

BEDFORD BOROUGH COUNCIL

DECISION NO. 1313

RECORD OF EXECUTIVE DECISION TAKEN BY AN EXECUTIVE MEMBER

This form **MUST** be used to record any decision taken by the Elected Mayor or an individual Executive Member (Portfolio Holder).

The form must be completed and passed to the Service Manager (Committee & Administrative Services) no later than NOON on the second working day after the day on which the decision is taken. No action may be taken to implement the decision(s) recorded on this form until 7 days have passed and the Service Manager (Committee & Administrative Services) has confirmed the decision has not been called in.

1. Description of decision

- (i) To enter into a new flexible purchasing contract for the supply of gas with Corona Energy 4 Retail Limited for the period from 1 April 2017 to 31 March 2021; and
- (ii) To delegate responsibility to the Executive Director for Environment and Sustainable Communities to enter into contracts for water and wastewater from 1 April 2017 following consultation with the Portfolio Holders for Environment and Transport and Finance, Customer Service and Information Technology.

2. Date of decision

14 October 2016

3. Reasons for decision

The use of a Central Purchasing Body typically combines the requirements of many customers to create aggregated portfolios of sufficiently large volumes to enable specialist resources to be dedicated to buy energy. Because of this, Central Purchasing Bodies are able to access contract options that would otherwise be unavailable to individual establishments and local authorities acting independently.

To enable competitive pricing on all future energy contracts and to reduce the risks associated with volatile energy supply markets.

To enable the continuous supply of energy to the Council and the schools after expiry of the current contract on 30 March 2017.

To enable the Council to enter into contracts with a water and wastewater supplier from 1 April 2017

4. Alternatives considered and rejected

The alternative option of not entering into a new contract was considered and rejected as this would not provide a continuous supply of energy to the Council and the schools after expiry of the current contract on 30 March 2017 and does not meet the Council's standing orders.

Other energy procurement options were considered and rejected as the proposed option should deliver best value for the Council.

5. How decision is to be funded

The contract costs will be funded from the existing revenue budgets.

6. Conflicts of interest

Name of all Executive members who were consulted AND declared a conflict of interest.	Nature of interest	Did Standards Committee give a dispensation for that conflict of interest? (If yes, give details and date of dispensation)	Did the Chief Executive give a dispensation for that conflict of interest? (If yes, give details and the date of the dispensation).

The Mayor has been consulted on this

n/a

decision

Signed



Date 14 October 2016

Name of Decision Taker

The Mayor

This is a public document. A copy of it must be given to the Service Manager (Committee & Administrative Services) as soon as it is completed.

Date decision published: 14th October 2016

Date decision can be implemented if not called in: 26th October 2016

(Decision to be made exempt from call in.....~~YES~~ or NO.....)

Bedford Borough Council – REPORT TO THE MAYOR

Report by: HEAD OF ENVIRONMENT

SUBJECT: PROCUREMENT OF GAS & WATER

1 Executive Summary

- 1.1 The purpose of this report is to seek approval to enter into a new contract for the supply of gas following a procurement exercise undertaken by Yorkshire Purchasing Organisation (YPO). It also seeks approval to delegate responsibility to enter into contracts for water and wastewater from 1 April 2017.

2 Recommendations

- 2.1 That the Mayor considers, and if satisfied, agrees:

- (i) To enter into a new flexible purchasing contract for the supply of gas with Corona Energy 4 Retail Limited for the period from 1 April 2017 to 31 March 2021; and
- (ii) To delegate responsibility to the Executive Director for Environment and Sustainable Communities to enter into contracts for water and wastewater from 1 April 2017 following consultation with the Portfolio Holders for Environment and Transport and Finance, Customer Service and Information Technology.

3 Reasons for Recommendations

- 3.1 The use of a Central Purchasing Body typically combines the requirements of many customers to create aggregated portfolios of sufficiently large volumes to enable specialist resources to be dedicated to buy energy. Because of this, Central Purchasing Bodies are able to access contract options that would otherwise be unavailable to individual establishments and local authorities acting independently.

