

TITLE	Energy Contract Procurement
FOR CONSIDERATION BY	Council on 16 February 2023
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers
LEAD MEMBER	Executive Member for Climate Emergency & Resident Services - Sarah Kerr

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

The purpose of this report is to seek in principal approval for migration of the Councils energy buying strategy from the current framework provider (CCS – Crown Commercial Service) to the Laser framework.

RECOMMENDATION

The Executive recommends that Council;

1. Approves the procurement strategy set out in the Procurement Business case for the migration of the Councils energy buying strategy from the current framework provider (CCS – Crown Commercial Service) to the Laser framework;
2. Approves the Procurement Business case;
3. Notes that an updated Procurement Business Case will be reported back to Executive and Council, with proposed contract terms and timescales for implementation.
4. Delegates authority to the Director of Resources and Assets, in consultation with the Executive Members for Finance and Contracts, to engage with framework suppliers and negotiate on future contract provision, in line with the approved procurement strategy.

EXECUTIVE SUMMARY

This Council Report outlines the procurement strategy for the proposed migration of the Councils energy buying strategy from the current framework provider (CCS – Crown Commercial Service) to the Laser framework.

The rationale to move framework suppliers is to ensure best value (energy price) for the Council. Energy prices have been rising significantly for the last eighteen months and whilst Wokingham Borough Council have appropriate financial provision for this financial year, there is a risk to energy budget from rising costs, for the next financial year and beyond. The Energy Team have been carrying out market analysis assessments on energy pricing and the Council could reasonably be faced with an additional 50 – 60% on today's energy prices. This has prompted conversation on how we can procure smarter.

The levels of service offered by the Laser Framework should exceed the current CCS offering and offer significant levels of additional flexibility / adaptiveness and responsiveness in tariff pricing / trading arrangements.

In terms of carbon reduction / sustainability, Laser will be able to offer REGO (Renewable Energy Guarantees of Origin) contracts, which are provided by determined, accredited, proven Green Energy sources. This is seen as a way to increase our green energy procurement principles, allowing for up to 25% more Green energy purchase than we have currently, under CCS.

It will enable cost avoidance over the MTFP inflation position and help with our response to the Climate Emergency.

The Executive was asked to agree in principle to the proposed procurement strategy for the migration of the Councils energy buying strategy from the current framework provider (CCS – Crown Commercial Service) to the Laser framework and recommend to Full Council that the procurement strategy be adopted. Council approval of the procurement strategy is required as the value of the contract exceeds £5million per annum. Delegated authority would be given to the Director of Resources and Assets, in consultation with the Executive Members for Finance and Contracts, to engage with framework suppliers and negotiate on future contract provision, in line with the approved procurement strategy.

This procurement strategy is line with the Council's procurement regulations.

BACKGROUND

The Council needs to be part of a sizeable 'buying basket' in order to access best value in terms and drive cost avoidance on energy pricing. The 'top two' framework suppliers in the marketplace, that are of sufficient size to meet the Council's needs, are generally acknowledged as Crown Commercial Services (CCS) and Laser. Between them they cover/serve circa 95% of Local Authorities across the UK.

The Council could potentially consider West Mercia Energy but it is considered unlikely that this provider will be of sufficient size to cater for WBC's requirements (therefore not considered as an established procurement option for WBC).

The Council has historically utilised the CCS Framework for energy provision.

Laser Energy is an energy company, established by Kent County Council, offering significant volumes of energy to markets across Europe.

Most people now understand that energy costs are rising significantly and, in a market, where, as a general rule of thumb, if one energy supplier puts their energy costs up, others do too, there is an increasing move by some suppliers to gain 'market share' by either trading differently or being able to respond to maximum demand / variable or grid trading opportunities, through

- A) Energy tariffs are changing according to times of use too and this may enable WBC to trade with energy partners in a better way. The Laser framework enables the above, whereas CCS currently doesn't.
- B) In addition, Laser enables opportunities to work with energy supply partners who assist better in terms of ESCO (Energy Services Company) arrangements.

It is because of the above that Laser should be seen as a more flexible option for energy procurement and a better option for WBC moving forward.

BUSINESS CASE

It has become increasingly clear over the last two years that the frameworks suppliers are less able to respond to fluctuations/volatility in energy market rates. Many Councils are taking action to ensure that they are as protected as they can be, from market volatility. With many of them moving to a system that is better able to instantaneously 'trade' energy. Many have switched to Frameworks the likes of Laser mentioned below. This has left CCS with a reduced 'energy basket' of Councils of circa 20% at the time of this report being written. In light of this the Council has two options in respect of its energy supplies:

Option 1: Stay with Crown Commercial Services (CCS).

The CCS Framework typically purchases 100% of its energy in advance.

The benefits of this are security of current provision and known price margins. There are some risks with remaining with CCS, in that many other Local Authorities may be

moving away from this provider which could reduce economies of scale and overall purchasing power. In the last year of market turmoil their buying strategy can be considered slightly less advantageous in comparison to the Laser Framework. The offer from CCS can also be considered inflexible in a volatile market and this is therefore likely to mean their costs could rise further in comparison in the future.

REGO (Renewable Energy Guarantees of Origin) contracts are available from CCS but this is still limited to an advanced buying scenario and such contracts are likely to be in high demand as the net zero agenda progresses across the UK. Therefore, it is likely we will not be able to procure as much energy from these sources – limiting the council's overall ability to meet its climate change vision.

Option 2: Switch to Laser.

