

READING BOROUGH COUNCIL

REPORT BY EXECUTIVE DIRECTOR OF ECONOMIC GROWTH AND NEIGHBOURHOOD SERVICES

TO:	POLICY COMMITTEE		
DATE:	15 JULY 2019		
TITLE:	ENERGY PROCUREMENT		
LEAD COUNCILLOR:	CLLR EMBERSON CLLR PAGE	PORTFOLIO:	CORPORATE AND CUSTOMER SERVICES
SERVICE:	SUSTAINABILITY	WARDS:	BOROUGHWIDE
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Reading Borough Council currently spends in the region of £2m per year on energy supply in relation to the provision of services, such as buildings and street lighting.
- 1.2 The Council procures the majority of its energy centrally through a framework agreement managed by Crown Commercial Services (CCS), reducing risk and price, through aggregating purchasing with other CCS customers. Current energy contracts will reach the end of their term from 31st March 2020 and consideration is now being given to re-procurement.
- 1.3 To facilitate the procurement of new energy contracts, a range of different energy supply framework contracts and other purchase options have been assessed against the Council's business requirements, such as customer service, length of advance buying window available and available risk strategies. Notice will be given on current contracts once new contract terms have been confirmed. This must happen by 2nd September 2019 at the latest.
- 1.4 The report seeks the Policy Committee's approval to enter into new contracts for energy supply.
- 1.5 In considering this report and recommendation the Committee should take into account the Energy Purchasing Strategy, which is listed as Appendix 1 to this report but has been submitted separately as an exempt item due to the inclusion of commercially sensitive information which is exempt in accordance with Paragraph 3 of the Part 1 of Schedule 12A (as amended) of the Local Government Act 1972 (as amended).
- 1.6 Appendix 1 - Energy Purchasing Strategy (exempt information)

2. RECOMMENDED ACTION

- 2.1 The Committee delegates authority to the Executive Director of Economic Growth and Neighbourhood Services and the Assistant Director of Procurement to enter into the recommended energy supply contracts for gas and power for the period 2020 to 2024, with Total Gas and Power Limited, through entering into an access agreement for the framework tendered by West Mercia Energy.

3. POLICY CONTEXT

- 3.1 Reading Borough Council's Carbon Plan 2015-2020, was approved in 2015. It contains a number of key actions and targets to reduce the consumption of natural resources. This is achieved through careful management of resources and investment in energy and water efficiency schemes. The key 'cost' objective identified in the Carbon Plan is set out below;

'COS5: We will procure energy cost-effectively and where possible 100% green electricity. We will take the steps to ensure we are ready to procure water cost-effectively when the market is opened / deregulated.'

4. CURRENT POSITION - ENERGY

- 4.1 Reading Borough Council's energy spend for its corporate estate is currently approximately £2m per year. The authority procures the majority of its energy centrally through a framework agreement managed by Crown Commercial Services (CCS). CCS is a public sector Central Purchasing Organisation (CPO). The procurement risk strategy employed in the CCS L6 basket, is an aggregated, flexible, advance purchase approach, with the buying window opening six months in advance of the start of the delivery period.
- 4.2 The CCS frameworks were established using an OJEU compliant process. Table 1 below, outlines the term of the current CCS framework contracts Reading Borough Council has entered into. The council has the option to leave the contract at the end of each financial year, subject to a 7 month notice period, with notice being given at the start of September 2019, before April 2020 delivery. To ensure continuity of supply and take advantage of greater market opportunity, it is recommended that a new contract is in place in advance, with notice being given to CCS on existing contracts by the first week of September 2019.

Table 1: Current contractual schedules

Utility	Contract name	Supplier	Contract term	RBC start date	End date of delivery
NHH electricity	RM3791: The Supply of Electricity and Ancillary Services	British Gas Business	31/07/17-30/07/20	01/04/18	31/03/21* notice can be given for end date for 31/03/20
HH & UMS electricity	RM1075: Agreement for the Provision of Electricity Supply and Ancillary Services	EDF	27/03/15-26/03/19	15/03/16	31/03/20
Gas	RM 1076: Agreement for the Provision of the Supply of Natural Gas (Daily / Non Daily Metered) and Ancillary Services	Corona	27/04/15-26/04/19	01/04/16	31/03/20

