

Lancaster City Council | Report Cover Sheet

Meeting	ICMD	Date	11.03.2021		
Title	Gas contract renewal				
Report of	Sarah Price				
Purpose of the Report					
To request that we renew our gas contract for the property portfolio via Yorkshire Purchasing Organisation (YPO) for four years.					
Key Decision (Y/N)	Y	Date of Notice	11.03.2021	Exempt (Y/N)	N

Report Summary

The report will provide known costs of the contract (only known costs as remaining costs depend upon usgae), the role of YPO, the preferred supplier, the green options available to us, and reasons why the recommendations are being made.

Recommendations

To renew the contract with Corona Energy, via YPO, for four years.

Relationship to Policy Framework

Conclusion of Impact Assessment(s), where applicable

Climate

Investigations into the procurement of green gas were made but the difference was financially significant; double the cost for 100% green gas. Efficiencies within the infrastructure would offer better, long term, impacts.

Wellbeing & Social Value

Digital

Health & Safety

Equality

Community Safety

Details of Consultation

Climate Officers (Elliott Grimshaw and Robert Boschi), finance, procurement and legal have all been involved in the consultation.

Legal Implications

Contract is being reviewed but is in line with the existing contract.

Financial Implications

As this is an operational budget for each property, the funds are already in place.

Other Resource or Risk Implications

If the use of our assets, or the infrastructure (heating, etc.), change significantly then our estimated usage will be incorrect. YPO will need to be made aware of any changes well in advance so that adjustments can be made to avoid financial penalty. Risk mitigation – this conversation with YPO is already ongoing to ensure they are well informed of potential changes; especially those at Salt Ayre.

Section 151 Officer's Comments

Departure from the recommendation may result in additional unbudgeted costs to the Council.	
Monitoring Officer's Comments	
In accordance with Contract Procedure Rules contracts with a value over £200k must be specifically authorised by the Executive. Individual Cabinet Members have delegated authority to take key decisions such as this subject to them consulting with the relevant Director.	
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Links to Background Papers	
N/A	

1.0 Report

Our current gas contract is due to expire at the end of this month (March 31st) and we are looking to renew this contract. The term is four years, as before, and we would like to continue to use YPO. The contract covers all the non-Council housing property portfolio, as well as some Council Housing properties.

The known annual cost (daily charges for supply) is estimated at £72K per annum (£288k over the four years), which is already factored into our budgets as well as an allowance for consumption based on previous years. The contract is currently with legal services to review.

Our gas and electric are currently through YPO who act as agent for us (and a number of other public bodies). They purchase in advance when prices are right and we benefit from when best prices are achieved. YPO have completed a tender exercise and the preferred supplier is Corona Energy. This is who we are currently with.

The reasons YPO would be recommended are because:

1. YPO have provided excellent service (e.g. energy advice and contract issue resolution)
2. YPO have provided consistently good contract administration
3. We don't have in-house capacity to shop around and procure bulk competitive gas tariffs
4. To change would mean seeking a supplier through tender, moving over, contract managing, and altering invoicing and processing as required – something we don't have the resources for within Property Group.

We have looked in to procuring green gas as part of this new contract (consulted Climate Officers Elliott Grimshaw and Robert Boschi) but this would have been extremely costly (double the cost for fully green gas) and advice received was to investigate efficiencies to be achieved with existing infrastructure (e.g. boiler replacements) rather than procuring green gas.

Should the option for green gas be required the following information is important to note. When we buy green gas we don't physically get the gas, rather it is fed into the network and mixed with all the other gas. However, the green tariff provides us with a certificate which states how much of our gas consumption can be attributed to biogas and also confirms that we are the sole beneficiary of the gas (or the only person who can claim the associated carbon benefits for that gas)

With that certificate we can then calculate our CO2 emissions using the conversion factors for the type of gas we have "received" rather than the conversion factor for standard natural gas.

The conversion factors for calculating CO2 are published annually by the government on <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020>.

