CASE STUDY

Contract review – energy procurement

Building Schools for the Future (BSF)
Sandwell Metropolitan Borough Council
Sector: Education
Procuring Authority: Sandwell Metropolitan Borough Council
Unitary charge (nominal) and per annum (2013): £212.6 million (total nominal whole life costs) and £7.8 million (year to March 2013)
Annual savings: £41,500
Total savings: £1.5 million
Date of financial close: 31 July 2009
Service commencement date: 1 March 2011
Expiry date: 29 February 2036
Summary of project:
This is phase one of Sandwell’s Buildings Schools for the Future Project (BSF) which comprises construction of the Rowley Campus and Smethwick Campus, a non PFI sample scheme
FM services included within the project were:
- cleaning
- catering
- waste and pest control
- health and safety
- security
- buildings and asset maintenance
- grounds maintenance
- energy and utilities
- caretaking and portering
- furniture
- fittings and equipment
A Local Education Partnership (LEP) was established as part of the BSF programme. The LEP delivered ICT services to Sandwell’s schools.
Counterparties:
- The SPV established to deliver the project is Environments for Learning Sandwell PFI One Limited.
- The LEP established through the BSF programme is Sandwell Futures Ltd. Shareholders in the LEP were Building Schools for the Future Investments LLP (BSFI); the Council and Sandwell Futures Limited.
- FM services were provided by Interserve
- Agilisys was appointed ICT Partner to the LEP
- Senior debt was provided by Barclays and Nationwide
In August 2011, BSFI sold its LEP shareholding to Amber Infrastructure. In October 2012, the shareholdings changed: Interserve sold 49.9% of its equity interests to Dalmore Capital Fund
Background
Local Partnerships supported Sandwell Metropolitan Borough Council to undertake an Operational Savings Review in 2012 which identified a number of possible options to reduce the unitary charge.

The following chart shows a breakdown of the annual savings estimates for each savings area. The total savings were estimated to be approximately £80,000 per annum.

Areas targeted for savings
The council had experienced increases to energy costs over recent years and sought to reduce utilities costs within the project by entering into an arrangement to engage professional energy purchasing support.

Approach taken
The technical solution proposed was to join an energy performance fund whereby energy is forward purchased. This fund aggregates other energy trading activities for the contractor which can also lead to benefits of trading higher volumes.

Contractual levers
Under the terms of the PFI contracts, the contractor is required to purchase utilities for each school throughout the operational period, on the most economically advantageous terms reasonably available in the market. The cost of utilities is passed on to the council.

Process
The contractor presented information about the fund specification and its historical performance to the council.

The contractor considered the historic performance of the fund against the prices that was achieved for the Council.

The Council decided to join the fund for an initial period of 12 months recognising that the potential costs of purchasing through the fund could, in the short term, result in a higher price than might have been available on a given day for a fixed price contract.
Resources
Resource was required to agree an approach with the contractor and to review the proposals, historical performance and consider the risks.

The work was all done within the existing contract management resource. There were no external adviser costs in implementing this change.

Savings achieved
The Council estimated that the annual saving is approximately 8% of the current utilities costs. This equates to a saving for the Council across the school estate managed by the contractor, of £41,500 per annum or £1.5m over the life of the contract.

Key success factors
The key success factors for the council were:

- a proactive approach to monitoring contractor performance in relation to energy;
- constructive engagement with the contractor to develop and evaluate a savings proposal; and
- targeting savings in areas of spend with third parties.

Wider lessons learned
The cost of utilities over the 25 year life of the contract is likely to be significant. Although the contractor has the obligation to procure these on the most economically advantageous terms, the council should still be proactive in checking and exploring opportunities for bulk purchasing or fixing prices.

Risk is an important part of any decision making process; energy prices could increase or decrease and there are risks in committing to energy consumption volumes. These risks need to be considered alongside the potential to achieve price certainty.

There are also public sector frameworks through Crown Commercial Services¹ and other public sector energy frameworks such as LASER Energy² which is a UK energy-buying group representing over 120 Councils and other public-funded bodies.

¹ ccs.cabinetoffice.gov.uk/contracts/rm864
² www.laserenergy.org.uk/
Replicability matrix

The price of utilities is usually a pass through to the council in accommodation projects so, subject to agreement, this approach can be replicated where the contractor has the responsibility for sourcing utilities. Even where the council has this obligation, it may wish to investigate whether the contractor has its own framework for purchasing energy and compare these prices with the market.

Sectors where savings might be replicable

- Fire (accommodation)
- Street lighting
- Housing (limited)
- Joint service centres (LIFT)
- Leisure
- Schools – non BSF
- Schools – BSF

Contact

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