

5 April 2017		ITEM: 18 (Decision 01104423)
Cabinet		
Procurement of Energy for Council Offices and Premises 2017 (Including Schools)		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Coxshall, Cabinet Member for Regeneration		
Accountable Head of Service: Steve Sprason, Interim Head of Property		
Accountable Director: Steve Cox, Corporate Director of Environment and Place		
This report is Public		

Executive Summary

This report provides context on the Council's current means of gas and electricity purchasing through framework contracts. The internal authority for the gas contracts will expire at the end of September 2017 and the electricity September 2018. This report, also, seeks authority for a strategy which will enable the Council to continue, for a further 4 years using flexible procurement frameworks managed by expert procurement teams such as the Crown Commercial Service (CCS) in order to ensure continuity of supply of bulk purchased gas and electricity and best value until the end of September 2021, subject to new frameworks being put into place by a framework provider when the, existing, frameworks expire.

The Customer Access Agreement with CCS will continue to be available until the Council decides to terminate it.

1. Recommendations

1.1 That the Head of Property and Development be authorised to;

- **To approve during the next four years up to 1st October 2021, the entering into of gas and electricity contracts called off from the Crown Commercial Service (CCS) frameworks.**
- **Enter into new contracts under alternative frameworks if suitable options become available, subject to compliance with relevant procurement rules in order to secure the continued purchase of gas and electricity for a further period of four years until the end of September 2021.**

2. Introduction and Background

- 2.1 Thurrock Council presently purchases gas and electricity for its own operational buildings, e.g. offices, public buildings and libraries, and on behalf of some schools, academies, independent charitable bodies and street lighting.
- 2.2 The Council's corporate gas and electricity contract expenditure is currently approximately £208k and £1.7m per year respectively (Total £1.9m), inclusive of spend on street lighting. Schools account for £740k additional expenditure annually which is paid directly from their own budgets
- 2.3 Going forward, as a result of the street lighting LED re-lamping programme electricity spend is anticipated to reduce from the current spend of £900k p.a. to a figure of £470k p.a. The total predicted first year contract value is approximately £2.21m after factoring in the predicted savings from street lighting. The contract value has the potential to change as the portfolio changes.
- 2.4 This existing flexible procurement arrangements using CCS have allowed energy to be secured in advance, in a volatile energy market, thus enabling the Council to enjoy below market price energy over the previous three years contract.
- 2.5 The existing, internal, authority for procuring gas and electricity will expire at the end of September 2017 and electricity will expire at the end of September 2018. This report sets out a future strategy for gas and electricity procurement to achieve best value for the Council and synchronises the gas and electricity process into a single process.
- 2.6 The procurement of energy in public sector organisations has been reviewed by the Office of Government Commerce's Pan Government Energy Project. Due to the specialist nature of procuring energy and the inherent risks of procuring energy directly from spot markets a number of recommendations were made for public bodies. The key recommendation was that public sector organisations should purchase energy through an aggregated, flexible, risk-managed framework – effectively via a Central Purchasing Body which has the capacity to be expert in the energy market and to achieve discounts by bulk purchasing.
- 2.7 The existing Crown Commercial Services (CCS) electricity framework access agreement will continue to be available until the Council decide to terminate it. This allows for a seamless continuation of the framework contracts subject to member's approval.
- 2.8 This continuous process avoids the risk of out of contract rates being incurred by the Council and simplifies future migration between any new framework suppliers appointed by CCS.

- 2.9 Due to the continuing structural changes which the council is going through flexible contracts which don't lock the council into long term commitments is seen as a key requirement. Leaving the contract only requires a short termination notice, allowing accounts to leave the contract as circumstances change. This is a very flexible arrangement and only possible with the largest energy players. Individual buildings and schools can be migrated off the contract if sold or converting to academies.
- 2.10 All schools, academies and independent charitable bodies organisations on the council's contract have their contract status changes by signing individual model contracts with the suppliers directly to place the responsibility for any debt to the parent organisation not the Council.

