

<b>Meeting Name:</b>	Cabinet
<b>Date:</b>	18 June 2024
<b>Report title:</b>	Gateway 1 - Council Energy Contracts Procurement
-	Councillor John Batteson, Climate Emergency, Jobs and Business
<b>Ward(s) or groups affected:</b>	All
<b>Classification:</b>	Open
<b>Reason for lateness (if applicable):</b>	Not applicable

## **FOREWORD – COUNCILLOR JOHN BATTESON CABINET MEMBER FOR CLIMATE EMERGENCY, JOBS AND BUSINESS**

The council has as a core function to ensure that our buildings have a continuous supply of energy. Due to the size of our building portfolio, this means buying large amounts of gas and electricity for our homes, workplaces, leisure centres, schools, libraries, and streetlights. In recent years we have seen how volatile energy markets can be, and how important this makes our energy contracts for ensuring we can get the best value for our residents and operations alike.

Not only is it critical in securing good value for our residents at a time where cost of living pressures are widespread, but it is also a huge opportunity for us to consider how we can use our purchasing power and our energy contracts to lower our carbon emissions.

The report considers these challenges and sets out how the flexible LASER framework presents the most cost effective approach for us to achieve both security and flexibility in how we purchase our gas and electricity. We will need to do further work to carry out a robust and thorough evaluation on the pricing options that are part of this framework. This will also look at additional services that we may subscribe to, so that we can get the best price for energy whilst also lowering the risk of what has been a turbulent sector for price fluctuations in recent years.

The proposed framework also sets out opportunities for using this contract to support our work to end the borough's contribution to climate change. We will now be able to evaluate green energy options for cost, risk and expediency to work towards achieving our targets. We will also consider other opportunities outside of the framework that can help to support the transition to green energy, such as increasing renewable energy generation within Southwark and Power Purchase Agreements.

As we enter the mid-point of our ten-year climate strategy, this approach to our energy contracts procurement will allow us to use our purchasing power to continue to deliver the best outcomes we can for the council, for our residents and for the planet.

## **RECOMMENDATIONS**

That Cabinet:

1. Approves the use of the LASER Flexible Procurement Framework to administer the purchase and supply of the council's gas and electricity for a four year period (1 April 2025 to 31 March 2029) with a possible one year extension (31 March 2030).
2. Delegates authority to the Strategic Director of Environment, Neighbourhoods & Growth in consultation with the Strategic Director of Finance, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance to award the contracts for the supply of gas and electric and to approve the purchasing options, service level agreement and any appropriate green energy options in relation to the award, which will be set out within the gateway 2 report.

## **REASONS FOR RECOMMENDATIONS**

3. The reasons for the recommendations are set out within this report in paragraphs 23 - 26 and the approach being taken to procure the current energy contract requirements are set out in paragraphs 45 - 56 of this report.

## **ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

4. This report considers alternative options; do nothing, buy as Southwark only, join with another borough or in-sourcing, the reasons for these options not being recommended are further set out in paragraphs 39 – 44 of this report.

## **POST DECISION IMPLEMENTATION**

5. Once approval for the recommendations have been received, the procurement of the energy contract via the LASER framework will be set out in the gateway 2 report. The timescales for the procurement processes are set out in the table at paragraph 65 of this report. The plans for the management and monitoring of the resultant contracts are in paragraphs 92 – 95.

## **BACKGROUND INFORMATION**

6. Southwark has a population of over 300,000 residents, there are approximately 130,000 households, with around 42% of homes that are socially rented from the council and housing associations.
7. Southwark council is the largest local authority social landlord in London and the fourth biggest nationally with over 50,000 properties. The council also has

a diverse building stock across the borough, which are essential in the provision of council services. These include depots, office buildings, libraries, leisure centres, schools and parks buildings. Provision of gas and electricity is therefore a key function provided by the council across its building portfolio, ensuring value for the council and residents alike.

8. In 2023/24 the council spent approximately £46m on gas and electricity to provide power, heating and hot water to the housing estates as well as the wider operational estate, which includes leisure centres, libraries, and some schools across the borough. The council constantly reviews its energy portfolio to bring new buildings into the contract where costs savings and further efficiencies can be achieved.
9. Southwark council is currently in a 'call off' contract for the provision of gas and electricity with suppliers via a LASER framework.
10. LASER is a Public Buying Organisation 'PBO' and was established in 1989, by Kent County Council to help public sector organisations throughout the UK reduce their energy costs. They offer a broad range of core services that include energy procurement frameworks, energy management services, net zero consultancy services, LED lighting, net zero frameworks and Power Purchase Agreements. They purchase over £1.5 billion of energy for public sector customers every year.
11. The current 'call off' contract supplies energy to the following sites:
  - The council's operational buildings including the corporate offices, depots, leisure centres and libraries
  - Street lighting
  - The council's housing estate
  - Borough schools that have opted in to the contract.
12. Southwark's current LASER contract agreement ends on 31 March 2025, with a new contract therefore required from 1 April 2025. Award of the new contract must happen six months prior to the contract start date to ensure enough lead in time for energy to be purchased in advance. If the contract is not agreed prior to six months in advance there is a risk that the council will need to purchase energy on more expensive flexible rates, incurring significant additional cost.
13. Alongside value for money, the council must also consider how it moves to more sustainable forms of energy. In July 2021 Southwark Council published its Climate Change Strategy and Action Plan (CCSAP) (included as background document to this report).
14. The CCSAP also identifies renewable energy as one of the five priority areas and has a commitment to reduce operational emissions by 50% by 2026 and 100% by 2030, and to also ensure all non-housing buildings are moved to green energy tariffs. To be carbon neutral the council must first become more

