

North Tyneside Council Report to Elected Mayor 7 January 2019

URGENT DECISION

Procurement of Electricity Supply (Call Off Contract from the NEPO Electricity Supply and Demand Framework Agreement)

Portfolio(s): Finance and Resources

Cabinet Member(s): Councillor Ray Glindon

Report from Service Area:

Commissioning and Asset Management

Responsible Officer: Mark Longstaff, Head of Commissioning and Asset Management (Tel: 643 8089)

Wards affected:

All

PART 1

1.1 Executive Summary

The Authority's current contract for the supply of electricity will cease at the end of March 2019. A new electricity supply contract for all Council buildings and all schools will be required.

The Authority's Procurement Service, Engie, has recommended that the Authority access the North East Purchasing Organisation (NEPO) Electricity Supply and Demand Framework Agreement by entering into a Call-Off contract under this Framework for its new supply of electricity. As the Call-Off Contract will last for four years with an option to extend for a further 24 months, expenditure is likely to exceed £500k and approval to this procurement route is therefore required.

Utilising this Framework by way of a Call-Off contract will allow the Authority to access the energy deals brokered by NEPO, ensure a continued electricity supply to Council buildings throughout 2019/20 and ensure that the Authority is not subjected to price fluctuations over the Winter 2019/20 period.

To enter into a call-off contract under this Framework Agreement, Law and Governance have advised that approval is needed by 7 January 2019 to ensure that the Authority's energy requirements can be included in NEPO's forthcoming energy trading arrangements which are pursuant to this Contract. This timescale means that this decision is urgent, and hence the subject of this urgent decision report.

1.2 Recommendation(s):

It is recommended that the Elected Mayor:

- (a) approves the procurement of the Authority's electricity supply under the NEPO Electricity Supply and Demand Framework Agreement, by the Authority entering into a direct Call-Off contract commencing on 7 January 2019 for a duration of four years with an option to extend for a further 24 months;

- (b) Grants this approval by the deadline for participation notified by Law and Governance, which is 7 January 2019.

1.3 Forward Plan:

It has not been practicable to give twenty eight days notice of this report. However, it is required to be considered without the twenty eight days notice being given to ensure that the Authority's procurement of its electricity supply under the NEPO Electricity Supply and Demand Framework Agreement is approved within the timescales notified by Law and Governance and set out in this report.

1.4 Council Plan and policy framework

This report relates to the following priorities in the 2018/21 Our North Tyneside Plan:

- (a) Be business friendly, ensuring the right skills and conditions are in place to support investment
- (b) Grow by supporting new businesses and building on our strengths

1.5 Information

- 1.5.1 The Authority's current contract for the supply of electricity is due to end on 31 March 2019 and a new procurement for electricity supply will be required.
- 1.5.2 The Authority is a member of the North East Purchasing Organisation (NEPO), through which the Authority has previously procured supplies of electricity to all Council buildings including schools.
- 1.5.3 The Authority's Procurement Service, currently delivered by Engie, has considered the most appropriate process for the new procurement of electricity. Engie recommends that the Authority accesses the NEPO Electricity Supply and Demand Framework Agreement for this supply. The Framework has been set up by NEPO in full compliance with all UK and EU procurement regulations and any call-off by the Authority will also be compliant with these regulations. The Authority has used this Framework in the past.
- 1.5.4 It is proposed that the Authority seeks to enter into a call-off contract with the successful supplier of NEPO's Electricity Supply and Demand Framework Agreement, and that this contract lasts for 4 years with an option to extend for a further 24 months unless terminated earlier. The value of electricity supply in a proposed contract of this duration is likely to exceed £500,000. Contract Standing Orders require Cabinet approval for this decision.
- 1.5.5 To ensure that the Authority can participate in NEPO's Electricity Supply and Demand Framework Agreement at 2019/20 negotiated prices,, it will be necessary for the Authority to have signed the call-off contract by the time that NEPO undertake residual trade work associated with the Framework Agreement in January 2019. The residual trade can only be undertaken on behalf of those Councils that have signed the Call-Off contract as it shapes the full portfolio of electricity buying for the following financial year. If the Authority has not signed the Call-Off contract by the time NEPO undertake the residual trade then the power currently purchased cannot be allocated to North Tyneside. This means the Authority will have no power purchased for 2019/20 and will be subject to the fluctuations in the market over the winter period, using last year as an example, that could result in significant increase in cost.