Laser buys in a different way in a market of volatility which is expected to be more advantageous in future years. The Laser Framework, whilst still purchasing the bulk of its energy in advance, also offers some opportunity for direct spot buying, and therefore more able to react to changing market conditions, limiting increased costs at times of spike pricing. The Laser Framework typically purchases circa 70% of its energy through advance bulk buying and 30% through 'spot buying.' In addition, Laser has a wide range of options (for the future) for 'time of use' tariffs and variable pricing.

In year one we expect the proposed change to Laser will result in avoidance of additional costs to the sum of c£300,000, £80k of which is General Fund expenditure. Without this change, further growth will be required to be factored into the MTFP budget setting process.

The Laser framework also has 'bolt on' options that would better serve our non-CCS portfolio. The Energy Team are keen to investigate this opportunity further, for advantages to the Council. Examples include smart billing, a team bureau services (to further analyse costs) and usage/cost alerts which will further allow the Council to understand, monitor and manage usage and therefore cost.

REGO options through Laser are expected to be able to provide us with 25% more Green Energy than we currently attain under the CCS contract but this might not be applicable in year one of the contract, due to signing up initially to the basic contract. After year one, we will be able to expand contract options and choose REGO sites, this choice will lead to an opportunity to procure 100% REGO 'green energy'.

Analysis

Switching providers is key to opportunities to ensure economic MTFP cost avoidance (inflation on these contracts has been established to date) and broader environmental policy agenda.

Whilst switching framework suppliers does have risks, transferring the energy contract to Laser delivers the following benefits:

- utilising a supplier who offers more flexibility in purchasing energy with some opportunity for direct spot buying, and therefore more able to react to changing market conditions
- cost avoidance of circa £300,000 on an energy spend of circa £9M; £80,000 directly attributable to General Fund expenditure, with the balance benefitting schools and HRA
- opportunities to embed within the contract 'smaller sites' billing which should provide an additional cost avoidance of circa £10,000.
- the ability to buy up to 25% additional named green energy generation (REGO - Renewable Energy Guarantee of Origin) which will contribute to the Council sustainability/climate emergency targets.
- The ability to trade flexibly using 'time of use' or variable tariff's

One of the stated ambitions of a migration to this framework will be the procurement of 100% green (Renewable Energy Guarantees of Origin: REGO) energy within a year of joining the framework, supporting the Councils' policy agenda including Climate Emergency. This would equate to an indirect carbon reduction value of 11,156 Tonnes of CO2. This equates to an energy REGO 'offset' of 37 GWh's of energy usage, the Councils corporate energy usage volume.

Recommendation

Therefore, it was recommended to Executive to approve the in principle procurement strategy set out in the Procurement Business case for the migration of the Councils energy buying strategy from the current framework provider (CCS – Crown Commercial Service) to the Laser framework. To enable the officer team to engage in negotiations with providers to bring forward this change.

Timescales

The current contract with CCS expires in March 2024. The Council is required to give six months' notice of a change in contract to both framework providers so a final decision is required by September 2023. It is more advantageous to the Council to give more notice, where possible.

Due to the current volatility of the energy market and the unknown impact of long term government policy intervention, there are risks and uncertainty, as well as opportunities, with changing provider now. This paper was due to be considered by the Executive in October 2022 but was pulled due to the announcement at the time of government interventions in the energy markets, with a financial aid package on energy costs and uncertainty whether changing supplier would have meant WBC wouldn't have benefited from this assistance package. It has subsequently now been clarified that the government's current energy costs initiatives apply only within this financial year 2023/23. Therefore we can proceed with the energy re-procurement contract for implementation in 2024. We will continue to review any future government interventions to understand any impacts and act accordingly in the Council's best interest,

This in principal decision will enable the officer team to negotiate on a future contract provision, and report back to the Executive and Council with a recommendation on future contract provision and timescales for this implementation.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	No additional impacts (cost/saving) as contract changes not within current financial year.	Additional budget/inflation requirements will need to be presented to Executive	Revenue
Next Financial Year (Year 2)	No additional impacts (cost/saving) as contract changes not within this financial year.	Additional budget/inflation requirements will need to be presented to Executive	Revenue
Following Financial Year (Year 3)	Cost avoidance of £300,000.	Additional budget/inflation requirements will need to be presented to Executive	Revenue

Other Financial Information

General Fund budget for 22/23 is £1.3m, with a further £500,000 in the process of being allocated from the corporate inflation provision. The current MTFP budget process includes a further inflation provision of £600,000 for 23/24, taking the overall budget to £2.4m. This contract will negate a further budget pressure in the MTFP to the sum of £300k in a full year from 2024/25.”

Changing provider should offer more flexibility in purchasing energy with some opportunity for direct spot buying, variable and ‘time of use’ tariffs etc and therefore are more able to react to changing market conditions. The ability to react more flexibly to the changing market would help ensure the Council is achieving best value.

There are opportunities to embed within the Laser contract ‘smaller sites’ billing which should provide an additional cost avoidance of circa £10,000.

Stakeholder Considerations and Consultation

Consultation with market providers has been undertaken,
Internal consultation with Finance, Procurement and Legal teams has been undertaken.

Public Sector Equality Duty
An EQiA is to be completed.

Climate Emergency – <i>This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030</i>
The ability to buy named green energy generation (REGO -Renewable Energy Guarantee of Origin) which will contribute to the Council sustainability/climate emergency targets. One of the stated ambitions of a migration to this framework will be the procurement of 100% green (Renewable Energy Guarantees Origin: REGO) energy within a year of joining the framework.

Reasons for considering the report in Part 2
Some exempt information is contained in Appendix 2.

List of Background Papers
Appendix 1 – Procurement Business Case Appendix 2 – Exempt information relating to the Procurement Business case

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