

**Report of Project Manager, Sustainable Energy & Air Quality Team**

**Report to Director of Resources and Housing**

**Date: 9<sup>th</sup> July 2018**

**Subject: Analysis and Reconciliation of historic electricity and gas bills**

Are specific electoral wards affected? If relevant, name(s) of ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. Leeds City Council has an annual cumulative expenditure of approximately £16 million on electricity, gas, and water.
2. The authority recently undertook a procurement exercise to identify a supplier to undertake an audit, analysis and reconciliation of its electricity, gas and water bills for the preceding six years.
3. The procurement process had only one tender returned for the analysis of its historic electricity and gas bills from Advanced Demand Side Management (ADSM) Ltd.
4. The council did not receive any tenders for the electricity and gas element which has subsequently been re-advertised, although contact with organisations indicates this second exercise will get more interest.
5. The second exercise generated one response from Professional Cost Management Group (PCMG) Ltd. This tender was assess to ensure that it was compliant with the quality criteria, with this being the only bid the cost element was not assessed.

**Recommendations**

It is recommended that the Director of Resources and Housing;

1. Approve the award of the contract for the analysis and reconciliation of our historic electricity and gas bills to Professional Cost Management Group (PCMG) Ltd.

## **1 Purpose of this report**

- 1.1 This report requests the Director of Resources and Housing to award a contract for the analysis and reconciliation of historic electricity and gas bills.
- 1.2 This exercise would assist the council in delivering against its value of 'Spending Money Wisely'.

## **2 Background Information**

### **2.1 Cost assurance exercises**

- 2.1.1 A range of Third Party Intermediaries (TPIs) provide cost assurance exercises covering a range of utility services. These exercises comprise of two fundamental parts to produce the total 'cost opportunity':
- Retrospective cost recovery service – analysis of past bills to identify any improper charging mechanisms and historical pricing errors. The maximum extent typically extends to six years (Statute of Limitations) however it is possible that cost recovery could be extended further. This provides a rebate to the council at the end of the exercise.
  - Future cost reductions – identifying excessive and/or legacy utility charges currently in place that can be amended or removed from future bills to provide future cost savings
- 2.1.2 A TPI presents the client with all cost saving opportunities following analysis of billing information. The split between a rebate on past bills and future cost saving opportunities is typically 80:20, but this can and does vary.
- 2.1.3 Organisations specialising in this field operate on a 'no-win, no-fee' basis, with performance-based payment based on the value of the cost saving opportunity delivered. This payment can vary from 20-50% of the total opportunity; we are aware that some TPIs put a cap on their earnings.
- 2.1.4 The procurement exercise which used real data from five of our sites indicated that PCMG would identify approximately £300,000 in rebates on historic electricity and gas bills. Their fee for identifying this is 20% of all savings identified, approximately £60,000, which would see a net return to the authority of £240,000.

## **3 Main issues**

### *Contractual Information*

- 3.1 Leeds City Council's corporate building estate (including schools) has an annual cumulative expenditure of approximately £16 million on electricity, gas and water, excluding telecommunications. The below table provides key information regarding each contract.

Utility	Contractor	Est. annual value (£m)	Service responsible	Bill Verification Software
Electricity	2011 – 2013 Npower 2013 – 2017 Engie	10.5	SECC	TEAM
Gas	2011 – 2013 Npower 2013 – 2017 GDF Suez/Engie	3.0	SECC	TEAM
Water	Yorkshire Water	2.5	SECC	None
<b>Total</b>		<b>16.0</b>		

### 3.2 *Energy*

- Expenditure on energy represents a significant proportion of the total value of the services identified. The energy market is highly volatile with quickly changing prices. A significant proportion of LCC's energy bill is comprised of various on-costs where inaccuracies and mischarging occurs.
- Energy billing data is analysed and reconciled using a billing software program TEAM Sigma. However, there is neither the internal resource capacity nor knowledge to complete a comprehensive investigation of potential billing errors that could be achieved by an external organisation specialising in the provision of this service.

### 3.3 *Cost assurance exercise specifics*

3.3.1 To deliver a cost assurance exercise, minimal officer time is required to provide the necessary information to the contractor.

3.3.2 Leeds City Council would provide a complete collection of billing information for all utilities to be audited. The TPI would then liaise with existing/previous utility suppliers to acquire any additional information as and where required.

3.4 A letter of authority will be granted to enable the contractor to liaise with relevant past/present utility suppliers on Leeds City Council's behalf to acquire any additional necessary information including billing and energy usage specifically related to this project

- This letter of authority will permit a period of time limited to the length of the contract, with no further access allowed to Leeds City Council billing and usage data following termination of the contract
- The contractor will comply with Leeds City Council's non-disclosure policy, with all information produced as part of this project kept confidential

3.5 The contractor will provide a report summarising all funds to be recovered & liaise with relevant suppliers to recover these funds.

### 3.6 Procurement approach

3.6.3 A framework was identified, East of England NHS Collaborative Procurement Hub Analysis and Reconciliation Frameworks and tenders were invited from six organisations upon that framework.

3.6.4 A cost:quality split of 80:20 was used as the primary objective was for the authority to receive a maximum rebate on its past bills.