- 1.5.6 Law and Governance has therefore advised that participation in this call-off contract must be approved and sealed by 7 January 2019. This decision is therefore urgent.

1.6 Decision options:

The following decision options are available for consideration by the Elected Mayor:

Option 1

To approve the Authority accessing the NEPO Electricity Supply and Demand Framework Agreement by entering into a direct call-off contract, commencing on 7 January 2019 for a duration of four years with an option to extend for a further 24 months.

Option 2

Not to approve the Authority accessing the NEPO Electricity Supply and Demand Framework Agreement, by entering into a direct Call-Off contract, commencing on 7 January 2019 for a duration of four years with an option to extend for a further 24 months; but instead, to identify and follow an alternative procurement route for the Authority's electricity supply.

Option 1 is the recommended option.

1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

Participation in NEPO's Framework Agreement is forecast to save circa £276k for participating Authorities regionally. Officers from Engie's Procurement Service have advised that the Authority will benefit from these savings if it utilises the Framework.

Officers from Engie's Procurement Service have advised that a decision not to participate in the Framework will mean the Authority will have no power purchased for 2019/20 and will be subject to the fluctuations in the market over the winter period, using last year as an example, that could result in significant increase in cost.

1.8 Appendices

None

1.9 Contact officers:

Mark Longstaff, Head of Commissioning and Asset Management
Janice Gillespie, Head of Finance
Allison Mitchell, Senior Manager: Audit, Risk and Procurement

1.10 Background Information

None

PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

2.1 Finance and other resources

It is anticipated that under the NEPO Electricity Supply and Demand Framework a £0.276m saving will be realised regionally. This saving will be achieved through a lower management fee being charged in the new Framework.

Whilst the Framework would look to mitigate market risks over the four-year period, market prices are trending upwards. Early indications are that electricity prices in the global market will be subject to inflationary pressures of circa 15% for 2019/20.

In 2017/18, expenditure on Electricity was £1.488m (excluding Street Lighting). The base budget for 2018/19 was £1.453m, with the current budget for 2019/20 projected to be £1.447m. Applying the 15% to the 2017/18 actuals would result in a potential 2019/20 pressure of £0.264m. The potential cost pressure would be required to be managed as part of the usual financial management process during 2019/20.

2.2 Legal

The NEPO Electricity Supply and Demand Framework Agreement has been procured in accordance with the Public Contracts Regulations 2015 and EU public procurement regulations. The Authority's direct call off from this Framework Agreement will be consistent with the terms of the Framework Agreement and comply with the relevant provisions of the Public Contracts Regulations 2015 and, subject to the granting of this approval, the Authority's Contract Standing Orders.

Contracting arrangements will be upon terms set out in the NEPO Electricity Supply and Demand Framework documentation.

2.3 Consultation/community engagement

There is no consultation / community engagement which would be appropriate to this decision. The supply of electricity to the Authority's buildings including schools would not normally be subjected to consultation / community engagement.

2.4 Human Rights

There are no human rights implications to this report.

2.5 Equalities and diversity

There are no equalities and diversity implications to this report.

2.6 Risk management

Risks have been considered and officers from Engie's Procurement Service have advised that if participation in the NEPO Electricity Supply and Demand Framework Agreement is not approved, the Authority will have no power purchased for 2019/20 and will be subject to the fluctuations in the market over the winter period which using last year as an example could result in significant increase in cost.

2.7 Crime and disorder

There are no crime and disorder implications to this report.

2.8 Environment and sustainability

There are no environmental and sustainability implications arising directly from this report. The electricity used in public buildings is a significant element in the Authority's carbon footprint, however this is based on the average carbon content of electricity drawn from the national grid, as recorded by Central Government, and is not based on any individual electricity supply contract delivered through the national grid, be it brown (derived from fossil fuels) or green (derived from renewables) electricity.

PART 3 - SIGN OFF

- Chief Executive ☐
- Head of Service ☐
- Mayor/Cabinet Member(s) ☐
- Chief Finance Officer ☐
- Monitoring Officer ☐
- Head of Corporate Strategy and Customer Service ☐