

Cabinet Member Delegated Decision 21 September 2018

Report title: Corporate Gas and Electricity Supply Contracts 1 April 2019 – 31 March 2020

Wards: All

Portfolio: Cabinet Member for Finance, Cllr Andrew Wilson

Report Authorised by: Jackie Belton: Strategic Director for Corporate Resources

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Report summary

Lambeth has procured its gas and electricity supply requirements through the Crown Commercial Services (CCS) energy supply framework since 2010. The contracts cover the supply of gas and electricity to council office buildings, community centres, parks and open spaces, street lighting, schools and social housing communal supplies (staircase/corridor lighting and lifts).

The purpose of this report is to seek formal approval for continued use of the CCS Energy Framework to obtain providers for the supply of gas and electricity for the period 1 April 2019 to 31 March 2020.

Lambeth is a member of the London Energy Project (LEP). The LEP is a collaborative Category Management resources whose principle purpose is to use authorities' combined spending power to minimise risk, reduce procurement, contract operation and back-office costs and achieve better commercial outcomes. The LEP is undertaking a pre-market engagement exercise to review the commercial structuring and management opportunities for its public authority members in relation to their energy supply contracts – with a renewed best practice energy procurement strategy due for implementation in April 2020.

This proposed contract extension enables the new strategy to be implemented upon renewal of the contracts in April 2020.

Finance summary

The total expenditure on the council's General Fund and HRA energy supplies paid centrally is estimated to be in the region of £9,000,000 per annum and incorporates provision to cover any increase in energy consumption in council buildings or any re-billing from previously estimated accounts.

Procurement pays for the energy supplied to all Corporate and Housing Revenue Account (HRA) supplies, recharging the costs on a monthly basis to the relevant Business Unit / Departmental budgets. All costs in respect of these contracts will be met from within existing Business Unit / Departmental Budgets.

Schools and other Tenant Management Organisations (TMOs) who utilise the council's corporate energy supply contracts are billed directly by the energy suppliers and are responsible for payment directly from their budgets.

Recommendations

1. To approve the continued use of the CCS Energy Frameworks to obtain providers for the supply of gas and electricity to cover the 12 month period 1 April 2019 to 31 March 2020 for an estimated total cost of £9,000,000.
2. To approve the use of CCS' appointed energy framework suppliers for the supply of gas and electricity to cover the 12 month period 1 April 2019 to 31 March 2020. The breakdown of contract spend between the appointed suppliers is estimated at; EDF Energy (large electricity supplies and street lighting) £1,500,000, British Gas Business (smaller electricity supplies) £4,000,000, and Corona Energy (corporate gas supplies) £3,500,000.

1. Context

- 1.1 The Council's corporate gas and electricity contracts cover the supply of gas and electricity to Council office buildings, community centres, parks and open spaces, street lighting, schools and social housing communal supplies (staircase/corridor lighting and lifts). Lambeth has one of the largest energy portfolios out of the London local authorities with in excess of 4,000 individual gas and electricity supply points.
- 1.2 The LEP is a Category Management resource funded on a co-operative basis by its 74 participating authorities (primarily in London) and now works in collaboration with NHS London Procurement Partnership. The LEP's principle purpose is to use authorities' combined spending power to minimise risk, reduce procurement, contract operation and back-office costs and achieve better commercial outcomes. As a member, Lambeth receives specialist utility procurement advice and contract management support from the LEP. In 2008, the LEP took a lead on centralising London energy spend and formally endorsed the use of two public sector Professional Buying Organisations (PBO) to undertake risk managed aggregated flexible energy procurement on behalf of its members; KCC Laser and Crown Commercial Services (CCS).
- 1.3 Lambeth has procured its gas and electricity supply requirements through the CCS energy supply framework since 2010.
- 1.4 In aggregating its energy supplies with a Professional Buying Organisation the Council benefits not only from the size of its estate but that of other public bodies. The PBO (and not the energy suppliers) purchases the energy on behalf of the Council direct from the wholesale energy market accessing reduced traded prices. This is done over a six month procurement window, to enable our energy to be purchased in a regulated risk managed manner, providing protection from price peaks, smoothing out energy prices through a series of purchases over the six month period.
- 1.5 The energy purchased by the PBO is supplied by their appointed framework energy suppliers, who are appointed following a competitive process in compliance with EU legislation, based on their cost to serve and administer the supply of the energy.
- 1.6 The average energy price achieved by the PBO over the six month purchase window is combined with the energy suppliers agreed cost to serve and pass through industry charges to determine the fixed rate for each Council site for a 12 month period. This process is then repeated to renew prices each year. The process ensures that the Council's energy requirements are purchased in a risk managed manner, ensuring value for money and enables our account to be managed strategically in collaboration with the LEP and participating members.
- 1.7 This is a Gateway 3 Procurement Report.