- 3.2 To enable competitive pricing on all future energy contracts and to reduce the risks associated with volatile energy supply markets and to enable the continuous supply of energy to the Council and the schools after expiry of the current contract on 30 March 2017.
- 3.3 To enable the Council to enter into contracts with a water and wastewater supplier from 1 April 2017.

4 Key Implications

Legal Issues

- 4.1 The procurement process that has been conducted by YPO has been done so in compliance with Bedford Borough Council's financial standing orders, Contract Procedure Rules and the Public Contracts Regulations 2015. In addition, the evaluation process utilised by YPO to select the preferred suppliers has reduced the likelihood of a poor decision being made and the contracted services not meeting the Council's expectations.
- 4.2 The continued adoption of flexible purchasing is in accordance with the Pan-Government Energy Project, which recommends that all public sector organisations adopt aggregated, flexible and risk-managed energy procurement through a Central Purchasing Body.

Policy Issues

Corporate Plan: - (themes taken from the 2016-20 Corporate Plan)

- 4.3 The Council's Corporate Plan 2016-2020 focuses on three priority areas which will help ensure that Bedford Borough continues to be a place where people want to live, work and spend their leisure time. One of the three priorities is "A Thriving Local Economy - providing the environment to ensure that Bedford Borough's economy can continue to grow, despite shrinking public spending - without economic growth the Borough will not be able to respond to the challenges of providing the homes and jobs our growing and ageing population need and the places for them to enjoy and learn as individuals and a community". The agreement of this new contract and the ongoing work of the Councils Energy Team will help to reduce carbon in the Borough and with the focus to continually reduce running costs this will have a positive impact on the borough's environmental issues.

Sustainable Community Strategy: - (from the 2009 – 2021 strategy)

- 4.4 Theme 2 “A Greener Borough”: Environment and Climate Change – has the goal of: a high quality natural and built environment which is valued and enjoyed by all; which encourages biodiversity and supports the development of a low carbon community, including local businesses, capable of adapting to the impacts of climate change. In particular, it aims to:
- Minimise carbon emissions and adapt to the impacts of climate change focussing on transport, business and homes.
 - Protect and enhance our natural resources including air, soil and water to minimise the impacts of flooding, climate change and pollution.
 - Reduce our dependence on fossil fuels.

Resource Implications

- 4.5 This procurement exercise has been undertaken by Officers within Environmental Services in collaboration with the Commercial Hub. The framework agreement accessed allows optimisation of volume purchasing discounts and helps to minimise repetitive cost inducing tasks. As the framework has already completed the full OJEU process, Officers will be able to reduce the amount of time between identifying the need and fulfilling it.
- 4.6 The energy market is highly volatile constantly changing market faced with challenging and complicated tariffs. YPO’s specialist award-winning energy team works closely with market leading suppliers for electricity and gas as well as accessing live trading screens to monitor market changes to minimise the risk of price exposure.
- 4.7 The procurement of gas will be focussed so that it delivers optimum efficiency and value for money, while also giving due consideration to energy and carbon management; namely in terms of the Automatic Meter Reading Devices (AMR’s) which have already been installed across the Council’s estate.
- 4.8 Under a flexible purchasing approach it is not possible to predict the financial implications of entering into the contract at the outset. However, on the basis of current gas prices and consumption levels, it is estimated that the value of the contract over the contract period is in the order of £7.2 million (excl. CCL and VAT) based on current prices (2015/16- £1,794,624).

- 4.9 The key cost comparator between suppliers is the management fee charged by the supplier to the Council and YPO have advised that this will reduce by 67% under the new contract from the current level of 0.068p per kilowatt hour (equating to approximately £29,000 in 2015/16) to 0.0222p per kilowatt hour (to approximately £10,000 per annum based on 2015/16 data from April 2017 onwards) bringing an approximate £19,000 saving.
- 4.10 The information in the table below has been included in the Council's recent update of its Medium Term Financial Strategy (MTFS) and reflects Officers best estimate of the future budget pressures facing the Council in respect of the increasing cost of energy.