#### 3.6.5 Quality Approach

Selection		
Assessment	Detail	Weighting
Experience in completing cost assurance exercises	Demonstrate how you will deliver savings for the Council on past utility bills, you may provide relevant examples from other organisations (preferably local authorities) and how this will maximise the rebate and future savings to the council.	40%
Liaison with past/present suppliers	Detail how you will acquire information & data from utility suppliers, and the timescales for doing so.	20%
Data management	Demonstrate how you will comply with the council's Information Governance Policy	20%
Cost Recovery	Detail how you will recover the rebates that you have identified and the timescales involved in recovering these rebates from the utility suppliers.	20%
<b>Total</b>		<b>100%</b>

#### 3.6.6 Cost approach

3.6.7 It is expected that organisations will take a similar approach to identifying savings to be derived from analysing historical bills but this may be more rigorous from organisation to organisation. Leeds City Council would therefore wish to test the possible results that each organisation would deliver and apply their % fee (which varies between organisations) to see which would deliver the maximum net benefit.

3.6.8 Six years' worth of historic bills from different types of building are used for a sample to test the types of results that can be delivered by each organisation. The buildings with the highest consumption in terms of energy have been chosen within each category;

- Sport Centre (wet) – John Charles Centre for Sport

- Office Building – Civic Hall
- School – Boston Spa Academy
- Crematoria – Lawnswood Crematoria
- Care home/Sheltered housing – Middlecross Home for Older People

3.6.9 The savings for these buildings were then extrapolated to indicate a total anticipated saving across the whole of the authorities estate to identify potential total savings for the exercise.

## **4 Corporate considerations**

### **4.1 Consultation and engagement**

- 4.1.1 Consultation with either public or councillors is not recommended as necessary for this project. The nature of the exercise is of low risk to the council, and is a matter of ensuring existing and previous contracts are being administered to the highest possible standard.
- 4.1.2 Internal colleagues responsible for energy bill management have been consulted and made aware of plans. They will be assisting by providing necessary information to the contractor.

### **4.2 Equality and diversity / cohesion and integration**

- 4.2.1 An equality, diversity, cohesion and integration screening has been completed. This project is deemed to have no impact on the above factors as this project does not impact on the public or staff due to its administrative nature.

### **4.3 Council policies and best council plan**

- 4.3.1 The Best Council Plan establishes an aspiration to become a more efficient and enterprising council. This project would deliver on this aspiration by ensuring the council is taking additional measures to ensure that high value contracts are being managed efficiently, and that council resources are used effectively.
- 4.3.2 This project is likely to generate net income for the council, with the only upfront expenditure required on council officer resource. A key council value is '*spending money wisely*' – this project would deliver assurance that in excess of £100m over the past six years has been spent wisely on purchasing goods necessary for the delivery of council services. Using an external contractor would provide an additional level of assurance that internal service providers cannot deliver.

### **4.4 Resources and value for money**

- 4.4.1 The council has established an ambition to become a more efficient and enterprising council, and is facing increasingly challenging budgetary restraints. The significant value of the aforementioned contracts provides an opportunity for the council to ensure it is managing these contracts as effectively as possible.

Local authorities nationwide have utilised this method to provide a higher level of assurance that their expenditure on these valuable services is correct.

#### 4.5 Legal Implications, access to information and call in

4.5.2 All data provided to the contractor, and any that arises as a result of investigations will remain confidential with non-disclosure of any information without explicit agreement from LCC.

4.5.3 The procurement exercise would utilise standard procurement terms and conditions.

#### 4.1 Risk management

4.1.1 Key risks to this project are highlighted below. It is worth noting that the risk of cost recovery auditing finding that LCC has been undercharged is very low, the Senior Asset Manager in the Energy team advises that it is extremely likely that analysis of LCC's bills across all assets will produce a finding that overall billing errors will favour the council. As a result, overall financial risks from progressing this project are minimal.

Type	Description and consequences	Probability	Impact	Rating
Financial	No billing errors found & no refund from utility suppliers	Unlikely	Insignificant	Low risk
Financial	Billing analysis finds LCC undercharged. LCC would have duty to repay suppliers.	Very unlikely	Minor	Low risk
Financial Reputational	Project not approved. No potential savings to be made, however also avoid risk of potential costs. Reputational risk through not seeking savings.	Unlikely	Minor	Low risk
Project management	Delay in analysis of billing information. Leading to increased length of project	Unlikely	Insignificant	Low risk

### 5 Conclusions

5.1 Council expenditure on electricity, gas, water, and telecommunications has exceeded £100 million over the past six years. Each of these services have complex billing arrangements with the potential for error, which experience shows tend to favour the supplier.

5.2 Internal mechanisms for bill verification are strong, however the councils is not able to complete its own checks at the level of an external contractor with greater resource and knowledge of the charging mechanisms.

5.3 Procurement of a contractor (or contractors) to identify billing errors from the past six years could yield a considerable return and ensure the council is delivering on its ambition to be a more efficient and enterprising council.

## **6 Recommendations**

- 6.1 It is recommended that the Director of Resources and Housing;
  - 6.1.2 Approve the award of the contract for the analysis and reconciliation of our historic electricity and gas bills to Professional Cost Management Group (PCMG) Ltd.