



CABINET

6 SEPTEMBER 2016

**CORPORATE DIRECTOR FOR PLACE COMMISSIONING:
TONY CIABURRO**

**CABINET MEMBER WITH RESPONSIBILITY FOR TRANSPORT, HIGHWAYS AND
THE ENVIRONMENT: COUNCILLOR IAN MORRIS**

Subject:	Energy Procurement Risk Management Strategy
Recommendations:	<p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Note the success of the previously agreed, existing Risk Management Strategy with the LASER Energy Buying Group (as detailed in Section 3.7 and Appendix A of the main report). 2. Note the contribution that the strategy has made to the financial operations of the Council and ongoing cost saving of energy and carbon management activities. 3. Approve that the new energy contracts for the period from October 2016 to September 2020 that are based upon procuring via a public sector consortium contract using the LASER Energy Buying Group (as detailed in Section 6 of the main report). 4. Delegate authority to the Corporate Director for Place Commissioning in consultation with the Head of LGSS Procurement and the Cabinet Member for Transport, Highways and the Environment, to proceed with detailed negotiation, procurement and award of the contracts. 5. Agree to the extension of the scope of any agreed contracts to include other public sector bodies or service providers to the Council (as described in para. 8.5 of the main report).

1. Purpose of Report

To inform Cabinet of the success of the existing energy contracting approach across the Council including maintained schools and academies and to approve the approach for the new energy contracts covering the period October 2016 to September 2020.

2. How this decision contributes to the Council Plan

The Council’s vision is to make Northamptonshire a great place to live and work. This is achieved through increasing the wellbeing of your county’s communities and/or safeguarding the county’s communities.

This initiative specifically delivers increased wellbeing by

- Contributing to creating healthy communities
- Contributing to creating prosperous communities
- Creating a sense of place

And through:

- Intelligence led services
- Ambitious partnerships
- Commissioning and market developments

3. Background

- 3.1 In June 2007, the Council adopted the fully managed Energy Procurement Service provided by Kent County Council through their LASER Energy Buying Group, a business unit of their Commercial Services division. LASER was founded in 1989 and is the largest local authority energy buying group in the UK. LASER has been purchasing energy flexibly since 2008, acting on behalf of over 115 individual local authorities and 45 other public sector bodies, with contracts worth over £350m per annum. This is equivalent to around 1.7% of the UK's non-domestic energy demand.
- 3.2 Purchasing through LASER is permitted under regulation 22 of the Public Contracts Regulations 2006 (as amended) with LASER operating as a central purchasing body as defined in the regulations. This ensures that the process fully complies with the requirements of SORP 8 (Procurement). LASER also provides an invoice validation/checking service to the Council alongside the procurement activity as part of their fully managed service.
- 3.3 LASER's flexible procurement model aggregates the energy volumes of all customers. LASER closely monitors energy market prices and drivers, purchasing the energy requirements in multiple blocks over a period of time, prior to the point of use.
- 3.4 To spread market price risk and to avoid buying during periods of peak market pricing, the Pan Government Energy Project recommended, now part of Cabinet Office, that "all Public Sector organisations adopt aggregated, flexible and risk managed energy procurement" as the best solution to cost reduction in a complex and volatile market. Gas and electricity market prices are highly volatile and price movements of more than 10% in a week are not unprecedented. The recommendation is to use an approved body with the focus on managed aggregated contracts. LASER is designated as one of those approved bodies.
- 3.5 In March 2009 Cabinet approved the change to flexible procurement contracts aimed at smoothing future price fluctuations and spreading our risk by pooling our energy requirements. In addition, the strategy was aimed at securing further environmental benefits by identifying opportunities to enhance sustainable energy supply. Approval was also given to the introduction of 'smart' meters to our electricity and gas supply points.
- 3.6 In June 2011 Cabinet approval was granted to continue that flexible approach and to enter into a new 4 year procurement contract with LASER to secure energy supplies from 1 October 2012 until 30 September 2016. It was also agreed as part of the fully managed service (FMS) provided by LASER that the invoice validation/checking facility be continued for the same period. This service ensures that verified, correct, quality assured bills are paid.

