

REPORT TO: CABINET

DATE: 28 October 2010

SUBJECT: Gas and Electricity Supply Contracts

WARDS AFFECTED: All

REPORT OF: Peter Moore
Environmental and Technical Services Director

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Energy Division Manager
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EXEMPT/CONFIDENTIAL: No

PURPOSE/SUMMARY:

To report on the option to implement an extension current energy supply contracts for gas and electricity to take advantage of market prices and enable sufficient transition time to implement the review Councils energy procurement which is currently underway and realign delegated authority for this function.

REASON WHY DECISION REQUIRED:

The Council is evaluating the potential use of existing public sector framework contracts for future energy procurement, in order to maintain the best possible unit price. However, given the potential timeframe of this exercise and the volatility of energy prices, an alternative course of action, as contingency, is considered prudent. Delegated authority to accept the best and final prices offered within energy market 2 hour price validity has previously rested with the former Head of Regeneration and Technical Services. This report is to assign the delegated authority to the Environmental and Technical Services Director.

RECOMMENDATION(S):

That cabinet:

1. Agree that Council Constitutional Contract Procedure Rules be waived in relation to seeking price offers from incumbent suppliers to extend the contract under renewed tariffs.
2. That delegated powers be awarded to the Environmental and Technical Services Director to accept the price offer which is economically the most advantageous for the Council and to award the contract extension accordingly for 6 or 12 months.
3. That the Environmental and Technical Services Director reports the results of the contract price renewal exercise and his actions to a future meeting of the Cabinet.

4. Notes the potential energy market price increases forecast over the next 12-24 months giving context to the option to extend if rates are currently more favourable.

KEY DECISION: No

FORWARD PLAN: Not appropriate.

IMPLEMENTATION DATE: Upon the expiry of the call in period for the minutes of the meeting.

ALTERNATIVE OPTIONS:

The potential use of existing public sector framework contracts is being investigated. However, to renew contract rates in a timely manner in light of energy market trends and therefore avoid exposing the Council to default penalty rates, which are significantly higher than contract rates and open to market volatility this contingency option is considered prudent.

IMPLICATIONS: Market price forecasts are illustrated in section 2.0 of this report. Actual revenue budget impacts will be reported should extension to contract be secured.

Budget/Policy Framework: Not appropriate

FINANCIAL:

	2009/10 £	2010/11 £	2011/12 £	2012/13 £
<u>CAPITAL EXPENDITURE</u>				
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources				
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure				
Funded by:				
Sefton Funded Resources				
Funded from External Resources				
Does the External Funding have an expiry date?				
How will the service be funded post expiry?				

Legal:

Risk Assessment: Failure to secure new contracts in advance of the renewal date will incur expensive non-contract penalty tariff rates. Due to the volatility in the utilities markets this issue has been put on the Corporate Risk register

Asset Management: There are no direct implications arising from this report.

CONSULTATION UNDERTAKEN/VIEWS

FD531: The Finance Director has been consulted and appropriate financial comments have been incorporated into the report.

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community	✓		
2	Creating Safe Communities		✓	
3	Jobs and Prosperity		✓	
4	Improving Health and Well-Being	✓		
5	Environmental Sustainability	✓		
6	Creating Inclusive Communities	✓		
7	Improving the Quality of Council Services and Strengthening local Democracy	✓		
8	Children and Young People	✓		

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

None

1.0 BACKGROUND

1.1 A report was submitted to Cabinet on 11 June 2009 detailing the results of the contract price renewal exercise for the supply of gas and electricity to multiple properties and Street Lighting within the boundaries of Sefton Council for the period 1 September 2009 to 31 August 2011.

1.2 The percentage differences on 08/09 to 09/11 contracts were:

Gas (Scottish and Southern): - 32.37% (average price decrease against 08/09 contract)

Electricity (ScottishPower): - 28.92% (average price decrease against 08/09 contract)

[Note: This reduction is spread over financial years as the contract runs from 01 September to 31 August each year. These figures refer to the energy contracts totals only and do not relate to financial budgets, forecasts or actual payments. It should also be noted that each directorate within this will have a proportionately different percentage change due to make up of portfolio and other factors including extremes of weather.]

1.3 Consequently, current contract prices are due to expire on 31 August 2011 and need to be renewed ahead of that date. In respect of this expiration deadline two issues are relevant:

1.4 Firstly, in conjunction with the Head of Procurement (CPU) the Energy Manager is appraising options to use existing public sector frameworks for future energy procurement. This is in line with best practice guidance from central government, where relevant frameworks can drive value through using the extensive collaborative buying power of the public sector within the UK. Adoption of such frameworks will also mean that the Council does not have to undertake the lengthy and costly OJEU procurement process. Within these frameworks further added benefits are available via services such as metering and renewables provisions.

1.5 Secondly, the complex timeframe to transfer to procurement via a Framework may compromise the renewal date. Therefore, it is prudent to grant the Environmental and Technical Services Director delegated authority to extend contract under renewed tariffs for 6 or 12 months, if advantageous to the Council to allow sufficient time for transfer to a Framework.

