

Report of The Group Energy Manager

Report to The Chief Procurement Officer

Date: 15 September 2016

Subject: Supply of Gas to Leeds City Council

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Council's contract for Gas expires on 31st October 2016, but has provision to extend.
2. The contract will provide energy to Council offices, Civic buildings, workplaces, leisure centres and some schools.
3. The contract has competitive pricing which realises savings to the Council in line with the policy on spending money wisely.

Recommendations

4. The Chief Procurement Officer is recommended to approve the extension of the Supply of Gas including brokerage contract (YORE-9DMKPC) for 2 years (1st November 2016 – 31st October 2018) to Engie Gas Limited.

1 Purpose of this report

- 1.1 The purpose of the report is to confirm that the contract remains Best Value for Money, and to subsequently seek approval to extend the Gas contract for the initial period of 2 years.
- 1.2 Contract Procedure Rule 21.1 states that any contract may be extended before the expiry date where it is in accordance with its terms and proves to deliver Best Value for Money. Approval for such extension shall be sought in a timely manner and supported by an appropriate Delegated Decision signed by the Relevant Chief Officer.
- 1.3 The Gas contract contains such provision to extend for four 2-year periods beyond its initial term. Approval is being sought to extend for the first two year period from 1st November 2016 to 31st October 2018.

2 Background information

- 2.1 A contract for Gas including brokerage procured in 2014 and was awarded for an initial period of 2 years. The Contract contains the option to extend the contract for a further 4 x 2 years.
- 2.2 The contract was valued at £5,000,000 per year.
- 2.3 The original tender was evaluated by officers from Projects, Programmes and Procurement Unit (PPPU), Finance and Streetlighting Section. The first year of the contract has been reviewed by the Energy Strategy Team, comprising of officers from PPPU, the Business Support Centre, Finance and Streetlighting.
- 2.4 Savings from the contract have improved due to the bundling of all gas supply into one contract, providing volume discount.
- 2.5 The extension is within the scope of the original contract, and is compliant within Contract Procedure Rules.

3 Main Considerations and Reasons for Contract Extension

- 3.1 There are 2 main options to consider;

3.1.1 Extend the contract with the existing supplier Engie Gas Limited. Benefits would include no additional costs and the retaining of benefits of a rewarding relationship, especially the brokerage.

3.1.2 Go back out to the marketplace. Benefits would be to test the marketplace to confirm that Engie Gas Limited remain competitive.

However disadvantages would be:

- the cost of the tendering exercise,
- the cost of administration required by various departments to change supplier for 800 plus sites,
- the potential loss, if there is a change of supplier, of dual fuel discount

- the potential loss of benefits, especially those generated by the brokerage arrangement.

- 3.2 The mark-up by Engie Gas Limited remains at the same level as when the contract was tendered. This was the best available on the market at the time. The market has not changed in terms of price build-up since the original tendering exercise.
- 3.3 The prices received at the time of tendering were lower than any other bidder and the level of savings has been greater than anticipated.
- 3.4 The brokerage service included in the contract for gas has enabled Leeds City Council to significantly improve on average market prices. The actual prices achieved have been significantly better than expected and based on the year 2015/16. Had energy prices remained the same, the estimated savings were approximately £M 1.09. In practice energy costs dropped further due to falling energy prices.
- 3.5 The current contract provides a much improved quality of service compared to previous suppliers. Response to queries, query resolution and number of queries are each significantly improved.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Consultation has taken place with members of the Energy Strategy Team and the Chief Procurement Officer.
- 4.1.2 The Corporate Energy Strategy Group meets monthly. The Group discusses procurement direction for the Council's energy contracts, movement in the energy market and contract performance. The same group administers and manages the energy contracts on a day to day basis in their respective roles and regularly meets the contracted suppliers.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 There are no particular implications for Equality and Diversity/Cohesion and Integration.

4.3 Council Policies and City Priorities

- 4.3.1 This decision supports the Council's Core Value of 'Spending Money Wisely'.

4.4 Resources and Value for Money

- 4.4.1 The rationale of flexible purchasing is to optimise buying opportunities and thereby capture the best available value, as explained in section 3.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The decision to extend the contract is a Significant Operational Decision under Article 13 of the Council's constitution, under footnote 1b to article 13.4a.

4.6 Risk Management

- 4.6.1 The risk if this contract is not extended is that the gas consumed by the Council's operations would increase in cost.

5 Conclusions

- 5.1 The Energy Strategy Group has concluded that based on market intelligence and in accordance with the risk management strategy the Gas Contract should be extended for the first extension of 2 years.

6 Recommendations

- 6.1 The Chief Procurement Officer is recommended to approve the extension of the Supply of Gas including brokerage contract (YORE-9DMKPC) for 2 years (1st November 2016 – 31st October 2018) to Engie Gas Limited.

7 Background documents¹

None.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.