

Decision Taker:	Acting Strategic Director of Environment, Sustainability and Leisure
Date:	10 September 2024
Report title:	Gateway 2 – Council Energy Contracts Procurement
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Climate Change Programme Director

RECOMMENDATION(S)

1. That the acting Strategic Director of Environment, Sustainability and Leisure in consultation with the Strategic Director of Resources, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance, approves the use of LASER's appointed energy framework supplier for electricity – Npower Ltd, under LASER framework agreement Y22009 for an estimated value of £17m p.a.; and the appointed energy framework supplier for gas – Corona, under LASER framework agreement Y22008 for an estimated value of £21m p.a. (combined contracts total value circa £38m).
2. That the acting Strategic Director of Environment, Sustainability and Leisure in consultation with the Strategic Director of Resources, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance approves the use of the following purchasing strategy and service level agreement:
 - Price Certainty (PC1) purchasing strategy
 - Fully managed service level agreement
3. That the acting Strategic Director of Environment, Sustainability and Leisure notes that further details on these options can be found in paragraphs 12 – 33. The recommendations above will be subject to annual performance reviews, to assess if they are still the best option for the council, and any changes will be determined by the Strategic Director of Environment, Sustainability and Leisure via a Gateway 3.
4. That the acting Strategic Director of Environment, Sustainability and Leisure approves the removal of all purchases of Renewable Energy Guarantees of Origin certificates (REGOs) under this contract and agrees to a commitment

to explore Power Purchase Agreements, and other viable green energy options, that are addressed further in paragraphs 34 to 44 of this report.

BACKGROUND INFORMATION

5. On 17 June 2024 Cabinet agreed for the council to use LASER's Flexible Procurement Framework to procure the council's supply of electricity and gas. Authority was delegated to the Strategic Director of Environment, Neighbourhoods and 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 agree the purchasing strategy within the framework and service level agreement. See **Appendix 1**, in background documents, for this report.
6. The council's energy consumption represents a significant, but necessary cost to the council. The council is committed to mitigating these costs as much as possible by ensuring a risk-managed flexible approach to purchasing, transactional efficiencies through excellent contract management and energy reduction measures.
7. In recent years the energy market has experienced an extremely volatile period due to a number of geopolitical and economic events. The energy market has become more stabilised in 2024, however, a managed approach to risk will be required to ensure the council is not exposed to the possibility of similar unprecedented periods of volatility and extreme price fluctuations whilst under the new contract, 2025 to 2030 (with 1 year extension applied).
8. Southwark Council has a clear ambition to be net zero by 2030, as per the Climate Strategy and Action Plan, published in July 2021. The recommendations in this report have been made with consideration to how the council can ensure a secure and value for money supply of energy to residents and wider users whilst aligning with strategic targets.
9. Officer's sought subject matter expertise, via Ernst & Young LLP, to undertake a robust, independent and bespoke evaluation of pricing strategies, detailed in paragraphs 19 to 25 and service level agreements, detailed in paragraphs 28 to 33 to inform the recommendations included in this report. The evaluation carried out has particular focus on the service needs of Southwark.
10. The review undertaken also provided further assessment on the LASER framework against alternative options and determined that LASER is the most suitable option for the council, which supports the recommendations outlined in the Gateway 1 report. This is based on LASER historically offering lower-than-average market prices due to economies of scale, has a strong ability to manage price volatility, utilises a robust tendering process when selecting suppliers, and offers additional services such as their fully managed service providing greater wrap around support. **Appendix 2 (closed)** is the council's Energy Procurement evaluation report undertaken by E&Y and this can be found in the background documents of this report.

Refer to pages 8 – 12 of Appendix 1, for further detail regarding the evaluation of framework options.

Procurement project plan (Key Decision)

11. The procurement project plan for the award of this contract is set out below:

Activity	Completed/ Complete by:
Forward Plan for Gateway 2 decision	03/06/2024
Approval of Gateway 1: Procurement Strategy Report	17/06/2024
DCRB Review Gateway 2	07/08/2024
CCRB Review Gateway 2	15/08/2024
Briefed relevant cabinet member (over £100k)	21/08/2024
Notification of forthcoming decision	29/08/2024
Approval of Gateway 2: Contract Award Report	06/09/2024
End of Scrutiny Call-in period and notification of implementation of Gateway 2 decision	17/09/2024
Contract award	30/09/2024
Add to Contract Register	01/10/2024
Contract start	01/04/2025
Publication of award notice on Contracts Finder	01/04/2025
Contract completion date	31/03/2029
Contract completion date – if extension(s) exercised	31/03/2030

KEY ISSUES FOR CONSIDERATION

Description of procurement outcomes

Purchasing Strategy

12. LASER offer two framework options, the LASER Flexible Procurement Framework, or the Fixed Term Fixed Price Framework. The Gateway 1 report recommended to proceed with LASER’s Flexible Procurement Framework, however, to ensure all purchasing strategy options have been evaluated officers have included all framework options in the evaluation of purchasing strategies.

13. Laser’s Flexible Procurement Framework offers four different purchasing strategies or ‘basket options’ which are designed to accommodate the different needs of customers and their appetites for risk and budget certainty.

