

Subject:	Corporate Procurement of the Council's Non Half-Hourly Electricity Supplies		
Date of Meeting:	06/12/2018		
Report of:	Executive Director, Economy, Environment & Culture		
Contact Officer:	Name:	Angela Dymott	Tel: 01273 291450
		Kelvin Newman	01273 290599
	Email:	angela.dymott@brighton-hove.gov.uk	
		kelvin.newman@brighton-hove.gov.uk	
Ward(s) affected:	All Wards		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The report seeks delegated authority to re-procure the Council's Non-Half-Hourly (NHH) electricity supply contract comprising 1,230 smaller sites across the operational portfolio with an approximate annual contract value of £740,000.
- 1.2 The Council currently procures its metered electricity requirements through an OJEU compliant framework managed by a Central Purchasing Body (CPB). The CPB aggregates supplies and purchases energy across a large number of public sector organisations enabling the Council to benefit from greater economies of scale as well as fixed pricing for greater cost certainty over the life of the contract.
- 1.3 An eighteen month contract is proposed in order to align the contract dates for all of the metered energy supply contracts across the council and our Orbis partners. This will allow us to carry out a single procurement process for all future contracts to maximise economies of scale.

2. RECOMMENDATIONS

That Policy, Resources & Growth Committee:

- 2.1 Grants delegated authority to the Assistant Director of Property to procure and award a contract for a maximum period of 18 months for the Council's Non-Half-Hourly (sub 50,000kWh per annum) electricity supplies through a framework agreement with fixed pricing. This will enable the council to align its contract dates for all metered energy supplies across the council and with our Orbis partners.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The Council currently has two metered electricity contracts:

- Non-Half-Hourly (NHH) Supply Contract**
 Comprises 1,230 smaller metered supplies (defined as consuming less than 50,000kWh of electricity per annum) across the operational portfolio including most primary schools, libraries, sports pavilions, some housing sites and other smaller council buildings.
 Contract Period: 1st October 2016 to 31st March 2019
 Value: £0.74m per annum
 Tariff: Fixed price for three years
 Current Supplier: NPower
 CPB: Laser Energy Buying Group
- Half-Hourly Supply Contract**
 Comprises 125 larger metered supplies (defined as consuming more than 50,000kWh of electricity per annum). These sites include the main civic offices, most secondary schools and other large council buildings.
 Contract Period: 1st October 2016 to 30th September 2020
 Value: £2.2m per annum
 Tariff: Flexible (purchased in advanced) with annual price reviews
 Current Supplier: Scottish & Southern
 CPB: Laser Energy Buying Group

The recommendation of this report only applies to the Non-Half-Hourly contract but will allow the end dates of both contracts to align in October 2020 so that only one procurement process will be required in future.

Procurement through a Central Purchasing Body (CPB)

- 3.2 Central Purchasing Bodies (CPB) set up and manage energy purchasing frameworks which public sector organisations can access.
- 3.3 A CPB allows the Council to procure energy supplies through a compliant framework rather than direct from an energy supplier with the following advantages:
 - The CPB will aggregate energy supply demands across a large number of public sector organisations and procure in bulk using a compliant framework allowing the individual organisations to benefit from economies of scale unavailable to them individually.
 - The energy market remains highly volatile and the CPB will purchase energy over time when market conditions are favourable to reduce the risk of purchasing when the market reaches a peak.

