

Classification: Public

Key Decision: Yes

Gravesham Borough Council

Report to: Cabinet
Date: 11 September 2023
Reporting officer: Sarah Parfitt, Director (Corporate Services)
Subject: Future Energy Procurement

Purpose and summary of report:

To inform Cabinet on proposals for the procurement of the council’s energy requirements from October 2024.

Recommendations:

1. Cabinet endorses the proposed Energy Procurement Strategy for the council.
2. Cabinet agrees to procure the council’s energy requirements from the current Public Buying Organisation (LASER) and delegates authority to the Director (Corporate Services), in consultation with the Monitoring Officer and Head of Property & Regulatory Services, to take all necessary practical, financial and legal actions required to secure the necessary arrangements from October 2024.

| Key Implications: | |
|------------------------------------|---|
| Item | Implications |
| Legal | The Energy Purchasing Framework proposed has been established to comply with the requirements of the Public Contracts Regulations of 2015, as amended (PCR2015). Kent County Council remains the Contracting Authority for all LASER contracts. This permits a public body to access LASER’s frameworks and services without the need to run a separate procurement process to do so. |
| Finance and Value for Money | LASER’s current flexible frameworks have been assessed as reducing the council’s energy spend by £206.8k per annum over the current term. Access to LASER’s purchasing power is expected to provide access to competitive best-value market energy prices and also deliver social value benefits. |
| Corporate Plan | The decision to procure will support the following Corporate Plan commitments: #1 People – Carbon Neutral Borough #3 Progress – Sound financial management #3 Progress – Successfully manage key business risks |
| Climate Change | The Climate Change Strategy 2022-2030 delivery plan specifies securing the procurement of renewable energy when the current supply contract end (area of action 1.4). The LASER flexible framework will open up various routes to assist with this aim. |

1. Introduction

- 1.1 The council is currently procuring its gas and electricity requirements from the LASER Energy Buying Group, an organisation established by Kent County Council in 1989 to collaboratively procure energy on behalf of the public sector. LASER is a Public Buying Organisation (PBO). Kent County Council remains the Contracting Authority and Central Purchasing Body (CPB) for gas and electricity framework contracts operated by LASER.
- 1.2 These supplies meet the energy requirements of the council's corporate properties including the Civic Centre and Brookvale Depot, council operated street lighting and communal requirements of housing assets. Council spend on electricity and gas for the past two years and the budgeted spend for the current year are shown in the table below.

| Electricity | 2021/22 Outturn | 2022/23 Outturn | 2023/24 Original Budget |
|------------------------------|----------------------------|----------------------------|--|
| Civic Centre/Brookvale Depot | 160,510 | 327,500 | 367,090 |
| Other General Fund Sites | 72,590 | 159,270 | 154,490 |
| HRA Sites | 24,910 | 67,640 | 66,010 |
| Total | 258,010 | 554,410 | 587,590 |
| Gas | 2021/22 Outturn | 2022/23 Outturn | 2023/24 Original Budget |
| Civic Centre/Brookvale Depot | 23,640 | 55,070 | 17,990 |
| Other General Fund Sites | 65,750 | 129,690 | 98,020 |
| HRA Sites | 51,650 | 107,630 | 113,970 |
| Total | 141,040 | 292,390 | 229,980 |

- 1.3 With the current contract expiring on 30 September 2024, procurement of the new contract needs to start imminently in order to have a new contract in place by 30 September 2023 (both electricity and gas are purchased up to one year in advance).
- 1.4 This report sets out the energy procurement strategy that has been set in place when considering procurement options for the council, alongside the proposed route to procurement to ensure that the council secures value for money with its preferred provider to meet its energy requirements from October 2024.

