

Report to: EXECUTIVE CABINET

Date: 26 July 2023

Executive Member: Councillor Ward, Executive Member for Climate Emergency and Environmental Services
Councillor North, First Deputy and Executive Member for Finance Resources and Transformation

Reporting Officer: Julian Jackson, Director of Place

Subject: GAS CONTRACT RENEWAL

Report Summary: The Council's gas contract is due for review. Tameside Council currently utilises Crown Commercial Services (CCS) framework for gas supplies. Under the CCS contract, there are a number of 'basket' purchasing options available. The current basket arrangement is L6 and refers to the 6-month purchasing window that traders can purchase the commodity prior to 01 April each year. The recommended L12 basket has a longer (10-month) purchasing window prior to the start of deliver each April.

The current arrangements under the L6 basket with CCS mean that we are required to serve termination notice prior to 15 September each year if we are to leave the contract the following April, otherwise the contract rolls on for another year.

The purpose of this report is to seek approval to continue procuring under a contract with CCS for our gas supplies, and to seek approval to enter into a medium term strategy to procure gas under a L12 basket with CCS and to provide notification to move basket by 15 March 2024 in readiness to commence in April 2025.

Recommendations: The Executive Cabinet is recommended:

1. To approve the ongoing procurement of gas via the CCS framework, and
2. Enter into a medium-term strategy to move to a L12 basket with CCS at the next available date (to provide notification to move baskets by 15 March 2024). Buying of the commodity would then commence in April 2024 (12 months ahead) in readiness to for April 2025 contracted rates (L12). Noting the longer notice period for leaving the contract after transition.

Corporate Plan: All streams of the Corporate Plan are supported as this decision will secure the best allocation of valuable funds – ensuring as best as is reasonably practicable, that Council budgets are not pressured elsewhere in the organisation.

This is highlighted through one particular delivery statement from the Corporate Plan: An approach that supports the development of new investment and resourcing models, enabling collaboration with a wide range of organisations.

Policy Implications: There are no policy implications.

**Financial Implications:
(Authorised by the
statutory Section 151
Officer & Chief Finance
Officer)**

This report relates to the procurement of a gas supplier for all Council Buildings, including Local Authority maintained schools, for which schools receive their own billing and pay for their usage in full under the Scheme of Financing for Schools, for which they have delegated authority.

There is an existing revenue budget for gas of £0.308m within the Place Directorate revenue budget. The result of the decision will cause a significant cost pressure on this budget based on current forecasts. The total cost pressure arising from this decision will be £1.123m.

The budget reduction for utility cost savings, predicated on Estates rationalisation, totalled £0.078m in 2023/24 for gas.

Gas contract – Revenue Budgets £m	
2021/22 Revenue Budget Total	£0.401m
2021/22 Outturn	£0.388m
2022/23 Revenue Budget Total	£0.386m
2022/23 Outturn	£0.894m
2023/24 Revenue Budget Total	£0.308m
2023/24 Forecast	£1.431m

The Council has set aside funding in contingency for utility price inflation which will be used to offset the adverse impact in service budgets. Therefore, the impact to the overall General Fund as a result of this decision will be zero. It is prudent to ensure some level of contingency for adverse events is provided for by the Council on an ongoing basis as this reduces the reliance on one-off applications of reserves and maintains financial sustainability.

The increase in expenditure on gas has increased significantly over the last 12 months due primarily to increases in the wholesale price of gas. There have been some small increases in utilisation during 2022/23 compared to 2021/22 which is attributed to increased office working and utilisation of buildings.

	Utilisation (KwH)	Gross Costs	Average £ per KwH
2021/22	11,425,509	£387,718	£0.034
2022/23	12,140,877	£894,525	£0.074
2023/24 (Forecast)	12,140,877	£1,431,240	£0.118
% increase 21/22 vs. 23/24 Forecast	6.3%	269.1%	247.4%

The proposals set out in this report are to continue with the existing CCS framework for gas supply, but to move from a short term fixed price basket approach to a longer term approach based on a longer purchasing period. Paragraph 2.1 provides a summary of the different basket options available under the CCS Framework.

When deciding on whether to adopt a 'locked' or 'variable' basket approach, there is a balance to be sought between potential exposure to the risks and benefits of price fluctuations under a

variable basket, and the certainty provided by a locked basket approach. The graph at Figure 1 in section 2, demonstrates that historically, prior to 2023, the locked basket approach has tended to deliver a lower average price than the variable approach. The figures for 2023 are considered to be an anomaly due to the highly volatile nature of the gas market in 2022 (the purchase window for the majority of the L6 and L12 prices). If 2023 was an anomaly and trends return in 2024, then the proposal to move to an L12 basket under the CCS framework would appear to be the most cost effective option, based on historical trends, and therefore would represent value-for-money to the Council Tax and Business Rate payer.

