

7 July 2021		ITEM: 19 Decision: 110574
Cabinet		
Procurement of Energy for Thurrock Council		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Coxshall - Cabinet Member for Regeneration, Strategic Planning and External Relationships		
Accountable Assistant Director: Michelle Thompson– Acting Assistant Director Property		
Accountable Director: Sean Clark – Director of Resources and Place Delivery		
This report is Public		

Executive Summary

This report provides context on the Council’s current means of gas, electricity and water purchasing through framework contracts. The internal authority for the gas and electric contracts will expire at the end of September 2021.

This report also seeks authority for a strategy which will enable the Council to continue, for a further 4 years, using flexible procurement frameworks managed by expert procurement teams such as the Crown Commercial Service (CCS) in order to ensure continuity of supply of bulk purchased gas and electricity and best value until the end of September 2025. Water will also be added to a CCS framework to further centralise procurement and management.

The Customer Access Agreement with CCS will continue to be available until the Council decides to terminate it.

1. Recommendations

1.1 That the Corporate Director of Resources and Place Delivery be authorised to:

- **Enter into gas, electricity and water contracts through the Crown Commercial Service (CCS) frameworks;**
- **Seek procurement approval on the open market and award under alternative frameworks if suitable options become available, subject to compliance with relevant procurement rules, in order to secure the**

continued purchase of gas, electricity and water for a further period of four years until the end of September 2025; and

- **Review and select the best cost options for zero carbon electricity sources should the default cost neutral option not be available.**

2. Introduction and Background

2.1 Thurrock Council presently purchases gas and electricity for its own operational buildings, e.g. offices, public buildings, libraries and street lighting.

Water is provided through the local suppliers but competition in this market is now possible on provision of the billing services. Procurement water through this route will allow for the centralisation of the billing to a single billing file, providing efficiency savings and enhanced scrutiny.

2.2 The Council's annual corporate utility spend is broken down as:

- Gas: £208k;
- Electricity: Buildings £1m and street lighting £600k; and
- Water and sewerage: £160k.

The estimated first year contract value is circa £2m. The contract value has the potential to change through portfolio changes as the council adapts to new ways of working.

2.3 Schools and independent organisations have been migrated on to their own independent contracts with CCS to reflect the independent nature of academies and remove any contract liability for the council. There have been no cost penalties to these changes within CCS.

2.4 The existing flexible procurement arrangements using CCS has allowed energy to be secured in advance, in a volatile energy market, thus enabling the Council to enjoy below market price energy over previous contracts.

2.5 The existing, internal, authority for procuring gas and electricity will expire at the end of September 2021. This report sets out a future strategy for gas, electricity and water procurement to achieve best value for the Council.

2.6 The procurement of energy in public sector organisations has been reviewed by the CCS 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 framework – effectively via a Central Purchasing Body which has the capacity to be expert in the energy market and to achieve discounts by bulk purchasing.

2.7 The existing CCS framework access agreement will continue to be available until the Council decides to terminate it. This allows for a seamless continuation of the framework contracts subject to Members' approval.

- 2.8 This continuous process avoids the risk of out of contract rates being incurred by the Council and simplifies future migration between any new framework suppliers appointed by CCS.
- 2.9 Due to the continuing structural changes which the council is going through, flexible contracts which don't lock the council into long term commitments are seen as a key requirement. Leaving the contract only requires a short termination notice, allowing accounts to leave the contract as circumstances change. This is a very flexible arrangement and only possible with the largest energy players. Individual buildings can be migrated off the contract if sold or leased without penalties.
- 2.10 It is possible to enter into long term fixed price contracts, however with the Council's goal of zero carbon by 2030 and the planned reduction of the portfolio of buildings it would be impossible to forecast the amount of energy that needs to be procured long term. With the world's focus on carbon neutrality we are probably entering into a scenario of falling carbon based fuel costs, with this in mind, long term fixes have been discounted.

3. Issues, Options and Analysis of Options

- 3.1 The preferred option for procuring the Council's utilities is via the appropriate Crown Commercial Service (CCS) framework agreement. This options provides a compliant legal procurement route and it is allowed under section 15 of Chapter 9 of the Council Contract Procedure Rule. The advantages of utilising this framework agreement includes:
- (a) The Council can participate in the framework and utilise the flexible supply contracts without any requirement to tender via find a tender (formerly OJEU);
 - (b) The Council can achieve better prices through bulk purchasing and economies of scale; and
 - (c) More effective risk management at times of high price volatility.

