



To: Councillor George Owers :
Executive Councillor for Finance and Resources

Report by: Trevor Burdon : Head of Estates & Facilities

Relevant scrutiny committee: Strategy & Resources 12/10/2015

Wards affected: Abbey Arbury Castle Cherry Hinton Coleridge
East Chesterton King's Hedges Market Newnham
Petersfield Queen Edith's Romsey Trumpington
West Chesterton

RE-PROCUREMENT OF THE COUNCIL'S ELECTRICITY AND GAS SUPPLIES EFFECTIVE FROM 2016

Key Decision

1. Executive summary

- 1.1 There is a requirement to re-procure the Council's energy supply contracts in 2016 (gas from 1st April and electricity from 1st October). This report outlines the different options available to the Council.
- 1.2 Energy markets are increasingly complex and Central Government guidance recommends that, wherever possible, all public sector organisations take advantage of energy supply framework contracts. These are designed to procure large volume single supply contracts at more favourable rates than would be possible if partner organisations such as the City Council procured independently.
- 1.3 The appropriate consortium framework for Local Authority use in this instance is Eastern Shires Purchasing Organisation (ESPO) and it is this organisation that is recommended for use by the City Council in this report.

2. Recommendations

The Executive Councillor is recommended to approve:

- i) Option 5 for the City Council to enter into a "call-off" contract for the purchase of energy supplies under the terms of the Eastern Procurement Purchasing Organisation (ESPO) energy framework. The final choice of tariffs to be delegated to the Director of Customer & Community Services, in consultation with the Executive Councillor and Head of Finance, with priority given to use of Green Energy

Tariffs subject to costs being broadly comparable with alternative sources.

- ii) an initial contract period for the provision of ELECTRICITY of two years with options to extend for two further periods of one year each subject to prevailing market conditions and advice from ESPO at the time;
- iii) an initial contract period for the provision of GAS of two years with an option to extend for one further period of one year subject to prevailing market conditions and advice from ESPO at the time.

3. Background

3.1 Cambridge City Council spending on gas and electricity in 2014/15 was approximately £1,260,000. The current gas contract expires on 31st March 2016 and is worth approximately £260,000 per annum. The current electricity contracts expire on 30th September 2016 and are worth approximately £1,000,000 per annum in total.

3.2 The energy supply market is both volatile and complex and requires specialist expertise to obtain best value. The Council, therefore, currently employs an independent energy consultancy, Utilitywise PLC, to procure its energy supply contracts and to provide some support with account management.

3.3 There are various options open to the Council in order to procure replacements for these contracts when they expire. These are summarised below:

- i. **Option 1 – Do nothing.** When the current contracts expire all sites would automatically transfer onto emergency rate tariffs but these are not competitive and would therefore be very expensive. This option would therefore not offer value for money.
- ii. **Option 2 – Direct procurement.** The Council could procure its energy supplies directly without the involvement of any third party specialist consultant advice. The markets and tariff options are complex, however, and this would involve a lot of internal officer time to draft tender documentation and manage an OJEU compliant procurement process which would be necessary due to the value of contract involved. There is no guarantee that this option would deliver any significant benefits and, due to a lack of specialist expertise in the market, it is unlikely that the outcome may would be the best available. Accordingly this is not the preferred option.

- iii. **Option 3 – Continued procurement via “Utilitywise” consultancy/brokerage.** The Council could continue using an

independent energy consultancy to broker the energy contracts. The cost of doing so is currently in the region of £30,000/year. This has worked well in the past with the Utilitywise plc consultancy but any plans to continue with a consultant broker arrangement would first require market testing to re-procure a consultant. This would be administratively time consuming and conflicts with Government advice and the practice of a majority of Public Sector organisations, who are making use of established pre-procured energy frameworks. This, again, is not, therefore, considered to be the preferred option.

iv. **Option 4 – Use Crown Commercial Service.** An alternative to employing the specialist skills of an independent consultant broker could be to use the Government's Crown Commercial Services Unit but the energy market requires expert knowledge and this is not a procurement sector in which the organisation specialises. This is therefore not considered to be the preferred option.

v. **Option 5 – Use a Public Sector Procurement Organisation.** Procurement Organisations are common in the Public Sector and deliver significant economies across a range of services and contracts. This is done by aggregating service requirements of member organisations in order to secure more favourable pricing than would generally be possible for each organisation acting independently. Such organisations guarantee fully EU compliant tendering and, due to the scale of procurement, they provide specialist procurement and market expertise which is especially important when dealing with the complex energy markets. Other Local Authorities local to Cambridge City already make use of this solution and procure energy at competitive tariffs by via the Eastern Shires Purchasing Organisation (ESPO). Whilst past performance is no guarantee of future delivery, data obtained from ESPO confirms a consistently competitive performance with gas and electricity supplied at 17% and 14% below average market rates respectively. It is therefore concluded that Option 5 represents the best option for energy procurement for the Council and is therefore recommended.

3.4 It is worth reiterating that energy prices have proved to be quite unpredictable in recent years. Use of the ESPO framework will ensure that the Council has access to appropriate specialist market advice and will provide a good degree of certainty about energy pricing during the contract periods proposed.

3.5 The City Council's existing energy supplies are substantially sourced from Green Energy suppliers in support of the Council's Climate Change Strategy objectives and principles. This has resulted in some small annual cost savings due to the financial effect of the Government's Climate Change Levy which historically has only been

applied to traditionally sourced supplies. This approach was revised in August 2015, and the Climate Change Levy now applies equally to both Green and Traditionally sourced supplies. The markets are still adjusting to the change and, currently, it would appear that Green Tariffs can still be secured at competitive rates. Nevertheless, the position changes as tariffs continue to fluctuate and at the date of contract commencement a final decision will be required on the most advantageous tariffs available via the ESPO framework at that time. It is proposed that this final decision, which is likely to require a short timescale response, is delegated to the Director of Customer & Community Services in consultation with the Executive Councillor for Strategy & Resources and the Head of Financial Services.

4. Implications

(a) Financial Implications

There is currently a brokerage fee to the Council of approximately £27,000 per annum to procure the gas and electricity contracts and monitor the consumption. If a similar level of service is provided with the proposed new arrangement procured by ESPO(option 5) then this will reduce to around £20,000.

Overall energy costs fluctuate continuously and the final costs of new arrangements, in comparison to existing expenditure, will not be fully clear until the date of a new contract commencement.

(b) Staffing Implications

None.

(c) Equality and Poverty Implications

Not applicable.

(d) Environmental Implications

This decision has a climate change rating of 'nil'. This is because there are no changes to actual energy consumption levels associated with this proposal – this report is purely to decide on the method of purchasing that energy.

Reference is also made to the choice of tariff and the priority for Green Energy supplies in 3.5 above.

(e) Procurement

Approval of Option 5 for procurement via ESPO ensures fully compliant procurement and contractual arrangements. Approval of alternative options as described in options 2 - 4 would result in additional procurement costs associated with specialist consultancy support required to support in-house resources.

(f) **Consultation and communication**

Property Services, Procurement Team and the Climate Change Officer have all been consulted and comments have been incorporated into the recommended proposal.

(g) **Community Safety**

Not applicable.

5. Background papers

Not applicable.

6. Appendices

Not applicable.

7. Inspection of papers

If you have a query on the report please contact:

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