



**Author/Lead Officer of Report:** *Nick Slater – Business Manager Operation Develop, Strategy and Compliance Transport and Facilities Management*

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**Report of:** *Laraine Manley*  
**Report to:** *Executive Director PLACE*  
**Date of Decision:** *13 November 2020*  
**Subject:** *Provision of the Councils Gas Supply*

Is this a Key Decision? If Yes, reason Key Decision:-	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
- Expenditure and/or savings over £500,000	<input checked="" type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to?	Finance Resources and Governance	
Which Scrutiny and Policy Development Committee does this relate to?	Overview and Scrutiny Management Committee	
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
If YES, what EIA reference number has it been given? <i>(Insert reference number)</i>		
Does the report contain confidential or exempt information?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-		
The exemption applies to the following which contains commercially sensitive information:		
1. Appendix 1 of this main Executive Report for the renewal of the Councils gas contract form April 2021		
The <b>appendix</b> is not for publication because it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).		

**Purpose of Report:**

The current contract with Corona Energy for supplying gas to the Council expires 31 March 2021. The report describes the options considered and makes a recommendation detailing why it is the preferred option.

The Council's contract for gas also includes supply to Council housing where heated by district heating and to schools/academies signed up for provision via the Council's contract.

Renewal of the contract is to achieve best value for money and compliance with financial standing orders and procurement requirements.

**Recommendations:**

That the Executive Director Place authorises that:

- 1) The Council enter a 4 year contract with Total Gas and Power Ltd effective from 1st April 2021 for the Council's gas supply as outlined in this report.
- 2) The Director responsible for Transport and Facilities Management be delegated authority to devise and implement the appropriate procurement strategies to purchase gas..

**Background Papers: none**

<b>Lead Officer to complete:-</b>	
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.
	Finance: <b>Paul Schofield</b>
	Legal: <b>David Cutting</b>
	Equalities: <b>Annemarie Johnston</b>
<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>	
2	<b>EMT member who approved submission:</b> <b>Laraine Manley</b>
3	<b>Cabinet Member consulted:</b> <b>Cllr Terry Fox</b>
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.

<b>Lead Officer Name:</b> <i>Nick Slater</i>	<b>Job Title:</b> <i>Business Manager Operation  Development, Strategy and Compliance  Transport and Facilities Management</i>
<b>Date:</b> <i>22 October 2020</i>	

## 1. PROPOSAL

- 1.1 There is a requirement to renew the contract for the supply of gas to sites managed by the Council as the current contract expires on 31 March 2021.

An evaluation of the possible methods for procurement of the gas contract was undertaken to determine the option which would provide best value for money.

As the Council do not currently have expertise in energy market trading, contracting through a Central Purchasing Body (CPB) offers the Council the best value procurement route.

An evaluation has been completed of the currently available CPB frameworks included reviewing management fees, cost to serve fees.

There is more detail of the evaluation in the “Alternative Options Considered” section of this form.

It is advised that the Council switch all sites to CCS. SCC adopt a flexible approach to purchasing gas, a mixture of long term and short term purchasing strategies.

### **Current Status...**

- The Council is a significant user of buildings related gas with 563 live gas supplies on the Corona Energy contract. The usage of gas has remained consistent over the past few years averaging around 140,000,000 KWh per annum.
- The Council procures its gas through the Yorkshire Purchasing Organisation (YPO), a Central Purchasing Body (CPB). The current contract was for 4 years, 01st April 2017 to 31 March 2021. YPO was chosen as the CPB offering best value and flexibility at the time following a bench marking exercise against other CPBs. YPOs chosen supplier for the period is Corona Energy.
- YPOs purchasing strategy was based on a flexible, aggregated, risk-managed procurement, purchasing tranches of gas over a period of time (ideally when there are dips in the market). As with electricity, gas needs to be purchased in advance of its use

- The proportion of spend against schools/academies is approximately 42%, with the remaining 58% on Council sites. 13% of council sites are 'corporate' sites which the Council has direct responsibility. The remainder being spent on district heating boiler housing sites where the cost is passed on to tenants. Although schools and academies are parties to the contract they do not form part of the Council's budget.
- Contracts are managed through the Councils Energy Management Unit and Procurement and Supply Chain Team.
- For all sites, including schools and housing sites, the Energy Management Unit receives copies of bills for validation and monitoring purposes.
- Performance under the current contract –
  - By purchasing its gas via a central purchasing body, YPO in this case, the Council reduces its risk against fluctuations of pricing within the energy market
  - Around 25%-35% of gas bills are now made up of non-energy costs (non commodity cost). These non-energy costs include environmental charges, cost for transportation of energy, and charges to support the necessary infrastructure. These costs have been increasing year on year.
  - The vast majority of the remaining bill is made up of the wholesale cost of the commodity (gas) itself which can fluctuate wildly as it's subject to influences ranging from the price of oil, coal, carbon, exchange rates, weather, market uncertainty and global demand.
  - YPO watched the market trying to gauge buying gas at its cheapest price. Its flex contract overall performed well during the period despite unprecedented volatility and sustained price increases.

## **2. HOW DOES THIS DECISION CONTRIBUTE?**

- 2.1 Consideration of and bench marking the options available for purchasing the Councils gas supply will ensure to the best of our ability value for money and flexibility. Ensuring we engage experts in the field of purchasing the Councils gas supply, ie with the knowledge and tools to monitor and forecast commodity price changes allowing them to purchase gas at the lowest price on behalf of the Council and its other customers. Actions that ensure a minimal spend on procurement of gas while ensuring quality of provision, ie best value.
- Flexibility within the contract enables SCC to consider purchasing gas from renewable sources which would contribute to carbon reductions. However currently gas from renewable sources would be an additional 50% cost on top of the recommended option and therefore would be financially unviable.*

### **3. HAS THERE BEEN ANY CONSULTATION?**

- 3.1 No consultation but careful evaluation of the options available to ensure best value for money.

