

Report to: Executive Director of Finance and Corporate Services
Assistant Director of Property

Date: 08/08/2024

Subject: Award of Utilities Contracts for Energy – Flexible September 2025-2030 and Fixed Term Fixed Price (FTFP) 2025-2030

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SUMMARY

A new Energy contract for Housing Communal Landlord supply and Corporate properties is required for the Council's energy procurement for gas and electricity. The existing contracts are currently with LASER (a compliant purchasing body under Public Contracts Regulations 2015) and expire on Monday, 31st March 2025. Future energy costs are likely to continue to be volatile and year-on-year fluctuations are highly probable in commodity and non-commodity costs. Therefore, it is recommended to purchase energy over a longer period (1+ years) to receive the best energy prices and cost-effective tariffs for our residents and the Council.

We would like to award the new joint Housing and Corporate electricity and gas contracts, via LASER, between Tuesday, 1st April 2025 and Sunday, 31st March 2030 (inclusive), for the reasons set out below.

RECOMMENDATIONS

1. To note that Appendices 1 and 2 are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
2. The Executive Director of Finance and Corporate Services and the Assistant Director of Property are asked to approve the following:
 - a) To award 2 electricity contracts to Npower (with Green Energy) for both Housing and Corporate, each contract being for 5 years between Tuesday, 1st April 2025 and Sunday, 31st March 2030 (inclusive), using the Purchase In Advance (PIA) option with a Fully Managed Service. The use of the framework established by LASER requires the Council to enter into 2 Access Agreements, with LASER, one for Corporate and one for Housing; and

- b) To award 2 gas contracts to Corona for both Housing and Corporate between Tuesday, 1st April 2025 and Sunday, 31st March 2030 (inclusive) using the Purchase In Advance (PIA) option with a Fully Managed Service, to ensure continuity of contracted supply. The use of the Framework established by LASER requires the Council to enter into an Access Agreement; and

For the avoidance of doubt, this report recommends entering into the following agreements:

- **Electricity (Long-Term Contract)**
 1. Tripartite Access Agreement with Npower and LASER for Corporate
 2. Tripartite Access Agreement with Npower and LASER for Housing
 3. Flexible Procurement Fully Managed 5-year contract with Npower – Corporate.
 4. Flexible Procurement Fully Managed 5-year contract with Npower – Housing.

- **Gas (Long-Term Contract)**
 1. Tripartite Access Agreement with Corona and LASER for Corporate
 2. Tripartite Access Agreement with Corona and LASER for Housing
 3. Flexible Procurement Fully Managed Service 5-year contract with Corona for Corporate.
 4. Flexible Procurement Fully Managed Service 5-year contract with Corona for Housing.

- **LASER Framework**

The contracts we would like to award to the above suppliers are part of the LASER frameworks as listed below. There will be a new LASER framework for 2029 which LBH&F will join and remain on current terms until 2030.

 1. Electricity Flex 2024 – 2028 Framework – Y22009
 2. Gas Flex 2024 – 2028 Framework – Y22008

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Corporate Plan and the H&F Values
Building shared prosperity	Continue to provide the best customer services for all our residents & corporate customers and ensure that they are receiving undistruptive quality supply.
Creating a compassionate and inclusive council	Care and compassion to our residents, is at the core of these energy procurement contracts. Through collaborative working amongst other councils, expert market analysis & advice, exploring green options, LBH&F demonstrates that it is committed to challenge and protect its residents from energy market volatility and soaring prices. This ensures the best tariffs are provided to our residents.
Doing things with local	Best value contract tariffs for energy whilst maintaining a

