

# Local Authority Procurement for Energy Assets

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### Key Elements of Successful Energy Procurement

- Formulate the weighting criteria and questions to deliver the outcome you want
  - Is local investment key?
  - What priority should be given to social values?
- Do not focus overly on cost
  - Quality can pay itself back in the long term
- Experience is key
  - Establish the level of experience of potential suppliers in similar deliveries
  - Talk to practised procurement personnel to gain their insight
- The following will impact the types and size of company that bid for any procurement exercise:
  - Tender size and complexity
  - Specification
  - Response time requirements
  - Contract complexity
  - Risk sharing mechanisms
- Payments should drive results
  - Milestone payments can be used to encourage timely delivery
  - Consider retaining an element of payment until work is proven

## Procurement good practice

Good practice in procurement is key to delivering high quality projects which deliver desired outcomes over the long term, at best cost: the most economically advantageous offer.

However, allocating contracts solely on the basis of price can result in poor-quality work and ongoing problems, especially when considering installation and maintenance of energy assets. Therefore, Local Authorities (LAs) and other public bodies need to structure procurement documents to ensure that the winning bidder is capable and able to perform the requisite work, delivers it on time and to quality, and that any ongoing works are delivered efficiently. Some of the key considerations for a successful exercise are listed in the call-out box.

### Quality and cost

Practised Local Authority procurement personnel suggest weighting the cost element of procurement as less than 50% of the award criteria. In extreme cases, cost has been as little as 10% of the award criteria, although this likely requires a robust argument to justify such a low score and will potentially need the backing of a director or cabinet member to obtain approval.

Setting low weightings for the cost element allows the LA flexibility in selection of the most economically advantageous submission. This approach can deliver the lowest cost in the long run, in terms of avoiding deviation from the contract, prompt remedial works, and avoiding delays in delivery.

Setting minimum thresholds in each evaluation section can also protect the LA against unintended results in the procurement exercise. Yes/no competency questions can also ensure that partners have appropriate qualifications and exclude those suppliers which do not, before evaluating the full submission.

Another theme to emerge is that ongoing costs of operation and maintenance (O&M) over the lifetime of the installation are also an important consideration. LAs should consider whether the design and build contract includes a fixed term O&M agreement or whether this is dealt with in another procurement exercise. Experience suggests that many councils aggregate O&M activities for similar assets into a single procurement exercise in order to leverage scale benefits and lower costs. This has the potential to offer greater efficiency as developers are incentivised to fix assets which are in need of repair.

LA personnel also noted the value of guarantees - whether that be guarantees of energy savings or generation, or service level guarantees - should also be considered. This provides some buffer against over-promised delivery or sub-par installation, but also adds some risk to the contracting organisation.

Contracts can be as important to deliver the desired outcomes from a project as the procurement specification. Some LAs are keen to ensuring a water-tight contract is in place, to ensure ongoing performance and delivery in specified timeframes. However, this requires necessary legal expertise to deliver appropriately. An overly burdensome contract can also discourage participation in a tendering round from a wider range of businesses, especially SMEs.

Structuring contracts to ensure that the service provider takes some development and operations risk can help deliver committed partners. It manages the risk to the procuring LA, by instituting appropriate protections and motivating the supplier to deliver to the agreed service levels, but can also result in legal complexity in drafting and enforcement.

The experience of the service provider is essential to delivering good-quality service. Procurement documents could investigate:

- The tendering organisation's experience delivering similar work previously;
- The credentials and history of the project team; and
- Other references or referees the procuring body can contact to understand their capability and performance in prior projects.

The Local Government Association provides a broad guide to energy procurement [here](#).

