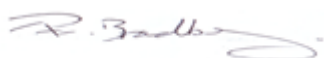


LONDON BOROUGH OF CAMDEN	WARDS: All
REPORT TITLE: Risk Deep-Dive – energy procurement	
REPORT OF: Executive Director Supporting Communities	
FOR SUBMISSION TO: Audit and Corporate Governance Committee Resources and Corporate Performance Scrutiny Committee	DATE: 8 November 2023 14 November 2023
<p>SUMMARY OF REPORT</p> <p>This report provides Members with an overview of the “energy costs” principal risk to enhance the Audit and Corporate Governance Committee’s understanding of how this risk is being managed. The purpose of the risk deep-dive is to enable the Committee to fulfil its duties regarding monitoring the Council’s effective operation of risk management as set out in its Terms of Reference.</p> <p>At their request, the report is also being shared with the Resources and Corporate Performance Scrutiny Committee on 14 November.</p> <p>Local Government Act 1972 – Access to Information No documents that require listing were used in the production of this report.</p> <p>Contact Officer: Harold Garner Head of Sustainability, Air Quality and Energy 5 Pancras Square London N1C 4AG 020 7974 2701 harold.garner@camden.gov.uk</p>	
<p>RECOMMENDATIONS</p> <p>That the Audit and Corporate Governance Committee notes and comments on how this risk is being managed.</p> <p>That the Resources and Corporate Performance Scrutiny Committee notes and comments on the report.</p>	

Signed:



Director of Environment and Sustainability

Date: 25 October 2023

1 Purpose of the report

- 1.1 In accordance with its Terms of Reference, the Audit and Corporate Governance Committee (the Committee) is required to monitor the Council's effective development and operation of risk management. In addition to this, the CIPFA (Chartered Institute of Public Finance and Accountancy) position statement on Audit Committees in Local Authorities specifies core responsibilities for audit committees, one of which is to "consider the effectiveness of the authority's risk management arrangements and the control environment."
- 1.2 The purpose of the risk deep dive is for the Committee to obtain a deeper understanding of the chosen risk area and develop insight into the risk controls and action plan.
- 1.3 The report will also be shared with the Resources and Corporate Performance Scrutiny Committee on 14 November.

2 Current Risk Context

- 2.1 Further to Cabinet approval of Camden's energy procurement strategy in November 2022, the Council buys gas and electricity for schools, housing sites on contract and the corporate estate through a Central Purchasing Body called LASER, a company wholly owned by Kent County Council. The procurement framework with LASER is in place until September 2028 and the contract value of the various supplies exceeds £40 million per annum.
- 2.2 While energy markets are normally characterised by market volatility and inflationary pressure, the Russian invasion of Ukraine in February 2022 led to extreme energy cost inflation and market volatility over 2022.
- 2.3 Energy markets have stabilised significantly since the start of 2023 but remain volatile with prices well above pre-February 2022 levels. At the time of writing, the escalation of the Israeli-Palestinian conflict has led to increased market volatility and a c.30% rise in wholesale gas costs.
- 2.4 This report explains how Camden's energy procurement strategy manages energy market volatility and energy costs to ensure best value across Camden's energy supply contracts.

3 Risk mitigation and monitoring

- 3.1 As noted in Section 2, there are two key risk variables in the context of energy: energy market **volatility** and energy price **inflation**. Energy market volatility refers to price variability across a defined time period, with the resulting risk that the start of a new contracting period may coincide with a point during the defined time period when the price has reached a peak. Energy price inflation simply refers to increases in wholesale energy costs over time.

