

SHEFFIELD CITY COUNCIL

Strategy and Resources Policy Committee

Meeting held 15 September 2022

PRESENT: Councillors Terry Fox (Chair), Bryan Lodge, Shaffaq Mohammed (Group Spokesperson), Mick Rooney, Richard Williams and Paul Wood

1. APOLOGIES FOR ABSENCE

1.1 Apologies for absence were received from Councillors Angela Argenzio, Julie Grocutt, Douglas Johnson, Joe Otten and Martin Smith.

2. EXCLUSION OF THE PRESS AND PUBLIC

2.1 No items were identified where resolutions may be moved to exclude the public and press.

3. DECLARATIONS OF INTEREST

3.1 There were no declarations of interest made.

4. PUBLIC QUESTIONS AND PETITIONS RELATING TO THE ISSUE TO BE DISCUSSED

4.1 There were no public questions or petitions.

5.1 COMMISSION OF THE COUNCIL'S ELECTRICITY SUPPLY

5.1 The Director of Direct Services presented a report stating that the existing contract for the supply of electricity to the Council with Npower was procured for a period of four years using the Yorkshire Purchasing Organisation (YPO) Electricity framework 791 from 1st April 2019 to 31st March 2023.

The Council's contract for electricity provides a supply to all Council assets and includes an optional traded offer to maintained and academy schools.

This report describes the options available to the Council for the procurement of its electricity from the 1st April 2023 to 31st March 2026.

5.2 **RESOLVED UNANIMOUSLY:** That Strategy and Resources Policy Committee:-

1. agrees that the Council commission the Council's electricity supply for the period 1st April 2023 to 31st March 2026 as set out in this report; and

2. approves the procurement strategy and contract award for the Council to enter into a 3-year contract via the CCS Energy Framework, with its nominated supplier EDF Energy Ltd effective from 1st April 2023 to the 31st of March 2026

5.3 **Reasons for Decision**

5.3.1 The Council do not currently have expertise in energy market trading, therefore contracting through a Public Buying Organisation (PBO) offers the Council the best value procurement route.

5.3.2 Following an evaluation of the currently available PBO frameworks the Crown Commercial Services (CCS) PBO is considered to offer the best route for purchasing the Council's electrical supply. The nominated supplier of electricity for CCS is EDF. The benefits of the CCS framework are detailed below:

- Ensures full compliance with Public Contracts Regulations
- Largest energy spend of all PBOs - forecast £1.5Bn (Excl VAT) electricity spend for supply year 22-23
- Largest number of customers of all PBOs - 896 electricity customers for supply year 22-23
- Enhanced customer services options
- Dedicated and experienced staff – total number of staff on energy team is 38
- CCS specific customer services team
- key account and customer query management
- Competitive management and administration fees, transparent not for profit pricing structure
- Market and budget reporting
- Electronic portal for customers account access
- Annual audit
- budget forecasting
- Freedom to add or remove sites from the contract with no penalty should the portfolio change (subject to conditions)
- Low supplier cost to serve fee (CCS unable to disclose the supplier fee due to commercial confidentiality)
- CCS fees are charged on a per meter per year cost (HH £240 per meter, NHH £5 per meter classes 01 and 02, any meter with class 03 and above is £24 per meter). CCS state these fees are the lowest in the market. CCS does not charge a Levy % on Energy Services. Total CCS income from Energy Services via Framework RM6011 is equivalent to 0.22% of total spend (Excl VaT) for 22-23.
- CCS is able to provide differing types of carbon neutral / 100% renewable energy via their nominated electricity supplier Edf (at varying costs). Edf standard Generation mix for 22-23 is 91.1% Carbon Neutral.
- A range of risk managed trading strategies including short term variable(V6), long term variable basket (V30), and a short term locked basket(L6). Additional option of medium term locked basket (L24) from 22/23. See table below for summary of trading basket options available to the Council with key timelines.

| Basket | Termination Deadline | Leave date | Termination/ Join Deadline | Leave date | Join Date |
|-------------|----------------------------------|------------------------------------|-------------------------------|------------|------------|
| Locked 6 | 10 working days before 1 October | 31 March (6 months after October) | 15-Sep-22 | 31-Mar-23 | 01/04/2023 |
| Variable 6 | 10 working days before 1 October | 31 March (6 months after October) | 15-Sep-22 | 31-Mar-23 | 01/04/2023 |
| Locked 12 | 10 working days before 1 April | 31 March (12 months after April) | 15-Mar-23 | 31-Mar-24 | 01/04/2024 |
| Locked 24 | 10 working days before 1 April | 31 March (24 months after October) | 15-Mar-23 | 31-Mar-25 | 01/04/2025 |
| Variable 30 | 10 working days before 1 October | 31 March (30 months after October) | 15-Sep-22 | 31-Mar-25 | 01/04/2025 |

The outcome of the benchmarking exercise supports the Council's decision to switch to CCS and EDF for the ongoing provision of its electricity 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.

