

## BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan

Report of the Executive Director  
Place

### **Approval to Re-procure Utilities Contracts (Gas, Electricity, Water & Wastewater and Associated Services)**

#### **1. Purpose of Report**

- 1.1 The Council has an ongoing and inevitable requirement for the supply of gas, electricity, water and wastewater. Expenditure for the 2018/2019 financial year is expected to be in the region of £6,500,000 (ex VAT). Final spend for the current financial year will not be known until June 2019 at the earliest due to the nature of the billing periods
- 1.2 This report seeks Cabinet approval to re-procure its current contracts for utilities through the use of a Public Buying Organisation (PBO), the Yorkshire Purchasing Organisation (YPO) framework agreements for the provision of gas, electricity, water and wastewater and associated services

#### **2. Recommendations**

- 2.1 **That Cabinet approve the intention to re-procure its current gas, electricity, water and wastewater and associated services using the Yorkshire Purchasing Organisation (YPO) framework agreements**

#### **3. Introduction**

- 3.1 The Council has an ongoing and inevitable requirement for the supply of gas, electricity, water and wastewater. Expenditure for the 2018/2019 financial year is expected to be in the region of £6,500,000 (ex VAT). Final spend for the current financial year will not be known until June 2019 at the earliest due to the nature of the billing periods
- 3.2 The size of the expenditure means that the Council must demonstrate an OJEU compliant competition process when identifying a supplier and awarding a contract to comply with the Public Contract Regulations
- 3.3 The Council also procures gas, electricity, water and wastewater and associated services on behalf of Berneslai Homes, local authority maintained schools, and some academies and voluntary aided schools and other third parties

- 3.4 Barnsley Metropolitan Borough Council is a founder member of a Public Buying Organisation (PBO), the Yorkshire Purchasing Organisation (YPO), and as a founder member benefits from a profit share dividend payment
- 3.5 The Council has used the YPO framework agreements to contract gas and electricity suppliers previously and has leveraged savings via this route to help to minimise the value of what is inevitable expenditure for these utilities
- 3.6 Current contracts procured using the YPO framework agreement are:
- Electricity – Supplier is Npower and contract is from April 2015 to March 2019
  - Gas – Supplier is Corona Energy and contract is from April 2017 to March 2021

The current contract in place for electricity requires renewal in the next 6 months

- 3.7 The deregulation of the water industry in the last 12 months presents an opportunity for the Council to look to go to the market for pricing and ensure a demonstration of best value via a competitive exercise

#### **4. Proposal and Justification**

- 4.1 YPO provides a compliant route to market for the provision of gas, electricity, water and wastewater and associated services through their framework agreements
- 4.2 Through the use of the YPO route to market the Council is able to combine our requirements with those of other member organisations so that we go to market with a larger overall contract value and are able to use our combined value commitment to leverage best value
- 4.3 YPO conduct a competition on behalf of all organisations signed up to participate to identify a preferred supplier
- 4.4 The YPO tender process also evaluates the quality of the supplier's tender submission and they are able to provide expertise in this evaluation process
- 4.5 The quality of the service we receive from suppliers is very important, a good quality provider allows us to manage our energy and water contracts with the minimum of resource
- 4.6 The Framework Agreement then offers a standard form of contract for the Council to execute with the appointed provider to ensure robust terms and conditions linked to industry standards and requirements
- 4.6 The use of the YPO framework agreement, as well as ensuring compliance, provides assurance of value for money in the following ways:
- Economy of Scale; going to market for a larger volume gives us access to the lowest possible rates
  - Competition; YPO conduct a tender process on our behalf

- Profit Share; as a founder member of the YPO we benefit from a profit share and have an interest in the continued success of the organisation

4.7 There is no charge to the Council for the use of the Framework Agreements

## **5. Consideration of Alternative Approaches**

5.1 Other PBOs offer a compliant route to market using the same framework agreement approach and the Council could access these. However, these framework agreements would incur a cost to use as we are not a member of other PBOs, and we would not benefit from a profit share dividend from them

5.2 The Council could conduct its own tender process to identify a supplier for each utility. However, this option would require considerable officer resource, time and cost to facilitate this process and we would not be able to leverage the value of the commitment of other authority spend making the contract less attractive to suppliers. Also, the utilities markets are very complex and the Council does not have the internal expertise and experience in contracting directly for these

5.3 The Council could also look to trade directly for gas and electricity (YPO undertake in contract trading on our behalf to take advantage of market volatility to keep prices as low as possible). However this would require recruitment of a suitably qualified and experienced individual to support this process as this is not resource which is available in the current Energy Team structure.

