



NORWICH City Council

Committee Name: Cabinet
Committee Date: 17/01/2024
Report Title: Utilities Contracts

Portfolio: Councillor Kendrick, cabinet member for resources and
Councillor Hampton, cabinet member for climate change

Report from: Head of Property and Economic Development

Wards: All Wards

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Purpose

To consider the future commissioning of utility contracts.

Recommendation

It is recommended that the Cabinet:

- 1) Agrees to enter an agreement with Crown Commercial Services to enable the Council to access their framework for utilities.
- 2) To call off from the framework referred to in 1, to procure electricity from October 2024 by entering an interim contract for the period October 2024 for 6 months to March 25; and then a fixed annual contract from April 2025.
- 3) To call off from the framework referred to in 1, to procure gas and to align both electricity and gas contracts to run for a fixed 12 month term from April 2025 to March 2026.
- 4) Agrees to continue procuring green electricity as part of the above arrangement.

Policy Framework

The Council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the corporate priority to ensure Norwich City Council is in good shape to serve the city.

Report Details

1. The council has two major energy contracts. The current gas contract is with Total Gas and Power having been awarded under a call off contract from a Crown Commercial Services framework. It is a fixed one-year term which expires in March 2024 and will continue to roll annually until terminated. The electricity contract, let through the ESPO utilities framework and supplied by Total Gas and Power, is due to expire on 30 September 2024.
2. The current electricity contract was entered into for a 4-year term and has generally represented good value with the Council benefitting from the purchasing power of the framework, as well as being protected from the price fluctuations and uncertainty within the energy markets. However, as this contract is now approaching the end date, the council needs to secure a new cost-effective arrangement.
3. The supply of gas and electricity covers a range of operational assets such as City Hall and the Halls, properties in the general fund, and communal housing properties which are re-charged to residents through their rent and service charges. As a result, it is important that the council seeks to obtain best value, where it can, to protect both the public and residents' purse.
4. The current utilities market continues to be challenging, given the global impact of events such as the war in Ukraine and the recent conflict between Israel and Palestine. The price fluctuations of utilities, particularly gas and electric, has been widely reported. Whilst geopolitical risks have been the main focus, the fundamentals of supply and demand have been rather more settled. Overall demand remains below recent years and the long-range weather forecasts are suggesting that we are likely to experience milder than normal winters. The outlook for renewable energy generation also looks positive with forecasts that our weather over Q4 will be dominated by Atlantic westerlies, which suggest strong wind speeds.
5. The council has been carefully considering its options for future procurement of supplies in light of the challenging market. The main options for procurement are either purchasing utilities ourselves versus utilising a framework.
6. Historically, the council has used frameworks to call off from. These are contracts already procured by large purchasing organisations and are made available to a range of organisations and tend to obtain better rates for councils using bulk purchasing power and their management of the market. The main two framework owners are the Eastern Shires Purchasing Organisation (ESPO) and Crown Commercial Services (CCS) although there are other smaller providers who offer utilities contracts.
7. CCS are the largest buyer in the market and therefore offer the potential for the best value. They are the largest public sector aggregator in the UK and last year purchased over 23tkw/hr (23 trillion kilowatt hours) units of gas and electricity. This has been validated to benchmarking from the Department for Energy Security and Net Zero which demonstrates that Crown Commercial Services energy rates available to customers were consistently lower than the general industry benchmark.

Current Gas Purchasing

8. The recommendation approved by cabinet on the 14th September 2022, was to enter into a 1 year fixed term deal by calling off from the CCS framework for gas supply from 1 April 2023 and to continue to explore options with regards the longer term purchasing position, alongside proposals regarding electricity.
9. The council committed to a (short term) 12 month contract, buying gas over a 6 month period (October 2022 to March 2023) at a range of future rates and then accessing gas over a 12 month contract period starting April 2023 at the rates already secured.
10. The current contract will roll annually, to see the Council purchase gas over a 6 month 'forward supply pricing basis' whilst the contract is in place i.e. for the relevant summer and winter seasons in advance.

Options for Future Electricity Purchasing

11. The council's current electricity contract expires on 30 September 2024. CCS have confirmed that by 15 March 2024, they would require the council to confirm whether it wishes to opt into its interim solution, which would see the council on a rate based on supply conditions for the period 1 October 2024 – 31 March 2025, and then on a fixed term 12 month from 1 April 2025 to 31 March 2026.
12. As a result, it is recommended at this stage that the council agrees to sign a joining agreement and to access the CCS framework for the procurement of electricity from 1st October 2024, purchasing electricity over a 6-month period from 1 October 2024 – 31 March 2025, and then on a fixed term 12 month from April 2025 to March 2026
13. One of the benefits of entering a 1-year agreement is that this presents the platform for the council to enter discussions to effectively manage its supply based on future rate fluctuations.