14. The four 'basket options' are:

- **Purchase in advance (PIA):** All site volume is purchased prior to delivery for a 12-month supply period, running from October to September. Pass through charges (including costs to maintain the electricity and gas networks, metering costs and costs for government levies) will be added to arrive at the delivered price in pence per kilowatt hour. The delivered price is fixed for the 12-month period.
- **Price Certainty (PC):** this has the same buying strategy as PIA, buying all the energy requirement for a 12-month period in advance of the supply period, but the supply period and pricing run from April to March. This aligns with the financial year and provides full financial year budget certainty.
- **Purchase within Period (PWP):** A proportion of site volume is purchased 6-months prior to the supply period. The remainder is then purchased within the period of use. A reference price is set at the beginning of the supply period, which is six months long and a reconciliation between the reference price and the final achieved price is completed at the end of the six months.
- **Signal:** Signal is a new option in the 2024-2028 frameworks. The trading mechanism is 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, with minimal human intervention.

15. FSAR (Flex Set and Reset) is a fifth basket option offered by LASER but will be discontinued from September 2024 and therefore has not been included for consideration.

16. The Fixed Term Fixed Price Framework allows the council to lock-in to a fixed price for the duration of the call-off contract (minimum 12 months). This fixed price is set at the date of the contract commencing, and there is no option to change price, purchasing strategy or volume during the contract period.

17. Southwark Council has previously used a Price Certainty basket option under the current contract arrangements for April 2020 to March 2025.

18. Using the Price Certainty basket option has secured 5-10% savings in cost for average retail unit prices for Southwark Council, and in comparison, to maximum retail prices, there has been a 45 – 50% cost saving. Due to confidentiality it is not possible to make direct comparisons of this with other framework users who utilise a different basket option, however, research into other council's purchasing strategies has shown that where PWP has been utilised, it has at times increased costs during supply duration by 50% against PIA/PC. Page 22 in Appendix 2 of the closed report highlights this further.

19. Each basket option varies in the risk exposure and budget certainty. The council sought subject matter expertise through its commissioning of E&Y to carry out an evaluation of the basket options outlined in paragraph 14. The full evaluation is available in the background documents of this report, **Appendix 2** (closed), pages 13 – 17.

20. The evaluation used the following criteria and weighting to determine which purchasing strategy was most suited to the council's requirement.

Criteria	Description
Affordability for end users/Value for money	Considering the end user's capacity to afford the energy prices under each pricing option, based on the council's service portfolio.
Budget Control and Financial Management	Assessing the extent to which the pricing option allows the council to maintain budget control over its energy expenditure, ensuring that spending stays within planned limits, which is crucial for financial stability and avoiding budget overruns.
Transparency	Evaluating whether prices and costs are transparent and readily understood.
Ability to mitigate volatility	Evaluating the ability to minimise exposure to market volatility and other uncertainties, which will protect the council from unexpected price increases.
Flexibility	The degree to which the pricing strategy allows adjustments in response to changing market condition and the council's strategy priorities.

21. The evaluation also took into consideration that end users of the contract have varying appetites for budget certainty and risk. Therefore the evaluation on pricing options was carried out using different weightings for the three end payers of the contract, who fall into three categories:

- **Operational:** This covers the corporate estate, leisure, parks, street lighting, social services, and libraries that are managed by the council. These services have a relatively higher risk tolerance level when it comes to pricing options and are less vulnerable compared to schools and housing when facing a price uplift, however accurate energy costs still need to be fully accounted for within departmental budgets.
- **Schools:** These are the schools that decide to opt in the council's energy contract. They can be more vulnerable to

increases in energy prices than the council's wider operational estate.

- **Housing:** This category includes social housing tenants and leaseholders who are recharged for energy costs. These end users typically have a lower risk tolerance and are most greatly impacted by fuel poverty and rising energy costs.

22. The tables below explain the weightings applied, and the scoring criteria:

Criteria	Operational	Schools	Housing
Affordability for end users/ Value for Money	25%	30%	30%
Budget Control and Financial Management	20%	20%	20%
Transparency	20%	20%	20%
Ability to mitigate volatility	20%	20%	20%
Flexibility	15%	10%	10%

5 - Excellent	4 - Good	3 - Fair	2 - Marginal	1 - Poor
Fully meets and may exceed the specified criteria, delivering the best possible outcome.	Delivers a desirable outcome and satisfies most of the criteria to a large extent.	Meets the criteria to a moderate extent but does not fulfil all requirements.	Some minor drawbacks that limit its ability to meet the criteria effectively.	Significant drawbacks that substantially prevent it from meeting the criteria and may require considerable adjustments.

23. The outcome of the evaluation is below:

Criteria	PIA/PC1	PWP	Signal	Fixed Term Fixed Price
Affordability for end users/Value for money	<ul style="list-style-type: none"> Historically, has performed well against other basket options (see paragraph 18) Protects customers from short-term extreme price fluctuations Does not protect customers from long-term energy price increases and may result in a delay of these being experienced. Budget certainty prevents any unexpected costs 	<ul style="list-style-type: none"> Risk of sudden price increasing which could make costs unaffordable Better suited for those with flexible budgeting or large reserves A premium may be provided if wholesale prices drop during supply period. 	<ul style="list-style-type: none"> Highest risk of price fluctuation, no fixed price option and may expose users to large price uplift. Maximises sale and purchase activity in different market conditions 	<ul style="list-style-type: none"> Energy price is locked in, this could potentially lock the council in to a high-energy price (or low), with no option to change based on consideration of affordability.

