

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**CABINET**

**8 October 2014**

**Report of the Director of Central Services**

**Part 1- Public**

**Executive Key Decisions**

**1 FUTURE GAS AND ELECTRICITY SUPPLY CONTRACTS**

**Summary**

**This report recommends that the Council enters into a new four year flexible procurement arrangement with LASER for the supply of gas and electricity for the period 1 October 2016 to 30 September 2020. The recommendation is based on the financial savings made under the current and previous flexible procurement contracts in place since 1 October 2008 and the energy procurement expertise available from LASER.**

**1.1 Background**

- 1.1.1 Gas and electricity are currently purchased through LASER, a public body energy buying consortium established for over 25 years and originally set up under the Commercial Services arm of Kent County Council. LASER currently supplies over 120 local authorities, leisure trusts and other publicly funded bodies with a combined purchase portfolio in excess of £350m per annum. LASER's operation is overseen by a Governance Panel.
- 1.1.2 The Council's Contract Procedure Rules allow us to take advantage of such local authority buying consortiums. LASER employ experts in the complicated energy supply market and procure the framework being offered under a fully EU compliant tender process. They also manage, consolidate and validate the billing of the energy supplies on behalf of each participating authority. We pay LASER direct for any energy used.
- 1.1.3 The current contract runs until 30 September 2016. This arrangement allows flexible procurement of utilities on a Purchase Within Period (PWP) basis. A PWP contract comprises a combination of purchasing prior to and within each six month period with an initial reference price that is reconciled after each period, potentially providing a rebate of savings back to the Council. The current contract is with Total Gas and Npower.
- 1.1.4 Since the introduction of these contract arrangements in 2008 significant savings have accrued to the Council against the alternative of procuring in isolation on the

open energy market. Although these savings are difficult to quantify precisely, LASER are able to additionally claim that over the past four years their energy procurement team have been able to deliver wholesale energy prices at 4% below market average for the flexible contracts.

- 1.1.5 Whilst PWP arrangements may not provide the absolute cheapest market price at a given point in time it is proven to track the utilities markets somewhere below middle market prices. More importantly it avoids the risk of renewal of any Fixed Term Fixed Price (FTFP) arrangement should the contract happen to expire at a peak in the market price.
- 1.1.6 Purchase in Advance (PIA) is a further option offered by LASER for which a premium is paid to achieve cost certainty. PWP does not provide cost certainty but has in the past delivered lower costs at an increased but relatively controlled risk. LASER estimate that for the Council, over the past four years, PWP wholesale energy prices have out-performed PIA by an average of 1.5 % for electricity and 5.3 % for gas.
- 1.1.7 This arrangement supplies energy for our high volume sites. These are Gibson Building West (electricity and gas) Gibson Building East (electricity and gas) and Tonbridge Castle (electricity only). Our annual budgeted expenditure is currently estimated at £83,000 for electricity and £26,000 for gas.

## **1.2 LASER Future Supply Contract**

- 1.2.1 We have recently been advised by LASER that, following a full EU tendering process, the contract for 2016-2020 has now been awarded. The highest evaluated tender scores were again obtained by Total Gas and Npower and they have retained the gas and electricity frameworks respectively. This relatively early award of contract is to reflect the increasing opportunity to hedge and maximise buying opportunities up to two years in advance. The contract would, as existing, be a tripartite agreement between the energy supplier, LASER (KCC) and the Council.
- 1.2.2 LASER are seeking confirmation of commitment from customers this autumn for the contract period 2016 to 2020.

## **1.3 Leisure Trust Management Agreement with the Council**

- 1.3.1 Members may be aware of the arrangements with regard to procurement and cost of utilities within the Leisure Trust Management Agreement. A clause is included that in effect makes the Trust responsible for consumption but provides tariff protection for them above the annual prevailing rate of the Consumer Price Index. This is contingent upon the Trust procuring from a provider approved by the Council.

- 1.3.2 It is currently the Trust's intention to use LASER for the supply of energy (under the PWP framework) for the 2016-2020 period. As such we are now in a position to confirm LASER as an approved supplier.

## **1.4 Water**

LASER has indicated that from 2017 water may also be procured through them as a consequence of the anticipated deregulation of the water supply market. This option will be evaluated in due course.

## **1.5 Legal Implications**

- 1.5.1 LASER procure in accordance with the tendering requirements of the EU in relation to energy contracts of this value. They qualify as a Local Authority Buying Consortium under Council's Contract Procedure Rules.

## **1.6 Financial and Value for Money Considerations**

- 1.6.1 Procurement of energy through LASER, a public body buying consortium using the PWP framework has proved to be financially advantageous to the Council based on past experience.

## **1.7 Risk Assessment**

- 1.7.1 Reliability of energy supply to our offices is vitally important. It is a significant advantage to be able to use an established, cost effective framework for a further four years (2016-2020).

## **1.8 Equality Impact Assessment**

- 1.8.1 See 'Screening for equality impacts' table at end of report

## **1.9 Recommendations**

- 1.9.1 That the Council enters into a further four year tri-partite agreement with Npower, Total Gas and LASER (KCC) for the supply of electricity and gas (purchased under PWP) for Gibson Buildings East and West and Tonbridge Castle for the period 2016-2020.

Background papers:

contact: John De Knop

Energy File 2781

Adrian Stanfield  
Director of Central Services

<b>Screening for equality impacts:</b>		
<b>Question</b>	<b>Answer</b>	<b>Explanation of impacts</b>
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?	No	N/A
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	N/A
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

*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.*