energy efficient and reduce energy demand, and then increase the proportion of residents and organisations using renewable energy.

15. 'Green energy' options are available within this framework, as detailed in paragraph 56. The procurement of this contract will play a therefore vital role in reaching the carbon reduction target for the borough and deliver the council's Climate Action Plan. It should be noted that the council must prioritise the cost of energy for residents of council housing, and has therefore to date not moved any of the council's housing stock onto a green tariff.
16. The current contracts have provided excellent value for money to the council. Southwark's energy purchasing performance report from October 2022 – 2023 shows that compared to average retail price for gas and electricity the current contracts have secured 5-10% savings in cost, and in comparison, to maximum retail prices, there has been a 45 – 50% cost saving.
17. Wholesale gas and electricity markets are going through an unprecedented period of extreme and volatile prices. Prices have increased over the past two-years to unprecedentedly high levels, the reasons for this are further detailed in paragraphs 32 to 34. It is paramount that these contracts seek a risk-averse approach and aims to provide the council and its residents with price stability.
18. In 2022, LASER carried out a tender process to agree suppliers for the new Flexible Energy Procurement Framework running from October 2024 to September 2028. The framework agreements are:
  - Y22009 - Flexible Procurement and Supply of Half Hourly (HH) Non-Half Hourly (NHH) Metered and Unmetered (UMS) Electricity with Additional Services
  - Y22008 - Flexible Procurement and Supply of Natural Gas, Daily Metered and Non-Daily Metered with Additional Services.
19. In the previous framework agreement, the London Energy Project (LEP) a group of public sector organisations combined buying power to develop a bespoke pricing basket with LASER that was most suited to the needs of local authorities and public sector organisations. The tender on this pricing basket specifically evaluated bidders on their green energy options, social and economic benefit to local communities, operational efficiencies and greater overall value for money for organisations.
20. Although the LEP has been disbanded, the same tender evaluation was used for LASER's new Flexible Energy Procurement Framework to ensure there was a bespoke offer suited to the needs of public sector organisations.
21. The outcome of the tender evaluation, and the suppliers on the framework are:

<b>Electricity</b>	<b>Gas</b>
<ul style="list-style-type: none"> <li>• <b>Npower</b></li> <li>• <b>Total Energies</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Total Energies</b></li> <li>• <b>Corona</b></li> </ul>

<ul style="list-style-type: none"> <li>• EDF</li> <li>• SSE</li> </ul>	
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The suppliers that the council uses under the proposed framework is dependent on the purchasing options selected, this is to be recommended in the gateway 2 report.

22. To ensure continuity of service LASER will undertake a new tender process in 2026/27 to award suppliers to a new framework agreement after September 2028. As Southwark's call-off contract would extend pass this period the council will automatically be placed under this framework.

**SUMMARY OF THE BUSINESS CASE/JUSTIFICATION FOR THE PROCUREMENT**

23. The council has an on-going need for gas and electricity, so new contracts are needed from April 2025 to ensure continued provision.
24. Through this procurement the council will ensure best value for its residents and consumers of a council-wide energy contract. This report is proposing to join a framework which it considers to be the most economically advantageous and lowest risk, ensuring stability and competitive prices for the council as a priority, before exploring various routes to assist in achieving the council's strategic climate targets via energy supply agreements.
25. The number of households facing fuel poverty in Southwark has more than doubled in the last decade. This procurement ensures it is seeking fair and affordable energy prices for social housing tenants and leaseholders, and wider consumers such as schools who may be struggling with fuel poverty or the cost of living crisis. It is recognised that there can be different challenges in securing best value for those residents on district heating systems. These residents for example did not benefit immediately from the Energy Price Cap and had to subsequently secure discounts through the alternative Energy Bills Discount Scheme, with price protection therefore more limited. The council will continue to review options through the contract for securing best value for these residents.
26. As part of the council's Climate Action Plan, Southwark council have committed to decarbonising its energy supply. This procurement and LASER's Flexible Procurement Framework will include a range of 'green energy' options to be considered which will enable the council to achieve this goal. Considering the pressures on cost of living and households facing fuel poverty, affordability is the priority for residents. Green energy options will only be considered secondary to value for money, for those housing buildings included within the contract. This is set out within the Evaluation section below.