Housing/ Schools	4	3	3	2
Operational	4	4	3	2
Budget Control and Financial Management	<ul style="list-style-type: none"> This option provides good budget certainty as energy is purchased prior to delivery. 	<ul style="list-style-type: none"> Provides less budget certainty due to only a portion of the required energy being purchased upfront. Reconciliation may be required which add budget complexity. 	<ul style="list-style-type: none"> Provides less budget certainty due to only a portion of the required energy being purchased upfront. 	<ul style="list-style-type: none"> Provides excellent budget certainty as price is locked in for a long-term period.
Housing/ Schools	4	3	3	4
Operational	4	3	3	4
Transparency	<ul style="list-style-type: none"> Final unit price before delivery commences which can easily show breakdown of unit prices achieved and non-commodity additions. 	<ul style="list-style-type: none"> Final unit price can only be provided whilst delivery has commenced or each 6-month period 	<ul style="list-style-type: none"> More complex and a final unit price only once all energy has been procured, during delivery. 	<ul style="list-style-type: none"> Clarity over when price was fixed and at what cost.
Housing/ Schools	4	3	3	4
Operational	4	3	3	4
Ability to mitigate volatility	<ul style="list-style-type: none"> This is the best option to mitigate against market volatility as energy is procured in advance and fixed. LASER use energy market intelligence to buy at low points in the market. Risk if energy prices are lower during supply period you may not be able to optimize on this. 	<ul style="list-style-type: none"> As only a portion of energy procured is at a fixed price there is more risk exposure to price fluctuations. 	<ul style="list-style-type: none"> High risk for exposure to price fluctuations 	<ul style="list-style-type: none"> A locked-in price is used over the term of contract, indicating a strong ability in mitigating price uplift. However, this option will lose the benefits if energy prices fall during the contract period.
Housing/ Schools	4	3	2	4
Operational	4	3	2	4
Flexibility	<ul style="list-style-type: none"> Less flexibility as fixed price for 12 months 	<ul style="list-style-type: none"> More flexibility as some energy is procurement within supply period 	<ul style="list-style-type: none"> More flexibility as some energy is procurement within supply period 	<ul style="list-style-type: none"> The fixed framework provides the least flexibility due to a fixed price and volume during

				the contract period.
Housing/Schools	4	3	3	2
Operational	3	4	4	2

24. Once the scores above have been weighted by housing/schools and operational the scoring was as follows:

Criteria – <u>Housing and Schools</u>	Weight – Housing and Schools	PIA/PC1	PWP	Signal	Fixed Term Fixed Price
Ability to mitigate volatility	20%	4	3	2	4
Flexibility	10%	4	3	3	2
Affordability for end users/ Value for Money	30%	4	3	3	2
Budget Control and Financial Management	20%	4	3	3	4
Transparency	20%	4	3	3	4
Total unweighted scores		20.0	15.0	14.0	16.0
Total weighted scores		4.0	3.0	2.8	3.2

Criteria – <u>Operational</u>	Weight – Housing and Schools	PIA/PC1	PWP	Signal	Fixed Term Fixed Price
Ability to mitigate volatility	20%	4	3	2	4
Flexibility	15%	3	4	4	2
Affordability for end users/ Value for Money	25%	4	4	3	2
Budget Control and Financial Management	20%	4	3	3	4
Transparency	20%	4	3	3	4

Total unweighted scores		19.0	17.0	15.0	16.0
Total weighted scores		3.9	3.4	3.0	3.2

25. Following the evaluation carried out on the purchasing strategies and customised weighting for end users, PIA/PC1 scored the highest across housing, schools and operational and it is therefore recommended that the council-wide energy portfolio uses the Price Certainty basket option, under the LASER Flexible Procurement Framework.

26. LASER’s energy market forecast for the next year indicates prices are expected to decrease over the next 12 months due to LASER’s long-term hedging strategies. Basket options where energy is purchased in advance are therefore likely to achieve competitive rates against the retail market during supply duration. For further detail on this please refer to the closed Appendix 2, found in background documents, pages 14.

27. The council has the option under the framework to change purchasing strategy, provided enough warning is given to LASER (usually 0.5 – 1 year). Officers will carry out annual performance reviews to ascertain how the PC1 basket is performing against the market and other basket options. The review will also consider energy market intelligence at the time to better understand if wider benefits may be had using a different approach. Contract end users, including housing and schools will be consulted as part of this review process to ensure that the basket option selected is still meeting their required service needs and priorities. If the performance reviews recommend a change in purchasing strategy this will be subject to a Gateway 3 determined by the Strategic Director of Environment, Sustainability and Leisure.