- 3.2 Camden seeks to manage inflationary pressure by aggregating the Council's required energy volumes with LASER's other customers (approximately 235 public sector organisations, with a combined energy spend of over £800 million) to secure lower cost energy from the wholesale energy markets.
- 3.3 The Council's energy procurement strategy has performed consistently well for Camden and its residents even in the context of the global energy crisis of 2022, with prices, on average, 52% below domestic market rates since 2015. Figure 1 below describes this benefit.
- 3.4 Figure 1 – LASER gas supply price compared to retail gas price from Department for Energy Security and Net Zero



- 3.5 Energy market volatility is managed by forward purchasing energy from the wholesale markets in the 12–36-month period in the run up to the supply period (energy is supplied across Camden for annual supply periods which run from October to September). In practical terms, this means that the price for the contract supply period is a product of the various energy purchases in the run up to the supply start date, rather than the energy price on the day.
- 3.6 In the context of the global energy market volatility of 2022, which saw peak gas prices rise by over 1200% against 2020/21 prices, this hedging strategy allowed the Council to control the costs for schools, housing sites and the corporate estate, by delivering achieved prices for the October 2021 to September 2022 and October 2022 to September 2023 supply period in the range of between 70% and 80% below the market highs. Please see Figures 1 and 2 in Appendix 1 which show the energy market volatility from January 2021 to September 2023 in Figure 1 and the achieved LASER prices over the period in Figure 2.
- 3.7 The value of LASER's forward purchasing strategy is underlined by the fact that Islington's Executive took the decision on 1 September 2022 to break their bespoke 2020-2024 supply agreement with SSE and move to LASER from 1 April 2023. As shown in Table 1 below, Islington's alternative procurement strategy had led to much higher increases in the cost of gas and electricity when compared to Camden over the period.

Table 1 – Islington and Camden energy cost comparison

	% increase in costs 21/22 to 22/23	
	Islington	Camden/LASER
All energy (HRA only)	345%	191%
Electricity (all service areas)	260%	74%
Gas (all service areas)	541%	255%

- 3.8 Improving the energy efficiency of Council buildings is the only certain way to protect against energy inflation and volatility. The Council has a strong building retrofit programme which has led to a 37% reduction in energy consumption across the Council's estate (excluding housing) since 2010. Recently completed projects include the £3.7m retrofit of Swiss Cottage Library, Camden Town Hall, and new solar energy for Talacre Leisure Centre. Further school retrofit projects are either underway or due to start in 2024 at Acland Burghley, Eleanor Palmer, Kingsgate, Hampstead and Brookfield schools. Approximately £5.4m of Government funding has been secured since 2021 to support the delivery of these projects.
- 3.9 The Council is also improving the energy efficiency of Council housing. Projects targeting our least energy efficient homes in locations such as Belsize Grove and Somers Town are underway and supported by approximately £5m of recently secured Government grants.
- 3.10 Energy contract monitoring is carried out by two Senior Energy Management Officers using TEAM Sigma energy monitoring software. This involves validation checks on expected consumption, contract pricing and VAT status across 50,000 invoices annually. Any resulting queries are raised with LASER or the relevant energy supplier and managed by Camden through to resolution.
- 3.11 To support robust budget forecasting, LASER provide quarterly energy price forecasts for the upcoming pricing period, which are checked and reviewed by the energy management team and circulated to budget holders on a quarterly basis throughout the year.

4 Outlook for the next 12 months

- 4.1 Forecasts for the October 2023-September 2024 period have been supplied quarterly to budget holders across the Council throughout the year and suggest that energy prices for the supply period will neither worsen nor improve significantly compared to 2022-23 due to a range of global factors beyond the Council's control.
- 4.2 Final energy prices for the October 2023 – September 2024 supply period will be issued after validation in late November 2023.

5 Legal Comments of Borough Solicitor

5.1 The Borough Solicitor has been consulted and has no legal comments to add.

6 Finance Comments of the Executive Director Corporate Services

6.1 The Council's expenditure on gas and electricity more than doubled between 21/22 and 22/23 from £14.6m to £29.9m across the General Fund and the Housing Revenue Account. However, the achieved prices remain below retail prices and the commentary in Section 4 highlights how alternative procurement strategies could have resulted in greater financial impact.

6.2 So, while the Council did experience large increases in energy prices, the achieved prices during 22/23 are nevertheless a vindication of the Council's procurement strategy. As noted above, the strategy mitigates volatility risk through forward purchasing and inflation risk through LASER's economies of scale.