Our Values	Summary of how this report aligns to the H&F Corporate Plan and the H&F Values
residents, not to them	<p>high-quality supply for all housing communal customers and corporate buildings.</p> <p>LBH&F will publish a notice of our plans and the impact it will have on leaseholders through a dedicated webpage.</p> <p>We also intend to carry out a First Tier Tribunal to grant us release from consulting across a second stage. This will give us the flexibility to enter into contract at the most opportune moment.</p> <p>Lessees will be kept informed and have the opportunity to submit observations to both the Council or the Tribunal.</p>
Being ruthlessly financially efficient	Continued delivery of an excellent service, proven to be cost effective with clear and concise billing, accurate pricing, and value for money assessment reports.
Taking pride in H&F	Support all building user customers and residents with a robust quality service that rewards all.
Rising to the challenge of the climate and ecological emergency	Enhance energy efficiency, new Automatic Meter Readers (AMR), and green tariffs to ensure efficient electricity usage for our estates and corporate buildings to support H&F climate change and Net Zero targets.

FINANCIAL IMPLICATIONS

Energy Contracts

1. The Council's current forecast spend for 2024/25 is approximately £5 million per annum on gas and electricity for Corporate properties and Street lighting and £5 million for Housing Communal Landlord properties (costs are based on past consumption reports).
2. The estimated costs of the energy contracts are set out in the table below. The Council plans to procure renewable electricity and non-renewable gas contracts for both housing and corporate portfolios.

	Housing £000s	Corporate £000s	Total £000s
Gas	2,100	3,109	5,209
Electric	2,911	1,826	4,737
Total	£5,011	£4,935	9,946

3. The total estimated costs of £5 million for Housing and £5 million for Corporate are expected to be contained within the approved budget envelopes across Corporate properties (General Fund - GF) and the Housing Revenue Account (HRA).

Green Energy

4. As outlined in paragraphs 32 and 33, the electricity energy procurement will be focused on 'green' energy tariffs supported by Renewable Energy Guarantees of Origin (REGO) certificates. This may result in slightly higher electricity costs than conventional alternatives but is expected to be managed within the available budget envelope. The REGO renewable energy supplies are estimated costs, based on the rate of around 0.9p/kwh. The market cost of these prices can fluctuate at any point.
5. The gas contract will be non-renewable due in part to the additional cost which could place additional pressure on household and corporate budgets.

LASER Contract

6. Within this new procurement, the Council has decided to move the Housing communal landlord supply portfolio to a Fully Managed (FM) contract with LASER as the Purchase Only Service Offering Contracts (POSO) contract has proved to be more expensive, due to ongoing technical issues which required additional Council resources to resolve.
7. The additional Council resources required to resolve technical issues involved recruiting an external IT consultancy and internal staff working on the interface project (necessary for maintaining a POSO contract). This has cost the Council a significant amount in terms of staff time (across IT and Utilities) and cost with the supplier system still having system issues. Thus, the system cannot cope with accurate invoicing.
8. The cost of the contract currently for the Housing portfolio, which has a mix of POSO and FM sites, is £84,777 per annum or a total of £423,885 over 5 years. As set out in paragraph 30, the cost of the contract for all sites if switched over to a FM contract for Housing would be £121,991 per annum, a total of £609,955 for 5 years. This would be an extra £186,070 over 5 years for a combined fully managed service to avoid any major problems and disruption to the service delivery.
9. The cost of the contract as it stands for the corporate portfolio, which has all its sites under FM is £23,276 for 1 year, and for 5 years it would total £116,380. The Corporate portfolio will remain the same, with all sites under FM.
10. In addition, there is a bureau management fee payable annually of £37,882 for Housing and £6,860 for Corporate Properties (referred to in paragraph 33 below).
11. These costs will be funded from existing approved budgets held within the General Fund and Housing Revenue Account.

Risks

12. These prices are not guaranteed and continuing volatility in energy markets, for reasons including the war in Ukraine and other global economic challenges, increases the risk that the costs of energy procurement will increase (or decrease) substantially in the coming years. This has the potential to significantly impact on the Council's General Fund (GF), as well as increase costs to the HRA and our housing residents many of whom are recharged for

the costs of communal electricity and the provision of a heating and hot water service.

13. The flexible contract allows the Council to switch between FM to POSO contracts and vice versa to deliver value for money.