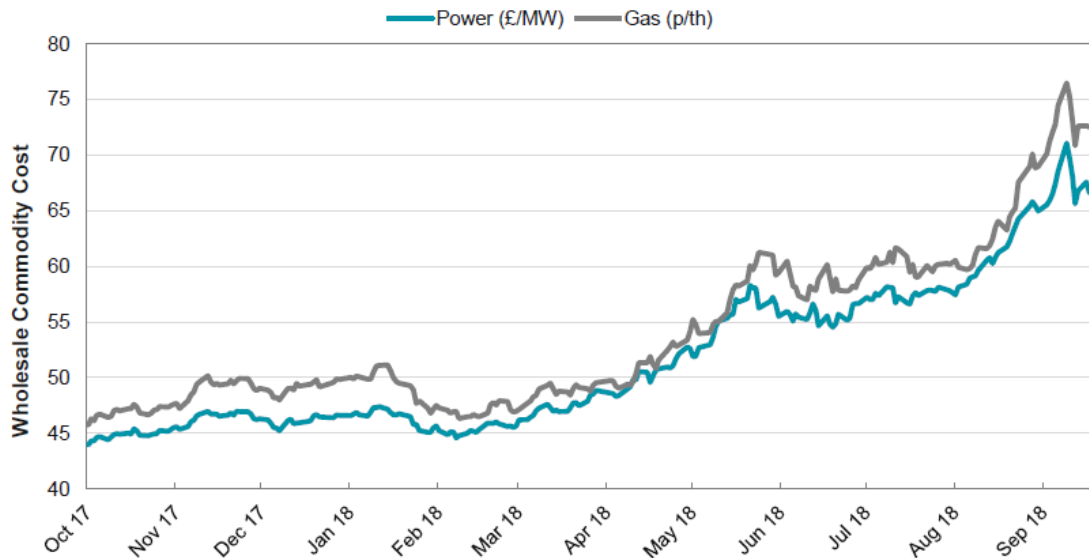
Flexible vs Fixed Purchasing Strategy

- 3.4 Our current NHH electricity supply contract is based on a fixed price basis for the duration of the contract and it is recommended that this continues as it provides price and budget certainty for the council.
- 3.5 The energy market remains highly volatile as indicated in the following graph showing the wholesale price of electricity and gas over the past 12 months. This shows that energy prices have continued to rise significantly this year. As we

have benefitted from a fixed price structure for the past three years on our NHH electricity supplies, our overall contract cost is therefore expected to be higher when we re-procure. As the CPB will have secured bulk energy purchases at various points for the benefit of individual participating organisations in their framework, at this stage it is not possible to predict the scale of the cost increase.

Wholesale Energy Market Price Evolution - 2017 to Present

Source: Bloomberg



The Orbis Partnership

- 3.6 The Orbis Partnership is currently in the process of developing an Orbis-wide Energy & Water Procurement Strategy to determine the most cost effective methods for future procurement of energy & water supplies for all three authorities.
- 3.7 This report recommends a contract period of 18 months which will align both BHCC energy contracts and most of the other Orbis energy contracts to 30 September 2020. Aligning the contracts in this way will allow each partner to benefit from a single procurement process in future and to maximise economies of scale.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 **Procuring electricity direct with a utility company:** the risk of market volatility is reduced by opting for procurement through a CPB which is also considered to represent best value for money due to economies of scale and the CPB's purchasing power.
- 4.2 **Energy brokers:** the Council is approached regularly by consultancies and energy brokers that secure prices direct from suppliers by monitoring market prices. CPB's do everything the independent energy brokers do but with the added benefit of aggregating large local authority portfolios.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 As the Non-Half-Hourly electricity contracts will directly affect leasehold housing tenants who are invoiced for their agreed share of the electricity charges in

communal areas of blocks of flats, the Energy & Water Team will liaise with Housing who will lead on the statutory consultation notifications that might be required.

6. CONCLUSION

- 6.1 Contracting through a Central Purchasing Body (CPB) offers the Council the best value procurement route for its Non-Half-Hourly energy supplies. An 18 month contract will allow the contract dates for all Orbis partners to align which will facilitate implementation of the Orbis Energy & Water Procurement Strategy in 2020.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The Council's Non-Half Hourly (NHH) electricity supply contract has an annual value of approximately £740,000 and covers approximately 1,230 sites made up of corporate buildings as well as smaller communal housing supplies and some schools. The Council currently procures its energy supplies through a Central Purchasing Body (CPB) rather than directly from an energy supplier. This reduces the risk to the Council of price fluctuations within the utility market through increased flexibility in purchasing as well as economies of scale through bulk purchasing but prices are still subject to market conditions.
- 7.2 The contract is recommended for an 18 month period to allow the timeframe to align with Orbis partners' contracts. This may provide the opportunity for a single procurement process in the future and the opportunity to generate greater efficiencies.

Finance Officer Consulted: Rob Allen

Date: 19/10/18

Legal Implications:

- 7.3 In accordance with Part 4 of the Council's Constitution, Policy, Resources & Growth Committee is the appropriate decision-making body in respect of the recommendations set out in paragraph 2.1 above. In addition, in order to comply with CSO 3.1, authority to enter into contracts in excess of £500,000 must be obtained by the relevant committee.
- 7.4 The procurement of a contract through a framework agreement must comply with all relevant European and UK public procurement legislation as well as the council's CSOs. .

Lawyer Consulted:

Name Wendy McRae-Smith

Date: 25/10/18

Equalities Implications:

- 7.5 There are no equalities implications.

Sustainability Implications:

7.6 There are no sustainability implications.

Any Other Significant Implications:

7.7 No other significant implications have been identified relating to this area.

