

DERBYSHIRE COUNTY COUNCIL**CABINET****22ND OCTOBER 2013****Report of the Director of Property****(COUNCIL SERVICES)****Procurement of a Utility Invoice Reconciliation Service****1. Purpose of the Report**

Approval is sought to invite tenders for the provision of a specialist utility invoice validation and reconciliation service to identify and generate refunds from Derbyshire County Council's energy and water suppliers for any potential historic billing errors that may have occurred. Approval in principle is also sought for any resulting refunds to be reinvested in energy efficiency projects, on which more information will be provided once any refund amounts are known.

2. Information and Analysis

During 2012/13, Derbyshire County Council spent around £8.8M on electricity and gas and around £1.4M on water. The amount that the Council spends on energy not only reflects how much energy is consumed, but also includes charges for metering and consumption data collection; transmission and transportation; distribution and supply. Similarly, water bills not only reflect the volume of water consumed but also include standing charges; sewerage charges; and surface water drainage charges. These additional charges can lead to some supplies being inaccurately billed and due to the complexity of the charges may go unnoticed leading to the payment of inaccurate bills.

The Council has been contacted by several utility brokers offering to undertake an historic utility invoice validation and reconciliation service. Through this service, energy analysts undertake a detailed audit of charges claimed by suppliers over the previous six year period. Should any historic invoicing errors be identified, the analysts will negotiate with suppliers to recover any monies owed through the previous overpayments.

CONTROLLED

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Such utility brokers provide the service at no upfront cost, with any potential recovered money shared between the broker and their client. Therefore if no refunds are discovered, there will be no fee to share and no payment to the utility broker.

Utility brokers that have contacted the Council offering their services have quoted potential refunds ranging from 0.1% to 10% of total energy and water spend and most suggest that refunds would be split on an equally shared basis. However, it is suggested that to ensure the Council receives best value from such a service, a tender exercise is undertaken to procure a utility broker to undertake this service and that all refunds to be shared as follows;

- For refunds up to and including the first £20,000, Derbyshire County Council will retain 60% of the refund;
- For refunds above £20,000, Derbyshire County Council will retain 80% of the refund.

Whilst Corporate Procurement effectively procure gas and electricity through the Government Procurement Solutions (GPS) framework and the Carbon and Energy Management Team assist Council sites with any potential billing queries, there may be some cases where inaccurate invoices have been paid. The Council does not currently have the resources to undertake historic invoice validation for the previous six years in house. In addition, as there may not be any refund to benefit from the utility reconciliation service, it would not necessarily be the best use of resources to divert staff from other duties to validate historic invoices at this time.

During the previous six year period, Derbyshire County Council has spent in the region of £60.5M on electricity, gas and water; an average of just over £10M each year. Based on this expenditure and on the suggested level of refund that may be identified, the potential amounts of refunds that the Council may receive are detailed in the table below:

	Refund at 0.1%	Refund at 5%	Refund at 10%
Total refund	£60,000	£3,000,000	£6,000,000
Refund to broker	£16,000	£604,000	£1,204,000
Refund to DCC	£44,000	£2,396,000	£4,796,000

On average, schools account for around 68% of the Council's overall energy consumption and cost. As such, the potential refunds relating to schools and corporate properties are detailed below:

	Refund at 0.1%	Refund at 5%	Refund at 10%
Schools	£29,900	£1,629,300	£3,261,300
Corporate sites	£14,100	£766,700	£1,534,700

The information in the above tables provide an indication of the range of potential refund that may be identified, but does not at this stage provide definitive amounts of income that could be received by the Council as a result of this service.

Coupled with the potential refunds identified above, for any sites where there have been invoicing errors made over the past 6 years, these will be rectified thereby reducing potential overcharging in the future. Whilst this is unquantifiable at present, once the historic validation has been undertaken and any invoicing issues have been identified, future potential savings resulting from correcting any invoice errors will be clarified.

It is anticipated that the procurement process will take around 7 weeks to complete. Once the utility broker has been appointed, they would be expected to complete the validation process in 6 weeks and a further 4 weeks to negotiate refunds with the suppliers with any refund generated being paid from around the tenth week. It is therefore envisaged that any potential refund would be received by March 2014.

Whilst there is no guarantee that any previous incorrect invoices and subsequent overpayments will be identified and therefore no certainty that the Council will be in receipt of any refund, it is proposed in principle that any resulting revenue income is ring fenced to be reinvested alongside the existing capital Carbon Reduction Initiative Fund to implement low cost energy efficiency projects that cannot be financed through capital monies. The amount to be reinvested will be determined once any refund amount is known, but it is suggested that the amount would be capped at an appropriate amount with any remaining monies returning to the corporate budget to assist with current budget cuts. Although the amount of additional savings realised through the reinvestment of any refund in energy efficiency projects would vary depending on the measure, projects will be prioritised on those whereby the resulting energy cost savings would ensure a return on investment within 5 years or less. On that basis, if £100,000 was invested in energy efficiency projects that took 5 years to be paid back through the savings, a further £100,000 could be made within 10 years of the initial investment.

It is suggested that once a utility broker has been appointed, undertaken the historical invoice validation review and identified and agreed any refund with utility suppliers, a further report will be submitted to Cabinet once any refund amounts have been identified and agreed.

3. Council's Commitment

The Council is committed to improve the energy efficiency of its buildings, helping to reduce costs and carbon emissions. Coupled with cost savings resulting from energy efficiency improvements, any potential refund as a result of undertaking historic invoice validation will be directed into the Derbyshire Challenge Fund from which energy efficiency bids will be awarded in line with Council priorities.

4. Financial Considerations

Although there will be no upfront costs for the procurement of this service, it is proposed that any refund would be split with the utility broker as in section 2 above. As the utility broker will be receiving a proportion of the refund, the specification drawn up for the provision of the service will ensure that the Council receives the best available service and shared refunds are favourable to the Council.

Any refund relating to schools must be repaid to the relevant schools that made the overpayment. Similarly any other refund that relates to a service explicitly funded by a third party may have to be repaid to that body.

4. HR Considerations

Although there are no upfront costs to the Council for the provision of this service, it should be noted that there will be some cost to the Council in terms of employee time spent on seeking approval to proceed with this service and in the procurement process. It is estimated that approximately 31 hours will be spent on managing this at a cost of around £720 in salary costs.

5. Other Considerations

In preparing this report the relevance of the following factors has been considered; legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health and transport considerations.

6. Key Decision

NO

7. Call-in

Is it required that call-in be waived for any decision on this report? **NO**

8. Background Papers

None.

9. OFFICER RECOMMENDATIONS

That Cabinet:-

- i) Approves the procurement of a utility broker to undertake historic invoice validation and obtain refunds from utility providers.
- ii) Approves the principle that any resulting refunds will be reinvested in energy efficiency projects.
- iii) Notes that a further report will be submitted to Cabinet once any refund amounts have been identified and agreed.
- iv) Notes that any refunds relating to schools energy bills will be repaid to them.

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