### **4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION**

#### **4.1 Equality of Opportunity Implications**

- 4.1.1 Overall there are no significant differential, positive or negative, equality impacts from this proposal. It will benefit all sites through achieving best value. However, it will particularly benefit the council tenants, especially those with low incomes, who receive their heating through district heating boiler housing sites. Approximately 60% of council housing tenants are in receipt of benefits.

#### **4.2 Financial and Commercial Implications**

- 4.2.1 The contract will be let for a period of 4 years, with the option to switch between trading/purchasing baskets to achieve best value for money (consideration will be given to performance/conditions in energy market at the time).

Based on historic expenditure, the total expenditure under this contract will be £4.65m per annum. Approximately 47% of this cost will be recharged to the Housing Revenue Account. Although schools and academies are parties to the contract they do not form part of the Council's budget and are billed directly.

The contract will be managed through the Councils Energy Management Unit and Procurement and Supply Chain Team.

These teams will have the opportunity to work with CCS having regular review meetings which will ensure SCC understand any changes in the market. This activity will inform any change to the baskets SCC decide to purchase, changes allowable within the contract.

#### **4.3 Legal Implications**

- 4.3.1 The Localism Act 2011 provides local authorities with a "general power of competence" which enables them to do anything that an individual can do as long as the proposed action is not specifically prohibited. The Council also has a specific power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions (s111(1) Local Government Act 1972).The proposed Gas Supply contract renewal is incidental to the Council's statutory functions.

An OJEU compliant Framework also complies with the requirements of the Public Contracts Regulations 2015 and Council's Contract Standing Orders.

The Council will be entering a 4 year contract for gas supply by one supplier. Advance notice to enter and/or exit different Framework 'baskets' will be required from CCS and therefore may commit the Council to a contract period beyond the original 4 years. Basket changes will be reviewed and possible further approvals and delegations obtained at the time.

Commercial services have reviewed the CCS terms and conditions and do not deem these to be contradictory to any of the council's policies. Further detailed review of the terms will be undertaken and if necessary, advice sought from legal services before entering a new contract with CCS.

Novation of terms are available for example where a school becomes an academy and chooses to independently source their own gas supply.

#### 4.4 Other Implications

- 4.4.1 *Property* - Disruption to supply/out of contract penalties if replacement contract is not in place from 1<sup>st</sup> April 2021

### 5. **ALTERNATIVE OPTIONS CONSIDERED**

#### 5.1 **Procurement Options**

- considerations...
  - methods of supplying gas, ie;
    - SCC procuring directly from a utility company;
    - purchasing via an Energy Broker;
    - or purchasing via a framework offered by a Central Purchasing Body (CPB); CPB contract types, ie variable or Fixed
  - volatility of the market informing the risk associated with each procurement option
  - detailed work for a benchmarking exercise determined how difficult it is to compare suppliers costs due to the different business models and purchasing strategies adopted. This work did however inform costs that can be compared, ie management fees and cost to serve fees
  - growing percentage of non-commodity costs which are not affected by market forces. Non-commodity costs include environmental charges, costs for transportation of energy and charges to support the necessary infrastructure.

- Methods of supply appraisal summary
  - SCC procuring directly from a utility company – not considered best option as requires...
    - significant expertise and knowledge to manage energy purchases – expertise/sufficient resource doesn't currently exist in SCC
    - ongoing monitoring of energy markets relies on experienced officers going to the market at the right time on the right day
    - requires a tender process
  - Purchasing via an Energy Broker
    - Buy significantly smaller amounts than Central Purchasing Bodies and cannot secure the same economies of scale, potentially operating at greater risk if providing low prices
    - Requires a full procurement process
  - Central Purchasing Body (CPB) framework
    - Recognised as an option providing good value for money potential
    - Buying for many customers securing economies of scale and able to spread the risk of buying at variable costs
- Variable / Flexi option – preferred option
  - a fixed annual price (on SCC stated volumes) from each April, which is traded/purchased in advance of the delivery period i.e. across the preceding 12/24 months in small 'chunks' of energy, ie known cost per unit for one full year at a time.
  - allows the energy expert to follow the energy price and anticipate the effect of other drivers and buy at what they believe will be the lowest price.
  - significantly reduces the risk to the Council with experts constantly reviewing prices improving the chances of achieving best value on energy costs
  - gives budget certainty and a known cost for a 12 month period
- Fixed option –
  - a fully fixed price for the Council over the 4 year contract period by trading the entire 4 year volumes at one time, ie known cost per unit for the full 4 year period at single date of purchase
  - Energy bought at one fixed point in time for a protracted period (4 years) – presents much less potential for achieving lower prices when the market dips

- Subject to addition of a premium on the cost of energy to protect the supplier from unanticipated higher rises in energy unit cost during the period – which may not occur
- gives budget certainty and a known cost for the full contract period (4 years)

## **6. REASONS FOR RECOMMENDATIONS**

- 6.1 The Council do not currently have expertise in energy market trading, therefore contracting through a Central Purchasing Body (CPB) offers the Council the best value procurement route.

Following an evaluation of the currently available CPB frameworks the Crown Commercial Services (CCS) CPB is considered to offer the best route for purchasing the Council's gas supply. The nominated supplier of gas for CCS is Total Gas and Power Ltd.

The outcome of the benchmarking exercise supports the Council's decision to switch to CCS and Total Gas and Power for the ongoing provision of its gas supply.

CCS offer their customers opportunity to purchase a mix of variable and locked options within the contract – helpful to the Council in terms of schools becoming academies and giving a choice for housing sites.