## Social values

All public bodies in England and Wales are required to consider how the services they procure might improve the economic, social and environmental wellbeing of their local area. This should be driven through the inclusion of added social value elements and use of a social value assessment tool as part of any tendering round. These could include:

- Educational programmes for local schools;
- Energy audits for council buildings;
- Jobs or employment opportunities for those in the local area, including apprenticeships or work experience for young people;
- Voluntary time offered to local community groups, or time to maintain and clean local assets; and
- The establishment of local energy bonds, allowing the local community to fund local assets and the opportunity to make a return on their investment

## Frameworks

LAs also noted that procurement frameworks were valuable in certain circumstances, but could be restrictive. A multi-supplier framework can be useful where there is a stream of similar projects to deliver, as it allows an LA to run a simple mini-competition to award a contract to one of the suppliers accredited to the framework. However, when dealing with discrete projects this can be counter-productive. For many companies, accessing a framework is cost- and effort-prohibitive, and therefore smaller suppliers can be excluded, resulting in less competition and poorer pricing.

The framework approach can inhibit innovation, as there are limited windows during which suppliers can join the framework. Any supplier which develops an innovation subsequently will have to wait several years to join. A dynamic procurement system (DPS) is a solution to this problem, allowing new suppliers to join the platform during operation. However, a DPS comes with its own drawbacks in terms of LA effort to continuously maintain the system.

# Procurement support

## Public Buying Organisations

There are a number of organisations which exist to support and procure on behalf of LAs. These run frameworks which pre-accredit suppliers, minimising the work which needs to be done during procurement exercises. The below organisations offer energy service frameworks:

- Eastern Shires Purchasing Organisation (ESPO)
  - Operates a number of frameworks, mostly for fuel supply but including one for [renewable energy generation equipment](#)
  - This provides support in acquiring solar PV systems, and consultancy and management services for all types of solution: electricity including solar PV, wind turbines and small-scale hydro; heat including solar thermal, biomass boilers, air- and ground-source heat pumps, and CHP
- LASER Energy Buying Group
  - All of the energy suppliers which make up the framework's Lot 2 offer "energy services" and "battery storage"
- North East Procurement Organisation (NEPO)
  - Offers energy performance of buildings inspections
- West Mercia Energy
  - Only energy services
- Yorkshire Purchasing Organisation (YPO)
  - Frameworks include [consultancy](#), [low carbon electrical micro-generation](#), [low carbon heating systems and CHP](#), [low energy electrical lighting and electrical heating systems](#)
- Crown Commercial Service (CCS)
  - Provide access to the [Re:fit framework](#) (more below) as well as a [demand-side response framework](#) and a [heat networks and electricity generation asset dynamic purchasing system](#)

## Pure Leapfrog bridging finance

Charity Pure Leapfrog offers a bridging finance option which supports LAs to deliver projects. By supporting the LA to frame ownership and financing structures, Leapfrog can help to manage procurement issues while ensuring best outcomes. This option has been used by LAs including Warrington Borough Council, to deliver its major subsidy-free +60MW solar and storage project in 2019.

Leapfrog has a facility which can finance up to 100% of the development costs of a project, including planning, business-case development, and other pre-construction work. The LA can then decide if it wishes to take the investment forwards; if it does, it will pay a fixed fee for the development. This encourages the developer to be efficient, as it will bear and increase in costs or delays to delivery.

# Procurement examples

## London Energy Project

First established in 2006, the project initially conducted a review of energy procurement within London in a market of rising energy prices. Membership includes 27 London Boroughs, the City of London, the London Fire Brigade and the Metropolitan Police., with combined energy expenditure of £450mn. The London Energy Project (LEP) has created a

collaborative approach to energy and energy services procurement across members and achieved around £60mn in savings.

The LEP won the GO Best Procurement Initiative award in 2009.

Since then, the project has been developing capacity to offer further services, including energy price benchmarking, energy and carbon auditing, and consultancy services. It has, for example, created a framework to allow members to access third-party services at set rates, without running even mini-procurement exercises.