## **6. Implications for Local People / Service Users**

6.1 Any savings realised through the procurement of gas, electricity, water and wastewater and associated services can be used in provision of front-line services with direct benefit to local people and service users.

## **7. Financial Implications**

7.1 Expenditure on gas, electricity, water and wastewater and associated services is considerable and therefore costs managed through a formal multi-year contract will allow continued visibility to allow accurate forecasting in this area of inevitable spend

7.2 Current gas contract costs per annum are approximately £1.2 million broken down as follows:

- |                   |             |
|-------------------|-------------|
| • Core Council    | £557,230.67 |
| • Berneslai Homes | £195,628.59 |
| • Schools         | £360,256.07 |
| • Third parties   | £33,848.82  |

7.3 Current electricity costs per annum are approximately £4.5 million broken down as follows:

- |                |               |
|----------------|---------------|
| • Core Council | £3,759,783.10 |
|----------------|---------------|

- Berneslai Homes £44,825.13
- Schools £665,737.17
- Third parties £41,567.54

7.4 Current water and wastewater costs per annum are approximately £0.6 million broken down as follows:

- Core Council £443,829.54
- Berneslai Homes £44,825.13
- Schools £145,081.34
- Third parties £2,855.27

7.5 Energy prices are typically volatile, being linked to weather conditions, supply chain issues, storage issues, and national and international government policy so contracts for all utilities will mitigate the impact of these potential market changes

7.6 Efficient procurement of gas, electricity, water and wastewater and associated services is just part of the solution. With contracts in place the Council also need to carefully manage the usage of energy and water in our buildings and operations to ensure any expenditure is necessary and unavoidable

## **8. Employee Implications**

8.1 1.5 FTE are engaged with the direct management of the relationship with our energy and water providers, there is potential for disruption to processes when appointing new providers

8.2 Re-procuring these contracts is not expected to impact these employees in their roles

## **9. Communications Implications**

9.1 The Council also procure on behalf of Berneslai Homes; local authority maintained schools, and a number of academies and voluntary aided schools and third parties

9.2 It is necessary whenever contracts need to be renewed to communicate details to all parties procuring through the Council's corporate portfolio so they are aware of the appointed suppliers, the expected costs and the contract duration

## **10. Consultations**

10.1 A list of stakeholders consulted during the preparation of this report includes:

Core Services - Procurement  
Core Services - Finance  
Berneslai Homes

## **11. The Corporate Plan and the Council's Performance Management Framework**

11.1 The contracts implemented will ensure the Council has robust and sufficient data in terms of utility spend to inform performance returns for government

**12. Risk Management Issues**


- 12.1 There is a risk that not implementing new contracts for utilities could result in the Council operating without the protection of a formal agreement with its suppliers and being subject to out of contract rates which are typically much higher than contract rates
- 12.2 There is a risk that continuing to purchase our utilities via existing contracts which have not been re-procured via competition could introduce a risk of challenge from other suppliers in the market
- 12.3 There is a risk that continuation with our existing suppliers without competition could result in uncontrolled price changes being enforced on the Council which could result in increased costs and uncertainty and inability to forecast

**13. Glossary**

- 13.1 None applicable

**14. Background Papers**

- 15.1 Correspondence regarding this matter is held on the files in Asset Management – not available for inspection contains exempt information

Financial Implications/

Consultation ..... <i>(to be signed by senior Financial Services Officer where no financial implications)</i>

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**Date: 22 February 2019**