Implications completed by: Danny Rochford, Head of Finance (Economy), 1st August 2024

Verified by: Sukvinder Kalsi, Executive Director of Finance and Corporate Services, 1st August 2024

LEGAL IMPLICATIONS

10. The Council's current call-off contract for Gas and Electricity via the LASER framework expires on Monday, 31st March 2025. This report seeks to approve the new procurement contracts for the supply of gas and electricity from Tuesday, 1st April 2025 – Sunday, 31st March 2030 (inclusive).
11. The procurement will need to be undertaken in accordance with the requirements of the Public Contracts Regulations 2015 (PCR). The use of the LASER framework which was let in accordance with the requirements of the PCR, is a compliant method of procurement for the Council.
12. The delegation recommended in this report are consistent with the Council's Contract Standing Orders which considers the volatility of the energy market, provided for the delegation of decisions relating to energy procurement to the Assistant Director of Properties and the Director of Finance.
13. This is a key decision for the purposes of the Council's Constitution and will need to be included in the key decision list on the Council's website.
14. We intend to carry out a First Tier Tribunal to grant us release from consulting across a second stage. This will give us the flexibility to enter into contract at the most opportune moment.
15. We intend to publish notice of our plans and the impact it will have on leaseholders through a dedicated LBH&F webpage.
16. Lessees will be kept informed and have the opportunity to submit observations to both the Council or the Tribunal.

Implications completed by: John Sharland, Assistant Director Legal Services, 2 August 2024

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

PROCUREMENT STRATEGY – WHY DOES THE COUNCIL NEED THIS?

19. A procurement strategy is required to ensure the Council secures new energy contracts which are value for money, flexible, cost effective, and provide green energy to meet the Councils' objective of being carbon neutral by 2030. To achieve this, the Council carried out a high-level options appraisal, engaged with expert market intelligence, performed a cost analysis, and worked collaboratively with London Councils to make a well-informed decision.

20. Procurement Route Analysis of Options

As part of the procurement strategy, the Council first had to consider several options prior to commencing procurement. These are as follows:

1. Option 1: Do nothing

The consequence of taking no action is not positive. Once the council is out of its current agreement with LASER, higher off-contract prices for the energy is the outcome, until an appropriate contract is in place. Therefore, this option is not recommended overall.

2. Option 2: Deliver the supplies, services, and/or works in-house (make/buy decision)

To deliver supplies in-house, the Council could invest in its own electricity generating assets and use the output to contribute towards the supply of energy to council owned buildings. The mechanisms available for achieving this using grid scale offset assets are too expensive, carry high risks, and are not cost-effective in terms of best value for our residents.

Furthermore, this option would require the Council to engage additional resources (skilled energy traders and additional staff for contract management) and provides greater risk of exposure to energy price fluctuations. Therefore, this approach is not recommended as it is a high-risk strategy that is unlikely to be cost effective.

3. Option 3: Undertake a full regulated procurement process, advertised to the market

This option would involve the Council undertaking a procurement tender to secure its energy – with any supplier, private sector, or third-party intermediary (TPI) being able to apply.

This option is not recommended as the Council will not benefit from economies of scale to secure more competitive prices, available through collaborating with other London Councils through groups such as London Energy Partnership Project (LEPP) to receive cost efficiencies, bulk purchasing and utilising market intelligence to allow an overall well-informed energy purchasing decision making.

4. Option 4: Procure using a compliant framework or Dynamic Purchasing System (DPS), using a mini competition

The Council could carry out its own mini tender using Capital e-sourcing or appoint a specialist energy market intelligence consultant collaboratively with other councils to receive a comprehensive compliant framework.

Cornwall Insight was appointed as the market intelligence consultant to complete an energy market assessment. Cornwall Insight assessed energy procurement service providers with capabilities to deliver effective price risk management and value for money energy supply contracts consistently over a period of time on behalf of London councils. A Statement of Requirements (SoR) was used to score and assess the capability, capacity, and experience of energy procurement service providers to meet council requirements.