Service Level Agreements

28. LASER offer three service level agreements under the Flexible Procurement Framework. These are:

- **Procurement Only Service (POSO):** LASER procure electricity and gas on the customer’s behalf, but the customer interfaces directly with the suppliers for bill payment and query management
- **Fully Managed Service (FM):** LASER procure electricity and gas on the customer’s behalf and act as the interface between the customer and the suppliers for bill validation, bill payment and query management
- **Bureau Management Service:** As per the FM service, but provide additional energy consumption monitoring, tracking and reporting service

29. Southwark currently adopts a hybrid model of POSO and FM sites. The council currently has 2868 POSO sites and 631 FM sites. The current contract agreed the council uses the FM service for all meters where the additional fee is equivalent to less than 3.6% of the annual billed cost of each meter, and to use the procurement-only approach for the meters where the fee would equate to above 3.6% of the total annual cost.

30. A light touch service review was carried out by the Climate Change and Sustainability team to understand how the energy contract is being managed across the council, with a key focus on the role the Sustainability and Energy team play in overseeing this and how this could be improved. The review recommended that the Sustainability and Energy team carry out further cost benefit analysis to transition all sites to a Fully Managed service level agreement. The review stated that transitioning all sites to Fully Managed would:

- **Reduce confusion:** A clear management structure minimises misunderstandings.
- **Minimise officer time spent on corrections:** Fewer errors mean less time spent fixing them.
- **Mitigate lack of clarity resulting from the mixed model:** Full management reduces the risk of LASER not maintaining agreed service levels.

31. The FM service will also mean bills are validated against actual meter readings prior to them being sent to the council to be paid. This avoids the risk of bills being paid based on estimate meter readings and as a result being overcharged. Also, the cost of checking accuracy of bills is time-consuming and can be challenging, which has sometimes resulted in late payment charges that a FM service would avoid.

32. The per annum fee proposal for the different Service Level Agreements are:

	Continue with current mix model	All sites Fully Managed	All sites Bureau Management
Proposed cost	£269,804.56	£329,462.89	£396,180.97
Diff to current cost	£0	+£59,658.33	+£126,376.41

33. It is recommended that all sites on Southwark's energy contract become Fully Managed. The cost of this transition is less than 1% of the predicted contract value p/a. There will be an additional cost to the council of transitioning to a wholly Fully Managed service of £59,658.33, however this cost is expected to be recovered through improved accuracy regarding bill validation and payments, and therefore reduced over-charging and late payment fees.

Green Energy Options

34. The council must decarbonise its energy supply if it is to achieve its ambition of being net zero, and the Climate Strategy and Action Plan 2021 sets out the council's pathway to achieve this.
35. Previously, the council opted to use 'green tariffs' or Renewable Energy Guarantees of Origin certificates (REGOs) to supply renewable electricity to its corporate estate, including schools and community buildings.
36. At the time of the decision-making for the current contract, in 2020, REGOs were £0.40 - £0.50 p/KwH for each REGO 100% renewable backed. Due to the increased demand nationally to meet strategic climate targets and to decarbonise energy supplies, the cost of REGOs have increased exponentially. In 2024, the cost of a REGO is £1.74 p/KwH, costing the council £195,739 in 2024/25 to purchase REGOs for its corporate estate. Although the cost of REGOs are anticipated to reduce in 2025 it is unlikely they will fall to their previous levels for the duration of the new contract.
37. REGOs are also heavily criticized as a means to achieving decarbonisation goals as they do not encourage 'additionality' to the network. REGOs are a share of renewable energy already produced, therefore do not generate additional renewable energy capacity.
38. Therefore, it is recommended that Southwark Council do not pursue REGOs for any of the sites within the council's energy contract portfolio, and removing those that were enacted for the council's corporate estate. It is recommended that where savings are made under the new contract, commencing 2025, by not purchasing REGOs (approx. £195k p.a.) some of this funding can therefore be invested into other decarbonisation projects that the council is working on to deliver a more impactful transition to clean energy, such as the Southwark Community Energy Fund.
39. Pages 19 of Appendix 2 (closed), found in background documents of this report, provides case studies where other boroughs have adopted similar approaches to detach from REGOs and the other green energy options being considered.
40. It is fundamental however, that the council considers alternative green energy options that are affordable to ensure it shows continued leadership and ambition in committing to decarbonising the council's energy supply and wider goals of achieving net zero.
41. Southwark Council has been working in consortium with seven other London Boroughs, as part of the Renewable Power 4 London working group, to

explore the option of a 'Green Power Purchase Agreement (PPA)'¹. A pre-feasibility assessment was completed in Spring 2024. The Climate Change team will explore the option of carrying out the next stage of commercial viability and subject to further assessment and appropriate decision-making will seek to commence procurement of this option in 2025.