1.6 Accordingly the contract allows for the ongoing negotiation of price up to Year 5 of contract up to 31 August 2013.

2.0 ENERGY MARKET PRICES AND FORECAST

2.1 The officers of the Energy Team have tracked the trading markets daily during the last 12 months seeking the optimum period to purchase if required. During this period the general trend of the energy markets has been steady

except for fluctuations against global events e.g. Gulf BP Oil incident and trans EU supply issues.

- 2.2 The global economic downturn and its subsequent effect on lower anticipated energy requirements has been a major contributing factor to a stabilisation in energy prices.
- 2.3 However, going forward there are many factors that are likely to lead to price increases in the energy markets, such as an up turn in the world economy, tightening on Carbon Trading, issues in nuclear production and weather uncertainty.
- 2.4 **A consensus of expert market opinion predicts an increase in energy market prices of 20-25% by December 2011 and continuing to rise to the end of the current decade. Officers of the Energy Team have been issuing market guidance to Finance on this view in the last 6 months.**
- 2.5 At the time of writing we remain in a relatively stable market position. Table's 1 and 2 have market price scenarios illustrated against the complete council portfolio of how different market positions would impact.
- 2.6 Table 1 'Gas Price Scenarios' also includes a possible decrease scenario due to fluctuations on that market which may afford a decrease point to Council contract.

**TABLE 1:
GAS PRICE FORECAST SCENARIOS**

	EXISTING CONTRACT	
	Actual	Estimate
	2009/10	2010/11
Leisure Services	£743,516	£743,516
EPD	£5,381	£5,381
Tech Services (Highways)	£7,361	£7,361
Misc	£13,133	£13,133
Health & Social Care	£7,725	£7,725
Civic Buildings	£185,223	£185,223
CSF Non Schools	£27,582	£27,582
Net Expenditure (Non-Schools)	£989,921	£989,921
* CSF ~ Schools, Children Centres & Nurseries	£1,456,250	£1,456,250
	£2,912,499	£2,912,499
* Not all school figures available		

NEW CONTRACT SCENARIO	
Assume 5% Increase	
2011/12	Increase pa
£762,104	£18,588
£5,516	£135
£7,545	£184
£13,461	£328
£7,918	£193
£189,854	£4,631
£28,272	£690
£1,014,669	£24,748
£1,492,656	£36,406
£2,985,312	£72,812
Assume 5% increase but current contract price runs until 31 Aug 2011 therefore 2.5% increase applied only March 2012	

NEW CONTRACT SCENARIO	
Assume 5% Decrease	
2011/12	Increase pa
£724,928	-£18,588
£5,247	-£135
£7,177	-£184
£12,804	-£328
£7,532	-£193
£180,593	-£4,631
£26,892	-£690
£965,173	-£24,748
£1,419,843	-£36,406
£2,839,687	-£72,812
Assume 5% decrease but current contract price runs until 31 Aug 2011 therefore 2.5% decrease applied only March 2012	

**TABLE 2:
ELEC PRICE FORECAST SCENARIOS**

	EXISTING CONTRACT	
	Actual	Estimate
	2009/10	2010/11
Leisure	539,776	539,776
Misc	64,084	64,084
EPD	43,809	43,809
Tech Services (Highways)	57,971	57,971
Health & Social Care	36,375	36,375
Civic Buildings	493,960	493,960
CSF Non Schools	34,487	34,487
Net Expenditure (Non-Schools)	1,270,463	1,270,463
* CSF Schools, Children Centres & Nurseries	2,051,514	2,051,514
Street Lights	1,377,482	1,234,346
	3,321,977	3,321,977

NEW CONTRACT SCENARIO	
<i>Assume 5% Contract Cost Increase</i>	
2011/12	Increase pa
£553,271	£13,494
£65,687	£1,602
£44,904	£1,095
£59,421	£1,449
£37,285	£909
£506,309	£12,349
£35,349	£862
£1,302,225	£31,762
£2,102,802	£51,288
£1,411,919	£34,437
£3,405,027	£83,049
Assume 5% increase but current contract price runs until 31 Aug 2011 therefore 2.5% increase applied only March 2012	

These figures refer to the energy contracts totals only and do not relate to individual Department financial budgets. It should also be noted that each directorate within this will have a proportionately different percentage change due to make up of portfolio and other factors including extremes of weather.

3.0 EXTENSION OPTIONS

- 3.1 In relation to energy contracts, there is a very short timescale available to make a decision to select a supplier, as suppliers purchase energy on the trading stock market and will only guarantee a price for two hour window.
- 3.2 As a consequence Members approved the procurement process and delegation to the then Head of Regeneration and Technical Services in 2008 to accept the most advantageous price for renewal in contract and subsequent extensions. Following Corporate re-organisation the above post is no longer in existence and the delegated authority for this purpose should be aligned to the Environmental and Technical Services Director.
- 3.3 If required, officers will request price renewal offers for both 6 and 12 months periods for a 01 Sept 2011 commencement. This will enable most advantageous offer in terms of planning to transfer to framework, budget planning certainty and initial protection against market trends to be considered.
- 3.4 That the Environmental and Technical Services Director reports the results of any contract price renewal exercise and his actions to a future meeting of the Cabinet.