3.1.1 Other options that were considered and discounted were:

- (a) Conducting a Council tender exercise -This option was discounted as there are already suitable available framework agreements in place that provides a compliant legal procurement route which can be utilised by the Council which is allowed under section 15 of Chapter 9 of the Council Contract Procedure Rule; and
- (b) Utilising an Energy Broker - This would involve procuring the services of a third party consultancy to procure energy on behalf of the Council based on a fee for their services, or a gain/share arrangement based on the savings made. This option is not recommended as it can lead to a time consuming and costly procurement exercise.

- 3.2 The recommended period for such a framework is 48 months, with a long lead in time to allow gas and electricity to be secured in advance of the contract start date. This enables energy purchases to be hedged over a long period of time and over multiple purchases rather than on one specific day. This arrangement helps spread market price risk and avoid buying during periods of peak market pricing. This supports the management of risk in a volatile energy market. In this process the CCS experts purchase energy, through their pre-tendered energy 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 subsequent year the process is repeated until the contract is terminated.
- 3.3 Further long term option for 3 years fixed periods, have been currently discounted due to a number of unknown factors around the building portfolio market volatility around the current pandemic, but strategies can be switched later should it be felt this offers a better solution.
- 3.4 The new water billing files will allow automatic reports to be generated for the individual cost centre managers so they can be better informed of the actual consumption and identify consumption issues and potential leaks for proactive action. With accurate water data, saving measures can then be investigated allowing funding bid for improvement measures.
- 3.5 Energy sources for electricity can be selected to allow zero carbon options, currently zero carbon nuclear generation is available at no extra cost and this would will be the default selections to meet the council's zero carbon ambitions. Should demand outstrip the availability of this cost neutral nuclear option other renewables options are available at additional cost, currently around £13k to £16k dependent on the source selected, such as a range of renewable technologies or specified wind, solar and hydro assets.

4. Reasons for Recommendation

- 4.1 The existing procurement route represents best value for the Council, all suitable frameworks have been reviewed by procurement.
- 4.2 Maintaining continuity also avoids committing significant resources to managing a move to another supplier and avoids any risk of out of contract rates when transferring to an alternative supplier.
- 4.3 Allow water data capture and payment to be centralised into a single action.
- 4.4 Allows the Councils to deliver approximately a 75% reduction in its CO² emissions and contribute to delivering climate emergency for zero cost.

5. Consultation (including Overview and Scrutiny, if applicable)

5.1 There has been no consultation on what is a simple procurement process.

6. Impact on corporate policies, priorities, performance and community impact

6.1 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.

6.2 The green energy sources help deliver a significant proportion reduction in CO² required to deliver Climate Emergency Declaration.

7. Implications

7.1 Financial

Implications verified by: **Jonathan Wilson**
Assistant Director - Finance

The existing utility spend is set out in the report and the expected costs following the procurement of the new contract are expected to be broadly equivalent. This will be considered further as part of the procurement process.

7.2 Legal

Implications verified by: **Kevin Molloy**
Senior Contracts Lawyer

I confirm the proposed method of procurement should satisfy national and local requirements from a legal standpoint and that Legal Services should be kept informed of the process through to completion as usual.

7.3 Diversity and Equality

Implications verified by: **Roxanne Scanlon**
Community Engagements and Project Officer

There are no specific diversity and equality implications arising from this report.

7.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder, and Impact on Looked After Children)

Procurement

Implications verified by: **Angela Corsan**
Category Manager

The value if the contracts will exceed the UK Public Procurement threshold so any procurement will need to comply with the regulations as well as the Council's constitution. A number of procurement options have been considered, with preference for a framework so use could be made of a specialised and established contract. Following review of the Council's options the most prudent choice in the current market appears to be to contract through a fully compliant CCS framework.

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. Appendices to the report

- Appendix 1 - Stage 1 Form- Gas and Electricity
- Appendix 2 – Stage 1 Form - Water

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