**Legal Implications:
(Authorised by the
Borough Solicitor)**

This report has been prepared with the assistance of procurement advice from STaR to ensure that there has been a thorough review of the market and procurement options in order to inform the proposed recommendations for the council's ongoing gas supply.

Risk Management:

The deadline to give notice (should a decision be required not to remain with CCS) must be provided in writing to CCS by 15 September 2023. If we do not have a decision prior to this date, we would be obliged to stay with CCS for a further 12 months until April 2025. Deadlines to move baskets is 15 March 2024 as detailed in the report (table 3).

Access to Information:

Not confidential

Background Information:

The background papers relating to this report can be inspected by contacting Christina Morton, Environment Officer



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1. INTRODUCTION

- 1.1 Gas prices have increased significantly over recent years, by 270% over the last three financial years, under our current contract arrangements. The energy market has become extremely volatile due to a number of global political and economic forces – including supply chain disruption and the war in Eastern Europe. Before the Energy crisis, energy prices were consistently relatively low. However, the energy world has changed significantly. Prices are very volatile, and recent market conditions make it difficult to forecast future energy prices from one month to the next. The volatility creates rapid changes in the wholesale market.
- 1.2 The Council's gas consumption represents a significant but necessary cost to the Council. The volume of energy procured on behalf of Tameside is significant and in the current financial year, costs will increase by a further estimated 93%.

Table 1 provides a summary of the forecast additional cost on the Council budget in 2023/24 from Council premises. Schools are also included on the below however their utility costs are not financed by the Council's revenue budget. A small number of other sites on the contract are excluded from the summary. Cost predictions for subsequent years are not known at present but may see a small decrease as market pressures could potentially settle.

Table 1 – 2022/23 costs and 2023/24 forecast costs for Gas

	Corporate Buildings	Schools	Total
2022/23 Kwh	12,140,877	6,859,471	19,000,348
2022/23 Cost	£894,525	£527,103	£1,179,970
2023/24 Forecast Cost	£1,431,240	£843,365	£2,274,605

- 1.3 Tameside Council procures Gas through the Crown Commercial Services framework. This follows best practice and is in line with public procurement regulations. Central Government is mandated to use CCS for procurement of their energy; therefore, they have the largest energy spend of all public buying organisations. CCS have a trading team that monitors energy markets and using expertise and experience purchase energy at the most opportune moments. Independent analysis and benchmarking consistently show that CCS energy frameworks provide value for money. This does not necessarily always guarantee the cheapest price, however, does allow access to a professional energy procurement team and helps with managing the many risks around energy procurement.
- 1.4 Tameside Council currently sits in the L6 procurement basket. The L6 basket is a short-term strategy whereby energy is purchased in a six-month window, and prices are fixed for the 12 months from the 1st of April each year.
- 1.5 Due to the 6 month purchasing window within the L6 basket, it is likely prices will be higher in the current contract period (2023/2024) as wholesale prices were high over the majority of the purchase window. This is due to a number of turbulent market conditions that were ongoing at the time such as the war in Ukraine adding pressure to European energy supplies over the winter period. CCS have, handled the energy crisis well and the risk trading strategies that they adopted worked well, given how unpredictable the market was/is.
- 1.6 The Council's gas is purchased via an evergreen arrangement with Crown Commercial Services (CCS) which gives authority to them to i) buy the Council's energy 6-months in advance of the supply period; and ii) to arrange for energy to be supplied via an OJEU compliant single supplier framework for gas. As the contract arrangements are classed as 'evergreen' notice must be provided on by the 15 September each year if we want to leave the contract the following April otherwise the contract automatically renews.
- 1.7 The Council now needs to review whether the current framework provider/basket arrangements are still offering the best option for gas procurement.

2. ALTERNATIVE CCS BASKET OPTIONS

2.1 As well as the L6 basket that Tameside Council is currently in, CCS also have a number of alternative longer-term basket options, which are summarised below:



2.2 CCS allows customers to select energy product options, procurement approach and term (currently offering products that begin purchasing either 6, 12, 24 or 30 months ahead of the delivery year, with locked or variable procurement approaches for gas).

Locked strategies

2.3 For locked strategies, CCS completes buying before the delivery period starts so that the price is fixed in advance, providing a level of budget certainty for the period.