**MARKET CONSIDERATIONS**

27. The energy market is very competitive and means that consumers in Britain can select from a range of companies to provide their energy supply. The energy suppliers all use the same gas pipes and electricity wires to deliver the

same physical products (gas and electricity), so instead they compete on price, service, and innovation.

28. The unit (kilowatt hour – kWh) cost of gas to the customer is made up of several cost elements:
  - Wholesale cost of the commodity itself – gas or electricity
  - Pass through charges for transporting the energy – i.e. national gas network. These charges are fixed by the energy regulator (Ofgem)
  - Meter operating, billing, and administration charges
  - Government taxes – “Climate Change Levy” and VAT
  - Supplier profit.
29. The wholesale price of electricity comprises around 40 per cent of the total cost paid by customers. The remaining 60 per cent is made up of the other charges listed above.
30. As the wholesale market price of gas and electricity is the dominant factor in the end price to customers, competition between suppliers usually only realises around 1 – 2 per cent difference in prices when tendered based upon previous tenders undertaken.
31. The largest impact on the end price is the amount being bought, decision when to buy, and how much future demand to buy at any one time (i.e. to cover the total demand for one or two years, or just a portion).
32. The wholesale energy market has seen unprecedented levels of volatility in recent periods, leading to increased uncertainty surrounding energy prices. This has heightened the need for Councils to ensure robust risk assessments with energy procurement and supply contracts.
33. The volatility and instability in the energy market can be linked to the following:
  - Increased energy demand following Covid-19 pandemic
  - Concerns about gas supplies in the EU and Britain following the Russian invasion of Ukraine
  - Key supply chains such as Nordstream I and II being closed off. Although the UK does not rely on this supply, it has been indirectly impacted due to an increase in global competition for natural gas and demand causing record-breaking gas prices.
  - High gas prices have driven up electricity prices, due to the reliance on gasfired power stations, further exacerbated by nuclear capacity outages in France.
34. Gas and electricity prices have begun to reduce and stabilise however are still expected to remain high compared to historical levels, at least until the end of this decade (2030), but have reduced from the unprecedented price fluctuations that have been experienced in previous years.

35. Record high consumer bills prompted heightened levels of government intervention across Europe. On 1 October 2022, the Government introduced the Energy Price Guarantee (EPG) to reduce bills in England, Scotland and Wales amid soaring wholesale energy prices. The EPG limited the amount households can be charged per unit of gas or electricity, as well as a cap on the daily standing charge. On 1 July 2023 this was superseded by the Energy Price Cap, as energy prices have shown some signs of decreasing.
36. The number of households facing fuel poverty in Southwark has more than doubled in the last decade<sup>1</sup>. Data indicates that in Southwark the proportion of households suffering from fuel poverty has increased from 5% in 2011 to 11% in 2020. There are substantial inequalities that exist within the borough regarding fuel poverty also.
37. The Survey for Londoners, 2019, reported fuel poverty was higher in people with low and very low food security (44% and 46%) single parents (37%), persons of black ethnicity (32%), with disabilities (26%), and aged 35-49 years (19%) and 50-64 years (18%). As a council it must ensure it safeguards the most vulnerable residents by providing affordable energy at the best value.
38. Over the last decade the cost of renewable energy generation has significantly decreased due to increased capacity and is now just as competitive in many areas to fossil fuel counterparts. The new framework offers the council an opportunity to review several options that would enable a transition to a decarbonised energy supply through 'additionality' which would support 'new-to-the-earth' renewable energy infrastructure.

## **KEY ISSUES FOR CONSIDERATION**

### **Options for procurement route including procurement approach**

39. Do Nothing – Energy supplies are required to be in place. Allowing the current contracts to lapse without re-procurement would mean the council would fall out of contract and experience 'out of contracts rates' for gas and electricity supplies, significantly more expensive.
40. Buy as Southwark Council only - The costs likely to be gained by a stand alone Public Contract Regulation compliant tender are likely to be prohibitively high. There are also time implications and a lack of economies of scale in procuring individually, as well as complexity and practicality.
41. In-sourcing – As Southwark is not an energy generator or supplier and the costs and practicalities of developing this would be unaffordable, this is not an option.
42. Joint procurement with another borough – The limitations of this option are similar to those highlighted in paragraph 40.

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<sup>1</sup> <https://moderngov.southwark.gov.uk/documents/s110031/Appendix%201%20-%20Cost%20of%20Living%20Profile.pdf/1000>

43. Power Purchase Agreement (PPA) for the supply of electricity – This option is limited in its capacity to supply the council’s entire energy requirements and at the required timescales, but is to be explored as a future green energy option, see paragraph 56.
44. Join a framework agreement – This report recommends this procurement route and the reasons for this are detailed in paragraphs 45 to 56.

