

PFCC Decision Report

Report reference number: 018-23

Classification - Official

Title of report: Energy Report for 2024-2028

Area of county / stakeholders affected: Force-wide

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Date of report: 13/02/23

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1. Executive Summary

Essex Police currently purchases its energy supply (gas and electricity) via LASER Energy Buying Group (LASER) and is under contract until 31st September 2024. LASER has recently awarded its Energy Framework for 2024-2028 and is seeking Essex Police's commitment to the framework by 31st March 2023.

2. Recommendations

The Police, Fire and Crime Commissioner is requested to:

1. Approve the use of the Framework Agreements attached at Appendices 1 and 2 for the supply of energy to Essex Police sites across the force estate for a period of four years commencing 1st October 2024.
2. Approve the application of the PFCC's electronic signature to the subsequent Access Agreement and call off contracts made under these frameworks, subject to the review and assurance of their Monitoring Officer that they are consistent with the contents of this decision report and the template documents provided at Appendices 3, 4 and 5.
3. Approve the proposed purchase strategy of Flexible Purchase In Advance, plus a Fully Managed Service, as is currently provided. Please note the commitment

being given is that Essex Police energy consumption will be procured via a Laser Energy framework. Essex Police still has flexibility to transition to other products within the Laser frameworks, for example if they offer better value for money, as they emerge either before the commencement of this framework or during its life.

3. Background to the Proposal

Essex Police, in common with many other local authorities, including all forces in the 7 Force collaboration, purchases its energy supplies via a Central Purchasing Body; a contracting authority that provides centralised purchasing activities and ancillary services.

Electricity prices in the UK rose by 65.4% and gas prices by 128.9% in the 12 months to December 2022, driven by a post-Covid economic bounce back, restricted flows from Russia and low levels of UK gas storage. These unprecedented price levels of both commodities will impact force budgets significantly, due to a combined spend across the region anticipated to be in excess of £24 million for 2023/24.

It is essential that the region mitigates these unavoidable rises, by utilising commercial 'Hedging Strategies'. To be effective in mitigating risk and providing opportunities to beat the market, we need to give enough time and flexibility for traders to seize all market opportunities.

Traditionally, forces prefer to have known prices by financial year, fixing prices in advance, however, given the above factors, it is recommended that forces review this and take advantage of contractual options which are priced, at least 12-24 months prior to delivery.

4. Proposal and Associated Benefits

It is proposed that, for the 2024-2028 period, all forces will use the LASER Energy Flexible Procurement Framework agreement for the supply of energy.

To benefit from a longer trading period, which gives a greater opportunity to secure the best rates, forces will need to sign up to commit to the 2024-2028 framework by 31st March 2023.

LASER Energy states that previous years have noted a 33% saving when purchasing energy two years in advance, compared to a six month in advance period (currently provided by CCS), which is risky in the current climate, where commodity prices are four times where they were 15 months ago. This has been validated by BlueLight Commercial Services, which is advising all police forces to consider switching to energy arrangements which are bought over longer periods of time.

Additional benefits of early sign-up to the LASER Energy Flexible Procurement Framework are:

- Improved protection against bullish market conditions, as purchasing risk is spread over a longer time period
- Green basket energy options
- Comprehensive reporting and spend forecasting
- Regional visibility supporting the further delivery of regional initiatives e.g. Power Purchase Agreement (PPA)

5. Options Analysis

1. Laser Flexible Energy Framework – Proposed option

The procurement process has been undertaken by LASER Energy, the Central Purchasing Body, on behalf of its users. This consolidation of volume enables LASER Energy to trade from a strong position and secure better rates and security of supply than if forces were to attempt to buy energy from providers directly.

The contract for 2024-28 has now been concluded and the outcome is as follows:

Energy	1st Placed	2nd Placed
Electricity	Npower	Total Energies
Gas	Total Energies	Corona Energy

The 1st placed provider is the primary supplier, however there are options for conducting mini competitions if required.

