

# Gloucester City Council

<b>Meeting:</b>	<b>Cabinet</b>	<b>Date:</b>	<b>9 December 2020</b>
<b>Subject:</b>	<b>Energy Contract Renewal</b>		
<b>Report Of:</b>	<b>Cabinet Member for Performance and Resources</b>		
<b>Wards Affected:</b>	<b>All</b>		
<b>Key Decision:</b>	<b>Yes</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
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<b>Appendices:</b>	<b>None</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 The purpose of this report is to recommend approval to enter into a new contract for the supply of energy (gas and electricity). The contract value is over £500,000, therefore Cabinet's approval is required.

### 2.0 Recommendations

- 2.1 Cabinet is asked to **RESOLVE** that:

- (1) the S151 Officer and the Property Commissioning Manager be authorised to enter into a formal partnership with Tewkesbury Borough Council to jointly procure the Council's energy supply by entering into a new 3 year contract with the option to extend by up to 2 years with West Mercia Energy on terms agreed by S151 Officer and the Council's Solicitor.

### 3.0 Background and Key Issues

- 3.1 Gloucester City Council currently has a contract with West Mercia Energy (WME) to supply energy. This is a joint arrangement with Tewkesbury Borough Council who act as the lead authority. The contract commenced on 1 April 2016 and is due to expire on 31 March 2021.
- 3.2 WME is a Local Purchasing Organisation established under S101 of the Local Government Act 1972 and comprises four constituent authorities. They have set up framework agreements using procedures compliant with EU law (including advertisement by OEJU notice) to select suitable energy companies to supply gas and electricity. They also have an EU Compliant arrangement for the provision of pass through charges including a validation service.

- 3.3 The contract spend is estimated at £1,850,000 for a three-year period with an additional £1,233,000 for an additional two-year extension period. Total figure £3,083,000. This is estimated and the actual amounts may be lower due to the effects of Coronavirus.
- 3.4 WME offers a fully flexible purchasing model which offers a capped price in line with the financial year giving 12 months' budget certainty. It gives the ability to sell and buy at any time to take advantage of energy price movements giving the ability to make money. Their fees are approximately £10,000 per annum and have previously been funded from the surpluses made from the buying and selling of energy. They also provide full validation checks and deal with siteworks.
- 3.5 Working together with Tewkesbury Borough Council has benefitted the City Council with economies of scale as we have relatively similar portfolios. With Tewkesbury BC taking the lead we have benefitted from their expertise in the field. It is proposed that Tewkesbury BC remain as the lead authority.
- 3.6 Tewkesbury BC undertake an annual review of energy prices to compare performance of the WME product compared with the market. These have shown that WME perform well in comparison.
- 3.6 Both Authorities are content with the service and product provided by WME.
- 3.7 Both Authorities feel that the fully flexible purchasing model with the ability to sell as well as purchase at any time provides certainty for budgeting, but with flexibility to benefit from a fluctuating market to make trading gains with a controlled risk.
- 3.8 Tewkesbury BC has undertaken some market research as to whether there are any other companies that provide a comparable model and they have found that WME remain the only one.

#### **4.0 Social Value Considerations**

- 4.1 West Mercia Energy buy the electricity and gas on a national Framework agreement and as such the Council are not able to insist on any social value benefits to be included.

#### **5.0 Environmental Implications**

- 5.1 West Mercia Energy provide the option to purchase green electricity and gas. Gloucester City Council opted to purchase green electricity from 1 April 2020.
- 5.2 The Climate Change Manager is looking at the green gas created by the food waste. He is working with Cheltenham Borough Council (who also use West Mercia Energy) to see how this can be best utilised.

#### **6.0 Alternative Options Considered**

- 6.1 To enter into a contract direct with energy provider. This would not provide flexibility with price as you have to buy at a set point. They would not provide a validation service on bills. It is considered that it would involve more officer time to manage it.

6.2 To enter into a contract with another organisation that could offer a framework agreement. No other company offers a fully flexible purchasing model with the ability to sell.

6.3 Previously consideration has been given to joining up with the County Council that use WME but because of the differences in the portfolios the costs would have been more.

## **7.0 Reasons for Recommendations**

7.1 The decision is required as the contract expires at the end of March 2021. The new contract needs to be in place before this date to allow WME to forward purchase energy on the Council's behalf.

7.2 The product provided by West Mercia Energy suits the Council's needs in providing budget certainty and the ability to make money by being able to buy and sell energy within a controlled risk environment.

7.3 Gloucester City Council and Tewkesbury Borough Council are satisfied with the service and product provided by WME.

## **8.0 Future Work and Conclusions**

8.1 Once this decision has been made One Legal will be instructed to draw up the contract on behalf of Tewkesbury Borough Council and Gloucester City Council as well as a new partnership agreement between the two Councils (per paragraph 10.2 below).

## **9.0 Financial Implications**

9.1 The expenditure in relation to this proposal is detailed in paragraph 3.3 above. There are no additional costs over those include in the energy costs in the Council's budgets.

9.2 The fully flexible model allows the smoothing of the energy costs over the period and the reduction of the susceptibility of the Council to volatility in the energy prices at the renewal dates due to the way the contract is intended to operate. That then indicates that it may not be the cheapest contract, but it is hedging any future risk to extreme short term price changes.

(Financial Services have been consulted in the preparation of this report.)

## **10.0 Legal Implications**

10.1 The value of the contract spend means that this is a procurement that falls within the EU mandated procurement regime. However, use of a properly constituted framework agreement (as detailed paragraph 3.2) permits the Council to purchase goods and services without undertaking a full-scale procurement exercise under the regime.

10.2 Gloucester City Council and Tewkesbury Borough Council will enter into a partnership arrangement to purchase energy under framework arrangements, with

Tewkesbury acting as the lead partner. This arrangement will require a formal partnership agreement between the two parties setting out their respective responsibilities and obligations to each other.

(One Legal have been consulted in the preparation of this report.)

### **11.0 Risk & Opportunity Management Implications**

11.1 There are no adverse risks associated with proposed course of action.

### **12.0 People Impact Assessment (PIA) and Safeguarding**

12.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

### **13.0 Community Safety Implications**

13.1 None

### **14.0 Staffing & Trade Union Implications**

14.1 None

**Background Documents:** None