42. If the council chooses to adopt a PPA it would likely commence during the 2025-2029 electricity contract period. The electricity contract through the LASER framework allows for PPA volume to be sleeved in. This means that should a PPA be put in place during the contract period, the council can add this generation in for an appropriate proportion of the council's estate, as well as providing the rest of the council's electricity requirement. There is no cap on the volume of electricity that can be transferred in through the LASER framework.
43. The council will continue to explore and expand on its work in the delivery of on-site renewable energy such as rooftop solar PV. Southwark is currently in the first phases of a Local Area Energy Plan which will help to better inform opportunities for decarbonisation, through onsite renewable energy generation, and district heat networks.
44. The UK government has announced their ambition to decarbonise the national grid by 2030. The government seeks to make the UK a clean energy super power and has launched the Great British Energy, a publicly-owned energy company, designed to drive clean energy deployment, boost energy independence, create jobs and ensure UK taxpayers, billpayers and communities reap the benefits of clean, secure, home-grown energy. The council will benefit from the long-term decarbonisation of the grid, but still needs to prioritise transitioning away from gas for heating and fuel, alongside reducing energy demand.

Key/Non Key decisions

45. This report deals with a key decision.

Policy implications

46. 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. Paragraphs 34 to 44 demonstrates the council's commitment to exploring options to deliver decarbonisation of the council's energy supply.
47. The Climate Action Plan includes a milestone to 'Explore green tariffs as part of renewal of the council energy contract, which will cover the period 2025-

¹ , A PPA is a contract between two parties, one which generates energy (the generator) and one which is looking to purchase electricity (the buyer). The PPA defines all of the commercial terms for the sale of electricity between the two parties, including when the project will begin commercial operation, schedule for delivery of electricity, penalties for under delivery, payment terms, and termination. A Green PPA seeks the purchase of renewable energy.

2030'. This report, and the supporting EY evaluation report (Appendix 2, closed report found in background documents) explores the option of green tariffs (REGOs) and does not recommend adopting them under this contract due to their increased cost and lack of additionality.

48. Southwark 2030, published in July 2024, states the vision for Southwark is to build a fair, green and safe Southwark where everyone can live a good life as part of a strong community. One of the goals to achieve this vision is to deliver a healthy environment by making our buildings energy efficient with clean, green power. The green energy options outlined in this report, such as Power Purchase Agreements, and community energy will be explored further to support the delivery of this.
49. 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.
50. The framework agreement used is compliant with the Public Contracts Regulations 2015.
51. 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.
52. 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.
53. 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.

Tender process

54. 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:

Award Criteria	Weighting (%)
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
Service Options	2
Volume Requirement	2
Current Portfolio Agents	2
Bureau	2

55. Each supplier under the LASER Flexible Procurement framework has been awarded a particular basket option dependent on where they scored the highest on their tender responses.

56. The outcome of the tender evaluation, and the suppliers on the LASER Flexible Procurement framework are:

Electricity	Gas
<ul style="list-style-type: none"> • Npower • Total Energies • EDF • SSE 	<ul style="list-style-type: none"> • Total Energies • Corona

Tender evaluation

57. Subject to approval of this report and the recommendations in paragraph 2, Southwark council will be allocated Npower as its electricity supplier and Corona as its gas supplier under the PC1 basket option. These are the incumbent suppliers of energy for Southwark.

58. Npower scored first place overall and scored highest in supplier management fees, social value and procurement and trading.

59. Corona scored second place overall however, due to scoring highest in Billing, and Account Management, they were awarded first for the PC1 basket as this criteria was weighted higher for this basket option as used more by

local government who place greater value on these aspects. The difference in fees between first place supplier and second place was minimal.

Plans for the transition from the old to the new contract

60. From September 2024 to March 2025 we will undertake the transition from the old contract to the new contract. This will be completed by the Climate Change team and the LASER, working with the suppliers to ensure a smooth migration of sites where necessary.

61. LASER are the incumbent framework providers and Npower and Corona are the incumbent energy suppliers under this framework therefore the transition should be smooth.

Plans for monitoring and management of the contract

62. The contract agreements will be published to the council's contract register as it is above £5,000 and this ensures the council complies with the obligations of the Local Government Transparency Code.

63. The Sustainability and Energy Manager (SEM), who sits within the Climate Change team, in Environment, Sustainability and Leisure will be responsible for the management of the contract and monitoring.

64. As this contract impacts multiple areas of the council, quarterly meetings will be scheduled with energy portfolio holders to ensure the contract is performing at a high standard for its end users and raise any issues with delivery against key performance indicators which require escalation. The meetings will also be an opportunity to ensure LASER are fulfilling their duties under the Fully Managed service level agreement.

65. An Annual Performance Review of the contract will be carried out at Corporate Contracts Review Board (CCRB) and Departmental Contracts Review Board (DCRB). This review will consider the performance of the selected purchasing strategy and service level agreement.

Identified risks for the new contract

66.

Risk	Impact	Mitigation
<p>Purchasing strategy does not provide affordable prices within budget</p>	<p>Increased cost to end users, with greatest impact on schools and residents who may suffer greater fuel poverty.</p>	<p>Regularly review and monitor the performance of the purchasing strategy selected against other options.</p> <p>Optimise forecasting of energy prices to</p>

	End users experiencing increased cost despite energy prices falling during supply duration due to purchasing in advance approach.	highlight increased costs against budget and prepare mitigation plans for these.
The award of a contract through a framework agreement is a long commitment of four and a half years.	Poor performance, or other framework providers with better methods of procuring energy become available.	There is a break clause within the framework that can be exercised after two years if it is felt the performance does not meet KPIs. This decision will be part of ongoing analysis shown in the annual performance reports and presented accordingly.
Suggested benefits of adopting a fully managed SLA are not realised	Council has spent more money to fund this transition but the return on increased efficiency and reduction of erroneous bills does not come to fruition.	Excellent contract management will ensure that LASER performs its duties under a Fully Managed Service Level agreement to ensure that Southwark receives the benefit. Annual performance reviews and quarterly meetings with energy portfolio holders will highlight any issues, and a change in SLA adopted can be considered such as using Procurement Only Services and exploring other energy bureau management options, with minimum 3 months' notice.