### **Proposed procurement route**

45. The proposed procurement route is to use an existing framework agreement to collaboratively procure energy on behalf of the council. LASER is the Public Sector Buying Organisation managing this framework agreement.
46. LASER are public sector energy specialists who manage and procure energy contracts on behalf of 30 out of 32 local authorities in London and a range of further councils across the southeast of England.
47. This method of procurement allows the council to access wholesale rather than the retail market prices. This method of buying has been previously approved and adopted by the council to avoid the risk of effectively settling all of the council’s gas and electricity costs on a single day through a fixed price, which retrospectively may be a high point in the market. It is also the recognised best practice approach to energy procurement and most risk averse.
48. There are minimum size requirements for buying wholesale energy flexibly, i.e. aggregated to the size of at least ten typical London boroughs so the council would not be able to benefit from wholesale prices unless entering into a framework agreement.
49. Evaluation on purchasing options to set the fixed price for energy supplied will be undertaken prior to gateway 2 to ensure that the pricing strategy selected has greatest value for money, is most risk averse and aligns with council strategy and processes. These purchasing options are:
  - Purchase in Advance (PC1) - All the council’s energy is purchased prior to delivery for a 12 month supply period. The delivered price is fixed for the 12 month period from April to March.
  - Purchase within Period – A proportion of the council’s energy supply is purchased prior to delivery for each 6 month supply period. The remainder is then purchased within the current period.
  - Signal - driven by market price signals. Purchases and sales are made directly from these signals, buying where prices are likely to be lower and selling where they are likely to be higher.
50. The framework also includes different Service Level Agreements (SLA), which allows for some sites to be fully managed by LASER and consists of services such as validating invoices and bills for accuracy or some sites to be



Procurement Only Service Option (POSO). Each SLA has a specific cost structure that will be evaluated prior to the gateway 2 report.

51. The current framework has achieved significant cost avoidance for Southwark of £13,067.5k per year through the following:

Description	Avoided Cost £/pa
<b>Purchasing performance</b> - the prices achieved are lower than the average market prices over this period.	£11,946.3k
<b>Lower Supplier Management Fees</b> - reduced fees from gas and electricity suppliers compared to buying as a stand-alone customer.	£802.5k
<b>Aggregating</b> - the volumes of multiple customers flattens the overall usage profile, allowing traders to purchase at a lower price.	£91.4k
<b>Entire Market Pricing</b> - when LASER submits a bid to buy a block of energy, suppliers are compelled to put this bid into the open market. This means the framework receives the lowest price anyone in the entire market is prepared to offer	£46.6k
<b>Flexibility of Trading</b> - our large energy purchase volumes mean we can buy larger blocks of energy over the market, which come at a discount to buying smaller blocks of energy.	£23.0k
<b>Volume Tolerance</b> - volume tolerances apply at the aggregated customer level (rather than individual customer level) minimising the risk of load variance penalties. As an example, no penalties were incurred for reduced usage during Covid.	£7.3k
<b>Transparency of pricing</b> – LASER validates supplier’s flexible prices and corrects any errors prior to opening bills being issued for each pricing period.	£150.5k

The above cost avoidances have ensured that the council has maintained a lower spend on their energy supply compared to being outside of a framework agreement, which would likely have resulted in significantly higher energy supply costs.

52. The new framework also offers additional benefits to the cost savings outlined above with a greater focus on:

- Enhanced social value commitments from suppliers
- Several green energy options to help transition towards carbon neutrality
- Additional protections against supplier failure
- Enhanced trading strategies
- Improved management information requirements from suppliers so better transparency for customers
- Improved Service Level Agreements including KPIs and poor performance remedies

53. Six London Boroughs commissioned a study by Cornwall Insights in May 2023 to undertake an options assessment on the best route of procurement for Council-wide energy contracts. The report provided insight into the market landscape, trends, key players, and services offered by Third Party Intermediaries (TPIs) - also called brokers and Public Buying Organisations (PBOs) such as LASER.
54. Their research found that for local authorities already supplied by the PBO LASER Energy, there is unlikely to be a material advantage to be gained from moving to another provider.
55. Several other providers offer similar products, but none with features that would be expected to outweigh the disruption and cost of resourcing change. The proposed framework includes several additional services such as portfolio management, account management and management information regarding supplier performance that simplify the procurement of energy and such services provide wider cost savings to the council as outlined in paragraph 51.
56. The framework includes 'green energy' options to support the council transitioning to renewable energy sources, helping the council to achieve the Council's wider strategic goals of carbon neutrality by 2030. These 'green energy' options could include:
- PPA and 'sleeving' facilitation - A PPA is a call-off contract for an energy buyer to purchase a fixed volume of electricity from a renewable generator at a fixed price, for example wind or solar, over a long-term period. PPA contracts can specify that the energy purchased must be "new-to-earth" – i.e. requiring bidders to build a new renewable energy source to supply their energy over the coming years.  
If a PPA is signed it can be 'sleeved' into the contract and supplied through the framework to the council's selected portfolio of sites.
  - Green basket option - allow the council to buy traceable electricity directly from generators, without having to enter in to separate PPAs
  - REGO (Renewable Energy Guarantees of Origin) and RGGO (Renewable Gas Guarantees of Origin) certificates. Which can provide a guarantee that equivalent amount of energy used is from renewable sources, but crucially does not result in increased renewable energy generation.

