

**TRAFFORD COUNCIL**

**DELEGATED EXECUTIVE MEMBER DECISION REPORT**

**Report to:** Executive Member - Economic Growth,  
Environment and Infrastructure  
**Date:** December 2016  
**Report for:** Decision  
**Report of:** Deputy Chief Executive

**Report Title**

**Procurement of gas supplier**

**Summary**

The report seeks approval to enter into a new contract for the supply of gas following a procurement exercise undertaken by Yorkshire Purchasing Organisation (YPO).

**Recommendation(s)**

1. The contents of the report are noted.
2. Approval is given to enter into a new flexible purchasing contract for the supply of gas with Corona Energy Limited for the period from 1 April 2017 to 31 March 2019 on terms to be agreed by Corporate Director for Economic Growth Environment and Infrastructure in conjunction with the Director for Legal and Democratic Services.
3. That the decision is treated as an urgent decision not subject to call-in.

**Contact person for access to background papers and further information:**

Name: Richard Roe (Director of Growth and Regulatory Services)

Extension: 4265

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	This report contributes to a number of Corporate Priorities, in particular: Economic Growth and Development and Low Council Tax and Value for Money
Financial	The annual spend on gas supplies is estimated at £1.2m of which £980k relates purchases on behalf of schools and £217k on Council operated properties. It is considered that the purchasing

	power of YPO will deliver best value for both the Council and the schools which utilise the Council's contract.
Legal Implications:	The services have been procured following a compliant procurement process. The agreement will incorporate the council's standard terms and conditions.
Equality/Diversity Implications	No implications identified.
Sustainability Implications	None
Resource Implications e.g. Staffing / ICT / Assets	As set out in the report.
Risk Management Implications	None
Health & Wellbeing Implications	None
Health and Safety Implications	None

## 1.0 Background

- 1.1 Since the 1<sup>st</sup> April 2014 the Council has used a YPO Framework for the supply of electricity and gas, on a flexible contract. The current contract for the provision of electricity, with Npower, runs until the 31<sup>st</sup> March 2019; the contract for the provision of gas, with British Gas, runs until the 31<sup>st</sup> March 2017.
- 1.2 YPO has undertaken an OJEU compliant procurement process to identify a gas supplier once the current contract with British Gas expires, and following this has recommended Corona Energy Limited as the preferred supplier.
- 1.3 The YPO framework with Corona is available for the period from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2021. However the Council is able to contract for a minimum period of 12 months and the contract can be terminated by the Council serving a minimum of 12 months' notice expiring on any April anniversary. It is therefore proposed that the council enters into a two year agreement, enabling both the gas and electricity renewal dates to align with a renewal date of 1<sup>st</sup> April 2019. This will give the Council the option to undertake a combined procurement exercise for all its energy needs from this date and potentially derive further cost benefits in future.

## 2.0 Resource Implications

- 2.1 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 annual value of the contract over the contract period is in the order of £1.2m, of which £980k relates purchases on behalf of schools and £217k on Council operated properties (based on current prices). Schools enter into an annual Service Level Agreement with the Council to manage their energy needs for which a fee is payable.

- 2.2 A key cost comparator between the energy providers is the supplier margin included in the unit cost per kilowatt hour charged to users. YPO have advised that this will reduce by 67% under their new contract with Corona, from the current level with British Gas of 0.068p per kilowatt hour to 0.0222p per kilowatt hour with Corona. This is an estimated annual saving of around £15k in the unit charge to the Council based on current usage, of which £12k will benefit schools.
- 2.3 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 energy contracts through YPO 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 and usage YPO will also distribute any annual savings it makes to its members in the form of a dividend and the Council could receive around £5k here based on current spend.

### **3. Other Options**

- 3.1 The council could undertake its own procurement exercise rather than utilising the YPO framework. This could be lengthy and costly, with no certainty that it will deliver better value for money when compared with the bulk purchasing power of YPO.
- 3.2 The Council could seek to enter into a fixed price contract rather than a flexible contract. Fixed price contracts carry greater price risk as the price paid is dependent on energy prices at a particular point in time. Energy prices do fluctuate significantly, and use of a flexible contract minimises price risk and provides greater cost certainty.

### **Consultation**

Not applicable

### **Reasons for Recommendation**

This will enable the council to secure the supply of gas services until April 2019

The current contract has demonstrated that using a flexible purchasing agreement does offer value for money over the alternatives. In general terms, the advantages of remaining with YPO include:

- No requirement to run an OJEU process
- Transparent Pricing
- No procurement cost to use contract.
- Aggregation - combining energy volumes across organisations

- If surplus from trading activities - payback to members
- Contract support team - The scale of portfolios, brings significant benefits from supplier performance on billing, dispute resolution, dedicated personnel to manage accounts etc.
- Adoption of a robust risk management strategy that can mitigate the price risks inherent in the current energy markets
- Confidence in process – A significant number of local Authorities and Public Bodies use the framework

Having regard to the above, it is considered that accessing the new YPO framework still offers the Council the best value for money.

This report requires an urgent decision to be made. Utility costs can be extremely volatile. Whilst the contract will commence on the 1<sup>st</sup> April 2017, the Council will pre-purchase in advance of this to get the best possible price. Having the approval to enter into the contract in place before January will give the authority the maximum opportunity to determine the best point at which to complete the pre-purchase in the period up to the end of March 2017, using the advice from our framework provider.

**Key Decision – Yes**

**If Key Decision, has 28-day notice been given? No**

**Finance Officer Clearance: PC**

**Legal Officer Clearance: JLF**



**CORPORATE DIRECTOR'S SIGNATURE**