The award criteria for this framework focussed on the following three key elements:

1. Procurement and trading expertise
2. Management fees
3. Social value delivery

Committing to this four-year flexible framework with LASER Energy does not prohibit or restrict the potential to enter a Power Purchase Agreement (PPA). Force volumes will be bought in annual / bi-annual portions, enabling reductions in future volumes as applicable. An options appraisal on PPAs is currently being progressed by LASER Energy on the region's behalf, and will be provided to the forces by the end of March 2023. If this is progressed to point of contract, LASER Energy has confirmed that it will manage the transfer of consumption levels between the Flexible Procurement Framework and the PPA generators contracted.

Cost forecasts, by force, will only be known once the commitment of volume to the LASER Energy Flexible Procurement Framework has been made and the initial portion of energy has been purchased. Energy will be purchased over the four-year period at varying times and at varying kw/h rates, depending on market trends and prices. Procurement and trading expertise of the successful suppliers on this framework were key to their selection.

2. Alternative Frameworks

Other Central Purchasing Body arrangements are available. Crown Commercial Services and LASER are recognised as the two best performing CPBs in relation to energy procurement. Both have a good energy purchasing record, customer service support and extensive experience in the public sector. There is no reliable evidence to indicate that one of the CPBs has achieved a better energy pricing performance than the other, however a benchmark review of the services offered by LASER was considered to equal or exceed other alternatives in the market. LASER offers a 'Fully Managed Service' whereas CCS can only currently offer a 'Procurement Only' energy purchasing option. LASER can also offer other additional services such as Bureau services.

3. Do nothing

This option is rejected as Essex Police cannot operate without energy provision. Essex Police would be exposed to 'out of contract' unit rates, which are normally much higher than agreed rates. Essex Police needs to ensure continuity of its energy supply and achieve best value and competitive prices. For the aforementioned reasons, this is not a viable option.

4. Essex Police purchases its own energy

This option is rejected as Essex Police does not have the individual purchasing power, resource or expertise to purchase energy and undertake the associated management of the invoicing requirements, queries, monitoring market trends etc as an individual, therefore would be open to a significant risk of escalating prices and lack of security of supply.

6. Consultation and Engagement

There has been engagement with colleagues from the Essex Estates department, as well as Heads of Estates across the 7 Forces / eastern region.

7. Strategic Links

This option fits in with the Commissioner's Police and Crime Plan priority to increase collaboration as using the LASER Framework will give opportunities through economies of scale, collaboration with 7F and other partner organisations, and reduction of financial and supply risk.

8. Police operational implications

None identified.

9. Financial implications

The table below sets out the 2022/23 budget and forecast outturn. Our utility contracts run from October to September and therefore we were not impacted by the increase in utility costs until October 2022. The unprecedented rise in utility costs could not

have been foreseen during the 2022/23 budget setting timetable undertaken between September 2021 and February 2022.

Our 2023/24 budget has incorporated the known increased utility costs from October 2022 through to September 2023. There is a future financial risk, when our utilities are purchased in October 2023 and the new unit prices are known, for the remaining financial year. With the volatility of the market, it is uncertain whether these will significantly rise or fall or only be affected by general inflation. Our assumptions for our 2023/24 forecast outturn are based on unit prices staying the same for the full financial year and on consumption during 2022/23.

Due to the market uncertainty, the budgets have been increased by £1,000,000 (for gas) and £1,000,000 (for electricity) and we will continue to monitor the markets and forecast our outturn throughout the year. There is a further £28,000 (electricity costs) associated with a new premises.

Budget Code	Utility	2022/23		2023/24	
		Budget	Forecast Outturn*	Budget	Forecast Outturn
610000	Gas	514,871	1,063,975	1,514,871	1,500,981
610001	Electricity	1,791,955	2,359,435	2,819,955	3,454,350
Total:	-	2,306,826	3,423,410	4,334,826	4,955,331

*Forecast outturn at 10/02/23

Our gas consumption is impacted by the weather throughout the winter. This varies based anywhere between a mild winter to a cold winter. The gas forecast allows for a cold winter (worst case scenario), if it were to be a milder winter, based on previous experience our expenditure could reduce by as much as one third, and therefore underspend by as much as £500,000.