**57. Identified risks for the procurement**

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
<b>Not achieving competitive prices as gas and electricity have not been brought at optimal times and volumes.</b>	High energy costs for the council and its contract users.	Purchasing gas and electricity within a flexible framework agreement that spreads buying decisions across the contract period, and benefits from market intelligence and expertise.

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
<b>Lack of price stability and certainty</b>	The council cannot effectively budget for fluctuating costs.	Prior to the Gateway 2 report an options analysis on the pricing options will be carried out to ensure the council select the option with the greatest value for money and most risk-averse.
<b>Poor performance from suppliers and LASER.</b>	Energy prices are not competitive against market, suppliers fail to supply energy to sites effectively, issues with management and billing.	As part of the tender, suppliers had to show a clear escalation path if they failed to meet their tender commitments. Service Level Agreements under the framework set out clear KPIs and poor performance remedies if suppliers fail to meet these KPIs which will be highlighted at regular performance reviews.
<b>Supplier failure</b>	Awarded supplier fails due to unprecedented increase in energy costs.	The framework agreement provides protection against supplier failure as there is a ready compliant procurement route to appoint a new supplier should an existing supplier fail.
<b>Council selects wrong pricing option, green energy and service level agreements.</b>	Increased cost, risk and failure to meet strategic targets.	Officers will seek external expertise from specialists in energy market intelligence to ensure that the evaluation process for pricing options, green energy options and service level agreements is thorough and robust. Colleagues in finance and housing will also be involved.
<b>Unprecedented increase in energy costs beyond council budget threshold</b>	Break clauses included in contract agreement are limited if energy is procured in advance, as we would need to give 2 year advance notice and this is not enough time to avoid unprecedented	Review pricing strategy options if forecasting information shows an unprecedented increase that goes beyond council budget threshold. Ensure regular forecasting information is provided by

Risk	Impact	Mitigation
	increase in costs. May exceed council budget thresholds.	framework providers LASER so this forward planning can be undertaken.

## KEY / NON KEY DECISIONS

58. This report deals with a key decision.

## Policy Framework Implications

59. The Climate Strategy and Action Plan, 2021, sets out to achieve carbon neutrality by 2030, and highlights renewable energy as one of five priority areas that needs to be addressed to achieve this. The proposed route of procurement includes the benefit of providing the council with several options that the council can agree that will enable us to work towards these targets.
60. Southwark's Council Delivery Plan, 2022 – 2026 seeks to make Southwark a fairer, greener and safer borough. One of the seven themes is providing 'A Healthy Environment', this procurement will help to achieve this by supporting the following:
- Halving the council's carbon emissions again by 2026, staying on track to cut emissions from the council's operations and vehicles to net-zero by 2030
  - Making all of our future council homes projects net zero council homes.
61. The framework is compliant with the Public Contracts Regulations 2015.
62. This framework is compatible with Southwark's Fairer Future Procurement Framework, 2019 and helps to deliver a Greener Borough by exploring options to transition Southwark's energy supply to renewable energy where affordable.
63. The Department for Energy, Security and Net Zero and Department for Business Energy and Industrial Strategy published a Net Zero Strategy: Build Back Greener in 2019. This strategy has committed to fully decarbonising the UK's power system by 2035. The proposed procurement framework has several 'green energy' options to help decarbonise Southwark's energy and support the national targets.
64. Southwark is a landlord and therefore has a statutory obligation under the Landlord and Tenant Act 1985 to ensure that properties they rent out are fit for human habitation, this includes appropriate heating and energy supply. Section 9A, inserted by the Homes (Fitness for Human Habitation) Act 2018 states a property would be considered unfit if it isn't heated or fuelled. This procurement ensures that the council complies with the relevant statutory legislation.

## 65. Procurement Project Plan (Key Decisions)

Activity	Complete by:
Enter Gateway 1 decision on the Forward Plan	15/03/2024
DCRB Review Gateway 1	1/05/2024
Brief relevant cabinet member - LMB	8/05/2024
CCRB Review Gateway 1	9/05/2024
CMT Meeting	21/05/2024
Notification of forthcoming decision – Cabinet	10/06/2024
Approval of Gateway 1: Procurement strategy report	18/06/2024
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	27/06/2024
Evaluation (including pricing, green and SLA options)	01/07/2024 – 02/08/2024
DCRB Review Gateway 2	7/08/2024
CCRB Review Gateway 2	15/08/2024
Notification for forthcoming decision	21/08/2024
Approval of Gateway 2: Contract Award Report	30/08/2024
LMB update	Aug 24
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	10/09/2024
Contract award (latest)	30/09/2024
Add to Contract Register (latest)	30/09/2024
Place award notice in Find a Tender (FTS)	completed by framework provider
Place award notice on Contracts Finder	completed by framework provider
Contract start	1/04/2025
Initial contract completion date	31/03/2029
Contract completion date – (if extension(s) exercised)	31/03/2030

66. The decision to award the contract has been delegated to the Strategic Director, which is in accordance with the council's Contract Standing Order process.