Variable strategies

2.4 For variable strategies, the CCS may continue buying into the delivery period right up to the day-ahead stage, under these strategies there is less budget certainty for the period and commodity prices will change on monthly bills.

Once customers have selected their strategy, demand is aggregated on an annual basis into 'baskets'.

2.5 CCS has put together the indicative summary example table below based on the consumption of our sites detailing estimated spend. This compares the spend, based on our consumption and the average basket rate for each of the trading strategies. If Tameside council wants to move into a different basket, the future basket comparison indicates V30 as having the highest potential savings for gas.

Table 2 below indicates entering into a longer-term contract and having a longer procurement window would mitigate some cost risk when purchasing energy.

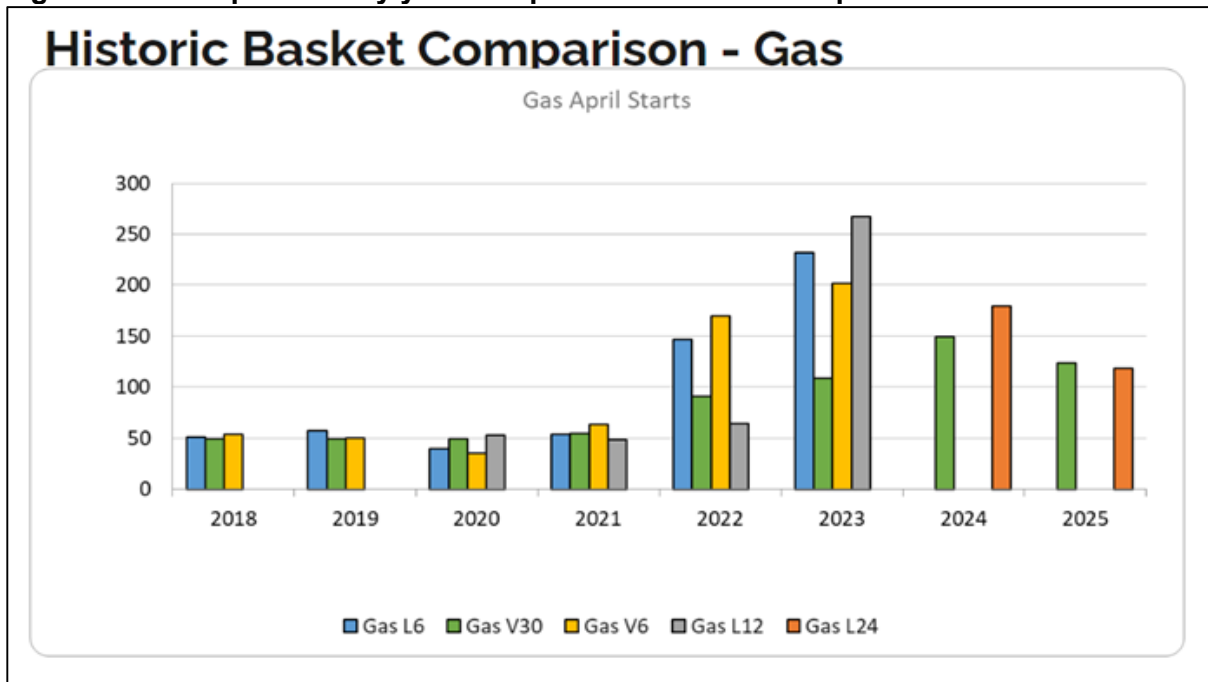
This will be updated in the next month to compare with 2023/24 prices; however, for the time being it is based on the average prices from the previous purchase report (March 23).

Table 2

Customer Name	Tameside Metropolitan Borough Council		
Gas			
Current Basket Comparison (2021 buying period for 2022 delivery)	Total Spend (£)	Cost Difference (£)	% Difference
Current Basket Mix	£1,289,114.57		
L6	£1,289,114.57	£0.00	0.00%
V6	£1,412,711.40	£123,596.83	9.59%
L12	£741,168.84	£-547,945.73	-42.51%
V30	£905,964.43	£-383,150.14	-29.72%
Gas			
Future Basket Comparison (2022 Buying period for 2023 delivery)	Total Spend (£)	Cost Difference (£)	% Difference
Current Basket Mix	£2,210,734.71		
L6	£2,210,734.71	£0.00	0.00%
V6	£1,893,502.90	£-317,231.81	-14.35%
L12	£2,297,252.43	£86,517.72	3.91%
V30	£1,086,003.75	£-1,124,730.96	-50.88%

2.6 CCS have pulled together the graph below to show the historic performance of trading in each basket over recent years. Basket L24 is a new medium term procurement option offered by CCS. As this is the first delivery year, there are no historical rates for comparison on that basket.