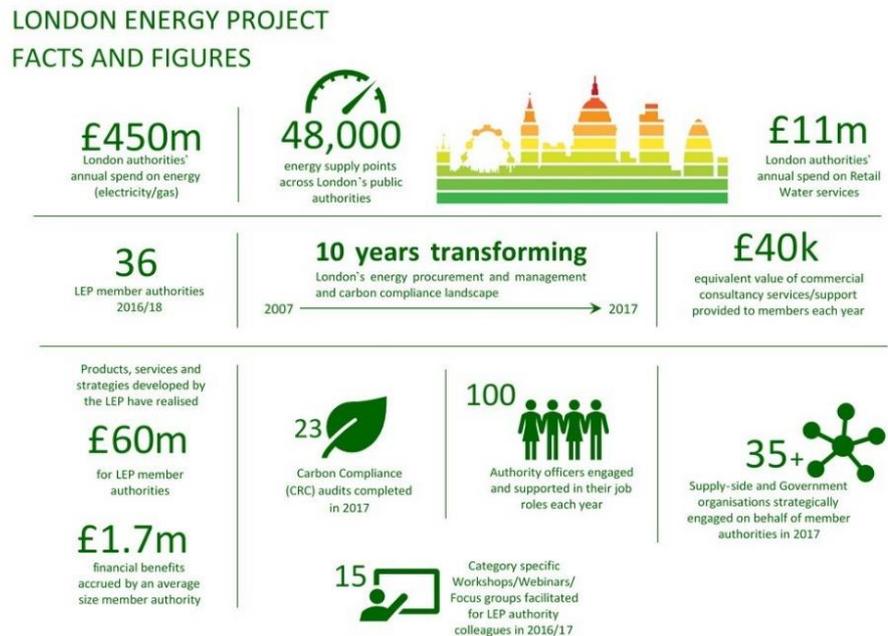
It is developing new services for a future frameworks. Cornwall Insight recently supported the LEP in developing a new framework which will support members to secure greater commercial and social value from a coordinated, London-centric buying approach. This will incorporate greater flexibility into contracts and enable “call-off” additional services without re-running procurement exercises. This could include flexibility trading arrangements, demand-side response, peer-to-peer models and sleeving power generated into the framework.

## Re:fit

The Re:fit programme was originally developed by the Greater London Authority in 2009. It is now run by Local Partnerships for clients outside of London. Re:fit is a procurement initiative supporting public bodies to install energy efficiency and renewable energy generation equipment assets in their estates and the estate of other public bodies, such as schools and academies. It has been used by 250 organisations to deliver £180mn of investment to 1,000 buildings. The current pipeline is £91mn and is growing.

Re:fit structures guarantees for projects, with energy saving or energy generation minimums set via a contractual arrangement over the payback period of the project. This removes the risk of failure, protecting the client’s investment. Re:fit’s concept of

Figure 1: London Energy Project



Energy Performance Contracting (EPC) includes ongoing verification and monitoring, and delivery partners are required to pay the difference if the measures underperform and the savings agreed are not delivered.

The Local Partnership team provides expert support throughout, as set out in Figure 2. This includes support scoping projects and in undertaking a compliant and successful procurement process.

**Figure 2: Local Partnership's role in Re:fit procurement**



*Source Local Partnerships*

Funding options allow clients to blend a mixture of their own budgets or bring in finance from service providers, third parties, income from energy generation, structured finance.

### Re:fit case studies

The success of the Cambridgeshire Mobilising Local Energy Investment project is ascribed in part to the use of the programme. Other examples include:

- Huntingdon District Council – £832,000 investment in four leisure centres to deliver LED lighting and controls, solar PV, building energy management systems, boilers and insulation. The installations had a payback term of 9 years
- Fenland District Council invested £240,000 in a leisure centre, delivering LED lighting, boilers, and a solar array saving £21,000/year and earning £3,000/year; payback is 12 years
- The Department for the Environment, Food and Rural Affairs is in the final detailed design phase to invest £832,000 on one site, to introduce LED lights and a 50kW or 250kW horizontal-axis wind turbine. This should save around £80,000/year and payback in under 11 years. At another site, a £5.25mn investment in total building retrofit will pay back in 7.6 years
- City of Cardiff Council invested £315,000 in energy efficiency measures in Cardiff Castle and the City Hall, reducing energy use by 21% and paying back in 8.4 years

## Resources

[Local Energy Options – A Guidance Document for Local Government](#)

[Energising Procurement – National energy procurement category strategy](#)