Utility Pressures	2017/2018 £000	2018/19 £000	2019/2020 £000	2020/2021 £000
Financial Impact	119	140	188	76

Risk Implications

- 4.11 Entering into a new flexible purchasing contract for the supply of gas enables purchases to be timed to avoid unusual market price spikes and also spreads the risk of price fluctuations. It does not guarantee that all energy is purchased at the lowest possible price available during a particular period but experience during the current contracts has shown that overall this approach has resulted in procurement at below average prices. This provides the best opportunity to generate savings but does not guarantee that savings will be achieved as this depends on market prices.

- 4.12 The risk associated with not operating a responsive and flexible energy purchasing strategy is that contracts will not be secured at the best price for the authority, albeit this strategy/ new contract will minimise the risk of price exposure to the Council we still expect to see year on year increases, more so on electric due to the Electricity Market Reform (EMR). In the future we face a combination of factors which are likely to increase energy prices. These include increasing dependence on gas imports, ambitious environmental targets and the need to replace ageing power stations. Through evaluating both our own supplier's predictions and that of the wider market place we believe these future pressures are as accurate as Officers can presently forecast.
- 4.13 Schools and academies have been made aware of the upcoming gas contract through regular newsletters and an energy and water seminar held on 20 April 2016. It is proposed to continue to include them within the energy procurement exercise in order to assist them in obtaining competitive prices for their gas supplies. When procuring energy for the organisation as a single entity, there is a risk that if schools were to leave the contract, a negative impact may be felt upon the Council, having agreed with a supplier to supply a particular volume, only for it then to significantly decrease. By using a Central Purchasing Body to procure energy we are mitigating this risk, due to the huge volumes involved with the energy contracts should a few schools decide to remove themselves from the proposed arrangements, this would not have an impact taken as a whole for the Council or the other schools.

Environmental Implications

- 4.14 Energy management will continue to be incorporated within the gas contracts. Data from Automatic Meter Reading devices located across the Council's sites, including schools, will be used by Corona Energy 4 Retail Limited to bill the Council; ensuring the Council is billed on actual readings rather than estimated readings.
- 4.15 AMR and billing data will be collated, monitored and held by the Council through its energy management software. This will continue to assist the Council in monitoring and targeting its energy use, and thus carbon emissions. Building managers and schools and academies will be given access to this via an online web browser system.

Equalities Impact

- 4.16 In preparing this report, due consideration has been given to the Borough Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.

- 4.17 A relevance test for equality has been completed. The equality test determined that there are no equality and diversity implications in connection with the proposals that are set out in this report, and no differential impacts are reasonably foreseeable. In considering this report the Council recognises that it will need to ensure that all departments of the Council and schools and academies receive clear, regular communication and support on this energy procurement strategy.

5 Details

Procurement of Gas

- 5.1 In September 2009 the Government agreed to the procurement of electricity and gas via flexible purchasing in accordance with the recommendation of the Pan Government Energy Project. The recommendation was that all public sector organisations adopt aggregated, flexible and risk managed energy procurement through a recognised Central Purchasing Body, such as YPO.
- 5.2 Prior to the current flexible purchasing approach, electricity and gas were traditionally purchased through fixed price contracts. This was effective in securing best value when the energy markets were stable however in recent times the energy markets have become more volatile with wholesale price fluctuating massively and all indications are that this will remain so.
- 5.3 Under a fixed term contract approach the Council would be required to purchase electricity or gas at the time the fixed term contract expires to ensure continuity of supply. There is a risk that this coincides with a time when prices are high and therefore that the Council would be locked into a high price contract for the next fixed term period, usually 3 to 4 years. These arrangements typically involve volume tolerances, with take or pay terms. For this reason the Pan-Government Energy project recommended a flexible purchasing approach.
- 5.4 Flexible purchasing means buying the annual requirement for electricity or gas in regular amounts in advance over a period (usually twelve months). This enables purchases to be timed to avoid unusual market price spikes and also spreads the risk of price fluctuations. It does not guarantee that all energy is purchased at the lowest possible price available during a particular period but experience during the current contracts has shown that overall this approach has resulted in procurement at below average prices.