### TUPE/Pensions implications

67. There are no TUPE implications.

### Development of the tender documentation

68. As the proposal is to join a framework agreement, no tender documentation is needed.

69. Southwark will need to sign access agreements with LASER to use their framework.

**ADVERTISING THE CONTRACT**

70. This will be completed by the framework provider to be compliant with the Public Contract Regulations (2015).

**Evaluation**

71. In 2022, LASER carried out a tender process to agree suppliers for the new Flexible Energy Procurement Framework running from October 2024 to September 2028. The evaluation criteria and weighting used as part of this tender process is below:

<b>Award Criteria</b>	<b>Weighting (%)</b>
Supplier Management Fees	15
Product Pricing	12
Billing	12
Procurement and Trading	11
Service	11
Social Value	10
Contract Management	8
Net Zero	7
Innovations	4
Supply Period	2

72. Each supplier under this framework has been awarded a particular purchasing option (paragraph 49) dependent on where they scored the highest on their tender responses.
73. The council will need to take an evaluation for which purchasing option to adopt under this framework to determine which suppliers will be used. The criteria for this evaluation are as follows:

<b>Categories</b>	<b>Evaluation Criteria</b>	<b>Weighting</b>
<b>Purchasing Options</b>	<b>Cost</b> - is it value for money and is it affordable	40%
	<b>Risk</b> - level of price stability and certainty	40%
	<b>Appropriateness</b> – does it align with council financial processes	20%

74. An evaluation is also required for the green energy options (paragraph 56) and service level agreements (paragraph 50) that that council may choose to adopt, and the criteria for this is as follows:

Categories	Evaluation Criteria	Weighting
<b>Green Energy</b>	<b>Cost</b> – is it value for money and is it affordable	35%
	<b>Risk</b> – supplier failure, reputational risk	35%
	Alignment with <b>strategic targets and expediency</b>	20%
	<b>Practicality</b> of transition	10%
<b>Service Level Agreements</b>	<b>Cost</b> – is it value for money and is it affordable	70%
	<b>Resource needs</b> and capacity of the Council	30%

The evaluation criteria and weightings may be subject to change following further consultation to be carried out.

## **Community, equalities (including socio-economic) and health impacts**

### **Community impact statement**

75. This contract covers gas and electricity supplies to central boiler systems and landlords supplies which provide heating and lighting to smaller housing estates. Any change in gas and electricity prices will therefore affect tenants' service charges. However, all sections of the community are equally affected by rising energy prices, whether they have their own domestic boilers (and pay their own gas bills) or are connected to communal systems. The aim of the recommended procurement route is to adopt a flexible purchasing option whereby competitive market prices for gas and electricity can be secured to minimise the overall price to the consumer and provide price stability. This strategy is not an option that is open to individual consumers with their own heating systems.

### **Equalities (including socio-economic) impact statement**

76. Pursuant to section 149 of the Equality Act 2010 the council has a duty to have due regard in its decision making processes to the need to:
1. Eliminate discrimination, harassment, victimisation or other prohibited conduct
  2. Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not
  3. Foster good relations between those who share a relevant characteristic and those that do not share it.
77. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. The Public Sector Equalities Duty also applies to marriage and civil partnership.
78. The proposed procurement route of a framework agreement offers the council several flexible pricing strategies to ensure competitive prices and stability.

This is a priority for the council, particularly when considering fuel poverty has doubled in the last seven years and disproportionately affects Southwark's most vulnerable residents.

79. The climate emergency does not impact all Londoners equally. Minority communities and the poorest, most vulnerable residents are more likely to be affected as they are unable to prepare, respond and recover from extreme weather events such as overheating or flooding. The proposals in this report give the council options to move to an energy procurement that will reduce the impact of climate change in an environmentally just and fair way.
80. An Equalities Impact and Needs Assessment (Appendix 1) was carried out and none of the recommendations included in this report are deemed to result in any adverse impacts on protected characteristic groups.

### **Health impact statement**

81. The recommendations set out in this report will help to reduce health inequalities by supporting council residents with affordable and stable energy prices helping to reduce fuel poverty, keep homes, schools and community hubs warm.

### **Climate change implications**

82. Decarbonising the council's energy supply is a key focus area if Southwark is to achieve its strategic targets. The recommendations included in this report seek to join a framework agreement which enables the Council to explore a variety of green energy options which will support Southwark in meeting its ambition to be carbon neutral by 2030.
83. The council has a commitment to reduce operational emissions by 50% by 2026 and 100% by 2030, and to also ensure all non-housing buildings are moved to green energy tariffs. The evaluation to be carried out as part of this procurement will recommend which green energy options should be explored further or adopted to help achieve these commitments.
84. Climate change is already impacting on residents in the borough, for example, through more extreme weather events. Climate change adversely affects those with the least resources and creates greater inequality. The council's commitment to tackling the climate emergency is aligned with our values to deliver a fairer future for all and reduce inequality in our borough and society. The proposals in this report give the council the option to move to a more sustainable energy procurement that will reduce the impact of climate change, particularly for those most vulnerable.