- 4.3 Under the current framework agreement gas is supplied by Corona (circa £593k per annum (pa)); electricity for small sites (Non-Half Hourly - NHH) is supplied by British Gas Business (circa £403k pa); electricity for larger sites (Half-Hourly - HH) (circa £571k pa) and electricity for street lighting (Unmetered Half-Hourly) (circa £445k pa) is supplied by EDF. High price volatility in a rising wholesale market at the latter end of 2018, in combination with rising non-commodity prices, have led to a high

percentage rise in delivered energy prices between 13-17% for 2019/20. Longer-term price predictions are more difficult to forecast due to the unpredictable influences on the wholesale market. However, when considering forward pricing, evidence of long run costs of gas production and estimate of demand the annual price rise is between 11-13% between 2020-2023. In order for budgets to keep pace with rising energy costs it is important that energy efficiency projects continue to deliver energy savings. The volatility in energy prices has been recognised in the Medium Term Financial Strategy and budget has been set aside in anticipation of price rises. The provision, which is held corporately, in 2019/20 is £340K with an additional £251K set aside in 2020/21 for rising energy costs. These budgets will be distributed in year when the inflationary increase in energy costs is known.

4.4 The key strategic outcomes which are supported through the CCS framework are;

- Mitigating risks of price volatility - Advance purchasing allows more buying opportunities to smooth out market volatility.
- Price advantage through purchasing in volume - By purchasing through CCS, Reading Borough Council has aggregated its energy with the significantly larger volumes of the CPO, thus achieving energy at more favourable prices.

4.5 To date, the CCS contracts have performed well on price compared against the wholesale market. CCS employ only a short-term, six month, or long-term 30 month, advance purchase strategy. Such a short purchasing window of six months does not sufficiently smooth market volatility when short-term shifts in the market are significant. Longer-term buying windows, such as the CCS 30-month buying window can smooth out market volatility, however market liquidity (the ability to buy and sell) beyond 24 months is significantly reduced, which can affect overall performance in the long term. In addition, there is decreased flexibility of contract termination terms with longer term contracts.

4.6 A number of customer service and billing accuracy issues with the existing contracts have affected efficiency and therefore the value for money of the contracts. Significant officer time is taken resolving issues with CCS and the suppliers, as their quality of customer service has fallen in recent years.

4.7 PROPOSALS

As the CCS contracts are reaching their term at the end of this financial year it is timely to carry out a competitive review of price, procurement risk strategies and services provision of the other options in the market and potentially move to a more competitive contract. Each procurement route has been assessed against the council's business requirements. For further details on this assessment please refer to the confidential information set out in Appendix 1.

4.8 The recommended option arising from this assessment is to enter into new supply contracts with the framework set up by West Mercia Energy, for supply from April 2020, for 12 month buying windows, and give notice to Crown Commercial Services of termination by 2nd September 2019. It is recommended that new contracts are signed with Total Gas and Power via the West Mercia Energy framework as well as the access agreement with West Mercia Energy as soon as possible, to allow as long an advance buying window before the delivery start date of 1st April 2020.

4.10 Ongoing contract management is key as the organisation has around 600 energy meters which need to be managed for consumption and billing purposes. Failure to adequately manage contracts can lead to significant penalties and rises in specific tariffs. RBC currently outsources bill validation service through TEAM (Energy Auditing Agency Ltd).

5. CONTRIBUTION TO STRATEGIC PRIORITIES

5.1 Energy and Water supply are critical to the delivery of most Council services. All of the strategic priorities of the strategic aims are impacted, although the ones shown in bold below are especially affected by the procurement choices.

1. Securing the economic success of Reading and provision of job opportunities
2. Ensuring access to decent housing to meet local needs
3. To protect and enhance the lives of vulnerable adults and children
- 4. Keeping Reading's environment clean, green and safe**
5. Ensuring that there are good education, leisure and cultural opportunities for people in Reading
- 6. Ensuring the Council is fit for the future**

5.2 The effective procurement of energy and water services is crucial to the delivery of the Council's sustainability policy, affecting the ability to effectively manage its use of natural resources.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 Section 138 of the Local Government and Public Involvement in Health Act 2007 places a duty on local authorities to involve local representatives when carrying out "any of its functions" by providing information, consulting or "involving in another way". The procurement of energy and water services for the delivery of Council services does not require consultation.

6.2 Information about the process and the chosen supplier would be available to the public subject to commercial confidentiality.