5.4 **Alternatives Considered and Rejected**

5.4.1 Option 1 - Do nothing

- Advantages:
 - There are no benefits with this option
- Disadvantages:
 - The tariffs would move on to out of contract rates which would increase costs to the Council
 - The Council would not be able to demonstrate it has sought Value for Money, nor would this be compliant with Council Standing Orders.
 - This option would not be compliant with Public Contract Regulations (PCR) and is open to legal challenge

Option 2 – SCC procure directly from a supply company:

Advantages:

- SCC able to run a fully compliant tender process to establish a supply agreement to purchase energy through various strategies including on the day spot purchasing or flexible contract. The council would tender only the known ‘fixed’ price element of the electricity (this includes suppliers profit margin/fee and estimated non-commodity costs over delivery period). The commodity costs are subject to live trading which will be made with the nominated supplier.
- Opportunity to work collaboratively with other local councils to achieve some economies of scale and potential income generation as lead authority.
- Council avoids paying any management fees to third parties for administrating any frameworks/contracts.
- Increased potential to maximise economic, social and environmental benefits through a Council-led procurement process (by ensuring social value is captured in tender specifications and contract)

Disadvantages:

- Requires significant expertise and knowledge to manage energy purchases in a complex market. It requires ongoing monitoring of energy markets and relies on officers going to the market on the right time and day. These purchases will be made through the nominated supplier.
- Limited volume of spend in comparison to PBOs who aggregate large volumes, means this is less attractive to suppliers resulting in higher prices.

- Time consuming and requires significant lead-in time to implement the new arrangements/contracts. If contracts are not awarded in time, we may incur out of contract rates from current suppliers increasing costs.

Option 3 – SCC procure through an energy broker:

Advantages:

- Potential to secure prices direct from suppliers by monitoring market prices. Independent energy brokers are similar to PBO's but without the benefit of aggregating large Local Authority portfolios.

Disadvantages:

- Brokers will most likely charge a fee for their service. Types of contracts include fixed (broker charges fixed fee for service), hybrid (brokers costs built into unit cost of energy) and inclusive (cost of service built into total cost of energy)
- Smaller brokers may not have access to all supplier offerings
- SCC would need to ensure that the arrangements have been subject to a full procurement process to ensure PCR compliance.

Option 4 - Use of framework agreements offered by PBOs (recommended option):

- Advantages:

- Compliant with PCR 2015. Several major PBOs offer energy supply frameworks that are available for the Council to use including Eastern Shires Purchasing Organisation (ESPO), Crown Commercial Services (CCS) and YPO.
- All PBO's centralise spend into single supply contracts aggregating demand by combining energy volumes across organisations to form one large portfolio making it more attractive for suppliers. PBO's can deliver energy prices which are lower than the Council would be able to achieve on its own.
- The risk of market volatility is reduced by opting for procurement through a PBO which is also considered to represent best value for money due to economies of scale and the PBO's purchasing power. PBO's will optimise energy prices by purchasing in advance and ensuring risk is managed and controlled by market experts.
- Increased certainty of utility commodity costs due to forward purchasing arrangements
- Scale of Operations – large aggregation of Public Sector energy spend
- experienced energy staff including energy Specialists providing customer support
- established governance arrangements in place such as committees and boards

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Disadvantages:

- PBO's charge a small management fee for accessing their arrangements

5.2 PROVISION OF THE COUNCILS GAS SUPPLY

- 6.1 The Director of Direct Services presented a report seeking approval to award a further 1-year contract to Total Gas and Power via the Crown Commercial Services (CCS) framework for the supply of gas to the Council. There is a requirement for a corporate contract to supply natural gas for heating and hot water across the authority's portfolio of sites as well as for some schools and academies.

The gas needs of these buildings are currently being supplied by Total Gas and Power Ltd and contract managed through Facilities Management and Procurement and Supply Chain Team. The contract was procured for a period of four years from 1st April 2021 to 31st March 2025.

To allow forward purchasing of gas to take place for the following year (2025/26), and to bring this contract in line with the electricity contract, the Council will need to extend the current arrangement for a further one year before the 15th of September 2022.