3. Issues, Options and Analysis of Options

- 3.1 A review, by Procurement, of the available gas and electrical frameworks that meet the Office of Government Commerce recommendations has determined that the existing frameworks continue to offer best value.
- 3.2 The recommended period for such a framework is 48 months, with a long lead in time to allow gas and electricity to be secured in advance of the contract start date. This supports the management of risk in a volatile energy market.
- 3.3 In this process the CCS experts purchase energy, through their pre-tendered energy providers on the futures market, in order to meet the needs of participating organisations. It is anticipated that it will not be until the end of the first month of the contract that the average first year contract price will be calculated. This energy price is then fixed for this year. Each subsequent year the process is repeated until the contract is terminated.
- 3.4 Further long term option exits for 3 years fixed periods, these have been discounted due to the current Brexit market volatility but strategies can be switched later should it be felt this offers a better solution.
- 3.5 The Council has identified a number of buildings that could be closed. Along with the investment from the Councils Salix loan fund and investment in converting street lighting to LED's, improved energy efficiency will contribute to savings being delivered through the life of the contract.

Overall advantages

- Significant potential for savings if the energy expert reads the market correctly.
- The purchase risks are spread across the whole contract period.
- The aggregation of volumes increases the buying power of the organisation and larger volumes are more attractive to the suppliers.
- CCS' energy expert would procure the gas and electricity supply on behalf of the authority, by drawing offers from a tendered framework of suppliers.

- This is the recommended strategy of procuring energy from the Office of Government Commerce to achieve best value.
- Flexible arrangements allowing sites to be moved on and off the contract with short notice.

Overall disadvantages

- Risk if the market moves against the expected position.
- It is not possible to know what the purchase cost of the gas and electricity is likely to be for the life of the contract.
- A more complicated procurement method, reliant on an external energy specialist's market forecasting expertise.
- The yearly cost for energy will only be known when a full year's worth of energy blocks have been assembled; when the market price is deemed suitable energy blocks are procured. The average unit price will then be calculated for the year at the end of this process.

4. Reasons for Recommendation

- 4.1 The existing procurement route represents best value for the Council, all suitable frameworks have been reviewed by procurement.
- 4.2 Maintaining continuity also avoids committing significant resources to managing a move to another supplier and avoids any risk of out of contract rates when transferring to an alternative supplier.
- 4.3 If the Council does not have an energy contract in place 'deemed' rates will be applied by the supplier; these rates will be significantly higher than the current contract rates by a factor of 2 to 4 times.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 Schools, academies and independent bodies which are currently in the contract have being approached to inform them that they may opt in, if they so wish, to the Council's bulk gas and electricity purchasing provisions.
- 5.2 Schools, academies and independent charitable bodies have recently been issued with new Customer Access Agreements to ensure the councils is fully protected to and liabilities these organisations may incur.

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 The content of this report is consistent with the Council's priorities for delivering excellence and achieving value for money, creating a safer built environment that meets people's needs.

7. Implications

7.1 Financial

Implications verified by: **Carl Tomlinson**
Finance Manager

The report concerns gas and electricity usage within the council and the boroughs schools with an expected annual cost of £2.2m. The schools element of £740k will be funded by schools as they hold their own energy budgets. The remaining £1.5m will be funded through gas and electricity budgets held by the council. These budgets are held in multiple service cost centres across the council.

Budgets in 2016/17 total £1.9m with £1.7m for electricity and £0.2m for gas. Current expectation is that spend within 2016/17 will be within budget. This includes one-off gas refunds received in year. Budgets for 2017/18 include a 3% inflation factor and electricity budgets have been adjusted to reflect the move to more energy efficient LED street lights. Gas continues to be budgeted at £0.2m and the electricity budget has reduced to £1.3m. The expected annual cost of the contract can therefore be contained within these budget allocations.

2016/17 spend	£2.64m
Less street light saving	(£0.43m)
Contract value	£2.2m
Less schools	(£0.74m)
Council element	£1.46m
Funded by:	
Electricity budget	£1.3m
Gas budget	£0.2m

7.2 Legal

The Use of a fully EU compliant CCS framework is sufficient to discharge the Council's obligations under EU regulations and its constitution.

Implications verified by: **Kevin Molley**
Contracts Solicitor

7.3 **Diversity and Equality**

Implications verified by: **Becky Price**

Community Development Officer

There are no specific diversity and equality implications arising from this report

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

Procurement

The value of the contracts will exceed the EU threshold so any procurement options will need to comply with EU regulations as well as the Council's constitution. A number of procurement options have been considered, with preference for a framework so use could be made of a specialised and established contract. Following review of the Council's options the most prudent choice in the current market appears to be to contract through a fully EU compliant CCS framework.

Implications verified by: **Kiri Mason**

Procurement Officer

8. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. **Appendices to the report**

- Appendix 1 – Procurement Stage 1 – Approval to Proceed to Tender

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