2. Proposal and Reasons

- 2.1 It is proposed to continue the use of the CCS Energy Framework for the supply of gas and electricity commencing 1 April 2019 to 31 March 2020, continuing to be supplied for this duration by their appointed energy suppliers: EDF Energy (RM1075) Corona Energy (RM1076) and British Gas Business (RM3791).
- 2.2 In utilising the existing CCS arrangements, the Council continues the use of current best practice energy procurement processes as endorsed by the LEP. These include:

- Collaboration

Lambeth’s energy portfolio is aggregated with the rest of the public sector portfolio managed by CCS, to gain direct access to the wholesale energy markets – an area which no local authority could access on its own based on the individual size of its portfolio, where energy is purchased based on reduced traded prices in the futures market. CCS shape the aggregated portfolio in an optimum way to gain further price efficiencies (maximising energy purchased at cheaper base load prices (e.g. through combining street lighting requirements across all authorities / minimising energy purchased at more expensive peak load prices).
- Flexible and Risk Managed Procurement

The Council’s energy requirements will be purchased over a six month window, in a regulated manner upon market falls and provides protection for price peaks, smoothing out energy prices over the procurement window. The average price from the purchases over the procurement window, is combined with the energy suppliers cost to serve to make up the authority’s delivered contract price for a 12 month duration from 1 April 2019.
- OJEU Compliant Framework

The use of PBOs is enabled by Regulation 37 of the Public Contracts Regulations 2015 and Regulation 55 of the Utilities Contracts Regulations 2016. A PBO is defined in the Public Contracts Regulations as a contracting authority that acquires goods or services, awards public contracts or concludes framework agreements intended for one or more contracting authorities.
- Benchmarking / Supplier Management Programme

Under the arrangements, energy suppliers have dedicated account managers and teams specific for the CCS customers with a query escalation process incorporated into each energy supply contract. The LEP undertake annual independent benchmarking of CCS’ energy purchasing performance against the annual wholesale energy market averages, undertaking a Supplier Management Programme to maintain and improve framework supplier performance. Previous LEP benchmarking has demonstrated our processes deliver value for money, achieving a price for our energy that is lower than the wholesale market average overall several years.

2.3 Over the next quarter LEP will complete a formal options appraisal of future energy procurement strategy, formally evaluating operators against a Statement of Requirements and endorse renewed best practice energy procurement strategy for its members for implementation in April 2020. This proposed contract extension enables the new strategy to be implemented upon renewal of the contracts in April 2020. The considerations under review are detailed in the Procurement Section (Section 9.3) of this report.

3. Finance

3.1 The council’s estimated energy spend for 2018/19 is detailed in the table below:

Supplier	Spend				Total by Energy Contract £
	General Fund Activities £	HRA £	Schools £	TMO/Other £	
EDF Energy Hourly (HH) & Unmetered					

Electricity Supplies (Electricity supply to the council's large sites and Street Lighting)	1,580,509	269,576	764,601	59,974	2,674,660
British Gas Business Non Half Hourly (NHH) Electricity (Smaller electricity supplies serving council sites)	204,713	2,161,813	490,342	153,802	3,010,670
Corona Energy Corporate Gas Supplies	200,664	2,158,892	686,943	201,734	3,248,233
Total by Business Area	1,985,886	4,590,281	1,941,886	415,510	8,933,563

Current annual provision in Oracle:

Supplier	Purchase Order Amount in Oracle
EDF Energy	£1,500,000
British Gas Business	£4,000,000
Corona Energy	£3,500,000