Figure 1 – Price per KwH by year and procurement basket option



2.7 Table 2 and figure 1 show that for L12, there is a bigger shift in price difference between 22/23 and 23/24. This is because the traders bought the majority of the L12 for 22/23 early as the prices in the market were rising. However, when it came to purchasing for this year, they were only able to buy in more volatile times. By the time trading began for L6 and V6, the market had slowed down so the prices for the short term baskets that began trading in October have lower prices this year on average. Previous years however tend to show comparable or a reduction in costs under the L12 basket compared to L6.

2.8 Table 3 below, details the length of the contract, the purchasing window, the notice period required to leave the basket, and interim recommendations.

Table 3

Current Basket	New Basket	Request Change Deadline	CCS Trading start Date	CCS Supply Start Date	Notice Period new Basket	Notes
L6	L12	15th March 2024	1st April 2024	1st April 2025	24 months minimum	Trading occurs over 12 months prior to supply instead of 6 months
L6	L24	15th March 2024	1st April 2024	1st April 2026	36 months minimum	Trading occurs over 24 months prior to supply instead of 6 months.
L6	V30	15th September 2023	1st October 2023	1st April 2026	42 months minimum	Trading occurs over 30 months prior to supply instead of 12 months. Monthly prices can show variation +/- small percentages.

2.9 It is important to note the contract start period and notice period for each basket. The contract start period for L12 is 1 April 2025 and notice to enter into this contract must be provided by 15 March 2024. This is because the trading for the L12 basket would then commence on 1 April 2024 – 12 months prior to the supply start date of 1 April 2025. The contract start date for L24 and V30 baskets is 1 April 2026. The prices from the procurement in L24 and V30 baskets would commence on the 1st April 2026 and the delivery period for these prices is 12 months.

2.10 The framework includes significant notice periods. The commitment period for the L12 basket is 24 months. The L24 and L36 baskets is 36 months and 42 months respectively. CCS have advised that if we were to move to a longer term strategy, the Council can remain in our existing strategy until that point, or transition through some of their other strategies that will begin to extend the buying window. To transition from L6 to L12 to L24, CCS would need to know by 15 March 2024. To do this Tameside would need to sign an energy purchase request with CCS which would be added to our customer access agreement reflecting the new trading strategies. CCS would then commence buying our gas volume in April 24 in those strategies. We would then move to L12 in April 25 and then L24 in April 26.

2.11 If Tameside Council entered the V30 basket and wanted to commit only to 31 March 2028 then notice would need to be given by the 20 September 2024 (42 months in advance). The L6 basket requires a notice period of just 6 months and 10 days prior to the next delivery period. Which would allow Tameside council to move to another supplier at short notice.

2.12 While considering the CCS strategies and entering into a longer-term contract, Tameside Council needs to also consider its Net Zero targets of 2038 and other energy strategies such as moving to electrified energy sources where appropriate and deploying a localised

renewable energy market as is currently being investigated by Greater Manchester Combined Authority and Partners.

- 2.13 The Council needs to consider whether entering into a long-term basket could prevent Tameside from taking advantage of any opportunities which may arise to move to a an alternative energy source or supplier quickly.

3. ALTERNATIVE OPTIONS

- 3.1 In addition to the above, STAR have also provided a basic options report detailing some pros and cons of three viable routes to market for re procurement (**Appendix 1**).
- 3.2 The options report includes a review of the Yorkshire Purchasing Framework (YPO) of whom we currently utilise for our electricity and water contracts. Crown Commercial Services (CCS) our current gas framework provider and E-energy who have recently been procured by a number of STAR authorities for gas and electricity; however, eEnergy are not a previously tried and tested approach and we do not yet know how they have performed due to the contracts being in their infancy.

4. CONCLUSION

- 4.1 Crown Commercial Services represents a reliable (tried and tested) re-procurement option in the current turbulent energy market.
- 4.2 A procurement strategy with a longer-term buying window with CCS would seem to indicate a savings potential against our current basket option due to CCS having a longer period of time to go out to market to procure the commodity at periods when costs are lower.
- 4.3 Taking the above into consideration and given the significant notification periods for the contracts for a long term strategy the Council should enter into a medium-term strategy (L12) at the next available date.

5. RECOMMENDATIONS

- 5.1 As set out at the front of the report.