7 ENVIRONMENTAL IMPLICATIONS

7.1 Rising energy costs build the business case for energy efficiency improvements to Camden's buildings, which in turn help to reduce carbon dioxide emissions that drive climate change. Carbon dioxide emissions across Camden's corporate and schools' estate are now 59% below 2010 levels, and section 3 of this report describes further energy efficiency retrofit projects across the schools, corporate and housing estate, funded by recently secured Government grant, that will continue to help cut greenhouse gas emissions in Camden.

7.2 Camden's corporate estate currently benefits from 100% renewable electricity supplies. The electricity is backed through Renewable Energy Guarantee of Origin certification.

Appendices

1. Energy Market Volatility and Achieved Camden prices through LASER
2. Principal Risk information and action plan ('risk on a page').

REPORT ENDS

Appendix 1 – Energy Market Volatility and Achieved Camden prices through LASER

Figure 1 – Energy Market Volatility from January 2021 to September 2023

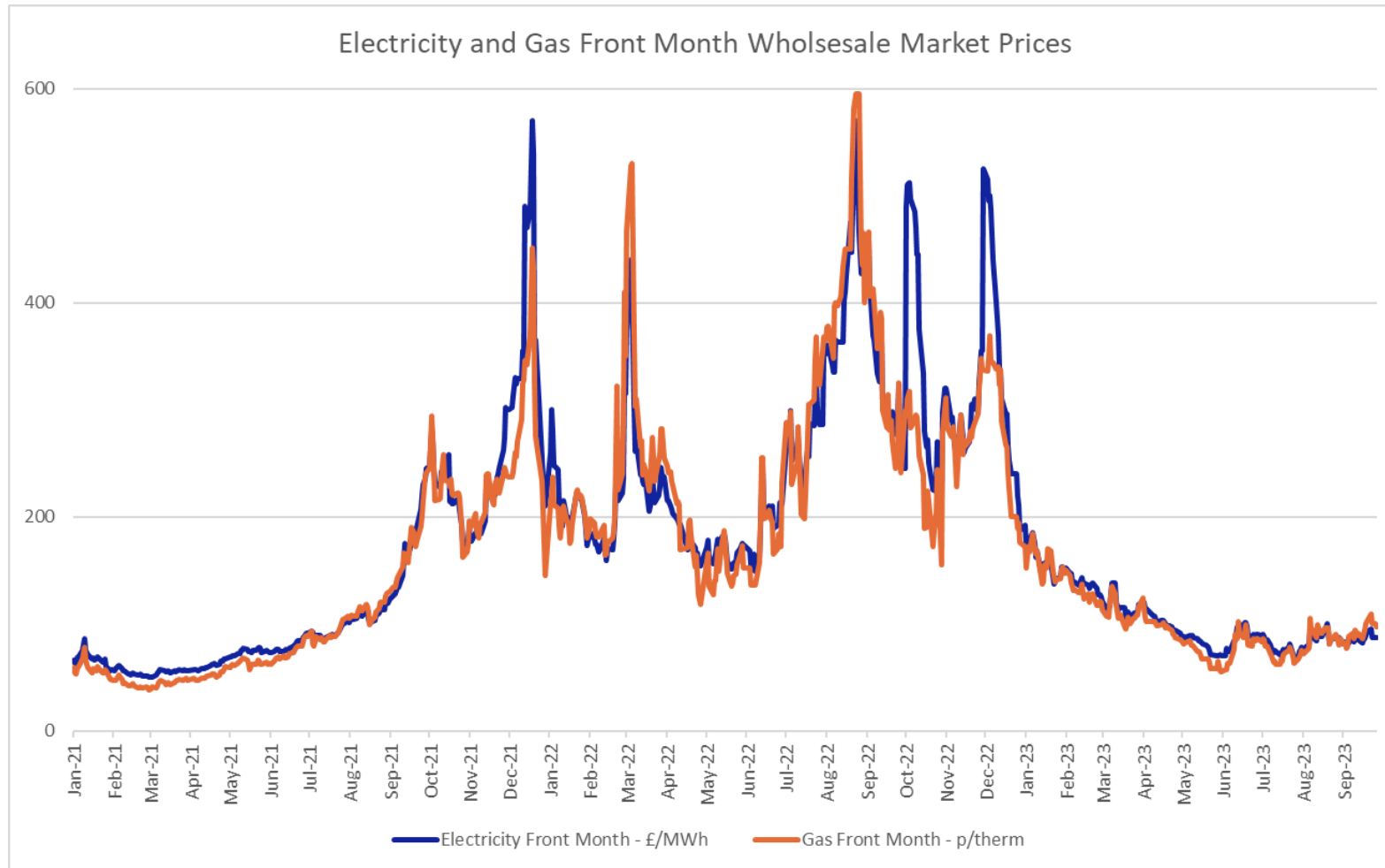
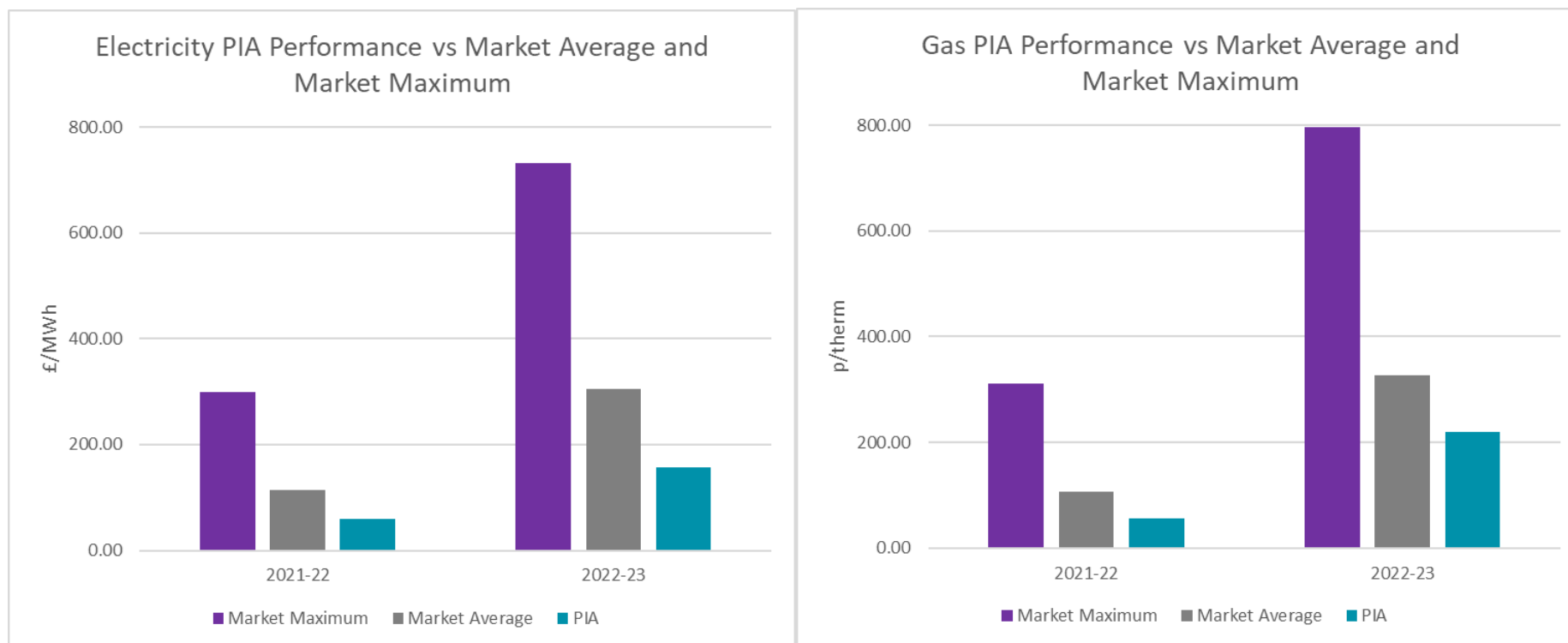


