



## Birmingham City Council Saves £4.7m pa Through Using an OGC Recommended Solution

### Background

The Office of Government Commerce (OGC) has been working with energy and procurement professionals across public sector organisations since July 2007 to help them to Buy Smarter and use less energy through setting up the Pan Government Energy Project (PGEP). Following this work, it has been proven that organisations increase savings and mitigate risks through adopting an aggregated, flexible, risk managed approach to all energy procurement.

The public sector currently spend around **£3.8 Billion per annum** on Electricity and Gas – which equates to approximately 7% of UK total consumption!

Currently 66% of all public sector volumes are being procured through a Pan Government recommended solution.

Early findings for the project identified the following:

- 250 OJEU's for energy contracts were issued by public sector organisations within a two year period;
- No common Terms and Conditions;
- No common requirements;
- Multiple channels to a few major suppliers;
- 50% public spend not-aggregated.

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“Although it is early days yet, I am encouraged that significant savings and benefits are already being realised from this project”

Paul Dransfield, Corporate Director of Resources,  
Birmingham City Council

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## The Good News

Birmingham City Council's total energy spend equates to around £30 million per annum! They have 2,500 electricity and 1,200 gas sites! Budget certainty is important for all local authorities, and adopting a flexible arrangement that meets your bespoke requirements is vitally important.

In October 2009 Birmingham City Council's Corporate Procurement Services secured savings on their various Gas and Electricity contracts of up to 35%, whilst the energy price rates have fallen recently, Birmingham still managed to obtain an additional 3% saving by joining the National Energy Programme and going on a "fixed/flexed pricing arrangement", using a Buying Solutions framework.

Birmingham's Corporate Procurement function are constantly exploring new ways to save money on contracts by way of collaboration and seeking new and innovative ways of working. They adopted a "Category Management" approach in key spending areas in 2007 and are now driving a range of new initiatives. **So how did Birmingham manage to save around £4.7 million per year - plus and additional £1 million per year on top of the market rates?**

- 1. Engagement;** working with the West Midlands Improvement and Efficiency Partnership (IEWM) and the Office of Government Commerce (OGC) to engage with the Pan Government Energy Project.
- 2. Research;** the energy procurement team needed to ensure they were able to demonstrate to Council Members and Directors they were obtaining a clear audit trail of value for money, following their assessment process, they selected Buying Solutions as the appropriate provider to meet their specific requirements.
- 3. Coordination;** by working in partnership, challenging existing arrangements and exploring new ways of working Birmingham were able to adopt an effective procurement strategy that will take them through to September 2012.

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"The time and effort we put into this is now starting to pay dividends and we will continue to work closely with our partners to identify future process and cost savings"

Bob Carmichael, Category Manager,  
Birmingham City Council

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Through accessing a recommended solution provided by a recommended Central Purchasing Body the overall benefits to BCC are:

- Financial savings through aggregation:
  - » larger portfolios are more attractive to suppliers which can therefore attract lower supplier margins by up to 5%;
  - » access to a fully open energy framework thus no need to OJEU or mini tender exercise.
- Mitigating risks through flexible purchasing:
  - » able to take advantage of market prices throughout the duration of the contract;
  - » greater transparency of costs that make up the delivered energy price;
  - » purchasing is done in real time thus no additional risk premium for keeping a price 'open'.
- Experienced team manage all portfolio needs:
  - » purchasing is carried out by experts in energy procurement;
  - » supplier contract management team;
  - » customer contract management team.
- Access to new products and initiatives:
  - » Managing demand/sustainability tools such as Automated Meter Reading (AMR);
  - » Advice, Guidance and tool kits for Carbon Reduction Commitment (CRC);
  - » Opportunity to access new and innovative products such as Power Purchase Agreement (longer term purchase of power direct from generators) which are currently under development by the PGEP.

## The Way Forward

To obtain the additional benefits of flexible priced energy you need to consider the following;

- 1. Contract budget;** agree an overall contract budget for the various energy contracts;
- 2. Reconciliation provision;** agree a reconciliation fund to cover any overspending issues (although in general terms savings will be made);
- 3. Risk appetite;** consider your appropriate risk strategy, upper and lower price tolerance levels.



**Pictured:** Bob Carmichael (Category Manager), Christine Harris (Category Assistant), Steve Jones (Assistant Category Manager)

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“It is encouraging that the largest local authority in Europe, Birmingham City Council, has decided to join with 66% of other public sector organisations in using a Pan Government energy agreement and is benefiting from significant savings.”

David Sheilds, Programme Director  
Markets & Collaborative Procurement  
Office Government Commerce

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## Next Steps

If you want to explore the full benefits you can obtain on your energy procurement, please contact either Jonathan Jones at Improvement and Efficiency West Midlands, or Cassie Clifford-Wareham at OGC.

### Further information

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