3.7 LASER has concluded an 'Open Procedure' procurement process, in accordance with European Combined Procurement Directive 2004/18/EC, for the tender and award of flexible energy contracts for the period from October 2016 to September 2020. Cabinet approval is now being sought to continue that flexible approach and to enter into a new 4 year procurement contract with LASER.

3.8 The Energy Procurement Risk Management Strategy has a strong strategic fit with the Next Generation model with the potential to continue to deliver operational savings to the new and existing service partners.

4. Consultation and Scrutiny

4.1 Consultation has been undertaken with the Head of LGSS Procurement, LGSS Property Services, maintained schools and academies.

4.2 Maintained schools and academies currently constitute around 61% of the total value of the contracts and are an important component of the overall portfolio. Although under delegation both maintained schools and academy trusts have complete freedom of choice to procure their energy supplies, currently a total of 170 maintained schools (22% of the contract value) and 132 academies (39% of the contract value) are committed to the LASER contracts until September 2016. Academies undergoing conversion during the current framework period have had the contract commitment included within the relevant Commercial Transfer Agreement.

4.3 In June 2015 an online survey of all schools participating in the LASER contracts was undertaken. The response rate was measured as around 30%, which was deemed very significant, for this type of consultation. The key headlines from the survey were:

- 92% of respondents stated that they were happy with the current service. Any individual concerns have been referred to LASER for investigation and response.
- The majority of schools (83%) preferred to have fixed prices in advance (the current PIA option), rather than a variable price option. Only fixed PIA options have been offered to schools for future contracts.
- Around 60% of schools would prefer a rolling 2 year contract rather than be committed to a 4 year framework. Schools have been offered 2 and 4 year options.
- Around 51% schools would like to continue with the Fully Managed Service (FMS), described in 3.6 above. Schools have now been offered both service level options.

4.4 Consultation has also taken place with the Council's relevant Strategic Partners, i.e. British Gas and Schneider Electric regarding the supply of energy and related services to the Council and associated customers. However, at this stage neither company is in a position to fulfil the necessary contracts that would be in full compliance of the current public sector procurement regulations.

5. Equality Screening

Reason that no EqlA is required	as appropriate
The proposal/activity/decision has no impact on customers or the service they receive	

6. Alternative Options Considered

For the contract period from October 2016 LASER will be offering a menu of options for their clients. These comprise procurement baskets, contract periods and service delivery options and are described below and the recommendations summarised in Para 6.6 below:

6.1 Procurement baskets

6.1.1 Flexible Purchase in Advance (PIA)

In this option LASER aggregates the energy volumes of all customers who utilise the PIA basket option. All volume is purchased in multiple trades in advance of each 12 month supply period. The sum of all trades is used to calculate the aggregate wholesale basket price, which is applied to all customers in the basket. All non-energy costs (such as network charges and environmental levies) are then added to arrive at the delivered price to apply on invoicing for the following 12 month supply period. This price is firm for the 12 month period.

Recommendation: This is the option used in our current frameworks, and is the one being recommended for all schools including academies.

6.1.2 Flexible Purchase within Period (PWP)

In this option LASER aggregates the energy volumes of all customers who utilise the PWP basket option. Ordinarily, a proportion of the required energy volume is progressively purchased prior to each 6 month supply period and the remainder is purchased within the supply period. LASER has the option, should market conditions be appropriate, to purchase all energy requirements in advance of the 6 month supply period.

A reference price will be set to apply on invoices for each 6 month supply period. The reference price is based on the cost of all energy purchased prior to the supply period (the 'closed volume') and LASER's forecast of costs to purchase the remaining energy within the supply period (the 'open volume'). At the end of each 6 month supply period, once all energy requirements have been purchased, reconciliation takes place between the reference price applied to invoices and the final (achieved) purchase price. With the exception of one 6-month period in the last 6 years, this reconciliation process has always resulted in a credit being returned to customers.