The utilities budget of £4,334,826 forms part of the wider estate budget of £10,533,154. Utilities are tracked on a monthly basis with forecasts being updated regularly including a monthly assessment of our expected utility cost in October 2023. In the event that our forecast outturn as in the table above appears to be realised, we would be able to balance the overall bottom line of the estates budget by limiting spend as far as possible in other areas and in the event of a milder winter, we would use the underspend on the gas budget to offset the overspend on the electricity budget.

The new arrangement with Laser Energy will not deliver any cashable cost savings against budget but does offer the greatest chance of delivering cost avoidance and social value benefits. Cost avoidance may be delivered as this procurement strategy will reduce the risks of energy purchasing in a volatile market, by increasing the purchasing 'window', plus will benefit from pooled volume across the public sector. Social value will also be delivered, as energy becomes increasingly 'greener'.

The estimated annual spend for all forces across the 7F is approximately £24 million.

10. Legal implications

Kent County Council is the Central Purchasing body for the LASER frameworks and has procured these frameworks in accordance with the Public Contract Regulations 2015. Essex Police is permitted to call-off from these frameworks without undertaking a further competitive exercise as per Regulation 33 of the Public Contracts Regulations 2015.

11. Staffing implications

None identified

12. Equality, Diversity and Inclusion implications

No equalities implications have been identified.

13. Risks and Mitigations

As set out in section 5, Essex Police requires a contract for the provision of energy and, given the value of spend is above the UK Procurement Thresholds, it must be procured in accordance with the Public Contracts Regulations 2015. The framework operated by LASER is compliant and therefore mitigates this risk.

Price volatility is the key risk as explained in section 3 and the use of professional commodity expertise and analysis, coupled with an effective hedging strategy, will mitigate this to a degree by looking at a longer-term trading window. The potential for a future regional Power Purchase Agreement would remove this risk completely through the creation of a contract directly between forces and the energy producer (e.g. solar farm / wind farm). Any future decision on the use of a PPA would be subject to a further decision report.

14. Governance Boards

A briefing note was presented at CEB on 24th January 2023.
Essex COG - February 2023
Essex PFCC's Strategic Board March 2023

15. Links to Future Plans

LASER is leading on a decarbonisation project for the 7 Forces.

Power Purchase Agreements are also being reviewed and these opportunities and likelihood of success will be reliant on the commitment of all forces to the LASER Energy Framework.

16. Background Papers and Appendices

[REDACTED]

Report Approval

The report will be signed off by the PFCC's Chief Executive and Chief Finance Officer prior to review and sign off by the PFCC / DPFCC.

Chief Executive / M.O.

Sign: 

Print: P. Brent-Isherwood

Date: 23 March 2023

Chief Financial Officer

Sign: 

Print: Janet Perry

Date: 31 March 2023...

Publication

Is the report for publication?

YES	<input checked="" type="checkbox"/>
NO	<input type="checkbox"/>

If 'NO', please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State 'None' if applicable)

Subject to redaction

If the report is not for publication, the Chief Executive will decide if and how the public can be informed of the decision.

Redaction

If the report is for publication, is redaction required:

1. Of Decision Sheet?	YES	<input type="checkbox"/>	2. Of Appendix?	YES	<input checked="" type="checkbox"/>
	NO	<input checked="" type="checkbox"/>		NO	<input type="checkbox"/>

If 'YES', please provide details of required redaction:

Framework Agreements are not to be published as these are not to be reproduced without written permission.

Date redaction carried out: 06/04/2023

Chief Finance Officer / Chief Executive Sign Off – for Redactions only

If redaction is required, the Treasurer or Chief Executive is to sign off that redaction has been completed.

Sign: 

Print: Janet Perry

~~Chief Executive~~ / Chief Finance Officer

Decision and Final Sign Off

I agree the recommendations to this report:

Sign: 

Print: ROGER HIRST

PFCC

Date signed: 31/03/2023

I do not agree the recommendations to this report because:

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.....
.....

Sign:

Print: