

<b>Report to:</b>	Cabinet	<b>Date of Meeting:</b>	Thursday 6 <sup>th</sup> September 2018
<b>Subject:</b>	Utility Procurement Plan		
<b>Report of:</b>	Head of Corporate Resources	<b>Wards Affected:</b>	(All Wards);
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

Report To Seek The Approval For The Appointment Of An Electricity And Gas Supplier For Contracts Commencing 1<sup>st</sup> April 2019.

### Recommendation(s):

It is recommended that Cabinet approve:

1. The procurement of Electricity Supplies for all Council buildings, including schools and Street Lighting to be delivered through a Central Purchasing Body (CPB) namely Yorkshire Purchasing Organisation (YPO).
2. That Sefton Council join the YPO Electricity Supply Framework, with instruction to purchase electricity supplies on behalf of the Council for contracts commencing 01<sup>st</sup> April 2019 until 31<sup>st</sup> March 2023.
3. The continuation of Sefton Council utilising Crown Commercial Services (CCS) Gas Supply Framework as the provider of gas contracts for the period 1<sup>st</sup> April 2019 until 31<sup>st</sup> March 2023.
4. The continuation of the authority previously delegated to Head of Corporate Resources and the Head of Commissioning Support and Business Intelligence to sign the Customer Access Agreements for both CCS and YPO supply frameworks.
5. That the Head of Corporate Resources reports the results of the electricity and gas procurement exercise and his actions to a future meeting of the Cabinet Member.

It is recommended that Cabinet note:

1. That planning for contract options for Council Water supplies is underway.

**Reasons for the Recommendation(s):**

Approval is sought for the proposals of the procurement of electricity and gas for 2019/20 for 4 year contracts.

The use of existing public sector framework contracts and alternative procurement models have been thoroughly investigated within the context of achieving maximum future business value to the Council and the partners on its contracts.

To establish a new electricity contract with a new supplier in timely manner to minimise risk in exposing the Council to default penalty rates beyond 31 March 2019, which are significantly higher in cost.

**Alternative Options Considered and Rejected:** (including any Risk Implications)

Letting the contracts expire and go into to default rates would expose the council to significant financial risk.

Continue with operating an in house OJEU procurement exercise for electricity and/or gas supply is considered onerous when the public sector frameworks offer demonstrable value for money in the current energy market. The officer time involved in such a lengthy procurement process is better directed towards actions to reduce consumption across the council.

**What will it cost and how will it be financed?****(A) Revenue Costs**

The cost of all utilities is met from individual departmental revenue budgets.

Actual revenue budget impacts can only be reported when new supply contracts are delivered by the Frameworks

**(B) Capital Costs**

None

**Implications of the Proposals:****Resource Implications (Financial, IT, Staffing and Assets):**

None

**Legal Implications:**

Para. 2.4.1 of Contract Procedure Rules makes provision for the Council to join (or remain within) existing public sector framework arrangements where it is evident that such frameworks represent the optimum solution to the Council in terms of service and cost.

**Equality Implications:**

There are no equality implications

**Contribution to the Council's Core Purpose:**

Protect the most vulnerable: Not applicable
Facilitate confident and resilient communities: Not applicable
Commission, broker and provide core services: By securing best value supplies and continuously reviewing provisions for improvements.
Place – leadership and influencer: Not applicable
Drivers of change and reform: Not applicable
Facilitate sustainable economic prosperity: Not applicable
Greater income for social investment: Not applicable
Cleaner Greener: Not applicable

### **What consultations have taken place on the proposals and when?**

#### **(A) Internal Consultations**

The Head of Corporate Resources (FD 5232/18) and Head of Regulation and Compliance (LD 4456/18) have been consulted and any comments have been incorporated into the report.

#### **(B) External Consultations**

Not applicable

### **Implementation Date for the Decision**

Immediately following the Cabinet meeting. Call in Period to be waived due to contract transfer timescales.

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### **Appendices:**

There are no appendices to this report

### **Background Papers:**

There are no background papers available for inspection.

## **1. Introduction/Background**

- 1.1 This report will consist of the procurement plan for the three main utility contracts - electricity, gas and water – which supply all council occupied sites street lighting, schools and other specific partners.
- 1.2 The Council's current 5 year electricity supply contract is due to expire on 31 March 2019.
- 1.3 The existing Crown Commercial Services (CCS) public sector framework used for gas contracts, which has provided the councils contracts since September 2013 will be renewed on 01 April 2019.
- 1.4 To comply with European Procurement Rules, it is necessary to now either re-procure the above contracts either directly via the prescribed European Journal (OJEU) route, or enter into/remain with one of the available EU compliant Energy Procurement Frameworks with a Public Sector Framework provider.
- 1.5 Actions on the route being taken to water contract procurement are noted at the end of this report.

## **2.0 Proposal and Timescales: Electricity**

- 2.1 Until now the council have always carried out in-house direct procurement of its electricity contracts. This method of procurement has brought considerable benefits to the council and the other partners on its contracts such as consistent pricing against available benchmarks and excellent strategic supplier relationship and account management. The current contract furthered these benefits with the inclusion of an Energy Supply Partnership which enabled the council to make significant investment and subsequent savings in Building Management Systems and their controls. To date this work has generated savings and mitigated costs of over £180,000 in gas and electricity, across 5 sites (Dunes, Bootle Leisure Centre, CLAC, Meadows, Litherland Sports Park). All savings were retained by the department. Even when the Supply Partnership ends key knowledge and skills have been learnt and the savings will continue into the future with continued officer support.
- 2.2 In-house procurement of such a complex contract has considerable ongoing demands in monitoring the energy market and risk strategy and is now considered less favourable as the market conditions have changed with the decarbonisation of the grid and a shift in non-commodity charges outweighing wholesale energy costs. This has led officers to consider a move away from direct procurement to procuring through a public-sector framework.
- 2.3 Having considered a number of available public-sector frameworks and Dynamic Purchasing System options, it is considered that they all offer very similar services including locked and variable procurement options and payment terms that meet the council's needs. Since our last supply partnership contract was written framework providers have also developed many of their services to include automatic metering (AMR) as standard and increased their offers on energy management assistance. Based on the information provided by each Central Purchasing Body, officers believe that Yorkshire Purchasing Organisation (YPO)

Framework number: 79, which would best support our overall planned utility procurement process, helping us to achieve overall best value for the Council.

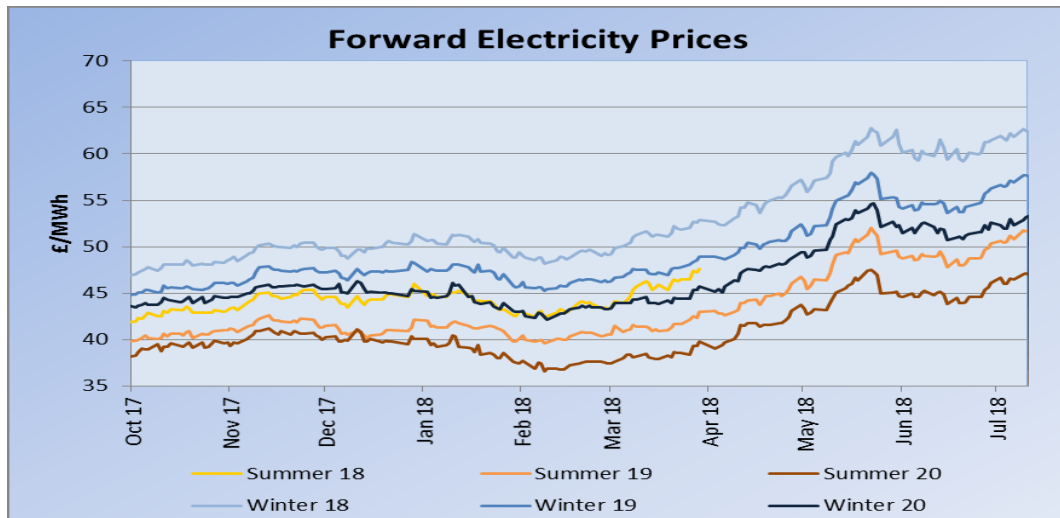
- 2.4 YPO recently carried out a customer driven quality led tender, focusing on future proofing the framework and driving down supplier margins. It received 6 compliant bids and was won by their incumbent supplier NPower. Through the tender process they were able to achieve a supplier margin of 0.2p/kWh versus an average margin across the 6 bids of 0.52p/kWh. Other frameworks we spoke to were unable to advise on the supplier margin in place but we know that it is less than the margin under our current supply contract.
- 2.5 The benefits of joining the YPO (Electricity Framework 791) contract include:
- Dedicated YPO and supplier contacts
  - Monthly SLA and KPI reporting, budget tools / market intelligence
  - Billing validation checks
  - Street Lighting UMS specialist support
  - Supplier Energy Portal
  - green energy options
  - Preferential payment terms
  - Bespoke basket development and school curriculum support

Furthermore, inclusion of ancillary services to future proof its customers' needs cover additional beneficial services such as:

- Demand Side Response
  - LED lighting framework
  - Energy Storage EV charging
  - Energy efficiency surveys
  - Power Purchase Agreements (PPA's)
- 2.6 Joining the YPO Framework for the supply of electricity will ensure that the procurement of the Councils electricity supply will be fully compliant with EU procurement regulations and the Councils constitutional rules and will provide a comprehensive audit trail.
- 2.7 In order to gain best advantage of market conditions YPO have developed flexible frameworks for the provision of electricity supply. Recent volatility in the energy market has meant that they have expanded their procurement options to include bespoke arrangements for fixed purchasing and flexible baskets. Once we have joined the framework YPO will be able to help advise on the procurement options available which will minimise risk to the council and take advantage of long term market options being more favourable than near term (at the time of writing). All contracts are for 12 month period 01<sup>st</sup> April to 31<sup>st</sup> March.
- 2.8 If we take advantage of the new 'YPO Flex Plus Contract', this contract option shares elements of the Flexible and Fixed contracts options. Electricity volume is purchased by YPO at optimum times which is then ringfenced for customers who require a fixed price at the start date of the contract. This solution gives budget certainty, but allows us to take advantage of any decreases in the price of electricity.

2.9 Since the last contract rates were secured in March 2018 for 2018/19, the electricity market has been massively unstable. At the time of writing the wholesale energy cost is over 11% higher than the last purchase cost. This would represent an estimated £333k increase on the current corporate contract liability. The graph below (2.10) shows the volatility and rising nature of the wholesale market over the past 10 months.

2.10



2.11 An additional benefit of joining the YPO contracts is that as an Associate Member the council will receive a member dividend, which is method by which YPO share their trading surplus which has been generated through its operational activity. Based on current figures this could be as much as £10,000 per year for the electricity contract.

2.12 Taking into account the dividend, management fees from the framework providers and estimated supplier margins – YPO represent best value for money.

2.13 The costs of continuing AMR provision and of all the Council related support services for statutory obligations including Display Energy Certificates, CRC management and consumption management are included within commission charges applied within the supply contract rates. This rate will remain at 0.5p/kWh.

2.14 Through signing the Customer Access Agreement with YPO we will then engage with their contracted electricity supplier (NPower) and the supply contract will be awarded and overall supply contract management is undertaken directly with them. This contract will remain in place until 31<sup>st</sup> March 2023. The earliest we could leave the contract would be 01<sup>st</sup> April 2021 (with 12 months' notice given prior to 1<sup>st</sup> April 2020).

2.15 Upon date of approval of this recommendation to join the YPO Framework, the necessary physical resources will be committed within YPO and their suppliers to arrange for the energy contracts to be transferred and we will give notice to our current supplier of the end of the contact.

2.16 Although we can leave a minimum of 4 weeks for the transfer of supplies, the work involved in transferring all electricity supplies to a new supplier is considerable so we want to ensure a smooth transfer of suppliers and ensure we obtain the best available market price for 1<sup>st</sup> April 2019 start date.

- 2.17 Once the Council has joined the YPO Electricity Framework, we will report back to Members with a full assessment of new contract pricing to the Council for 2019/20. Additional financial management and billing advice will be issued directly to all budget holders and sites directly once actual prices are received from npower. As this change in contract will mean a change in supplier all aged debt on ScottishPower accounts will need to be cleared prior to supply transfer which is currently approximately £40k for corporate accounts and £20k for schools and external accounts.

### **3.0 Proposal and Timescales: Gas**

- 3.1 In July 2013 it was agreed that the council would move away from direct in house procurement of gas contracts and officers recommended joining the Crown Commercial Services Contract (CCS) (previously known as Government Procurement Services) supplied by Corona Energy Ltd.
- 3.2 This contract has proved beneficial for the council in its improvements in billing, the roll out of AMR and move to monthly e-billing for all council and LA school supplies.
- 3.3 Our contract has been fixed to the locked April (L6) basket which makes bulk purchases between October and April and then aggregates these into an annual unit rate from 01<sup>st</sup> April. This method of procurement is utilised by many councils as it carries little risk and provides clear prices for budgeting.
- 3.4 Information provided by CCS shows that over the past 4 years demonstrates the L6 basket has had the best overall price results with the exception of 2018, which saw the long term buying basket (30 months) perform better as a result of the volatile nature of the mark since late 2017.
- 3.4 After considering a number of the available framework providers and other procurement routes it is recommended that the council remain with CCS for the supply of gas contracts to all council sites, schools and the partners on its contract.
- 3.5 The option of changing the framework supplier to YPO was considered however, as the contracted supplier would remain the same (Corona) it is considered that there would be little added value in this when weighed against the task of signing over all the supplies to a new contract and the time involved in developing new systems with a new division of the same company.
- 3.6 The CCS Gas Framework (RM1076) will be re-awarded in January 2019 for an April 2019 start. Therefore, whilst we expect to retain the incumbent supplier (Corona Energy Ltd) it is not guaranteed. However, it is considered that if the supplier does change that will be because CCS have secured an even better contract with smaller supply margins or added value benefits than the current supplier, so therefore the risk of changing supplier is mitigated.
- 3.7 It is recommended that the council sign up to the CCS contract for the 4 year period 2019/20 to 2023/24. If we are dissatisfied with the service we retain the option leave the contract given sufficient notice on the purchasing window.
- 3.8 Officers will continue to examine the buying baskets offered by CCS as the 'L6' basket although performing very well compared to the variable basket might be

expanded to a Locked 12 month basket, which would mean that they bought supplies over a 12 month period rather than 6 months, meaning spikes in the market would be mitigated over the longer buying period. As the buying window has not yet opened for our April 2019 contract it is not possible to offer a price increase estimate, but as the electricity wholesale market largely mirrors the gas wholesale market, a rise should be expected.

- 3.9 The costs of continuing AMR provision and of all the Council related support services for statutory obligations including Display Energy Certificates, CRC management and consumption management are included within commission charges applied within the supply contract rates. This rate will remain at 0.1p/kWh.

#### 4.0 **Proposal and Timescales: Water**

- 4.1 Since the deregulation of the water market in April 2017 Sefton Council have been on a deemed contract with WaterPlus, who are the retail joint venture between United Utilities and Severn Trent Water. The deemed contract is as a result of the existing contract ending with United Utilities and our accounts being novated to the new retailer.
- 4.2 It has been considered by the majority of local authorities that the value to be gained from going to market whilst it is still in its infancy is very small, as savings can only be achieved on the uplifts applied by the retailer which make up only 5-7% of the total bill.
- 4.3 Since April 2017 council officers have been engaging with LCR procurement group on developing opportunities for a joint procurement route across the LCR. This work remains ongoing. Officers have been in contact with the major framework providers such as CCS and YPO about the options they have available for running further competition for water and ancillary services.
- 4.4 Officers have also been considering alternative supply options such as Self Supply, following on from Blackpool Council recently being the first LA to be awarded a water Self Supply Licence. Officers have met with Blackpool to understand these options. A self-supply licence would aim to reduce administration costs and cut out the margin that goes to others in the supply chain. It means that the council will pay the direct price to the supplier with no retail uplift. It also means they will receive access to influencing the future of the water market alongside the likes of United Utilities.
- 4.5 As the benefits for going to the open market remain minimal officers consider that focusing on the installation of automatic meters (AMR) in order to identify and remedy leaks offers better value to council than a contract for water (in the current circumstances). It will also result in an established dataset that will ultimately allow for keener prices as will know what volumes and additional services we require from a contract, once the LCR procurement group report back on best options.