2. Energy Market Update and Economic Context

- 2.1 Energy market prices have been extremely volatile over the last two years. Gas and electricity prices reached an unprecedented increase of 1,200% between March 2021 and March 2022 driven, in part, by the increase in global energy requirements as economies returned to normal after the COVID-19 pandemic and the affect on gas supplies to Europe as a result of the Russian invasion of Ukraine.
- 2.2 Reports to Cabinet over the last 12 months have highlighted the increased cost pressure placed on the council through volatility in the energy markets, albeit a level of protection has been provided through the council's current procurement arrangements with LASER and the flexible procurement strategies LASER have adopted, which include monitoring the market and securing energy needs when market pricing is low. It is estimated that these strategies have reduced the council's energy spend by some £200,000 per annum.
- 2.3 In 2019, the UK became the first major economy to pass a net zero emissions law, requiring the reduction in total national emissions of greenhouse gases to net zero by 2050. The Government's Ten Point Plan for a Green Industrial Revolution outlines the Government's approach to accelerating the transition to net zero.
- 2.4 The only climate-related statutory duty for councils at the time of preparing this report is the legal requirement to enforce Minimum Energy Efficiency Standards (MEES) in private rented domestic, non-domestic and commercial properties. However, this council has declared a climate emergency and is progressing action plans to deliver on the ambitions set out in the Climate Change Strategy, which include seeking to increase sustainability in its energy supply as procurement opportunities arise.

3. Energy Procurement Strategy

- 3.1 In determining the route to market for the council's future energy needs, it was important for the council to be clear on the objectives of its energy procurement strategy. The principles adopted in considering procurement options were:
 - **Ensuring security of energy supply** - key to the energy procurement strategy of the council is certainty around the security of supply to council buildings.
 - **Managing risk in energy price volatility** - the procurement of energy is different to the majority of the works, goods and services that the council buys. Energy market volatility makes energy procurement more complex, with the market difficult to access and secure competitive prices as a single purchaser. The chosen route to market must secure value for money and manage the risk in energy procurement.
 - **Ensuring sustainability in future energy procurement** - In 2019, the council declared a climate emergency. The Climate Change Strategy includes action to reduce energy usage and secure a sustainable energy supply.
 - **Securing Social Value** – in accordance with the council's Social Value Policy the chosen procurement route should deliver social value benefits.
 - **Ensuring compliance with procurement requirements** - The Public Contracts Regulations 2015 define the council as a 'Contracting Authority' and apply certain requirements on the council in awarding contracts, dependent upon the contract value. In addition, due consideration must also be given to the council's own contract procedure rules, as set out in the Constitution.

4. Procurement options considered

4.1 In preparing this report, the procurement options which have been considered are:

- to maintain the direct relationship with the current Public Buying Organisation (LASER);
- for the council carrying out its own procurement through a Public Framework;
- for the council to enter into a direct relationship with an energy producer;
- for the council to invest in its own electricity generating assets to contribute towards the supply of electricity to Council owned buildings.

5. Proposed route

5.1 It is proposed that the best strategy for the current energy procurement activity will be to maintain the direct relationship with the current Public Buying Organisation (LASER).

5.2 **Ensuring security of energy supply** – it is considered that this can more easily be achieved through the use of a Purchasing Body, given their ability to aggregate volume which will be of more interest to the energy market along with the economies of scale of dealing with a single body rather than multiple smaller entities. The council is less likely to achieve security of supply by going to the market, either through a Public Framework as a single entity or through a direct relationship with an energy producer.

With over 30 years of public sector expertise, LASER currently procures energy for over 200 public bodies and collectively purchased over £1.5 billion of gas, electricity and water in 2022 on behalf of around 85,000 end users.

Due to their size and buying power, LASER are able to leverage favourable pricing by entering into agreements with multiple energy providers. Under the current framework, electricity is supplied by Npower, Total Energies, EDF and SSE. Gas is supplied by Total Energies and Corona.

The structure of the Framework also provides the option to switch between suppliers in the event of a supplier failing to deliver their contract commitments or going out of business.

