

**CARDIFF COUNCIL ENERGY (ELECTRICITY AND GAS)
PROCUREMENT – PURCHASING STRATEGY FOR 2020-2021**

**FINANCE, MODERNISATION AND PERFORMANCE
(COUNCILLOR CHRIS WEAVER)**

AGENDA ITEM: 9

Reason for this Report

1. To enable Members to consider and approve a minor change to the way in which the Council purchases energy (electricity and gas) supply for the period 2020/21 which will allow a continuation of the supply through the Crown Commercial Services (CCS) framework agreement, which is managed by the National Procurement Services. The contracted value is £9million per annum

Background

2. Cardiff Council currently purchases energy (electricity and gas) using the Crown Commercial Services (CCS) framework agreement, which is managed by National Procurement Service (NPS) Wales.
3. The Council is part of a very large portfolio of public sector bodies in this framework, and this collective customer base has enabled the NPS to negotiate very favourable terms compared to those available to individual purchasers. We have been a member of the portfolio for around 12 years.
4. CCS currently purchase electricity and gas on behalf of participants using a “trading floor” arrangement. This seeks optimal prices across a 6 month buying period in advance of the energy supply start date. The tariffs secured during this period apply for the whole of the following financial year.
5. The drawback of this approach is that the final costs are not published until the close of the six month trading period which is on 31st March each year, the day before the following year’s supply contract commences.

Issues

6. At the end of February 2019, a new option was made available to members of the NPS with regard to forward purchasing of energy for the 2020/21 financial year. In this option the “trading floor” buying period will be extended to a ten month window during 2019/20, closing at the end of January 2020 and fixing prices for 2020/21.
7. One of the benefits of this ten month option is that it is likely to result in lower wholesale energy costs by providing a longer period during which to seek optimum price points. Another important benefit is that it also provides scope for better budget forecasting internally as prices are fixed in the February prior to the next financial year as opposed to March 31st under the current arrangement.
8. Whilst we can opt not to take the ten month option, most other NPS participants have already opted in. Staying with our current six month arrangement therefore would leave us in a much smaller pool of purchasers which is unlikely to attract the most competitive prices.
9. Signing up to the ten month purchasing strategy now will trigger an extension to the current framework agreement for an additional one year period up until March 2021.
10. The present arrangement was due to end in 2019/20 with a new NPS led tender process commencing during the financial year, with contracts in place for the start of 2020/21. This re-tendering process would be delayed for one year under the new ten month option.
11. This means that the Council would be committing to spend an estimated/ indicative budget of £9million (Electricity £7million, Gas £2million) for energy during 2020/21 under the terms of the current contract (as amended) rather than through a newly procured arrangement as planned.
12. The extension is required to allow for the ten month period to operate fully, but is also partly motivated by a range of other uncertainties, including the implications of Brexit. The extension therefore provides an opportunity to avoid new contractual negotiations during this period of uncertainty.
13. On balance, therefore, the new ten month option appears to be a sensible amendment for the Council, which will bring greater cost certainty and forecasting capability in the short to medium term, pending the full re-tendering of the NPS contract.

Reason for Recommendations

14. To ensure continuity of energy (electricity and gas) supplies until March 2021.

Financial Implications

15. Energy price inflation is provided for, each year, in the Council's budget. Given that a 5% change in prices results in a £450,000 change in budget requirement (all other things being equal), any change to procurement that brings about an increased level of price certainty is welcomed.
16. From a financial perspective the move to a ten month purchasing arrangement, which commences in April and concludes in the January prior to the financial year, is a positive step. Whilst January is still late in the overall budget process, the fact that the new arrangement starts six months earlier (in addition to being extended) makes it more likely that a significant proportion of energy will have been purchased earlier in the year. As a result, it would be anticipated that the proposed change should provide a degree of certainty in the forecasting of energy costs which is lacking under the current arrangement.
17. It is noted that the proposed arrangements are for one year only. It is therefore hoped that work will be undertaken as early as possible to identify the proposed strategy and procurement arrangements moving forwards, in order that the benefits to the budget process brought about by this change are not one-off in nature.

Legal Implications

18. With regards the extension of the Framework, legal services are instructed that this is being managed by the CCS/NPS and legal services has not advised in this respect.

Any Call off contract must be carried out in accordance with the Call Off Process set out in the Framework Agreement. Legal Services are instructed that the process proposed accords with the Framework Agreement and call off process. It should be noted that the terms and conditions will be those as set down by the Framework Agreement and the client department should satisfy themselves as to whether they are suitable for their requirements.

Equalities Duties.

In considering this matter the decision maker must have regard to the Council's duties under the Equality Act 2010. Pursuant to these legal duties Councils must, in making decisions, have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: (a). Age, (b) Gender reassignment(c) Sex (d) Race – including ethnic or national origin, colour or nationality, (e) Disability, (f) Pregnancy and maternity, (g)

Marriage and civil partnership, (h)Sexual orientation (i)Religion or belief – including lack of belief.

The Well-Being of Future Generations (Wales) Act 2015 ('the Act') places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.

In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The well being objectives are set out in Cardiff's Corporate Plan 2018-21: <http://cmsprd.cardiff.gov.uk/ENG/Your-Council/Strategies-plans-and-policies/Corporate-Plan/Documents/Corporate%20Plan%202018-21.pdf> When exercising its functions, the Council is required to take all reasonable steps to meet its well being objectives. This means that the decision makers should consider how the proposed decision will contribute towards meeting the well being objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.

The well being duty also requires the Council to act in accordance with a 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:

- a) Look to the long term
- b) Focus on prevention by understanding the root causes of problems
- c) Deliver an integrated approach to achieving the 7 national well-being goals
- d) Work in collaboration with others to find shared sustainable solutions
- e) Involve people from all sections of the community in the decisions which affect them

The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below: <http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

The decision maker should be satisfied that the procurement is in accordance within the financial and budgetary policy and represents value for money for the council.

RECOMMENDATIONS

Cabinet is recommended to

1. Approve an extension of the Council's energy (electricity and gas) supply arrangements with Crown Commercial Services and the National Procurement Services until March 2021
2. Approve that the Council opt into the ten month advance purchasing arrangements for the 2020/21 supply arrangements,

SENIOR RESPONSIBLE OFFICER	CHRISTOPHER LEE Corporate Director Resources
	15 March 2019