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

Community impact statement

67. 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.

68. The aim of the recommendations included in this report is to adopt a risk-averse and cost effective purchasing strategy which seeks to provide value for money to residents, but also security on costs, protecting them from market volatility and price fluctuations. The service level agreement proposed in the report seeks to ensure an excellent and efficient service is provided by the council.

Equalities (including socio-economic) impact statement

69. 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:

- Eliminate discrimination, harassment, victimisation or other prohibited conduct
- Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not
- Foster good relations between those who share a relevant characteristic and those that do not share it.

70. 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.

71. An Equalities Impact and Needs Assessment (Appendix 3) 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

72. 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

73. The recommendations included in this report propose stopping all further purchases of REGOs under this contract. This is due to the increased cost of purchasing REGOs, and further critique regarding their lack of additionality to the grid.

74. A Power Purchase Agreement (PPA) will be explored as an alternative to REGOs, which will be more effective in providing additionality, and working towards Southwark having a truly decarbonised electricity supply. This is subject to further consultation with internal colleagues and review of a PPAs commercial viability to determine if it is a viable option and will follow appropriate Gateway report decision-making and constitutional processes.

75. Other alternative green energy options will be progressed and delivered too including the installation of onsite renewable energy such as rooftop PV and district heat networks.

Social Value considerations

76. 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.

77. 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

78. Due to the nature of the energy supply market requirements for suppliers to support local employment is unlikely to be possible.

79. Any subsidiary services within the framework will seek to support employment where possible.

Social considerations

80. 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.

81. The London and Real UK Living Wage is not applicable due to the supply nature of this contract.

Market considerations

82. Paragraphs 27 to 38 in the Gateway 1 report – Council energy contract procurement provides a detailed overview of market considerations regarding this procurement exercise. This report can be found in Appendix 1, background documents.

Staffing implications

83. The contract management of energy supplies is carried out by the energy and sustainability team and the new contract will not create any additional requirement for staffing resources.

Financial implications

84. The annual spend on the current energy contract for electricity and gas is:

	2020-21		2021-22		2022-23		2023-24	
	Electricity	Gas	Electricity	Gas	Electricity	Gas	Electricity	Gas
Housing Revenue Account	£4,790,126	£6,417,634	£5,188,946	£7,824,073	£7,111,823	£15,849,211	£9,945,680	£24,012,908
Housing - General Fund	£0	£323	£0	£555	£50,483	£0	£100,884	£91,185
Schools	£2,255,742	£2,243	£2,566,143	£3,392	£3,424,117	£3,167	£4,429,407	£4,907
Children and Adults Services	£137,445	£46,587	£102,687	£48,906	£170,776	£52,662	£278,036	£94,992
Highway Lighting	£877,188		£909,682		£1,687,776		£1,615,668	
Corporate Facilities & Operatio	£716,378	£70,349	£985,435	£122,380	£1,130,257	£182,607	£1,925,951	£288,556
Libraries and Heritage	£105,790	£54,028	£165,540	£49,187	£287,690	£126,125	£377,574	£96,849
Parks and Open Spaces	£291,684	£44,487	£297,443	£51,277	£402,514	£96,683	£740,177	£136,860
Leisure Centres	£0	£0	£0	£0	£0	£0	£1,211,055	£979,200
Total	£9,174,354	£6,635,651	£10,215,877	£8,099,769	£14,265,436	£16,310,455	£20,624,431	£25,705,456
Total (by years)	£15,810,005		£18,315,646		£30,575,891		£46,329,887	

85. The forecasted cost of the contract value for 2024 – 2025 is (including VAT):

Portfolio area	Electricity	Gas
HRA/Housing General Fund	£8.3m	£19.8m
General Fund – Corporate Estate, Street Lighting, Parks, Libraries, Leisure Centres	£5m	£1.3m
Schools	£3.6m	£0m
	£16.9m	£21.1m
TOTAL	£38m	

86. Combined electricity and gas contract cost p.a. under the new contract 2025 – 2030 (including 1 year extension), is expected to remain circa £38m, equating to £190m for the total contract duration. Costs may reduce or increase subject to energy market changes.

87. The council is forecasted to consume 56,422.27 MWhs for electricity and 285,372 MWhs for gas per annum (based on 24/25 estimates). Throughout the duration of the new contract (2025 – 2030, including 1 year extension) the council seeks to reduce its energy demand, and decarbonise its heating across all portfolio areas. This will help to reduce the council's overall consumption during the new contract and may also help to reduce energy costs.

Investment implications

88. There are no investment implications.

Legal implications

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

Consultation

90. Officers have consulted with colleagues in Housing and Environment, Sustainability and Leisure in the development of the evaluation and weightings to ensure the conclusions meet the needs of key contract users.