Recommendation: This is the option being recommended for the Council's street-lighting and non-schools portfolio.

6.1.3 Fixed Term Fixed Price (FTFP)

This is the old traditional procurement process whereby all energy for a future period (say 12 months) is purchased on the same day. This is not deemed good practice and carries significant risk on price.

Recommendation: This option is NOT recommended.

6.2 Contract periods

6.2.1 Four-Year Commitment

A tri-partite agreement is signed between NCC, Kent County Council and the utility supplier. This provides authority to LASER to purchase all our electricity and gas supplies for 4 year period (to September 2020). This gives LASER the widest possible forward procurement window in which to secure advantageous prices.

Recommendation: This is the same arrangement currently operated with LASER and is being recommended for all street-lighting and non-school supplies. This has been offered as an option to maintained schools and academies and 88% of committed sites have opted for the 4 year period.

6.2.2 Rolling Two-Year Commitment

This is a new option offered by LASER. Under this arrangement the Council would commit to LASER purchasing future energy requirements on a 2 year rolling basis. The agreement continues indefinitely unless terminated by the customer.

Although this option allows an earlier break it does reduce the forward purchasing window.

Recommendation: This has been offered as an option to maintained schools and academies and 12% of committed sites have opted for the rolling 2 year period.

6.3 LASER Services

6.3.1 Procurement only (POSO)

This option provides access to LASER's procurement professionals, robust EU compliant tendering and purchasing procedures, market and industry information and control of non-energy costs including price validation of all opening invoices after the start of a new pricing period.

Recommendation: This option is being recommended for street-lighting supplies as it will complement the existing management arrangements.

6.3.2 Fully Managed Service (FMS)

In addition to items in POSO (above) the FMS option also provides:

- **Invoice validation** of all accounts received. This ensure that customers are not invoiced for any charges if a supplier invoice fails LASER's internal checking system.
- **Query management** and resolution with utility suppliers. LASER's CRM team deal with all queries with the utility companies on behalf of the customer.
- **Online account management** – including access to billing history and query progress

This service is provided at an additional charge, equivalent to an average premium of 1.5%, and is the service option currently adopted by the Council across the portfolio.

Recommendation: This is being recommended for the non-schools portfolio. This has been offered as an option to schools and academies and virtually all of the committed sites have opted for this level of service.

6.4 Other providers

There are other public sector buying organisations (e.g. ESPO, CCS, YPO etc) who would satisfy the procurement regulation compliance requirements, However very few of them offer the same range of managed services that LASER provide. As all of the buying organisations are procuring in the same wholesale market, using very similar strategies the potential savings in commodity costs are likely to be negligible. The direct and indirect costs of changing procurement body for over 900 different supply points cannot be underestimated with the possible risk to service quality, account management and billing reliability. LASER regularly survey their customers to assess their performance and service delivery. Their last survey, undertaken in November 2015, showed a very positive 93% of their customers felt assured that “buying through LASER provided the best deal” and that 80% would recommend LASER. These results were in line with the survey undertaken with our schools and academies in June 2015 (see also para. 4.3 above).

6.5 Do nothing

This is not a viable option as this would not comply with the requirements of SORP 8 (Procurement). Additional costs would arise, in the region of £2m per annum, and any supplies not part of an agreed contract could be liable to ‘out of contract’ penalty rates.

6.6 Recommended approach

The table shown below summarises the recommended approach for the various client sectors.

	Customer sector			
LASER Option	NCC non-schools Estate	NCC Street Lighting	Maintained Schools	Academy Trusts
Procurement basket	PWP	PWP	PIA	PIA
Contract period	4yr	4yr	90% 4yr 10% rolling 2yr	84% 4yr 16% rolling 2yr
Service level	FMS	POSO	FMS	FMS

6.7 Maintained Schools

Maintained Schools have full delegation in procuring energy yet still need to comply with the relevant legislation and regulations and be aware of the guidance published by the Council and DfE in this respect. The DfE publication ‘Effective buying for your School’, dated 12 May 2015, states that “School energy should be bought through a Public Sector Buying Organisation (PSBO)”. The LASER Energy Buying Group is one of the 6 government accredited PSBOs.

