

Briefing Note

Re-Procurement of the Council's Gas supplies effective from 1st April 2023 to 31st March 2027

Summary:

- 1.1 There is a requirement to re-procure the Council's gas supply contract from the 1st of April 2023. This briefing gives a recommended solution and outlines alternative options available.
- 1.2 As the revenue spend on gas has increased and is forecast to be at least £600,000 per year (estimated £2.4 m over the life of the proposed new contract) this a key decision and requires approval from the Executive Councillor.
- 1.3 It is recommended that this procurement decision is made as an out of cycle decision rather than wait until Strategy and Resources Scrutiny Committee on 10th October 2022. Energy prices are volatile, and ESPO report gas prices are expected to continue to increase this year. If we don't join the "basket" currently being procured by ESPO our supply will be procured later this year, and that is likely to lead to higher prices.
- 1.4 Energy markets are complex so public sector organisations can 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 the City Council procured independently with its smaller consumption.

2. Recommendations:

- 2.1 It is recommended to approve continuing to purchase gas via the Eastern Shires Purchasing Organisation (ESPO) energy framework. As outlined in Option 3 below.
- 2.2 The contract period for the provision of gas should run for four years from the 1st April 2023 to the 31st March 2027.
- 2.3 Authorise the Director of Neighbourhoods and Communities or Head of Housing Maintenance and Assets to sign framework documents and approve the actual gas price tariff when the procurement is completed by ESPO.

3. Background:

- 3.1 The Council currently spends approximately £320,000 per annum on gas (excluding VAT based on the current year). The current contract commenced on the 1st of April 2019, procured via an ESPO Framework. Total Gas and Power is the current supplier. The contract expires on the 31st March 2023.

- 3.2. Gas prices are increasing and the forecast expenditure in 23/24 is £600,000. This is considered a best-case scenario.
- 3.3 The energy supply market is volatile and complex requiring specialist expertise to obtain best value. The Council currently employs ESPO to procure gas and electricity supply contracts and provide support with the account management.
- 3.4 There are alternative options open to the council to procure replacement gas supply contracts. These are summarised below:

Option 1 – Direct procurement. The Council could procure its gas supply directly without any third-party specialist consultant advice. The market and tariff options available via direct procurement are complex and it would involve significant officer time to draft tenders and manage procurement process. The Council does not have the technical expertise in-house to pursue this option. There is no guarantee that this option would deliver any significant benefits.

Option 2 – Procurement via a consultant/broker The Council could use an independent energy consultancy to broker the gas supply contract. There would be an additional cost for this and any plan to use a consultant broker arrangement would first require market testing to procure a consultant.

Option 3 – The use of a Public Sector Framework agreement. Procurement organisations in the public sector can deliver significant economies of scale across a range of services by combining requirements of member organisations to secure more favourable pricing than would be possible for each organisation acting independently. Such organisations guarantee fully compliant tendering and due to the scale of procurement they provide specialist procurement and market expertise which is especially important when dealing with energy markets. The Council already makes use of this solution and procures gas and electricity at a competitive tariff via an ESPO framework agreement.

It is recommended that Option 3 represents the best option for gas procurement at the current time and will enable the Council to secure pricing for March 2023-24 soon and help budget setting for next year.

- 3.5 Energy prices have proved to be unpredictable historically and while there is uncertainty of future supply costs, the use of the ESPO framework will ensure that the Council has access to appropriate specialist market advice and will provide the best degree of certainty about pricing during the contract period. This is particularly important now as we are experiencing an energy crisis and global events are having a dramatic effect on an already volatile market.

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11th July 2022