### **Social Value considerations**

85. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social,



economic and environmental benefits that may improve the well-being of the local area can be secured.

86. Social Value was a weighted criteria in the tendering process carried out by LASER to decide the suppliers for the framework recommended in this report. As part of this suppliers had to provide a social value plan and have committed to offering funding and volunteering days to support local projects.

### **Economic considerations**

87. Due to the nature of the energy supply market requirements for suppliers to support local employment is unlikely to be possible.
88. Any subsidiary services within the framework will seek to support employment where possible.

### **Social considerations**

89. The council's social considerations for this will focus on the environmental benefits associated with the energy being provided in support of the council's commitment to being a carbon neutral borough by 2030.
90. The London Living Wage is not applicable due to the supply nature of this contract.

### **Environmental/Sustainability considerations**

91. This contract is concerned with securing natural gas and electricity. One of the tailored benefits of this framework agreement is the possibility of purchasing 100% green energy. This option and associated costs will be explored at Gateway 2.

### **Plans for the monitoring and management of the contract**

92. Officers will ensure that all appropriate details of this procurement are added to the contract register via the eProcurement System.
93. The Climate Change Team within the Environment, Neighbourhoods and Growth department will act as the contract manager with the framework provider to resolve any outstanding queries. This will require regular contact with colleagues working across Housing, Corporate Facilities Management and Leisure, amongst others. Annual performance reviews will be undertaken, this will include reviewing prices against market rates to ensure best value is being delivered.
94. Officers will liaise with other London boroughs through the London Councils energy group network to discuss performance and highlight any areas of concern about the proposed framework.

95. An Annual Performance Review of the contract will be carried out at Corporate Contracts Review Board (CCRB) and Departmental Contracts Review Board (DCRB).

### **Staffing/procurement implications**

96. There will be no staffing and procurement implications as part of this proposed procurement.

### **Financial implications**

97. Under the energy contracts for 2020 – 2025 the average spend per annum from 2020 – 2024 was £26m. In 2023/24 there was an unprecedented increase due to the market volatility (paragraphs 29 - 36), and the cost for that year increased beyond average. Estimated costs for 2024/25 are £38m. The estimated total contract value is £190m including a 1 year extension.

98. The breakdown of funding per annum is as follows:

<b>Cost Centre Group</b>	
HRA	£28.5m
General Fund	£5.7m
Schools	£3.8m

The above funding breakdown is profiled on previous spend profiles on the current contract.

99. The main users of the council's energy contracts have their own budgets, and is therefore managed within the relevant team. This report recommends the decision to award the contracts is made in consultation with the Strategic Director of Finance and Cabinet Member for Communities, Democracy & Finance to ensure this procurement aligns with the service needs of these different users.

### **Investment implications**

100. There are no investment implications as part of this report.

### **Legal implications**

101. Please see concurrent from the Assistant Chief Executive – Governance and Assurance

### **Consultation**

102. Officers, including those in Housing, Corporate Facilities Management, Corporate Property and Leisure will be consulted prior to the contract start date to finalise a site listing for the contract. The nature of the council's approach to building management, and the lack of a centralised corporate

landlord model, adds complexity to the management of the contract and requires engagement with multiple teams across the council.

103. For those schools included in the contract notification will be sent to those responsible for paying the bills of the intention to renew the contract and the period covered.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance (ENG24/008)**

104. The strategic director of finance notes the recommendations in this report for the approval of the use of the LASER Flexible Procurement Framework to administer the purchase and supply of the council's corporate gas and electricity contracts for the period 1 April 2025 to 31 March 2029 with a possible one year extension under a rolling forward buying arrangement. The estimated annual value is £38m making a total estimated value of £190m if the one year extension is used.
105. The strategic director also notes the recommendation to delegate authority to the Strategic Director of Environment, Neighbourhoods & Growth in consultation with the Cabinet Member for Climate Emergency, Clean Air and Streets to award the contract, and agree the subsequent purchasing options within the framework agreement including 'green energy' options as detailed in this report.
106. The strategic director of finance also notes the financial implications and the sources of funding for the contract.
107. Officers' time and any other costs associated with this recommendation will be contained within existing departmental revenue budgets.