This option is highly recommended as the Council will leverage on specialist energy market knowledge through Cornwall Insight to reach a well-informed energy purchasing decision.

5. Option 5: Procure using a compliant framework, using a direct award

The Council could have directly awarded contracts using an approved framework. However, this option would not be viable for the Council and its residents due to cost of living and the volatility of the energy market. As a result, the Council decided it was necessary to complete a comprehensive market research to find current Central Purchasing Bodies (CPB) (also known as a framework provider), TPIs, and suppliers in the market who are the most ruthlessly financially efficient with comprehensive services providing added value, bespoke services, query management included within the costs.

Therefore, this option was not practical as it would not allow for a complete benchmark, options appraisal and cost analysis of the choices available in the market.

6. Option 6: Procurement via generators

The Council could purchase energy via a regulated procurement process from nominated renewable generators. Power Purchase Agreements (PPAs) typically facilitate the sale of energy from the operators of offsite renewable generation assets including wind turbines, and solar PVs.

This could help increase the Council's environmental credentials through being seen to invest directly in generation from renewable sources and help support the Council's commitment to net zero target 2030.

Depending on the type of PPA, this could also reduce the impact of power/price volatility on the Council as it is possible to fix prices on a long-term basis (typically up to 10-15 years ahead). Research and conversations with renewable generators have established that the Council, in common with most local authorities, is too small to independently procure a PPA. The Council would therefore need to collaborate with other organisations or proceed using a CPB. This is currently being explored via London Councils, LASER, and the Greater

London Authority (GLA) which can be a possible option in a few years' time.

PROPOSALS AND ANALYSIS OF OPTIONS

21. The Council is a member of the London Borough Energy Group (LBEG), which is a collaborative working group of councils. LBEG formed the LEPP to review the energy market and deliver an energy options appraisal to support the energy procurement decision making process.
22. The LEPP consists of London councils, NHS, and the Met Police. LEPP appointed Cornwall Insight to complete energy market intelligence and analysis through consultancy, benchmarking, options appraisal and research solutions to identify the best energy providers, public buying organisations for the public sector.
23. Based on the findings and recommendations from the Cornwall Insight energy market report, the Council identified the most appropriate approach to procurement would be to use a compliant framework or DPS using a mini competition, from a CPB as in point 4, above.
24. Having completed their options appraisal and benchmarking, Cornwall Insight identified LASER's service proposition to be most closely aligned to the Local Authorities' SoR. Where other CPB offer similar services, no overall packages were identified that would be likely to offer a material benefit to Local Authorities already being served by LASER.

Contract Options

25. The Contract options to purchase energy are as follows:
 - **2 Years**
Advantage – Short term price plan which allows the Council to commit to a short-term budget.
Disadvantage – The Council may not be able to secure the best price as it is short-term contract only.
 - **3 Years**
Advantage – Average length price plan which can offer better prices than above.
Disadvantage – The Council may not receive the best prices due to not being a long-term price plan.
 - **5 Years**
Advantage – Longest term price plan offers the most value for money. Provides certainty on how much the Council should expect to spend.
Disadvantage – The Council will be tied into a 5-year contract which means less flexibility.
26. Based on the above advantages and disadvantages, it is proposed that the Council proceeds with the 5-year plan as it provides the most value for money in line with the Council's priority of being ruthlessly, financially efficient.

Basket Option

27. Within the Contract Options there are various *Basket Options* such as Purchase in Advance (PIA) or Purchase within Period (PWP) that can be chosen for both gas and electricity.
28. The recommended option is PIA which enables the purchase of energy for the whole year in advance, at a fixed price. This provides greater price certainty than the riskier PWP option, which provides less certainty. Thus, PIA provides the best option during periods of price uncertainty and volatility for example, during the recent energy price crisis.

