

WIRRAL COUNCIL

WIRRAL SCHOOLS FORUM – 27 April 2016

REPORT OF THE DIRECTOR OF CHILDREN'S SERVICES

ENERGY PURCHASING FOR SCHOOLS

1. EXECUTIVE SUMMARY

This paper provides a brief description of how Wirral Council procures electricity and natural gas on behalf of Schools and the role of the Sustainability Unit in this process.

2. PURCHASING OVERVIEW

The energy supply arrangement many Schools are part of procures Electricity and Natural Gas using a Managed Service provided by Crown Commercial Service (CCS). CCS, as a trading fund and an executive agency of the Cabinet Office, delivers commercial savings for central government and the wider public sector. It is the largest not-for-profit energy buying consortium in the UK which enables it to exert much greater pressure on suppliers than the Council could alone. This managed service type of arrangement was identified as best practice by the Pan-Government Energy Project. The arrangement is compliant with Corporate Procurement and EU Regulations.

The purchasing arrangement includes PFI schools and is available to Academy Schools. A total of 118 schools listed in the Primary and Secondary Education Booklets for 2016 are part of the managed service. 8 Schools make their own arrangements. The total projected expenditure for all schools in the managed service is approximately £3.24 million.

Electricity and Natural Gas is currently purchased on the wholesale markets on Wirral's behalf by CCS over the six months prior to the start of the supply year under the terms of the current Customer Access Agreement (CAA). The individual energy suppliers (contracted by CCS under separate framework agreements through an OJEU compliant process) then provide a customer service team to supply and administer a particular contract. The framework suppliers add the non-commodity costs that are set by the regulator, OFGEM.

In the March 2015 Budget, the Chancellor of the Exchequer stated, "Schools are already realising savings by purchasing goods and services through procurement frameworks provided by the Crown Commercial Service (CCS)". This can be interpreted as an endorsement of the way we buy energy. Energy prices change extremely quickly and the risks involved in selecting the right day to switch are huge. Purchasing the energy over a six month period, allows the CCS traders to purchase parts of our total requirement when the markets are low and to avoid periods of high prices.

It should be noted that there are individual tariff structures within the Electricity and Gas contracts are based on operational profiles, transportation and metering costs, meaning that each point of supply is priced individually.

3. BENEFITS OF THIS APPROACH

In 2014/15 the CCS purchasing baskets we were part of were 150 times larger than our total portfolio which includes Schools as well as Council buildings. The size of the aggregated basket is important for CCS to obtain the best prices on the wholesale futures markets. Aggregation is used as leverage, providing access to the generators. Generators want to sell outputs in a small number of large portions rather than having to make an increased number of smaller sales. The market price achieved reflects this preference. A small basket reduces market leverage and increases the risk of higher prices.

It has been identified that over the 2014/15 Financial Year, the savings identified by approved Government Benefits Methodologies show that the Wirral Portfolio would have cost approximately 10.4% more than actual spend if the current arrangement with CCS had not been in place.

Energy markets are complex and are influenced by global events and rumour. Full-time highly specialised personnel are required to take advantage of constantly changing market conditions. CCS provides a team of expert traders whose activities are constantly monitored by a separate risk management team and are subject to regular review by central Government.

Markets are prone to volatility and pricing offers have been known to change or be withdrawn within an hour. Delegating purchasing to expert traders spreads the risks of purchasing energy on a spot price basis and the final prices we pay are built up from the energy purchased over a six-monthly period.

This proposal supports Pledge Fourteen of the Wirral 2020 Plan by enhancing the Council's ability to keep running costs associated with use of gas and electricity in council buildings to a minimum whilst adhering to purchasing rules.

4. ROLE OF THE SUSTAINABILITY UNIT

The role of the Sustainability Unit is to administer the purchasing contract on a day-to-day basis and to provide assistance and support when problems arise with the Framework Suppliers.

It should be noted that the Sustainability Unit has no direct involvement in the payments process but we are happy to provide assistance and support where we are able.

We are able to provide an enhanced service through the Energy and Water Support Scheme which includes the provision of: mandatory Display Energy Certificates (DEC's) & Advisory Reports; Energy & Sustainability Awareness, Advice and Support (including the Eco Schools compulsory energy module); and Training opportunities for key stakeholders (e.g. Bursars, Governors, Caretakers, Teacher-Talks).

5. RECOMMENDATIONS

It is recommended that the forum notes the content of this report.

Julia Hassall
Director of Children's Services