



**REPORTS FOR DECISION BY THE
CABINET MEMBER FOR CORPORATE SERVICES**

Date Issued: 13 April 2011

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Agenda Item 1

MAIDSTONE BOROUGH COUNCIL

CABINET MEMBER FOR CORPORATE SERVICES

REPORT OF ASSISTANT DIRECTOR OF ENVIRONMENT AND REGULATORY SERVICES

Report prepared by David Tibbit

Date Issued: 13 April 2011

1. ENERGY PURCHASING ARRANGEMENTS

1.1 Issue for Decision

1.1.1 To consider the options for energy purchasing.

1.2 Recommendation of the Assistant Director for Environment & Regulatory Services

1.2.1 That the Cabinet Member agrees that the Council continues to purchase its energy requirements via Laser on the basis of its recent successful performance and on the prospects for continued success;

1.2.2 That the decision on selection of the most appropriate tariff for individual sites is delegated to the Property & Procurement Manager

1.3 Reasons for Recommendation

Background

1.3.1 The Council's current energy purchasing arrangements via a contract with Laser terminate at the end of September 2012. These arrangements have been very successful for the Council, achieving savings of approximately £54,000 over the last two years.

1.3.2 As the majority of the Council's requirements are purchased from the market via energy suppliers up to a year in advance of the contract start date, Laser require the Council to confirm their interest in joining the contract, in order to advise the market of the likely total demand, by end of June 2011.

1.3.3 Expenditure on energy purchasing by the Council is approximately £430,000 per year, and the longer term picture is that energy costs will continue to increase. It is therefore important that the council continues to secure good value for money.

1.3.4 There are a number of options open to the Council:

- Continuing to purchase through Laser;
- Engaging a third party intermediary to procure appropriate contracts; or
- Employing an energy specialist to carry out direct purchasing.

1.4 Laser

1.4.1 Laser is a consortium of local authorities that tenders and negotiates prices on behalf of around 120 local authorities in London and the south east of England. It offers a range of services that include fixed term fixed price contracts, flexible pricing contracts, bill validation and a number of other advisory services. Price advantage is sought through the aggregation of demand of all the participants' requirements.

1.4.2 The council currently purchases all of its electricity and gas requirements via Laser on a mixture of fixed term fixed price contracts and flexible pricing contracts. The larger consuming sites are currently on the flexible purchasing contract, the remainder being on fixed term fixed price contracts.

1.4.3 There were concerns about Laser's ability to manage volatility in the price of energy a few years ago, but the recent introduction of flexible purchasing arrangements have improved their performance considerably. Last year, for example, Laser achieved an average reduction in prices of 23% for electricity and 34% for gas.

1.4.4 The Cabinet Office has reported that for the current year, (September 2010 to October 2011), against market price rises of 20% for electricity and 36% for gas, Laser was able to restrict price rises to 9% and 16% respectively, saving approximately £45,000; and over the two year period Laser's prices for flexible purchasing have outperformed the benchmarked average by 7% for electricity and 6% for gas, saving the Council approximately £54,000.

- 1.4.5 Bill validation and other services provided by Laser are included in the overall prices paid for gas and electricity.
- 1.4.6 The last few years have seen a marked improvement in Laser's performance. Purchasing plans and customer responsiveness have improved and better outcomes are resulting. They have also been evaluated by the Pan Government Energy project as meeting best practice energy procurement criteria. Laser's improvements reflect the increasing number of authorities purchasing their energy through their frameworks; a rise from 70 to 120 over the last two years.
- 1.5 Other Frameworks
- 1.5.1 There are a number of other organisations that have set up frameworks that have also been evaluated by the Pan Government Energy Project and meet best practice energy procurement criteria. However, these are restricted to authorities in specific parts of the public sector such as higher and further education, and the Ministry of Defence, and are not open to local authorities such as Maidstone, or are specific to geographic areas. Laser is a member of Pro5, which is a group of regional local government central purchasing bodies providing procurement services to the wider sector. Laser procure energy on behalf of authorities in London and the South Region, whilst others such as Eastern Shires Purchasing Organisation, North Eastern Purchasing Organisation and West Mercia Supplies procure energy on behalf of authorities in their geographic region, and are not available to Maidstone.
- 1.6 Third Party Intermediary
- 1.6.1 A third party intermediary (TPI) is an independent energy consultancy who would procure the council's energy requirements on its behalf. The consultancy would be procured via a competitive tender based on a fee for their services, or a gain/share arrangement based on the savings made.
- 1.6.2 A TPI would in all probability be able to negotiate or procure better deals for some buildings but, without the benefit of aggregation of demand, they would not be able to improve on the overall prices achieved via Laser or other frameworks.
- 1.6.3 A benefit of employing a TPI is their detailed knowledge of tariffs, capacity charges etc., to ensure that buildings are being billed correctly. This can lead to initial savings, but will probably become negligible after the first year after the anomalies have been corrected. Subsequently, it is more a case of monitoring to

catch the odd inaccuracy, which can be done with in-house resources. An independent review of the council's purchasing arrangements just over two years ago highlighted a few opportunities which have since been realized.