Schools have already been invited to participate in the new LASER frameworks and have been offered a choice of periods and service levels in response to the recent survey. Eleven maintained schools have chosen to opt out of the corporate frameworks and procure independently, and have been asked to submit details of how they have complied with Section 4 (paras. 6.3 and 6.4) of the Schools Financial Management handbook.

6.8 Academy Trusts

Academy Trusts also enjoy full delegation and are required to comply with the relevant legislation and regulations and be aware of the guidance published by DfE in this respect.

Northamptonshire based Academies have also been invited to participate in the frameworks. This ensures that they are at no disadvantage and can enjoy the same procurement benefits as the maintained schools. Their current contract commitment and liability waiver to the Council expires in September 2016. The new invitation includes a liability waiver to ensure that the Council is not required to underwrite any debts incurred by the academy. A total of 79 academies, approximately 60%, have committed to the new frameworks.

6.9 Smart Metering

The existing LASER framework for electricity supply also provided for the free installation of 'smart' meters. In the last 4 years around 450 smart meters have been installed in NCC premises, including schools. A separate data contract was commissioned with npower, the framework electricity supplier. This contract has provided online access to half-hourly profile data to support on site energy management and energy efficiency investment.

A limited number of smart gas meters have been installed by LGSS Property in some of the key corporate buildings and they have entered into a data contract directly with Total Gas and Power for monitoring and energy management purposes.

6.10 Green energy

In previous frameworks we have specified using green energy (for electricity) wherever available and assuming neutral cost. Although the new LASER frameworks provide for the supply of green energy, recent changes in government policy have now removed the green energy incentive. This incentive was in the form of exemption from Climate Change Levy and thus green energy is not now being considered for our future contracts. Specifying green/renewable electricity would attract a premium of around 0.5p per kWh. Across the whole NCC contract portfolio this would incur an additional cost of over £300,000 per annum.

7. Financial Implications

7.1 The procurement strategy developed with LGSS Procurement to use the current framework with LASER has proved very successful and has delivered savings in procurement of energy worth £821,000 per annum.

7.2 By utilising LASER's Fully Managed Service, the combination of identifying and correcting overcharges and management of queries, the Council has successfully ensured a cost avoidance of £1,150,270 in 2014. (See Appendix A for details).

7.3 The existing energy frameworks have an annual value of approximately £10m, i.e. around £40m throughout the 4 year period. The proposed new 4 year frameworks will have a value of around £35m. The benefits delivered by the current strategy represent a net saving of approximately 11% of the overall annual contract value.

7.4 The Council's energy budget (excluding fuel oil) for 2015/16 totalled £6.63m. These consist of maintained school properties, excluding academies (£2.98m), non-school properties (£1.60m) and street-lighting (£2.05m). Note: the energy costs for academies do not appear in the Council's ledger.

7.5 Forecasting energy inflation

Energy prices are affected by two main external factors; government policy and market forces. However, LASER has published the following information based upon their best information and market intelligence:

The short –term forecasts suggest that prices in October 2016 will be as follows:

- Electricity – price reduction of around 1% for quarterly profiled and billed supplies and an increase of around 2.5% for monthly profiled and billed supplies.
- Gas – average price decrease of around 20%

[Source *LASER Newsletter March 2016*]

The longer term forecasts are more difficult to predict, however the following table provides the latest information.

Year	*Typical average prices ppu		Percentage increase on previous year		
	Electricity	Gas	Electricity	Gas	Average
17/18	14.18	3.32	4.9	3.1	4.0
18/19	14.74	3.36	3.9	1.2	2.6
19/20	14.74	3.32	0.0	-1.2	-0.6

*Delivered prices including all standing charges, levies and rebates (ex. VAT).