- 3.2 This report proposes that we maintain the total purchase order value at £9,000,000 for 2019/20 but that we review the distribution of this value between the various frameworks suppliers to ensure that there is suitable provision in place to cover forecasted expenditure and any increase in energy consumption in council buildings, or any re-billing from previously estimated accounts for each supplier.
- 3.2 The Procurement Team within the Finance Division of Corporate Resources will initially pay for the energy supplied to all General Fund and Housing Revenue Account Services and then recharge the costs to the relevant Business Unit / Departmental budgets on a monthly basis. All costs will be contained within Business Unit / Departmental Budgets.
- 3.4 Schools and other TMOs who utilise the council's corporate energy supply contracts are billed directly by the energy suppliers and are responsible for payment directly from their own budgets.

3.5 There are no capital implications arising as a direct result of this proposal.

4. Legal and Democracy

4.1 The authority to deal with the matters set out in this report is delegated to the Cabinet Member for Finance, who should consult the Leader of the Council and consider the recommendation of the Procurement Board.

4.2 The Crown Commercial Service (CCS) is a central purchasing body as defined by EU Procurement Directive 2014/24/EU. Regulation 55 of the Utilities Contracts Regulations 2016 and Regulation 37 of the Public Contracts Regulations 2015 permit contracting authorities to acquire supplies or services, or both, from a central purchasing body offering the centralised purchasing activity where this consists of the acquisition of supplies and/or services intended for contracting authorities. They may also do so where this takes the form of the award of public contracts or the conclusion of framework agreements for supplies or services intended for contracting authorities. Contracting authorities may award a public service contract for the provision of centralised purchasing activities to a central purchasing body without procuring through an OJEU tendering procedure.

4.3 This proposed key decision was entered in the Forward Plan on 10 August 2018 and the necessary 28 clear days' notice has been given. In addition, the Council's Constitution requires the report to be published on the website for five clear days before the proposed decision is approved by the Cabinet Member. Any representations received during this period must be considered by the decision-maker before the decision is taken. A further period of five clear days - the call-in period – must then elapse before the decision is enacted. If the decision is called-in during this period, it cannot be enacted until the call-in has been considered and resolved.

5. Consultation and co-production

5.1 Lambeth is an active member of the LEP - a collaborative Category Management resource that has been established to assist public authorities with respect to generating good practice in energy management and advising on related procurement issues. Through its membership Lambeth receives support through the LEP's supplier management programme (which reviews and seeks improvements from PBO's and their appointed energy suppliers), market development, energy procurement support and benchmarking of energy procurement performance against the wholesale energy market.

6. Risk management

6.1 The main risk identified relates to the absence of corporate energy supply contract arrangements which would result in significantly higher out of contract / deemed energy rates (which are often more than 100% more expensive than agreed contract rates). This risk is being mitigated through utilisation of the CCS public sector energy framework contracts which ensures uninterrupted contractual supply arrangements and collaborative risk managed procurement of our energy supply at discounted rates direct from the wholesale energy market. The risk ratings for this is summarised below:

Risk	Likelihood	Impact	Score	Control Measures
Absence of corporate energy supply arrangements for the council's buildings	2	8	16	Implementation of CCS energy contracts RM1075, RM1076, RM3791 to ensure uninterrupted contractual supply arrangements and collaborative risk managed procurement of our energy supply at discounted rates direct from the wholesale energy market

Key

Likelihood	Very Likely	4	Likely	3	Unlikely	2	Very Unlikely	1
Impact	Major	8	Serious	4	Significant	2	Minor	1

6.2 Due Diligence will be completed on CCS' appointed energy suppliers including insurances, financial checks, relevant policies and processes including health and safety.

7. Equalities impact assessment

7.1 The Contracts Manager has undertaken an equalities impact assessment and concluded that there is limited impact identified from this contract.

8. Community safety

8.1 Not applicable

9. Organisational implications

9.1 Environmental

All invoices paid by the Council are received in an electronic format (EDI – electronic data interchange format), eliminating the requirement for paper invoices. The data from the invoices is retained on the Council's central energy database, enabling the Council to monitor its energy consumption and spend, and facilitates reporting under the mandatory *Carbon Reduction Commitment (CRC) Energy Efficiency Scheme*.

