

		<b>ITEM</b>
Report to Leader		
<b>GAS SUPPLY CONTRACT 2013 FOR COUNCIL OFFICES AND PREMISES (including Schools)</b>		
Report to: Leader of the Council -		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Key	
<b>Accountable Head of Service:</b> Ian Rydings – Head of Asset Management		
<b>Accountable Director:</b> Martin Hone - Director of Finance & Corporate Governance		
This report is Public		
<b>Purpose of Report:</b> A decision is needed in order to deliver a new gas supply contract. The current gas agreement will expire at the end of October 2013.		

**EXECUTIVE SUMMARY**

**This report provides context on the Council’s current means of gas purchase through a contract which expires at the end of October 2013. It details and seeks authority to continue with the current strategy and to enter into a 4 year flexible procurement framework managed by the Government Procurement Service in order to ensure continuity of supply of bulk purchased gas.**

## 1. RECOMMENDATIONS:

1.1 That the Leader authorises the Head of Asset Management to;

- Continue with the Government Procurement Service (“GPS”) agreement that will use their specialist energy knowledge to make advance purchases of gas on the Council’s behalf on the wholesale market when conditions are favourable.
- Appoint an energy supplier from the GPS framework, to allow gas to be purchased as a means for securing the supply of gas for a period of four years from the 1 November 2013.

## 2. INTRODUCTION AND BACKGROUND:

2.1 Thurrock Council presently purchases gas for its own operational buildings, e.g. offices, public buildings and libraries, and on behalf of Schools (excluding academies and independent schools)

2.2 The Council’s gas contract cost is approximately £675k per year. The existing flexible procurement arrangements using a GPS have allowed energy to be secured in advance, in a rising energy market, thus enabling the Council to enjoy below market price gas over the previous three years contract.

2.3 These arrangements for procuring gas expire at the end of October 2013. This report sets out a future strategy for the gas procurement to achieve best value for the Council.

2.4 Currently corporate buildings represent £225k (33%) of the current annual gas spend, with schools accounting for £450k (66%) annually. Take up from schools in future will only be known after individual schools have decided whether to participate in this new contract.

2.5 The procurement of energy in public sector organisations has been reviewed by the Office of Government Commerce’s Pan Government Energy Project. Due to the specialist nature of procuring energy and the inherent risks of procuring energy directly from spot markets a number of recommendations were made for public bodies. The key recommendation was that public sector organisations should purchase energy through an aggregated, flexible, risk-managed frameworks – effectively via a Central Purchasing Body which has the capacity to be expert in the gas market and to achieve discounts by bulk purchasing

2.6 The current contract with GPS framework has worked well and has delivered gas below the market trends.

2.7 The recommended period for such a framework is at least 36 to 48 months, with a long lead in time to allow gas to be secured in advance of the contract start date. This supports the management of risk in a volatile energy market.

2.8 In this process the GPS expert purchases energy, through their pre-tendered providers on the futures market, in order to meet the needs of participating organisations. It is anticipated that it will not be until the end of the first month of the contract that the average first year contract price will be calculated. This energy price is then fixed for this year. Each year the process is repeated until the end of the contract.

#### Overall advantages

- Significant potential for savings if the energy expert reads the market correctly.
- The purchase risks are spread across the whole contract period.
- The aggregation of volumes increases the buying power of the organisation and larger volumes are more attractive to the suppliers.
- GPS' energy expert would procure the gas supply on behalf of the authority, by drawing offers from a tendered framework of suppliers.
- This is the recommended strategy of procuring energy from the Office of Government Commerce to achieve best value.

#### Overall disadvantages

- Risk if the market moves against the expected position.
- It is not possible to know what the purchase cost of gas is likely to be for the life of the contract.
- A more complicated procurement method, reliant on an external energy specialist's market forecasting expertise.
- The yearly cost for energy will only be known when a full years worth of energy blocks have been assembled, this will be finalised when the market price is deemed suitable to procure. The unit price will be adjusted monthly in the billing cycle.

### **3. CONSULTATION (including Overview and Scrutiny, if applicable)**

Schools and academies currently in the contract have been approached to inform them that they may opt in, if they so wish, to the Council's bulk gas purchasing contract. If academies do wish to participate the Council needs to ensure it is indemnified from any loss should an academy default on payment for gas.

### **4. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

- 4.1 The content of this report is consistent with the Council's priorities for delivering excellence and achieving value for money, creating a safer built environment that meets people's needs.

## 5. IMPLICATIONS

### 5.1 Financial

It is not possible to understand the full implications of the report, due to nature of Energy supply. Previous contracts have ensured better value purchasing for Council offices and Schools, and it is hoped that this will continue. There are several Schools, that have or are likely to convert to Academy, and there needs have been considered, with the flexibility to be included in the contract or to opt out at a later date.

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### 5.2 Legal

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This services described within this report are classified as "Part A" services under Schedule 3 of the Public Contract Regulations 2006 (as amended), are over the EU threshold and are therefore subject to full EU-wide tendering.

We understand that a fully compliant GPS framework agreement is to be used to put the contract in place and that Cabinet (or the Leader in accordance with the urgency provisions) may waive the requirements relating to the contract value under the Council Constitution.

The Council will also need to ensure that it complies with the Best Value Duty contained in section 3 of the Local Government Act 1999.

It is essential that the urgency provisions are followed and that the contract documentation is completed by officers in the event that the recommendation is accepted so that the Council is fully protected. Legal Services and Procurement Services are available to provide ongoing assistance in relation to the process to ensure compliance.

### 5.3 Diversity and Equality

There are not considered to be any diversity implications arising from, the content of this report

Implications verified by: Billy Masters

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5.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

None

**BACKGROUND PAPERS USED IN PREPARING THIS REPORT:**

- None

**APPENDICES TO THIS REPORT:**

- None

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