[Source: *LASER Long-run UK Delivered Energy Price Forecast (October 2015), mid case scenarios.*]

7.6 Medium Term Financial Plan (MTFP) Targets

The energy supply contracts procured through LASER include a unit priced rebate, equivalent to around 2.2% of the contract value, across all sectors of the portfolio, which is returned to the Council. This revenue stream contributes to the income targets already set within the MTFP. During the current 4 year framework the energy contract rebates have contributed a total of around £900,000.

Over the period of the next 4 year framework it is projected that the following rebates will be achieved, subject to variations in portfolio volumes, in particular the impact of Project Angel, and weather effects.

2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	TOTAL £'000s
354	346	336	331	1,367

There are costs associated in ensuring this income, including; providing Display Energy Certificates (DECs) for maintained schools and academies, contract management and metering data.

7.7 Contract value

The proposed contract value (based upon 2015/16 average prices) is as follows:

Sector	Electricity £m/yr	Gas £m/yr	Annual Value	*Potential 4yr value
--------	----------------------	--------------	-----------------	-------------------------

			£m/yr	£m
Non schools	1.20	0.60	1.80	7.20
Street lighting	1.90	-	1.90	7.60
Schools	1.44	0.71	2.15	8.60
Academies	2.02	0.88	2.90	11.60
Total values	6.56	2.19	8.75	35.00

*Ignoring inflation and changes to the portfolio.

8. Risk and Business Continuity Management

8.1 The recommended approach is to continue with the current flexible procurement strategy that has been implemented successfully over the last eight years.

8.2 LASER's current modelling has identified over the last 4 years that on electricity purchasing a marginal benefit was delivered between Options 1 and 2 (ie PIA vs PWP). However on gas purchasing a cost benefit of almost 5% was between Options 1 and 2. Option 2 does carry additional risks including the final delivered price not being known in advance of the supply period.

8.3 In 2014/15 the reconciliation (benefit) for PWP contracts was worth around 0.18ppu for gas (a 5% reduction) and 0.45ppu for electricity (a 4% reduction). These reductions are measured against the reference price as described in para 5.1 above At this point Option 2 (PWP) is recommended. In either case, the risk compared to buying 100% of the Council's energy on a single day at a fixed price, i.e. Option 3 (FTFP) is mitigated and the Council is better protected from wholesale market price fluctuations and speculation.

8.4 The alternative Option 3 is to revert to a fixed price strategy, with the added risk that reductions in the price of energy cannot be realised by the Council and schools at least until the next fixed price purchase window during the summer of 2016. Additionally, because the market has to be informed of the date on which the buyers go to the market, the Council on its own would be exposed to the potential of inflated market prices for the fixed price/volume contracts.

8.5 Scope: one of the current risks relates to reduced volumes (see below), It is proposed to mitigate some of this by extending the scope of the contracts to include other public sector bodies and Trusts within the County, e.g. health care providers, Police, leisure trusts, theatre trust, the university etc, and also to private sector organisations that have direct service delivery contracts with the Council, e.g. care homes.

a) Risk(s) associated with the proposal.

Risk	Mitigation	Residual Risk
Reduction in contracted volumes due to withdrawal of some schools and academies, reduction in non schools property estate and declared reduction in street lighting demands	The contract will allow flexibility on volumes. Additional volume may be achieved through inclusion of other public sector bodies within Northamptonshire and service delivery partners.	AMBER
Potential debt liability from non NCC participants (e.g. Trusts and academies)	All non NCC participants are required to sign a liability waiver in favour of the Council prior to being accepted onto the contract	GREEN

	schedules.	
--	------------	--

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
The risks of reverting to fixed price arrangements or doing nothing are documented in the paper (paras. 6.1 and 6.5). These risks could amount to almost 11.5% of the annual energy bill, plus higher energy costs.	RED