2.0 Further detail on cost

The estimate of £72k per annum is based on the daily charge quote received from YPO/Corona. The current operational budgets allow for consumption based on previous years. Given that we hope to be coming out of the pandemic and sites will be re-opening, we feel the existing budgets are a fair reflection of what's required.

If we were to purchase green gas the costs would be as follows:

Category	Total Daily Charge for Portfolio (Daily)	Total Annual Charge for Portfolio (Annual)	Increase on baseline figure (Annual)
No Green Gas (the baseline)	£196.46	£71,707.90	n/a
50% Green Gas	£322.24	£117,617.60	£45,909.70
100% Green Gas	£448.02	£163,527.30	£91,819.40

As explained in section 1.0, officers consulted feel that the resource would be better utilised to make changes in infrastructure that see long term, positive changes at the source.

We considered whether a campaign across the Council to reduce usage would help offset the cost of green gas; however, the cost difference is too great to enable us to meet the gap. We don't feel it would be feasible to reduce consumption by half or even a quarter in order to offset the costs above.

The changes proposed at Salt Ayre will have an impact on gas and electric consumption. We have already flagged this with YPO so that we can incorporate those changes in to the contract, once more definitive figures are known.

We have a Power BI dashboard that monitors consumption for each site and associated CO2 emissions. So, we can show historically what our consumption has been, as well as monitor the impact of any changes we introduce.

3.0 Procurement

The reason we initially used YPO (and continue to) as a route to purchasing gas and electric is because it was determined that we didn't have the expertise in house to buy such a fluctuating commodity. The use of YPO and their energy expert consultants was seen as the most advantageous way of achieving best value – both in terms of cost and by joining a large 'pot' of usage for customer service. Crown Commercial Services have, in the past, had their own framework for gas and electricity but they were not as transparent as YPO when we initially looked at joining a buying organisation. As we are an associate member of YPO we do get a small dividend back on any spend we make via their frameworks. CCS and YPO are both public buying organisations who put frameworks in place for public bodies to use, but don't fulfil the contracts themselves; they seek suppliers to do so.

4.0 Options and Options Analysis (including risk assessment)

Option 1: Renew the gas contract via YPO
Advantages: We are able to continue to administer the contract and process invoices on behalf of all premises across the Council (not Council housing), with little impact on resource and operations. We know the costs associated with the contract and have budgeted accordingly. We will have continued support from YPO to help us address and solve any issues should they arise. YPO have already completed an evaluation of various suppliers before opting for Corona Energy.
Disadvantages: There hasn't been an investigation into other options that might be available to us, i.e. other agents that may offer the same service as YPO.
Risks:
Option 2: Remain with Corona Energy for a short contract period whilst the Council investigates other supplier options.
Advantages: The Council will have completed its' own tender process and have contractor control.
Disadvantages: Additional resource will be needed within the Council to carry out this work as current staffing levels are not sufficient to do this. The costs during the short period (likely one year) will be higher than the budget allowance in place as it will be out of contract prices.
Risks: This option has not been fully investigated so other advantages and disadvantages will be prevalent.
Option 3: Cease the Corporate approach to utility provision and ask that each Premises Manager takes responsibility for sourcing and managing their own gas contract.
Advantages: The responsibility and workload is spread across the Council rather than lying solely with Property Group. Each premises may source a type of contract that suits their individual site.
Disadvantages:

Every site will need to go through the process which costs time and money, rather than one department going through it on their behalf.
Some form of benchmarking would need to be in place to compare sites to ensure that one site wasn't paying unreasonable amounts in comparison to others. This would take resource from somewhere within the Council.
Additional administration costs as each site would need to deal with invoicing and contract issues, which are currently dealt with centrally in Property Group.

Risks:

This approach is likely to cost more overall, when time and resource are factored in.

4. Officer Preferred Option (and comments)

4.1 The officer preferred option is Option 1. Recognising the disadvantage with this option, the Council could consider (in the future) the appointment of an Energy Officer to carry out investigations and procurement exercises.