7. EQUALITY IMPACT ASSESSMENT

7.1 It is not considered that the decision will or could have a differential impact on: racial groups; gender; people with disabilities; people of a particular sexual orientation; people due to their age; people due to their religious belief and therefore no Equality Impact Assessment (EIA) is relevant to the decision.

8. LEGAL IMPLICATIONS

8.1 In accordance with the Local Government Act 1972, all the powers of the local authority are held by the Council, which has established Committees with delegated authority to take decisions on its behalf. The decision to award contracts for high value services (above £500,000) constitutes a 'key decision' and as such the decision should be made by the committees or an appropriate delegation be made.

8.2 The procedures for procurement of services are set out in the Council's Contract Procedure Rules under part 4 of the Council's Constitution. In respect of framework agreements set up by another body advice should be sought from Procurement, and where appropriate Legal, to confirm the ability of the Council to legally access such arrangements.

8.3 The value of the contracts under the aggregated value provision, are above the OJEU threshold for services in the Public Contracts Regulations 2015 and as such require advertisement in the Official Journal of the European Union (OJEU). The use of an appropriate framework would meet this provision on the basis that the framework would already have been advertised in the OJEU. The Council contract procedure rules recommend that "Where a recurring pattern of purchases can be seen for like supplies, services or works, consideration should be given as to whether one or more

framework agreement(s) would represent better value in terms of price, service, invoicing or other administration costs.”

9. FINANCIAL IMPLICATIONS

- 9.1 Currently energy budgets are paid centrally in the Council, but allocated to individual service budgets. The annual costs of energy for the following year are generally only known in January of each year ahead of the April financial year.
- 9.2 Energy costs in 2017/18 were £2.012m, with £593k on gas, £404k on non-half hourly electricity (smaller sites), £571k on half hourly electricity (larger sites) and £445k spent on street lighting. The energy costs for the Council’s corporate estate has stayed around the £2m mark over the last ten years, set against the context of a 40% reduction in energy consumption. The carbon footprint of the Council has reduced by 53% by 2017/18 since 2005, meeting the 50% reduction target 3 years early.
- 9.3 High price volatility in the wholesale market at the latter end of 2018, in combination with rising non-commodity prices, have led to a high percentage rise in delivered energy prices of between 13-17% for 2019/20. Longer-term price predictions are difficult to forecast due to the unpredictable influences on the wholesale market. However, historic long run costs of gas production and estimates of demand suggest annual price increases of 11-13% between 2020-2023. In order for budgets to keep pace with rising energy costs it is important that energy efficiency projects continue to deliver energy savings. The volatility in energy prices has been recognised in the Medium Term Financial Strategy with an inflation provision held corporately (£340K in 2019/20 and £251K in 2020/21). These budgets as and when the increase in energy prices is known.
- 9.4 Different energy purchasing strategies have varying levels of financial risk. Purchasing In Advance or within period (PIA/PWP) products purchase volumes of energy in small ‘packets’ across a defined period in an attempt to smooth the volatility of the energy market by purchasing when the market falls, and avoiding a rising market. The duration of the buying period will affect the final delivered energy price, with a longer buying window giving greater market opportunity to benefit from market falls. Typically, 60% of the energy volumes are purchased in advance, and 40% remain to be purchased within the delivery period. A reference price is set at the start of the delivery period, and then reconciled at the end of the period, once the final 40% is purchased above or below the reference price. This approach gives less budget certainty, as prices will vary throughout the delivery time, and the final delivered cost is not known until the end of the period. Additional administration is required to make the monthly or year end reconciliation against the reference price.
- 9.5 It is imperative that energy contracts are effectively managed. It is incumbent on all responsible members of staff that appropriate metering and contract arrangements are in place. Out of contract rates applied to gas and electricity could cost the authority an estimated additional £1.102m per annum.
- 9.6 The carbon plan sets out a 7% annual saving in carbon emissions. This reduction equates to approximately £150k per annum reduction in energy costs. As 10% energy cost rises are predicted for the current and next business years, it is predicted that energy costs will rise slightly even if these reductions are made. It is estimated that effective contract management could save the Council 2% on energy costs but this figure would depend on the prices and services realised through procurement and effectiveness of contract management.
- 9.8 Resourcing for procurement and contract management is also important to ensure value for money in delivery of council services.