

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Countryside and Regulatory Services
Date:	18 September 2023
Title:	Energy Supply Contracts
Report From:	Director of Universal Services

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Purpose of this Report

1. The purpose of this report is to seek approval to contract via LASER Energy's new Framework for the supply of electricity and gas for the period April 2025 to March 2029.

Recommendations

2. That approval is given to procure, spend and to enter into any contractual arrangements, for the provision of electricity and gas from the LASER Energy Framework Agreement for the period of April 2025 to March 2029 up to a value of £155 million over four years, of which £11m per annum will be spent on the Hampshire County Council Corporate Estate, to be funded from Directorate Revenue budgets, and the remainder to be spent and funded by external partners including schools.

Executive Summary

3. This report proposes the procurement of electricity and gas for Hampshire County Council, schools, and other partners, through Kent County Council's LASER Framework, which has been put in place for the period from January 2023 to September 2028. The framework provides for a compliant direct award or a mini-competition to be undertaken.
4. The proposal is to make a direct award in relation to the most economically advantageous providers through a call-off contract for a period of approximately 5.5 years as it will cover the 4 years supply from April 2025 to March 2029, and also the 18-month period before this when the electric/gas will be purchased (but not supplied).

5. Hampshire County Council currently purchases its electricity and gas through a Framework arrangement delivered by LASER Energy, the commercial arm of Kent County Council which delivers a range of Energy related Frameworks for the wider Public Sector in the UK.
6. LASER have provided the County Council's energy suppliers since 2016 and have supported a forward purchasing strategy in that time. The decision to continue with LASER was approved by the Executive Member for Policy and Resources in April 2019. Based on the risks of large market movements, a strategy to be more decisive on forward buying was approved by the former Director of Culture, Communities and Business Services on 10th May 2022 under delegated authority.
7. This arrangement allows Hampshire County Council to purchase predicted volumes of electricity and gas for up to three years in advance at the available market price at that time, enabling significant price variations to be managed.
8. Hampshire County Council procures the expected volume of required energy (based on data of past usage) through the Framework suppliers for its own use (Corporate Estate) as well as a wider portfolio, including all Hampshire Schools, some external customers such as academies, as well as other authorities in Hampshire such as Winchester City Council, Test Valley, and New Forest District Council. Schools and external partners are able to access the arrangements via an access agreement and are invoiced directly for their actual usage based on meter readings. The County Council's Energy Team provide cost forecasts from the forward buying strategy but have no contractual responsibility for partner costs.
9. The Hampshire County Council call-off from the existing LASER Energy Framework for the supply of electricity and gas used since October 2020 expires at the end of March 2025. Anticipated volumes to winter 2024 have been procured under the current framework arrangement, but in order for Summer and Winter volumes to be progressively purchased, agreement to a new arrangement is needed at the Decision Day in September 2023. The actual supply period will be from April 2025 to March 2029 but call off will be established following the Decision Day to allow purchasing to commence.
10. The LASER framework has recently been competitively re-tendered for 6 January 2023 - 30 September 2028. The arrangement allows for the County Council to either directly award to the best value suppliers on the framework or to run a further competition. On the basis our existing suppliers are the top scoring framework tenderers, and hence already demonstrate best value, there is no further need for competition, and procurement, purchasing and supply can continue seamlessly, avoiding any other costs. The Framework allows call off for up to one year after the framework expiry, allowing us to call off to March 2029.
11. Other framework arrangements have been reviewed. Whilst price differentiations between framework providers are minimal, LASER have more flexible purchasing options which allow the County Council to align energy purchasing with financial years giving better cost predictability. LASER also have better management structures, reporting, supplier relationship management, and risk management, all of which have enabled our purchasing strategy. Hence, LASER has been selected as the best value framework

provider, and it is proposed to award call off contracts to the best value gas and electricity suppliers.