Figure 2 – LASER performance from October 2021 to September 2023 for electricity and gas

- Peak market price – left bar
- Average market price – middle bar
- LASER achieved price – right bar



Appendix 2: Principal Risk information and action plan (risk on a page)

Risk Information Risk Title – Energy Costs	Risk Scores	Existing Controls			
<p>Risk Long term volatility and inflation of energy market cause unaffordable budget pressures for the Council, Schools and Council housing tenants</p> <p>Cause Unpredictable global energy market, inadequate monitoring of energy prices and Council expenditure, unfavourable terms and conditions from energy providers, services do not adapt budgets/activities/energy consumption to meet pressure in energy expenditure. Failure to recover true energy costs from housing tenants through heating charges.</p> <p>Consequence Significant overspend on Council budgets or contributions required towards the housing heating pool, key projects and programmes scaled down, paused or cancelled.</p> <p>Risk Update: The Council reappointed LASER as the Council’s energy purchasing organisation further to Cabinet approval in November 2022. The procurement strategy sees LASER aggregate the Council’s required energy spend with over 230 other public sector organisations and manage energy market volatility by forward purchasing energy from the wholesale markets in the run up to the supply period. LASER purchased energy for the next supply period (October 2023-September 2024) throughout 2022/23 to mitigate market volatility and prices for the new supply period will be validated and published in November 2023. Forecasts for the October 2023-September 2024 period have been supplied quarterly to budget holders across the Council throughout the year and suggest that energy prices for the October 2023-September 2024 supply period will neither worsen nor improve significantly compared to 2022-23 due to a range of global factors beyond the Council’s control. Long term protection from rising energy costs will only be secured by improving the energy efficiency of Council buildings, schools and housing. Approximately £10m of external funding has been secured over the last 2 years to deliver a range of energy efficiency improvements across our estate including the recently completed Swiss Cottage Library and Acland Burghley school retrofits. The risk score has reduced as global energy markets have been relatively stable over the last 6 months.</p>	<p>Current Score: L: 3 I: 3</p> <p>Target Score: L: 3 I: 2</p> <p>Gap to target: L: 0 I: 1</p>	<ol style="list-style-type: none"> Continued use of a Central Purchasing Body (CPB) to manage risk through forward buying. Using a CPB allows Camden to achieve the best price for the Council and residents by aggregating the Council’s required energy consumption with the CPB’s other customers (235 public sector organisations, with a combined energy spend of over £800 million). Energy market volatility is managed by forward purchasing energy from the wholesale markets in the run up to the supply period. Energy management function in Sustainability, Air Quality and Energy team to validate billing against contract prices, expected consumptions and meter reads. Provide quarterly energy price forecasts in the 12 months prior to any new supply period to ensure that all budget holders have sufficient information to budget effectively. Monitor performance of CPB through an independent energy consultant. Develop and deliver the retrofit programme for the council’s corporate and housing estate to improve energy efficiency Carbon Management Plan for corporate estate in place. Accommodation strategy with energy use in mind. Reduce energy footprint through the best use of assets and optimising the use of the Council’s property portfolio. 			
<p>Action</p>	<p>Expected impact</p>	<p>Resources required</p>	<p>Owner</p>	<p>Due Date</p>	<p>Status</p>
<p>Deliver purchasing strategy for Oct 2024 – Sept 2028</p>	<p>Reduce score</p>	<p>Staff</p>	<p>G. Marston</p>	<p>Ongoing</p>	<p>In progress</p>
<p>Continue to deliver the retrofit programme for Council homes, schools and corporate buildings targeting all Government funding streams.</p>	<p>Reduce score</p>	<p>Staff</p>	<p>G. Marston</p>	<p>Ongoing</p>	<p>In progress</p>