91. Officers working in the different portfolio areas under the energy contract will be consulted on in the development of a site list prior to the contract commencing.

92. Schools included in the contract have been notified of the contract renewal, giving them the option to opt out of the new contract. If no response is received they will automatically be opted in to the new contract commencing on April 2025.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Resources (ENG24/066)

93. This report requests the acting Strategic Director of Environment, Sustainability and Leisure in consultation with the Strategic Director of Resources, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance, to approve the use of LASER's appointed energy framework LASER's appointed energy framework suppliers for electricity and gas at an estimated annual costs of £17m and £21m respectively (combined contracts total annual value circa £38m).

94. The Strategic Director of Resources (SDR) notes that the strategy adopted, given the recent volatility in the energy market, will provide a more managed approach to risk to ensure the council is not exposed to the possibility of similar unprecedented periods of volatility and extreme price fluctuations whilst under the new contract from 1 April 2025 to 31 March 2030 (with 1 year extension applied).

95. The Strategic Director of Resources (SDR) notes the financial implications detailed in this report and notes the sources of funding for the contract. The SDR also notes the independent and bespoke evaluation of pricing strategies undertaken by officers to inform the recommendations included in this report

96. All staffing and other related costs to be contained within existing departmental revenue budgets.

Head of Procurement

97. This report seeks approval of the use of LASER's appointed energy framework supplier for electricity – Npower Ltd, under LASER framework agreement Y22009 for an estimated value of £17m per annum; and the appointed energy framework supplier for gas – Corona, under LASER framework agreement Y22008 for an estimated value of £21m per annum (combined contracts total value circa £38m per annum). The report also requests that the acting Strategic Director of Environment, Sustainability and Leisure, in consultation with the Strategic Director of Resources, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance approves the use of the following purchasing strategy and service level agreement:

- Price Certainty (PC1) purchasing strategy
- Fully managed service level agreement

98. Finally, the report requests approval from the acting Strategic Director of Environment, Sustainability and Leisure for the removal of all purchases of Renewable Energy Guarantees of Origin certificates (REGOs) under these contracts and agrees to a commitment to explore Power Purchase Agreements, and other viable green energy options.

99. The value of the proposed contracts is above the minimum threshold for supplies and services 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 47 – 58 of previous Gateway One). 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, acknowledging approval of delegation in former Gateway One, which reserve the decision to the acting Strategic Director of Environment, Sustainability and Leisure in consultation with the Strategic Director of Resources, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance, following review by DCRB and CCRB.

100. Headline risks associated are contained within the table underneath paragraph 66 and note inclusion of a break clause within the contracts that can be exercised after two years if performance does not meet Key Performance Indicators (KPIs).

101. Alignment with the Fairer Future Procurement Framework (FFPF) is specifically evidenced at paragraph 51, and more generally within the content of paragraphs 46 – 53.

102. Proposed methodology for performance/contract monitoring is detailed within paragraphs 62 - 65, 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.
103. The Community, Equalities and Health Impact Statements are set out in paragraphs 67 – 72.
104. The Climate Change, Social Value, Economic and Environmental / Sustainability statements are set out in paragraphs 73 – 81.

Assistant Chief Executive – Governance and Assurance (SB270824)

105. This report seeks approval of the award of contracts to Npower Ltd for the council's electricity supply and to Corona for the council's gas supply, at estimated values of £17m and £21m per annum respectively, by way of call-off from energy frameworks operated and managed by LASER, the buying organisation for public sector bodies established by Kent County Council. It also seeks approval of the use of LASER's Price Certainty (PC1) purchasing strategy and its fully managed service level agreement.
106. Paragraph 5 notes that approval had been delegated by Cabinet to the acting Strategic Director of Environment, Sustainability and Leisure, in consultation with the Strategic Director of Resources, Cabinet Member for Climate Emergency, Jobs and Business and Cabinet Member for Equalities, Democracy & Finance.
107. The procurement of these contracts is subject to the full application of the Public Contracts Regulations ("PCR") 2015. However, the LASER frameworks have been procured in compliance with the PCR, and since the council is entitled to use them it has not been necessary to carry out its own tendering process. The report explains from paragraph 12 how the purchase of energy supplies is achieved through the frameworks and paragraph 28 notes the administration and management services offered by LASER.
108. The recommended contract awards are also consistent with the council's Contract Standing Orders, which acknowledge and permit the use of frameworks and allow the delegation of decisions.
109. The equalities impact statement set out from paragraph 69 acknowledges that the council must have due regard to the Public Sector Equality Duty contained in section 149 of the Equality Act 2010 when making procurement decisions. Paragraph 71 confirms that compliance with that duty 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, and that none of the recommendations included in this report are considered to generate any adverse impacts on individuals and groups having a protected characteristic

under the Act. The acting Strategic Director must be satisfied that this duty has been complied with when considering these recommendations.

110. Paragraphs 90 to 92 note the nature and extent of the consultation which has been and will continue to be conducted in relation to the recommended contract awards.