### **Head of Procurement**

108. This report seeks approval of the procurement strategy to administer the purchase and supply of the council's corporate gas and electricity contracts, via use of a framework established by Kent County Council, (LASER) for the period 1 April 2025 to 31 March 2029 (four years) with possible one year extension (contract end date 31 March 2030) under a rolling forward buying arrangement at an estimated value of circa £38m per annum and a total estimated value of £152m, and/or £190m if the one year extension option is enacted. The report also requests authority to delegate approval to award the contract(s) to the Strategic Director of Environment, Neighbourhoods & Growth in consultation with the Strategic Director of Finance, Cabinet Member for Climate Emergency, Clean Air and Streets and Cabinet Member and Cabinet Member for Communities, Democracy & Finance as detailed at paragraph two.
109. The value of the proposed contract is above the minimum threshold for supplies as covered by the Public Contracts Regulations 2015 (PCR2015) and

the report provides detail of compliance with salient aspects, including background, management and operation of the framework (please refer to paragraphs 45 - 56). Regulatory requirements for conclusion of, and entry into, framework agreements is covered by regulation 33 of PCR2015 and section 5 of the Council's Contract Standing Orders (CSO). The report is also consistent with general governance requirements within CSO, which reserve decision to Cabinet, following review by DCRB and CCRB.

110. Headline risks associated are contained within table underneath paragraph 59, and note intent to engage external expertise to ensure that the evaluation process of pricing option, green energy options and service level agreements is thorough and robust.
111. Alignment with the Fairer Future Procurement Framework (FFPF) is specifically evidenced at paragraph 62, and more generally within the content of paragraphs 76 – 90.
112. Proposed methodology for performance/contract monitoring is detailed within paragraphs 92 - 95, namely through regular monitoring and peer review meetings. The report also confirms that an annual performance review will be provided to the council's DCRB and CCRB in alignment with council CSO.
113. The Community, Equalities and Health Impact Statements are set out in paragraphs 75 – 81.
114. The Climate Change, Social Value, Economic and Environmental / Sustainability statements are set out in paragraphs 82 – 91.

### **Assistant Chief Executive – Governance and Assurance**

115. This report seeks approval of the procurement strategy for the purchase and supply of the council's corporate gas and electricity for the period 1 April 2025 to 31 March 2029, with an option to extend for one year.
116. The nature and estimated value of this procurement is such that the procurement process is subject to the full application of the Public Contracts Regulations ("PCR") 2015. The report recommends the use of an existing framework established by Kent County Council (through LASER, its buying organisation for public sector bodies) for the supply of gas and electricity which has been procured in compliance with the PCR, and since the council is eligible to use that framework it will not have to carry out its own tendering process. Paragraphs 45 to 47 explain how the purchase of energy supplies is achieved through the framework and note the administration and management services offered by LASER.
117. This procurement is classed as a strategic procurement under the council's Contract Standing Orders, which reserve to the Cabinet the decision to authorise the proposed procurement process, after consideration of the report by the corporate contracts review board (CCRB).

118. Paragraph 75 contains the community impact statement in relation to the proposed procurement and paragraphs 76 to 80 acknowledge that the council must have due regard to the Public Sector Equality Duty in this procurement, compliance with which has been demonstrated by undertaking an Equalities Impact and Needs Assessment in order to measure and understand the effect and impact of the procurement and resulting contract. Cabinet should satisfy itself that this duty has been complied with when considering these recommendations. Paragraphs 102 and 103 set out the proposals for consultation in relation to the recommended procurement strategy.

**Director of Exchequer – Home Ownership team**

119. Gas and electricity costs form part of the service charges to council homeowners in respect of a number of services, primarily heating and hot water through district and communal heating systems, but also lifts, estate lighting and door entry systems.

120. No consultation is required under S20 of the Landlord and Tenant Act because the cost to leaseholders under the agreement is confined to Laser’s administration costs and these fall below the individual service charge cost threshold in the Act of £100 per annum. The costs of energy procured by Laser is considered separate to the Act due to the nature of how the energy is purchased, in stages through the duration of the contract. The council will continue to demonstrate that fair market costs are achieved through the management of the contract and selection of appropriate purchasing options.

**BACKGROUND DOCUMENTS**

Background Documents	Held At	Contact
Climate Change Strategy and Action Plan	Climate Change Environment, Neighbourhoods & Growth	Tom Sharland 0207525 0959
Link: <a href="https://www.southwark.gov.uk/environment/climate-emergency/reaching-net-zero/track-our-progress">https://www.southwark.gov.uk/environment/climate-emergency/reaching-net-zero/track-our-progress</a>		

## APPENDICES

No	Title
Appendix 1	Equality Impact and Needs Assessment

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor John Batteson, Climate Emergency, Jobs and Business	
<b>Lead Officer</b>	Tom Sharland, Climate Change Programme Director	
<b>Report Author</b>	Rachel Gates, Climate Change and Energy Project Manager	
<b>Version</b>	Final	
<b>Dated</b>	6 June 2024	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director of Finance	Yes	Yes
Head of Procurement	Yes	Yes
Assistant Chief Executive – Governance and Assurance	Yes	Yes
Director of Exchequer (For Housing contracts only)	Yes	Yes
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
<b>Cabinet Member</b>	<b>Yes</b>	<b>Yes</b>
<b>Date final report sent to Constitutional Team</b>		6 June 2024