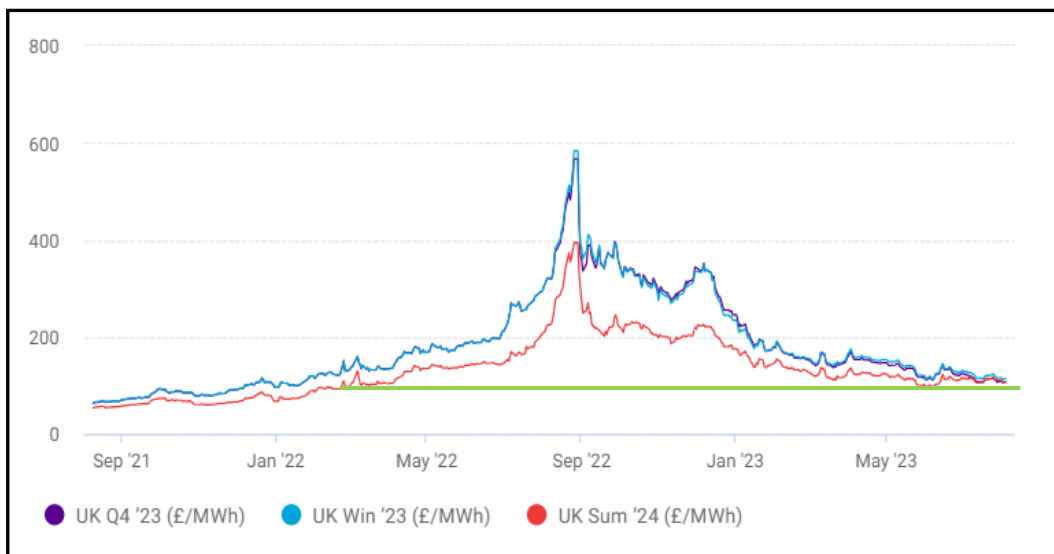
Contextual information

12. Alternative routes to market exist via other Public Buying Organisations such as CCS (Crown Commercial Service) as well as other more regional organisations such as ESPO and NEPO. An analysis of these has shown there to be no cost benefit to changing supplier, and certain disbenefits around flexibility of purchasing arrangements, management support, supplier relationship management, and reporting.
13. LASER have re-procured the framework for 6 January 2023 - 30 September 2028 as a competitive tendering exercise. The arrangement allows customers such as the County Council to direct award to the best value tenders, or to run a further competition. On the basis that our current providers are the best value suppliers for both gas and electricity, there is no requirement for further competition, and the proposed strategy is to direct award to N Power for electricity and Total for gas. This will have the additional efficiency benefits of avoiding time consuming and costly procurement activities, contracting processes, and operational activities to set up the data and systems for the County Council's significant portfolio.
14. LASER Energy's support covers the following services:
 - support in portfolio management (sites coming in and out of the portfolio);
 - delivery of the budgets including preliminary budgets;
 - set up and management of the Hampshire County Council dedicated "volume basket" allowing the County Council to set its autonomous decision-making process with regards to Risk Management Strategy;
 - 2-weekly call with the Energy Team to review the Hampshire County Council Risk Management approach and execution; market trends and outlook.
 - customised Reporting on Risk Management results vs budgets or other benchmark prices;
 - Market Intelligence (regulatory updates, market trends and prices updated etc.); and
 - Management of Suppliers' performance and Supplier Relationship Management.
15. Whilst the current call off contract does not expire until the end of March 2025, best practice purchasing of energy operates on a 1.5 to 2 year forward horizon, and so for us to commence purchase of volume for Summer and Winter 2025, we need approval to spend and to enter into contract with suppliers from the new framework in September 2023.
16. The Risk Management approach currently undertaken aims at mitigating year-on-year inflation for Hampshire County Council and delivering year-on-year savings using a number of Risk Management tools and concepts:

- spreading energy “trades” over time to minimise exposure to high prices and “averaging out” prices over time;
- using an extending buying window (minimum 1.5 years usually) to maximise opportunity to be exposed to “lower” price range of the market;
- decisive and informed decisions based on potential year on year impact of market prices, ability to protect vs volatility and high price risks; and
- use of sell-backs in falling market to minimise theoretical “lost value” for existing trades.

17. The new LASER Energy Framework offers continuity of service, continuity of suppliers (Npower for electricity and TotalEnergies for gas) and dedicated, customised support to Hampshire County Council to continue delivering value and expertise over time.

18. The graph below demonstrates the value of the progressive forward buying strategy for electricity, showing how significantly the market price has moved, and how the progressive strategy adopted by the County Council has meant prices paid averaged out well below market prices. (Demonstrated by the green line showing an average price paid under the existing arrangement for Summer and Winter 2023 of around £100 / MWh). At times during this period, LASER reports have shown that left to market prices, the County Council and partners could have been exposed to costs over three times those actually incurred. There is a similar picture for gas.



19. Although LASER operates (as does the market in general) a strategy of procuring volume in advance, having our own dedicated managed “basket” has allowed us to be more decisive in volume purchase to protect the County Council from rapidly changing market prices and inflation, whilst still being able to sell back some volume when prices fall, to take advantage of better prices.

20. In 2023 / 2024, the approach is expected to lead to avoided costs of some £5m to £6m against purchasing when required for the total estate (the precise figure will be confirmed once all volume is secured, and any further trading

completed). The flexibility within the framework will further support the Hampshire County Council teams to continue developing strategic relationships and investigate new ways of reducing carbon emissions.