As part of the framework selection process suppliers were required to declare their approach to environmental, social and corporate governance (ESG).

5.3 **Managing risk in energy price volatility** – a key component of securing best pricing for energy supplies is to ensure that there is monitoring of the market and purchasing of energy needs is made at the right time. The council does not have the capacity, nor the requisite skill sets, in-house to undertake this activity, and is less likely to be able to effectively manage price volatility approaching the market as a single entity.

LASER's flexible procurement strategies are intended to offer protection against the rising market prices by monitoring markets and procuring energy needs at the right time, mitigating price risk inherent in volatile energy markets for the public sector. By way of example, the council's energy requirements for the current year have been purchased at a rate that's 50-85% lower than peak market prices. This

flexibility also provides the ability for LASER to amend and introduce new trading strategies to meet bespoke customer requirements and changing market conditions.

Ensuring sustainability in future energy procurement – LASER Framework agreements require suppliers to place increased emphasis on supporting customers in achieving Net Zero ambitions through the energy supply chain by investment in renewable energy sources. Furthermore, support is available from LASER to the council on the decarbonisation of its operational buildings, including options for the supply and installation of on-site renewables or heat decarbonisation projects.

Securing Social Value – in accordance with the council's Social Value Policy the chosen procurement route should deliver social value benefits.

The LASER Frameworks require each supplier to produce a Social Value Plan in January 2024, with ongoing delivery and reporting on social value delivered throughout the contract period. It is LASER's intention for the social value offer to also include an annual funding pot which would be available to spend across initiatives nominated by LASER customers, alongside an offer of supplier volunteering days and funding towards LASER customer projects.

- 5.4 **Ensuring compliance with procurement requirements** – Kent County Council is the 'Contracting Authority' and Central Purchasing Body (CPB) for gas and electricity framework contracts operated by LASER, as specified in the Public Contract Regulations 2015. As such, other public sector bodies are able to use the contracts set in place by LASER without having to run separate tender processes.

The new 2024-2028 Frameworks that the council would be looking to access are;

- Y22008 Flexible Procurement and Supply of Natural Gas, Daily Metered and NonDaily Metered with Additional Services
- Y22009 Flexible Procurement and Supply of Half Hourly (HH), Non-Half Hourly (NHH), Metered and Unmetered (UMS) Electricity with Additional Service

6. Next steps

- 6.1 Should Cabinet agree to the procurement of the council's energy requirements from October 2024 from the current Public Buying Organisation (LASER), in accordance with the delegated authority being sought, the Director (Corporate Services) would liaise with the Monitoring Officer and Head of Property & Regulatory Services, to take all necessary practical, financial and legal actions required to make the necessary arrangements.

7. Appendices

- 7.1 There are no appendices.

8. Background Documents

8.1 The following background documents were used:

8.1.1 [The Ten Point Plan for a Green Industrial Revolution \(HTML version\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/ten-point-plan-for-a-green-industrial-revolution)

8.1.2 [National Energy Category Strategy for Local Government 2022 – energising procurement | Local Government Association](https://www.local.gov.uk/energy/energy-strategy)

8.1.3 Gravesham Borough Council Future Energy Procurement, Risk Mitigation and 2024-28 Framework Benefits Presentation Pack produced by LASER.

Lead Officer: Darren Everden, Assistant Director (IT & Transformation)

Email: darren.everden@gravesham.gov.uk

| Secondary Implications | |
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| Risk Assessment | Securing a cost-effective energy supply for future years will ensure price shocks from market volatility are minimised. |
| Data Protection Impact Assessment | <i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i> |
| | a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data ? A definition of each type of data can be found on the Information Commissioner's Office website via the above links. No |
| | b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice? N/A |
| | c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk . N/A |
| Equality Impact Assessment | a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. No |
| | b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. N/A |
| | <i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i> |
| Crime and Disorder | None |
| Digital and website implications | None |
| Safeguarding children and vulnerable adults | None |