1.6.4 The estimated cost of employing a TPI is £15,000 year, where the TPI carries out the purchasing and the council validates the bills. On the balance of probabilities it is unlikely that this cost would achieve value for money.

1.7 Employing an energy specialist

1.7.1 To provide value for money, the employment of an energy specialist to carry out direct purchasing of energy by the council would need the savings achieved by the specialist, when compared with alternative methods of procurement, to exceed the costs of their employment. It has been assessed that a professional would cost around £80,000 including overhead costs, which would require them to outperform what could be achieved by Laser or similar frameworks by at least 16% to produce a saving. This is not regarded as realistic given the small volume of purchasing, even if the cost was shared and the purchasing aggregated with our partners in MKIP.

1.7.2 Also, whilst a specialist may negotiate or procure better deals for some buildings, they won't be able to aggregate the requirements in the same way as a consortium such as Laser or OGC, to get better prices across the piece.

1.7.3 An energy specialist would also have the specialist knowledge of capacity charges and tariffs, and again any savings would be short term and soon become negligible.

1.8 Comparison of the Options

1.8.1 Unlike most purchasing decisions where price and quality of service are available to make a commercial assessment, the decision to purchase energy has to be based on either spot purchasing, or a portfolio decision based on risk.

1.8.2 Spot purchasing requires a proactive approach and a thorough knowledge of the markets and the customer's requirements. This is the area where the energy specialist operates. The advantages and disadvantages of this option are discussed in 1.7 above. It is unlikely, given the size of the council's portfolio, the absence of aggregation and the cost of employing the specialist that this is a viable option.

- 1.8.3 A portfolio decision to place the council's energy requirements with a third party intermediary, or a framework is a risk based decision as it is not possible to make price comparisons in the normal way. It is more a question of judgment as to which arrangement over a period of time will get the best prices when the associated costs are taken into account.
- 1.8.4 The energy specialist and the Third Party Intermediary are least likely to achieve the best prices given their inability to aggregate demand and the cost of their employment. Opting for the Laser framework will give best value given the increasing purchasing power of Laser, the recent strong performance of their contracts, growing experience and success of their flexible arrangements, the add-on services they provide and the good local working relationships.
- 1.9 Conclusion and Recommendations
- 1.9.1 Given the council's level of expenditure on energy of approximately £430,000 per annum, it is important that energy purchasing arrangements provide value for money and are managed effectively and efficiently. It is considered that this is most likely to be achieved by confirming our interest in the Laser contract.
- 1.9.2 Decisions are required annually within the lifetime of the contract as to which buildings should be placed on which tariff within the framework. It is recommended that these continue to be delegated to the Property & Procurement Manager.
- 1.10 Impact on Corporate Objectives
- 1.10.1 The proposal supports the Council's priority of delivering cost effective services.
- 1.11 Risk Management
- 1.11.1 The risks associated with the options for energy purchasing are the initial purchasing decision, which is explored within the report, the timing and volume of purchasing which is managed by the specialists at Laser, and the accuracy of tariffs, capacity charges and billing which are managed by Laser and in-house.
- 1.11.2 Integrity of the supplies is not a risk to be considered in this decision as the physical infrastructure is common to all suppliers.

1.12 Other Implications

1.12.1

1.	Financial	X
2.	Staffing	
3.	Social Inclusion	
4.	Legal	
5.	Environmental/Sustainable Development	X
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	X
9.	Asset Management	

1.12.2 The prices for the first year of the contract come into effect during the financial year 2012/13. The effect on energy budgets for that year will become clear in October of this year and will need to be incorporated in the Medium Term Financial Strategy.

1.12.3 Electricity purchased under the current contract is generated totally from combined heat and power sources. Under the new contract 40% of the requirement will be generated by renewable sources, with the remainder coming from combined heat and power. This is a welcome improvement in terms of environmental impact, but does not count for a reduction in the Council's carbon dioxide emissions in the Carbon Management Plan.

1.12.4 The proposed energy procurement strategy will be fully compliant with the Constitution and European Procurement Directives.

1.13 Background Documents

1.13.1 There are none.

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes No

If yes, when did it appear in the Forward Plan? 1 March - 31 May 2011

Is this an Urgent Key Decision? Yes No

How to Comment

Should you have any comments on the issue that is being considered please contact either the relevant Officer or the Member of the Executive who will be taking the decision.

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