Finance

21. Approval is being sought for framework provision of up to £155 million over four years, of which Hampshire County Council's share is c.£11million per annum, with the balance being to cover energy usage by schools and other partners. The £38.75m provision per annum is based upon total current forecast energy usage as shown in the table below plus an allowance for inflation.
22. Hampshire County Council's current annual spend is c.£11million (£9.2million for electricity and £1.8million for gas – see figures shown in blue in table below) of which a large proportion is actual energy wholesale cost. The remaining share of the cost is made up of network charges, taxes and levies, metering and supplier fees. The supplier margins are usually less than 1% of the total spend.
23. Energy use is metered at each individual site, and invoices raised to the Directorates, schools, and partners. Funding is from the Directorate revenue budgets, school budgets, or partner budgets.
24. LASER work with the Energy Team in Hampshire County Council's Universal Services to establish cost forecasts each year for the Directorates, Schools, and Partners. These are based on anticipated volumes which have been historically very stable. These forecasts are used to determine the volumes of energy contracted to be purchased and have historically been accurate to within a small tolerance. Should actual energy required be under committed, further volumes can be purchased, but at the price prevailing at that time. Should actual energy required be over committed the framework allows flexibility to sell back any excess. Both corrective actions will be managed based on the market price prevailing at the time, price trends, and the amount of time between the moment the correction is needed and the start of the period the correction applies from. The costs are expected to be within existing budget provision.
25. The forecast (and therefore committed) energy usage under the framework for 2023/24 is shown in the table below, together with the fees paid to LASER for operating the framework.

Customer Group	2023-24 Electricity annual spend	2023-24 Gas annual spend
HCC Corporate	£20,462,642	£10,243,382
Education	£11,321,993	£8,431,404
Corporate Estate	£3,898,050	£1,811,978
Highways/Traffic Management	£5,347,332	
OPCC	£2,216,363	£591,770
Winchester CC	£712,551	£183,406
New Forest DC	£659,768	£369,276

HFRS	£487,403	£307,427
Test Valley BC	£341,443	£160,810
Hampshire Independent	£269,881	£232,195
East Hants DC	£164,090	£1,848
Havant DC	£149,972	£33,346
Independent	£49,889	
Fleet TC	£43,772	£39,635
New Milton TC	£12,282	£1,212
Hampshire External Customer	£11,092	
Hart DC	£2,268	£34,783
Grand Total	£25,688,148	£12,199,092

26. LASER Energy's total annual fees for all services to the whole portfolio (Hampshire County Council, Partners, Schools etc.) amount to £202,000 in total or 0.5% of the total annual spend. This fee is a fixed amount per meter per annum depending upon the type of meter.
27. LASER Energy's fees related to the Corporate Estate only (excluding Schools) are £39,000 or 0.39% of the total Corporate Estate annual spend. This is a slightly different percentage as the mix of meters varies.
28. Hampshire County Council receives an annual rebate of 0.07 pence per kWh for gas and 0.18 pence per KWH for electricity consumed by each end user of the Framework. This equates to approximately £200,000 per annum or 0.55% of the total annual spend including schools and partners. The rebate is used to offset the costs of the Energy Team for managing procurement activities, contract management activities, client and supplier relationship management and risk management strategy execution.
29. LASER Energy will also continue to provide support for budget setting for the County Council and its Customers, aligning with the internal budget cycles and communication requirements for internal and external customers.

Performance

30. The new framework has maintained relevant Key Performance Indicators to monitor and manage the suppliers' performance.
31. LASER Energy will continue to dedicate support to Hampshire County Council for its forward energy buying strategy to capture cost savings opportunities in the short and long term as well as performance measurement via its suite of Positions Reports.

Consultation and Equalities

32. The County Council maintains close consultation with all interested parties, and users of the energy supply contract. There is an annual liaison to help users set budget forecasts for the year, and regular updates on any news from the contract.

33. An equalities impact assessment has been carried out and found there will be no impact on people with protected characteristics as the decision will sustain existing arrangements for securing the best value energy for the County Council.

Climate Change Impact Assessments

34. The recommendations in this report will sustain a cost-effective supply of energy to Hampshire County Council and its partners with a neutral impact on energy usage and carbon emissions arising from the County Council's operations and estate. Separately, the County Council is pursuing measures to reduce energy consumption and improve efficiency as part of its strategy in response to the climate emergency. LASER Energy offer a range of support services to help organisations to achieve these efficiencies, as well as multiple options to invest in renewable energy. These entail additional cost. If and when they are considered for adoption as part of the County Council's climate change strategy, further approvals will be sought.

Conclusions

35. LASER framework represents good value in terms of suppliers, management and reporting, and enables the County Council to make decisive decisions around the forward purchasing of energy.
36. Approval in September 2023 and subsequent call off from the framework will enable the commencement of purchasing, if appropriate, of energy volumes for Summer 2025, Winter 2025, and early Summer 2026.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes
People in Hampshire live safe, healthy and independent lives:	Yes
People in Hampshire enjoy a rich and diverse environment:	Yes
People in Hampshire enjoy being part of strong, inclusive communities:	Yes

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

An equalities impact assessment has been carried out and found there will be no impact on people with protected characteristics as the decision will sustain existing arrangements for securing the best value energy for the County Council.