9.2 Staffing and accommodation

The contract will be managed by the Category Manager for Energy and Corporate Resources.

9.3 Procurement

9.3.1 Over the next quarter Lambeth will be working with the LEP to complete a formal options appraisal of future energy procurement strategy, formally evaluating operators against a Statement of Requirements. The LEP will endorse renewed best practice energy procurement strategy for its members for implementation in April 2020. The proposed continued use of CCS will enable the council to implement any new arrangements to commence from 1 April 2020.

9.3.2 It would be unwise for the Council to seek alternative arrangements at present given the associated resource requirement related to the transfer of the council's energy portfolio (excess of 4,000 individual gas and electricity supply points) to any new Professional Buying Organisations (PBO)

and for registration by any new energy suppliers. The benefits in moving to any new energy procurement arrangements in the future must outweigh the resource requirements and the associated administrative costs associated with the transfer process.

9.3.3 Through this work LEP will:

- Establish the most appropriate products, services and delivery models to meet London public authority needs
- Continue to maintain collaboration and the aggregation of pan-London energy expenditure (with London local authority gas/electricity/water spend estimated at £0.5bn per annum)
- Determine best practice procurement practices and use of resources to achieve value for money.

9.3.4 Working in collaboration with the LEP and the NHS London Procurement Partnership provides the opportunity to influence the energy market to drive performance improvement and innovation, and approach the market with a common strategic view and shared management approach. Benefits of development of the new energy procurement strategy will include:

- Approaching the market as a large strategic customers, attracting interest, reducing supplier cost to serve, enabling strategic supplier relationship management, and access to supply market decision makers to improve quality/consistency of services
- Combined expenditure – to drive innovative commercial models, services and technology deployment
- Optimised aggregation to reduce procurement, supplier and contract management costs
- Authority focused service and delivery models to meet our business requirements, with focus to deliver authorities’ strategic goals for social value and environmental improvement
- Streamline and improve invoicing, data flows and minimise the need to buy any additional services to reduce back-office costs.

10. Timetable for implementation

Activity	Dates
Procurement Board	28 August 2018
Decisions Online	14 September – 20 September 2018
Call-in Period	21 September – 28 September 2018
Sign-off Gateway 3	28 September 2018
Contract Commencement	1 April 2019

Audit Trail				
Name/Position	Lambeth directorate/department or partner	Date Sent	Date Received	Comments in para:
Councillor Andrew Wilson	Cabinet Member for Finance	20.08.18	13.09.18	
Jackie Belton	Strategic Director for Corporate Resources	20.08.18	11.09.18	
Christina Thompson	Director of Finance and Property, Corporate Resources	13.08.18	14.08.18	
Nisar Visram, Finance	Corporate Resources	07.08.18	09.08.18	
Michael O'Hora, Legal Services	Corporate Resources	07.08.18	08.08.18	4
Maria Burton, Democratic Services	Corporate Resources	07.08.18	13.08.18	4.3
Procurement Board	Date of meeting			
	28.08.18			

Report History	
Original discussion with Cabinet Member	10.08.18
Report deadline	N/A
Date final report sent	N/A
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	Yes
Date first appeared on forward plan	10.08.2018
Key decision reasons	Expenditure, income or savings in excess of £500,000
Background information	Cabinet Member Delegated Decision, 16 October 2017: Corporate Gas and Electricity Supply Contracts.
Appendices	None

APPROVAL BY CABINET MEMBER OR OFFICER IN ACCORDANCE WITH SCHEME OF DELEGATION

I confirm I have consulted Finance, Legal, Democratic Services and the Procurement Board and taken account of their advice and comments in completing the report for approval:

Signature: _____ **Date:** _____

Post: Malcolm de Vela
Category Manager – Energy and Corporate Resources

I confirm I have consulted the relevant Cabinet Members, including the Leader of the Council (if required), and approve the above recommendations:

Signature: _____ **Date:** _____

Post: Councillor Andrew Wilson
Cabinet Member for Finance

Any declarations of interest (or exemptions granted): N/A

Any conflicts of interest: N/A

Any dispensations: N/A