

Report of the Assistant Director of Estates and Property to the meeting of the Environment and Waste Overview and Scrutiny Committee to be held on 20 February 2018.

AB

Subject:

Energy Contracts Procurement

Summary statement:

An explanation of the compliant method of procurement that City of Bradford MDC uses to buy energy contracts and a request to the committee whether they are content that this method of procurement offers best value to the council.

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Overview & Scrutiny Area:
Environment and Waste Management

1. SUMMARY

An explanation of the compliant method of procurement that City of Bradford MDC (CBMDC) uses to buy energy contracts and a request to the committee whether they are content that this method of procurement offers best value to the council.

2. BACKGROUND

CBMDC is a founder member of the Yorkshire Purchasing Organisation (YPO) and as a customer benefits from the shared profits by the YPO. This share is proportional to the amount of procurement placed through the YPO. The value of the energy contracts CBMDC place through the YPO is considerable since a significant number of schools within the district utilise the CBMDC contract to purchase their energy.

YPO procure the energy contracts on a four year rolling basis, this process is compliant with procurement regulations. Gas and electricity contracts are procured separately and, due to the complexity of the process, on an alternating basis, so that one procurement is done every two years.

Due to the value of CBMDCs energy contracts there is a significant saving in OJEU (Official Journal of the European Union) compliant procurement work that is made by utilising the YPO procurement process. Though it should be noted that this saving could also be made by using another provider such as Crown Commercial Services.

YPO buy energy through the contracts they have procured in a similar way to a commodity traders operating in a futures market. Most of the energy (90%) is procured in advance (typically around six months) taking advantage of market fluctuations to obtain the best prices. The remainder of the energy is procured "in period" this is within a month of the time the energy is needed and allows a measure of "hedging" that is particularly of benefit when energy prices are reducing. This strategy means that there is a larger amount of certainty around budget setting on an annual basis and that the energy prices obtained are better when the commodity price is stable or increasing. Current energy commodity prices are low and stable. Buying more energy "in period" can have benefits, particularly when prices have been inflated and are reducing however it should be noted that this strategy can result in much more price volatility.

In the 2015/16 financial year officers from The Energy Centre (TEC formally the Environment and Climate Change Unit) and procurement teams carried out a review of the performance of the YPO contract against other options within the marketplace. It was found that the electricity contract had performed in line with the market in general and that the gas contract was performing a small amount worse than the market at this time. It was identified that the slightly poorer than market performance was due to the weak gas commodity prices and that over longer timescales the contract had performed well.

A new gas supplier was appointed in April 2017. Procurement for the electricity contract is currently underway to be implemented in April 2019. YPO will require confirmation from CBMDC that we wish to be included in the Electricity portfolio for this procurement before the end of the financial year.

3. OTHER CONSIDERATIONS

As a founder member of the YPO there is an expectation that CBMDC will utilise the services that are provided. The value of the energy contracts is substantial and officers are of the opinion that should a decision be made to procure energy using a different route then there would need to be a discussion at an appropriate level of the council.

4. FINANCIAL & RESOURCE APPRAISAL

The energy contracts placed through YPO are worth over £6.3 Million per annum for Bradford council. Some schools also buy their energy through the councils YPO contracts and the value of that energy is a further £9.2 Million per annum.

Changing the procurement strategy for energy could incur additional costs and could potentially increase the required staffing resource for this process. The additional staffing could be appointed directly or through the use of consultants. YPO maintain a permanent team managing the procurement of energy and energy suppliers. Any change to the procurement arrangements would require sufficient resource to manage an OJEU compliant procurement on a regular basis. The expected costs to carry out this work would be substantial. Should consultants be used to do the work then this would add a further element of procurement cost.

Moving our energy contracts away from YPO would reduce the dividend from YPO and also reduce the profit sharing payment that we receive from YPO. A full financial assessment would be required to ascertain the scale of the impact.

The YPO contracts for electricity alone are predicted to be £146M in the 2017/18 financial year. The gas figures are not currently known but are expected to be between £50M and £75M. When YPO are buying energy there is an element of saving to be had from this level of buying power.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

There would be no change to governance processes should the recommendation be followed. Making a change to the procurement arrangements will require an appraisal of potential issues. These will include an assessment of the impacts of moving away from the YPO.

There is a risk inherent with any procurement strategy that a different method will obtain better results. The nature of the YPO arrangement means it provides its best performance in the current type of commodity market and that it provides certainty in prices over each year. The performance of the portfolio has been assessed and will continue to be checked to ensure that contract is providing value to the council.

6. LEGAL APPRAISAL

It is the view of our procurement team that given the value of the contracts overview of the arrangements is needed. There are no changes planned but should the committee

wish that other options are explored then a legal assessment will be obtained.

7. OTHER IMPLICATIONS

N/A

7.1 EQUALITY & DIVERSITY

N/A

7.2 SUSTAINABILITY IMPLICATIONS

N/A

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

N/A

7.4 COMMUNITY SAFETY IMPLICATIONS

N/A

7.5 HUMAN RIGHTS ACT

N/A

7.6 TRADE UNION

N/A

7.7 WARD IMPLICATIONS

N/A

8. NOT FOR PUBLICATION DOCUMENTS

N/A

9. OPTIONS

- That the committee considers the comment on the strategy of procurement and continues to monitor performance
- That the committee recommends a paper be prepared for executive advising a change in its procurement strategy for energy, recommending procuring energy directly from the market or using a broker service.
- That the committee recommends a paper be prepared for executive advising a change in its procurement strategy for energy, recommending using a different procurement

organisation to help it procure energy.

10. RECOMMENDATIONS

Recommended -

That the strategy of procuring energy through the YPO contract be noted and that the performance of the contract continue to be assessed against the market. A review of this arrangement be put before this Committee should there be a degradation in the performance of the contracts or in six years, whichever is sooner.

11. APPENDICES

12. BACKGROUND DOCUMENTS