Director of Exchequer (for housing contracts only)

111. Housing are responsible for substantially the highest spend on the energy contract for gas and electricity. Although this contract does not require statutory consultation under S20 of the Landlord and Tenant Act 1985, the fuel procured through the contract impacts on leaseholder service charges. Leaseholders, and some freeholders, on council housing estates, contribute towards the cost of the gas and electricity that supports services to their property - in particular for the running of district heating systems and block and estate lighting.

112. We have been pleased to input into the recent contract review process, and would want to ensure that Homeownership Services are invited to continue to participate in this process in the future, recognising the impact on leaseholders as end users.

113. It is anticipated that the move to a fully managed contract will address some of the concerns regarding cyclical adjustments and errors in the billing by the providers, which have impacted charges in the past, and I understand that as part of the contract review there will be an opportunity to explore how estimating of costs going forward can be improved.

114. It is noted that the current model has secured very good prices compared to other options and these cost savings are directly passed on to council homeowners in their charges.

Climate Change Team

115. Decarbonising the council's energy supply is essential to the council meeting its ambition to be carbon neutral by 2030 as set out in the Climate Change Strategy and Action Plan. The council has a commitment to reduce its operational emissions by 50% by 2026 and 100% by 2030.

116. Climate change impacts residents across the borough, such as through increased frequency of extreme weather events. Poorer and otherwise disadvantaged communities, including the elderly, are more at risk and have less resource to mitigate against its impact. The council must ensure the burden of change does not fall on those least able to afford it. The proposals in this report support the council in safeguarding against possible fluctuating energy prices and demand, including changes in energy use and price due to climate impacts.

117. The recommendations included in this report support a just transition to clean energy by redirecting some resources previously pledged to purchasing REGOs towards other clean energy activities including exploring PPAs and supporting local projects that provide greater additionality. By increasing investment in local initiatives, such as in partnership with community energy groups, the council can support the development of local renewable energy infrastructure. This shift will not only address the shortcomings of REGOs but also support actions in the Climate Change Strategy and Action Plan aimed at promoting community renewable energy technology and promote the co-benefits of local action such as increased agency for local people and upskilling opportunities.

PART A – TO BE COMPLETED FOR ALL DELEGATED DECISIONS

Under the powers delegated to me in accordance with the council’s Contract Standing Orders, I authorise action in accordance with the recommendation(s) contained in the above report (and as otherwise recorded in Part B below).

Signature *Toni Ayle*

Date10.09.24.....

Designation Acting Strategic Director, Environment, Sustainability & Leisure...

PART B – TO BE COMPLETED BY THE DECISION TAKER FOR:

- 1) All key decisions taken by officers
- 2) Any non-key decisions that are sufficiently important and/or sensitive that a reasonable member of the public would reasonably expect it to be publicly available (see ‘FOR DELEGATED DECISIONS’ section of the guidance).

1. DECISION(S)
As set out in the recommendations of the report.

2. REASONS FOR DECISION
As set out in the report.

3. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED BY THE OFFICER WHEN MAKING THE DECISION
Not applicable.

4. ANY CONFLICT OF INTEREST DECLARED BY ANY CABINET MEMBER WHO IS CONSULTED BY THE OFFICER WHICH RELATES TO THIS DECISION

None.

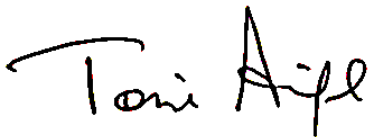
5. NOTE OF ANY DISPENSATION GRANTED BY THE MONITORING OFFICER, IN RESPECT OF ANY DECLARED CONFLICT OF INTEREST

If a decision taker or cabinet member is unsure as to whether there is a conflict of interest they should contact the legal governance team for advice.

None.

6. DECLARATION ON CONFLICTS OF INTERESTS

I declare that I was informed of no conflicts of interests.*

Handwritten signature of Toni Ayle in black ink.

* Under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the council is required to put in place a scheme for recording and publishing some officer executive decisions. This process is sometimes referred to as "Regulation 13(4)".

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Climate Change Strategy and Action Plan	Climate Change Environment, Sustainability and Leisure	Tom Sharland 0207525 0959
Link: https://www.southwark.gov.uk/environment/climate-emergency/reaching-net-zero/track-our-progress		
Gateway 1 – Energy Contracts Procurement	Climate Change Environment, Sustainability and Leisure	Tom Sharland 0207525 0959
https://moderngov.southwark.gov.uk/ieDecisionDetails.aspx?id=8113		

APPENDICES

No	Title
Appendix 1	GW1 – Energy Contracts Procurement, June 2024
Appendix 2	CLOSED: London Borough of Southwark; Energy Procurement Evaluation
Appendix 3	Equality Impact Assessment

AUDIT TRAIL

Lead Officer	Tom Sharland, Climate Change Director	
Report Author	Rachel Gates, Climate Change and Energy Project Manager	
Version	Final	
Dated	September 2024	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Resources	Yes	Yes
Head of Procurement	Yes	Yes
Assistant Chief Executive – Governance and Assurance	Yes	Yes
Director of Exchequer (for housing contracts only)	Yes	Yes
Cabinet Member	Yes	Yes

Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet	No	No
Date final report sent to Constitutional Team		10 September 2024