separate tender process. LASER works with over 200 public bodies in the UK, collectively purchasing over £1.5 billion of gas, electricity and water in 2022, on behalf of around 85,000 end users.
- 2.5 The Council currently spends around £200k on gas and £410k on electricity per annum. The current gas supplier is Total Energies and the electricity supplier is Npower. KCC LASER manage the supplier relationships with the electricity and gas suppliers, on our behalf.
- 2.6 The anticipated value of a 4-year combined contract for energy is therefore in the region of £2.44m, based on current prices. This is likely to be higher than this for the next 4 years.
- 2.7 The forecast for the current year from October 2023 to September 2024, prices based on estimated consumption are in the region of £740k.
- 2.8 In addition to the energy supplies, the Council also procures a bureau service from LASER. This is detailed above and enables accurate billing (for example through invoice matching) and contract and account management.

In the figures provided to us by LASER, to date savings, of almost £125k (cost avoidance) have been achieved with their support, in the first two years of the existing contract, as below:

Description	Saving
Purchasing performance	£112k
Reduced supplier management fees	£ 9.5k
Price Validation	£ 1.8k
Various (volume and activity-based economies)	£ 1.5k
TOTAL	£124.8k

- 2.9 The cost of the bureau service is determined by the number of supplies (usually meters). This will be a fixed charge, per meter, going forwards. The Council currently pay approximately £11.2k per annum for the bureau service, i.e. just under £45k for the total 4-year contract.
- 2.10 LASER has set up a framework agreement of suppliers of gas and electricity. The new framework agreement (as with previous iterations of the same type of contract), has been tendered in a manner fully compliant with the Public Contracts Regulations (PCR) 2015, and allows other public bodies access to these suppliers via a further competition.
- 2.11 The Council provides LASER with full details of its property portfolio and general gas and electricity consumption data. LASER then combine these volumes with other authorities' volumes and similar property profiles - thereby creating a much larger volume capable of attracting greater economies of scale - and carry out a further competition with the suppliers on their framework.
- 2.12 Procurement of energy is specialised and complex. The procurement of the Council's own supplies direct from the market would be unlikely to deliver value for money (due to small volumes). In addition, the management of supplier invoices would be resource intensive, or would require an investment in specialist billing software.
- 2.13 The Council has received a very good service from LASER, and has benefitted from significant savings via the service delivery.
- 2.14 The preferred route to procuring our energy supplies is therefore via KCC LASER.

3. Options analysis and proposal

3.1 Option 1: - Do nothing (Not Recommended)

If the Council opt not to renew LASER's contract, or re-tender a new contract, it would be out of contract for the supply of gas and electricity. This would mean deemed rates from suppliers. This ultimately means that we would be subject to market volatility and much higher prices, along with the fluctuation of no contract being in place.

A deemed rate contract is put in place when energy is consumed without having negotiated a deal with a supplier. They are rolling contracts which typically last

for 28 days, meaning that during each month without switching, payments could increase.

Whilst prices are set by individual suppliers, and some will charge more than others, deemed rates are usually among the most expensive.

3.2 Option 2: Directly award a services contract for Bureau Services to KCC LASER and for LASER to procure our gas and electric (Recommended)

The value of the services contract over 4 years will be in the region of £45,000. Whilst this value of spend would normally require us to competitively tender the requirement from a minimum of 3 providers, there are mitigating factors suggesting that this would not be beneficial, not least that there is a limited number of providers who have a public sector focus; that the service provided from LASER has been exceptional; and the cost of change (including the transfer of portfolio data) would not need to be incurred if we award a direct contract to LASER.

Some of the benefits of this are that the Council will benefit from continuity of service and eliminate the cost of change. The Council will continue with its existing framework of support and service from KCC LASER so there would be no disruption to service.

Also, it would require a significant project to move all electricity and gas supplies to a new supplier and a new broker, with no cost savings to negate these.

KCC LASER also provide more tools to help manage the Council's utility consumption and costs, at no additional charge. To set these up with a new broker may attract further charges.

3.3 Option 3: Tender the Bureau Services requirement with a further 2 providers who could then take the Council's requirements to market (Not Recommended)

This option is not recommended, as the time and resources to procure a new service provider would not be justified. Also, the cost and complexity of changing as mentioned above, would not be in the public interest, nor the general interest of the Council.

To change service provider the Council would lose continuity of service and have the cost of change. There would potentially be disruption to service. Also, it would require a significant project to move all electricity and gas supplies to a new supplier and a new broker, with no cost savings to negate these.

KCC LASER are also providing the Council with more tools to help manage its utility consumption and costs, at no additional charge. To set these up with a new broker may attract further charges

4. Financial implications

- 4.1 The financial implications could be significant if we do not enter into a new contract before 31st March 2024.
- 4.2 The Council has faced increasing utility costs over the last few years due to the volatility of the market. These have been mitigated somewhat by utilising the buying strategy with LASER and purchasing blocks of energy in the future.

5. Risk considerations

- 5.1 The biggest risk would be if we do not enter into a contract and end up on deemed rates. This would result in significant costs to the Council.
- 5.2 By utilising the 'Purchase In Advance' strategy, we are effectively able to mitigate a lot of the risks of market volatility and ensure a good degree of budget certainty, whilst keeping costs as low as possible.
As mentioned above the past performance of this strategy has outperformed the market consistently and saved us considerable sums of money.

6. Procurement Considerations

- 6.1 KCC LASER is well-known in the market as a strong and reliable provider of bureau services and energy procurement in the public sector.
- 6.2 The service provided to SBC has been exceptionally responsive, and has delivered cost avoidance savings on our behalf.
- 6.3 Whilst Contract Standing Orders ordinarily require a tender with a minimum of 3 providers, KCC LASER's public sector positioning makes it a favourable option, not only for SBC but for the wider public sector, whose volumes are combined in the larger portfolio which LASER take to market.
- 6.4 LASER provide a compliant route to ensure value for money from the gas and electricity providers on their framework agreement.
- 6.5 In summary, it is not in the interest of the Council to tender this requirement, and a direct award is fully supported.

7. Legal considerations

- 7.1 There are no risk considerations arising from the report.

8. Other considerations

- 8.1 If we do not make a decision before 31st March 2024 then we could be at risk of not having utility contracts in place from 1st October 2024 onwards.

9. Equality and Diversity

- 9.1 There are no equality and diversity considerations arising from the report.

10. Sustainability/Climate Change Implications

- 10.1 There are no Sustainability/Climate Change Implications arising from the report.

11. Contact

- 11.1 Russell Davis - r.davis@spelthorne.gov.uk
- 11.2 Hilary Gillies - h.gillies@spelthorne.gov.uk

Background papers: There are none.