

Cabinet – 12 December 2018

Corporate Energy Services Contracts

Portfolio: Councillor Harris Personnel and Business Support

Related portfolios: N/A

Service: Integrated Facilities Management

Wards: All

Key decision: Yes

Forward plan: Yes

1. Summary

1.1 The Council's energy portfolio has three key elements:

- **Energy Supply** – the supply of electricity and gas to Council properties;
- **Bureau Services** – Monitoring of energy services such as bill validation and data collection;
- **Energy Procurement Consultancy** – external advice on, and possible assistance with, procurement of energy supply contracts.

This report is predominantly concerned with the Council's energy supply for the next financial year although reference will be made to future procurement.

1.2 The Council currently purchases gas and electricity from frameworks run by public buying organisations (PBOs): Eastern Shire Purchasing Organisation (for gas) and Yorkshire Purchasing Organisation (for electricity). The existing contracts are due to expire 31 March 2019.

1.3 The energy market continues to be complex with a wide range of purchasing and consultancy options available. To enable sufficient time for a thorough analysis of the strategy for the Council's future energy requirements it is proposed to use frameworks currently offered by the above PBOs for a further 12 month period. This period will enable, with assistance of a specialist energy brokerage service, recommendations to be developed and brought for consideration to Cabinet in 2019/20 for the purchasing and length / nature of supply contracts for energy.

- 1.4 Both the incumbent PBOs operate frameworks which offer a 12 month contract on a fixed price ‘, which will give the Council price stability and security. The procurement route proposed is to use the two framework, as set out in **Table 1**, below:

Table 1 Proposed energy suppliers: 1 April 2019 - 31 March 2020		
Utility	PBO	Supplier
Gas	Eastern Shire Purchasing Organisation (ESPO)	Total Gas and Power
Electricity	Yorkshire Purchasing Organisation (YPO)	Supplier to be announced

- 1.5 This is a key decision because it will result in the Council incurring expenditure which is considered ‘significant’, being over £250,000. The current combined annual cost of purchasing of gas and electric is approximately £7 million.

2. Recommendations

- 1.1 That Cabinet approves the purchasing of energy supply for the Council for the period 1 April 2019 to 31 March 2020 by using an Eastern Shire Purchasing Organisation (ESPO) framework for gas and a Yorkshire Purchasing Organisation (YPO) framework for electricity.
- 1.2 That Cabinet delegates authority to enter and to subsequently authorise the sealing of any deeds, contracts or other related documents for the purchase of gas and electricity as set out in Recommendation 2.1 above to the, Executive Director Resources and Transformation in consultation with the Portfolio holder for Personnel and Business Support.

3. Report detail

- 3.1 Currently the Council spends approximately £1.8million on gas and £5million electricity. The Council also undertakes the energy procurement on behalf of a range of third party organisations such as schools and community associations
- 3.2 The Council has commenced electricity generation itself with the provision of solar panels on the Civic Centre which provides an income of £5,700 per annum from feed in tariffs and a reduction in the quantity purchasing.
- 3.3 Due to the complexity and competitiveness of the market and options available for purchasing of energy, the Procurement Department within the Council has advised to procure a specialist energy broker service to formulate the best pricing options for future purchasing (2020 onwards). To gain a suitably detailed understanding of the Council’s energy usage, the brokerage will need to undertake a review during the period of 2019/20, in order to inform a further report to Cabinet, which should include recommendations about the sourcing strategy and procurement of new supply contracts for provision of gas and electricity, commencing in April 2020.

- 3.4 As highlighted in 1.4 above it is proposed to use existing Public Buying Organisations (PBO's) to contract for the provision of gas and electricity for the period 1 April 2019 – 31 March 2020 based on fixed unit price contracts.
- 3.5 A full consultation with stakeholders will be undertaken when an outline of the future buying strategy and procurement routes has been developed for the period starting on 1 April 2020. This will be undertaken with the assistance of Procurement and the appointed energy brokerage.

4. Council Corporate Plan priorities

- 4.1 Internal Focus – All council services are efficient and effective. 12 month fixed rate contracts for gas and electricity allow price certainty until a future buying strategy is agreed.
- 4.2 Communities - Are prospering and resilient with all housing needs met in safe and healthy places that build a strong sense of belonging and cohesion. IFM and Procurement will engage with stakeholders to ensure their needs are captured within new contracts, all partners feel supported and the standard quality of service across all directorates will portray a unified approach to the public.

5. Risk management

- 5.1 The energy market is volatile and forecasting pricing and ideal buying periods is best undertaken by experts in the field. The Council's use of an existing, proven procurement route (i.e. further use of existing frameworks for gas and electricity supply) will reduce the associated risks in the short term and will allow price certainty for the following financial year.
- 5.2 Use of the existing frameworks will also afford an energy brokerage sufficient time to develop a strategy and will ensure that the Council remains contractually compliant in its purchasing of energy.
- 5.3 At the time of writing this report, the PBO for electricity (Yorkshire Purchasing Organisation) is concluding its evaluation of framework bids from energy providers and, as such, the name and the unit price of electricity are not currently known
- 5.4 12 month fixed rate utility contracts may result in an increase to the cost of energy paid by the Council in the short term. However, in the longer term, the recommendations contained within this report should enable a better strategy to be developed.

6. Financial implications

- 6.1 As highlighted at 5.1 above, the energy market is volatile and it is possible that 12 month fixed price per units offered by the PBOs will be greater than the those offered by the current contracts, by up to an estimated 15%. This estimate is based on figures provided by our current PBO's. This increase includes the estimated market fluctuation and uplift for the fixed price contract. The Council will endeavour to limit the impact of any cost rises by seeking the advice of energy specialists, implementing an effective energy sourcing strategy and through active management of the future contracts.
- 6.2 However, fixed price contracting will allow for financial certainty and accurate budgeting. The Council allocates sufficient revenue funds to cover all energy costs from a direct allocation to Integrated Facilities Management (IFM) centralised budget.
- 6.3 The analysis by a specialist energy broker of the market and the Council's needs will provide a comprehensive review and recommendations for future energy purchasing in the expectation that this will minimise the costs, and financial risk, to the Council.

7. Legal implications

- 7.1 The current frameworks, if used for the period 1 April 2019 to 31 March 2020 are compliant with the Public Contracts Regulations 2015 and the Council's Contract Rules.

8. Procurement implications/Social Value

- 8.1 The Procurement Service has provided advice and support to assist IFM in the identification of a an appropriate central purchasing organisation framework, which subject to Cabinet approval and in accordance with the Public Contract Regulations 2015 and the Council's Contract Rules, will be used for the compliant purchasing of gas and electricity as set out in this cabinet report.

9. Property implications

- 9.1 None.

10. Health and wellbeing implications

- 10.1 None.

11. Staffing implications

- 11.1 None.

12. Reducing inequalities

12.1 The implications for reducing inequalities have been taken into account. The proposed method for the procurement of energy supply will meet the requirements of the Equality Act 2010 and will include contract conditions which:

- Prohibit the contractor from unlawfully discriminating under the Equality Act 2010;
- Require them to take all reasonable steps to ensure that staff, suppliers and subcontractors meet their obligations under the Equality Act.

12.2 Based on an assessment of the proposal and the above provisions no Equality Impact Assessment is considered to be required for this proposal.

13. Consultation

13.1 Following agreement to these recommendations, IFM will advise all existing third party customers of the proposal and seek their decision as to whether they wish to be included within the new arrangement.

Background papers

None

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