9. List of Appendices

Appendix A – LASER Fully Managed Service Performance 2014

Author:	Name: Dr Darren Perry Team: Environment & Planning ECMT
Contact details:	Tel: 01604 366948 Email: daperry@northamptonshire.gov.uk
Background Papers:	
Does the report propose a key decision is taken?	YES
If yes, is the decision in the Forward Plan?	YES
Will further decisions be required? If so, please outline the timetable here	NO
Does the report include delegated decisions? If so, please outline the timetable here	YES, to appropriate officers
Is this report proposing an amendment to the budget and/or policy framework?	NO
Have the financial implications been cleared by the Strategic Finance Manager (SFM)? Have any capital spend implications been cleared by the Capital Investment Board (CIB)	YES Name of SFM: Rosemary Pallot Not applicable
Has the report been cleared by the relevant Director?	YES Name of Director: Tony Ciaburro
Has the relevant Cabinet Member been consulted?	YES Cabinet Member: Cllr Ian Morris
Has the relevant scrutiny committee been consulted?	Not applicable
Has the report been cleared by Legal Services?	YES Name of solicitor: Karen White Solicitor's comments:
Have any communications issues been cleared by Communications and Marketing?	Not applicable
Have any property issues been cleared by Property and Asset Management?	YES Name of officer: Claire Julian-Smith
Are there any community safety implications?	NO
Are there any environmental implications:	NO, this paper is only about the procurement and supply of energy.
Are there any Health & Safety Implications:	NO
Are there any Human Resources Implications:	NO
Are there any human rights implications:	NO
Constituency Interest:	Countywide



Cost Avoidance Report for Northamptonshire County Council

This report summarises the benefits provided to Northamptonshire County Council's portfolio of Fully Managed sites through LASER's invoice validation, query management and portfolio management services. It excludes cost avoidance achieved through LASER's procurement of energy.



Your annual savings figure is achieved through identifying & correcting overcharges and management of queries.

A Public Sector Buying Organisation dedicated to energy.

0800 484 0840 | info@laserenergy.org.uk | www.laserenergy.org.uk



Authority: Northamptonshire County Council

Category	Explanation
Annual Saving	By utilising LASER's Fully Managed Service, the combination of identifying & correcting overcharges and management of queries, Northamptonshire County Council has successfully ensured a cost avoidance of £1,150,270 in 2014.
Billing	During 2014, LASER successfully validated and processed 11,205 supplier invoices across 1,016 sites for Northamptonshire County Council.
Queries	LASER has resolved 173 queries during 2014 on behalf of Northamptonshire County Council. This has been executed by your dedicated Customer Relationship Management team, utilising specialist industry knowledge and LASER's query best practice. This equates to 2023 hours of query work across your portfolio, or an avoided administration cost of £21,020.
Erroneous Invoices	LASER's validation service identified and prevented erroneous supplier invoices with a combined value of £1,594,000 being released to Northamptonshire County Council.
Overcharges	The saving achieved for Northamptonshire County Council by rectifying overcharges on these erroneous invoices is equivalent to £1,129,250 per annum.
Consolidated Savings	By utilising LASER's consolidated billing services, Northamptonshire County Council has the potential to save £81,200 in administration costs across 1,016 accounts. We recognise that consolidated billing may not be suitable for all accounts and LASER can tailor the service to suit your specific requirements.
Available Capacity Savings	LASER has identified potential Available Capacity savings worth £22,471 for Northamptonshire County Council's Half Hourly sites. These potential savings will be dependent on Northamptonshire County Council's agreement for the reduction to be made with the distribution network operator.
Procurement Savings	The avoided costs summarised in this report exclude savings LASER has achieved through the procurement of energy. As summarised in our previous Information Pack, this is equivalent to additional savings of £821,000 per annum.

Notes and Assumptions

- Hours spent on queries relates to closed queries only and excludes time spent on queries that are yet to be resolved. Query hours have been calculated on an average of 20 minutes per review.
- Erroneous billing and avoided overcharges are based on actual billing received and corrected by LASER against your portfolio of sites in 2014.
- Savings from consolidated billing are based on reduced administration costs of £8/invoice for every account included within the consolidation.