Contract Type (Fully Managed or Purchase-Only Service Offer)

29. There are two types of contracts as outlined below:
- **Fully Managed (FM) Contract**
A Fully Managed (FM) contract is a comprehensive service with bill validation. The energy purchasing body, in combination with procurement options, provides added value services which aim to maximise savings and provide cost avoidance opportunities to the client.
 - **Purchase Only Service Offer (POSO) Contract**
A Purchase Only Service Offer (POSO) contract, as the name suggests, means the purchasing body will provide energy procurement as a standalone service without any additional services for added value.
30. The recommendation is to select a FM contract. This is because under a POSO contact, the Council would need to work directly with the suppliers, which would require an in-house team to carry out its own invoice validation checks, manage queries, and compile reports. This would require more resources and overall higher costs as a result. Furthermore, the FM contract not only provides a comprehensive service but meets the Council's net zero 2030 targets.
31. The tables below outline the prices under the framework.

	No of Supplies	LASER Electricity - Procurement Spend*1					
		100% Fully Managed*2		100% POSO*3		Part Fully Managed & part POSO*4	
		Fully Managed (1yr Costs)	Fully Managed (5yr Costs)	100% POSO (1yr Costs)	100% POSO (5yr Costs)	FM-POSO (1yr Costs)	FM-POSO (5yr Costs)
Corporate	107	£ 15,985	£ 79,925	£ 3,984	£ 19,920	£ 12,446	£62,230
Housing	1,406	£ 111,896	£ 559,480	£ 71,614	£358,070	£ 74,682	£ 373,410
Total	1513	£ 127,881	£ 639,405	£ 75,598	£ 377,990	£ 87,128	£ 435,640

	No of Supplies	LASER Gas - Procurement Spend* ¹			
		100% Fully Managed* ²		100% POSO	
		Fully Managed (1yr Costs)	Fully Managed (5yr Costs)	100% POSO (1yr Costs)	100% POSO (5yr Costs)
Corporate	33	£ 7,291	£ 36,455	£ 2,395	£ 11,975
Housing	51	£ 10,095	£ 50,475	£ 5,027	£ 25,135
<u>Total</u>	84	£ 17,386	£ 86,930	£ 7,422	£ 37,110

*¹ – All figures quoted include both procurement and bureau fees and is therefore the total procurement cost.

*² – 100% Fully Managed (FM) means having all sites in each portfolio (e.g. Corporate) under FM procurement offering.

*³ – 100% Purchase Only Service Offering (POSO) means having all sites in each portfolio (e.g. Housing) under POSO procurement offering.

*⁴ – Part fully managed/part POSO means the Non-Half Hourly (NHH) meters in each portfolio are under POSO whilst Half Hourly (HH) meters are fully managed.

Energy Contracts

32. There are two types of contracts as outlined below:

- Renewable Contract: This includes REGO backed green tariff for Housing and Corporate Properties. This supports part of the Council's commitment to carbon reduction as required.
- Non-Renewable Contract: This is a contract without REGO back green tariffs for Housing and Corporate Properties.

33. The estimated costs of the renewable and non-renewable options are set out in the table below:

		Renewable Contract		Non-Renewable	
		<u>1 year</u>	<u>5 years</u>	<u>1 year</u>	<u>5 years</u>
Gas	Housing	£2,266,557	£11,332,785	£1,964,349	£9,821,745
	Corporate	£206,721	£1,033,605	£179,159	£895,795
	<u>Total</u>	£2,473,278	£12,366,390	£2,143,508	£10,717,540
Electricity	Housing	£2,452,025	£12,260,125	£2,375,664	£11,878,320
	Corporate	£1,409,844	£7,049,220	£1,365,939	£6,829,695
	<u>Total</u>	£3,861,869	£19,309,345	£3,741,603	£18,708,015

* It is important to note with the table above, the annual cost figures not only reflect recent decreases in the cost of energy but are calculated using market reflective prices rather than actual price.