- 5.5 In addition, the aggregation of demand with other public sector bodies via the YPO energy consortium has resulted in further price advantages through economies of scale, a dedicated customer service and account management team and avoidance of take or pay contracts.
- 5.6 The Council's current contract with British Gas for the supply of gas is due to expire on 31 March 2017. Due to the requirement under flexible purchasing for the contractor to buy gas in advance it is necessary to put in place a new contract well before the end of the current contract to allow sufficient time for the benefits of flexible purchasing to be realised. Consequently YPO has undertaken an OJEU compliant procurement process to identify a supplier for the next contract period.
- 5.7 An open tender process was conducted; thirteen suppliers accessed the tender, four submitted responses and met all mandatory requirements, listed below.
- British Gas
 - Corona Energy 4 Retail Limited
 - DONG Energy Sales UK
 - Total Gas and Power Limited
- 5.8 The tenders were evaluated by YPO in accordance with the following weighting
- Cost 35%
 - Quality 65%
- 5.9 The following scores were allocated, in ascending order with the maximum possible score being 100:
- 48.92- Dong Energy
 - 71.22- British Gas Business
 - 90.34- Total Gas and Power
 - 94.30- Corona Energy 4 Retail Limited
- 5.10 YPO has recommended that the energy consortium members enter into a contract with Corona Energy 4 Retail Limited for the supply of gas from 1 April 2017 to 31 March 2021.

Procurement of water and wastewater supplies

- 5.11 In May 2014, the Water Act 2014 was given royal assent. A key area of the Act allows business customers of any size to be able to choose their water and sewerage supplier from 1 April 2017.
- 5.12 Water companies are required to split into a wholesaler and a retailer. The wholesaler will be responsible for the physical delivery of water and removal of waste water to and from property boundaries, as well as the maintenance of infrastructure, whilst the retailer will be responsible for billing, account handling (incl. customer queries) and assisting with water efficiencies.
- 5.13 As a result of competition it is expected that the following will improve:
- Customer service.
 - The accuracy of billing and data.
- 5.14 In addition, the provision of electronic billing files and assistance with water efficiency projects will result in the much better management of water consumption data and reductions to water usage.
- 5.15 Ofgem currently predict that a 5% saving in water and wastewater costs will be seen by 2020 as a result of competition.
- 5.16 The Council will be required to enter into a contract for water and wastewater supplies with a retailer. The wholesaler will not change; this will remain Anglian Water for the region. The Council is currently investigating methods of procuring water and wastewater supplies in preparation for market opening in April 2017. A number of frameworks are beginning to be developed and emerge. Officers continue to keep abreast of these developments and liaise with the Commercial Hub accordingly.
- 5.17 As and when a preferred method of procuring supplies is identified, Officers, working alongside the Commercial Hub, will present proposals for approval. This report asks for authority to be delegated to the Executive Director for Environment and Sustainable Communities for this purpose following consultation with the Portfolio Holders for Environment and Transport and Finance, Customer Service and Information Technology.

6 SUMMARY OF CONSULTATIONS AND OUTCOME

6.1 The following Council Units or Officers and/or other organisations have been consulted in preparing this report:

The Commercial Hub
The Assistant Director (Environment, Regulatory & Recreational Services)
The Senior Energy & Water Technical Officer.
Management Team

No adverse comments have been received.

7 WARD COUNCILLOR VIEWS

7.1 Not relevant for this report

<i>Report Contact Officer:</i>	<i>Paul Pace – Head of Environment, Samantha Guy – Senior Energy & Water Technical Officer</i>
<i>File Reference:</i>	<i>ET001</i>
<i>Previous Relevant Minutes:</i>	<i>None</i>
<i>Background Papers:</i>	<i>None</i>
<i>Appendices:</i>	<i>None</i>