- 6.2 **RESOLVED UNANIMOUSLY:** That Strategy and Resources Policy Committee:-

1. agrees the Council commission of a further 1-year provision, for the period from 1st April 2025 to 31st March 2026 for the Council's gas supply, as outlined in this report; and
2. approves the procurement strategy and contract award of a 1-year contract to Total Gas and Power via the Crown Commercial Services (CCS) framework RM6011.

6.3 Reasons for Decision

- 6.3.1 The Council do not currently have expertise in energy market trading, therefore contracting through a Public Buying Organisation (PBO) such as CCS offers the Council the best value procurement route.
- 6.3.2 The commissioning decision taken in 2021, and the reasons provided in the decision report to use the Crown Commercial Services (CCS) framework still apply and therefore are considered to offer the best route for purchasing the Council's gas supply.
- 6.3.3 To bring all future contract renewals (and council decisions) in line with the CCS framework renewal date, the next decision would be required by 15 September 2023, and every 4 years after that (15 Sept 2027, and so on), to enter the council into contract (aligned with the 4 year framework term) for a period of 4 years.

6.4 Alternatives Considered and Rejected

6.4.1 Option 1 - Do nothing

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Advantages:

- There are no benefits with this option

Disadvantages:

- The Council will be unable to continue trading under its preferred strategy until the end of the current CCS framework.
- The Council will not be able to align both electricity and gas purchasing.
- A continued fragmented decision-making process for the purchase of gas and electricity and consequential duplication of effort.

Option 2 – SCC procure directly from a supply company:

Advantages:

- SCC able to run a fully compliant tender process to establish a supply agreement to purchase energy through various strategies including on the day spot purchasing or flexible contract. The council would tender only the known 'fixed' price element of the gas (this includes suppliers profit margin/fee and estimated non-commodity costs over delivery period). The commodity costs are subject to live trading which will be made with the nominated supplier.
- Opportunity to work collaboratively with other local councils to achieve some economies of scale and potential income generation as lead authority.
- Council avoids paying any management fees to third parties for administrating any frameworks/contracts.
- Increased potential to maximise economic, social and environmental benefits through a Council led procurement process (by ensuring social value is captured in tender specifications and contract)

Disadvantages:

- Requires significant expertise and knowledge to manage energy purchases in a complex market. It requires ongoing monitoring of energy markets and relies on officers going to the market on the right time and day. These purchases will be made through the nominated supplier.
- Limited volume of spend in comparison to PBOs who aggregate large volumes, means this is less attractive to suppliers resulting in higher prices.
- Time consuming and requires significant lead in time to implement the new arrangements/contracts. If contracts are not awarded in time, we may incur out of contract rates from current suppliers increasing costs.

Option 3 – SCC procure through an energy broker:

Advantages:

- Potential to secure prices direct from suppliers by monitoring market prices. Independent energy brokers are like PBO's but without the benefit of aggregating large Local Authority portfolios.

Disadvantages:

- Brokers will most likely charge a fee for their service. Types of contracts include fixed (broker charges fixed fee for service), hybrid (brokers costs built into unit cost of energy) and inclusive (cost of service built into total cost of energy)
- Smaller brokers may not have access to all supplier offerings
- SCC would need to ensure that the arrangements have been subject to a full procurement process to ensure PCR compliance.

Option 4 – Continuation of the Use of The CCS Framework.

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Advantages:

- Compliant with PCR 2015.
- The Framework centralises spend into single supply contracts aggregating demand by combining energy volumes across organisations to form one large portfolio making it more attractive for suppliers. CCS can deliver energy prices which are lower than the Council would be able to achieve on its own.
- The risk of market volatility is reduced by opting for procurement through CCS which is also considered to represent best value for money due to economies of scale and purchasing power. CCS will optimise energy prices by purchasing in advance and ensure risk is managed and controlled by market experts.
- Increased certainty of utility commodity costs due to forward purchasing arrangements
- Scale of Operations – large aggregation of Public Sector energy spend
- experienced energy staff including energy Specialists providing customer support
- established governance arrangements in place such as committees and boards

Disadvantages:

- CCS charge a small management fee for accessing their arrangements

(Note: In accordance with Council Procedure Rule 26 this urgent meeting has been called on the recommendation of the Chair, on the basis that the Council must make a decision on how it procures its energy for the future by 16 September 2022. It was not possible in the time available to give appropriate notice, and it was considered that the Council would not be able to make a decision in time if not considered at this meeting).