Market reflective prices mean that LASER used an internal tool which provides an average price point of where we are in market. This tool multiplied consumption by the average pence per kilowatt hour rate which provided annual costs estimate. Thus, average pence per kilowatt hour rate was used rather than actual per kilowatt hour rate.

Bureau Management Fees

34. LASER will provide supplier management as part of a Fully Managed service. Systems Link, a Bureau Service that LBH&F already uses to manage energy will be part of this procurement, this will allow LBH&F to have more intelligent data about energy across Housing and Corporate Properties Service Portfolios. Bureau service will include:
- Consolidation and validation of invoices for costs and consumption
 - Providing up to date comprehensive reports
 - Answering both supply and management queries
 - Oversight of supplier performance and output

REASON FOR DECISIONS

35. Under the Council's Contract Standing Orders (para, 31) all decisions relating to energy procurement including the Procurement Strategy, award and/or the variation of contracts may be approved jointly by the Executive Director of Finance and Corporate Services and the Assistant Director for Property due to the volatility of the energy market.
36. The Council's current contracts expire on Monday, 31st March 2025. Out of contract energy prices significantly exceed contract prices and do not represent good value to the Council and its residents. Therefore, a new procurement strategy and new contracts are required to be in place from Tuesday, 1st April 2025.

Green Energy

37. Choosing Green Energy aligns with the Council's Climate Emergency objective and helps towards achieving zero carbon emissions by 2030. It is therefore recommended that the Council purchase green energy electricity for all Housing and Corporate assets, as this can be achieved inside the available budget envelope.
38. Due to the pricing differential on green energy gas and the fact that the increased costs of the gas supply contract would need to be met by tenants, it is recommended that the Council purchase Gas without Green Energy for the housing element of the contract at this time. The Council's energy advisors also recommend purchasing gas without green energy for the corporate portfolio due to high costs, unclear benefits and an unstable emerging market.

PROCUREMENT IMPLICATIONS

39. It is recommended the procuring officer works with the Procurement and Commercial team to ensure the call-off is undertaken compliantly and in accordance with the Public Contracts Regulations 2015, and the Council's own Contract Standing Orders.

40. The framework proposed for use has been subject to full diligence checks by the Procurement and Commercial team, which have not identified any issues of concern. The framework is therefore compliant for use by the Council in procuring this requirement.
41. A project must be created on the Council's own eProcurement portal, and all associated details and documents must be attached to the project to satisfy the mandatory transparency requirements.
42. Separate Contract Award Notices for each agreement must be published to Contracts Finder, to satisfy the requirements of the Public Contracts Regulations 2015 for contracts equal to and over £30,000 (including VAT). This must be completed using the Council's [capitalEsourcing](#) eProcurement portal.
43. The contracts must be added to the [capitalEsourcing](#) eProcurement portal, to ensure they are published on the Council's [Contract Register](#) in line with the legislated transparency obligations.
44. A named contract manager must be allocated to the contracts on the Council's [capitalEsourcing](#) eProcurement portal.

Implications completed by: Chris Everett, Category Lead – Procurement and Commercial, 13 August 2024

CONSULTATION

45. Housing and Corporate Property Services have been working with energy market expert consultants, LBEG, and Cornwall Insight, who have completed a comprehensive benchmark analysis for LBH&F and other local authorities.
(Appendix 1 – Cornwall Insight Report – as attached)
46. Housing and Corporate Property Services have been undertaking consultation with different departments which include Leasehold, Procurement, Finance, and Legal, concerning energy procurement to help inform and shape the procurement strategy and award report. There has also been consultation with other local authorities who are joint members and industry bodies to understand how the market is responding.
47. Leasehold consultation was completed with residents at the leasehold surgery on Thursday, 30th May 2024, which was received well, and queries answered. The leasehold dispensation process is in progress and will be completed once this report has been approved.

LIST OF APPENDICES

1.	TPI energy procurement report - HF Final v1.1 (Cornwall Insight Report) - EXEMPT
2.	LBHF - Service Matrix - Energy Procurement 2025 – 2030 - EXEMPT