Alignment of Gas and Electricity contracts

14. CCS advises that its strategies for the framework are set out based on customers appetite to risk as well as individual commitment circumstances.
15. The purchase of gas is currently based on a short-term buying strategy and is market reflective, meaning that any volatility in the market will be seen in the costs that are achieved.
16. Aligning with the proposal for the electricity strategy on the longer-term strategy means that buying is conducted over 10 months instead of 6, spreading the risk. The thought process is the longer the buying period, the less risk of year-on-year price change and exposure to volatile conditions.
17. Having both gas and electricity in the same strategy will mean not only the same levels of risk exposure, but also alignment of key notice dates, greater understanding of the strategies and ease of administration.

Purchasing Options

18. CCS offer the opportunity for the Council to award a fixed or variable contract (as detailed below in Table 1). When considering the future purchasing options it is important to understand the current energy market. Wholesale gas and electricity price volatility and shifting economic conditions are creating energy bill uncertainty. The council's attitude to energy cost management aims to achieve value for money in a manner consistent with our approach to risk management. A short-term fixed contract provides budgetary certainty, reduces risks, whilst providing the flexibility to opt out, should market conditions change.

Table 1

Option	Summary	Benefits	Risks	Comments
Fixed contract	The price is fixed before the start of the delivery period	Well established approach	No benefit seen if the wholesale market falls for the fixed period	Enables council budget setting in a straightforward and transparent manner
	Bills are issued with actual prices	Budget certainty	Resource intensive procurement activity will be required for the following year	
	A flexible contract is effectively run as a fixed price contract with all the exposure fixed prior to the start of the annual contract period	Exposure to volatility is minimised, avoids peaks and troughs		
	If there is a reversal in the market and prices begin to fall, the Council will benefit from that	Limited ongoing management requirements by the council and individual depts		
Variable contract	Purchasing of defined gas or electricity blocks undertaken in line with agreed trading strategy	Well established approach	Prices not known until final transaction made	Exposure to risk in a rising market. The trading strategy should allow for exceptional or emergency purchases to mitigate potential risk
		Can manage exposure to wholesale price volatility	Does not support substantial budget certainty given seasonal trading and price setting	

		Limited ongoing management requirements by the council and individual depts	Can be resource intensive requiring ongoing monitoring for any open ended period before contracted position is finalised	
			Unless the volume is purchased ahead of delivery, can result in the use of a reference price on bills and require resource intensive bill reconciliation	
			Difficult to manage in a volatile market	
			Some variable pricing strategies may be incorrectly perceived as market speculation	
Spot prices	Secure Energy on spot prices on an interim basis	If the wholesale market stabilises and prices fall the council could benefit	Extremely intensive process requiring active monitoring	The most volatile option and not aligned to the councils budgetary objectives.
	Seek new suppliers and partners , exploring options when market conditions are perceived to improve	Longer term; access to alternative support services may be better aligned to councils objectives	Significantly higher exposure to price volatility.	
		Longer term; Purchasing options may be possible which may allow for greater flexibility and or budgetary control	Active monitoring of market conditions and time intensive procurement process.	
Procure our own contracts	Officers would be required to seek new suppliers and explore options	We would be in control of the contract terms	We would be highly unlikely to get as good value compared to using a Procurement framework	
			We do not have the same market specialisms in house	

19. Options to enter a long term fixed contract to purchase electricity over a 22 month purchase window for delivery in April 25 would have required agreement to opt in by March 2023. Given the instability and uncertainty within the market, a sensible approach was to look to enter into an interim arrangement using the

CCS framework from September 2024 through to March 2025 and then align both the gas and electricity contracts from April 2025 to March 2026.

20. Advice procured to support the previous utilities paper in September 2022, from Cornwall Insight, a local company who operate as one of the leading energy advisors in the country, concluded that. *Lower-risk approaches allow the Council to mitigate wholesale market exposure while allowing varying degrees of budget and cost certainty. Fixing prices early on may reduce the risk of exposure to wholesale market volatility, but could result in lower price opportunities being missed. As such, there is a trade-off in terms of risk and reward associated with this, or indeed any, trading decision.*

Purchase Strategy

Table 2 included below, summarises the current and proposed arrangements for the purchase of gas and electricity through the CCS framework.

Gas	Current contract	From	To	Pricing
	Purchased Gas	1st October 2022	31st March 2023	
	Delivering Gas	1st April 2023	31st March 2024	Fixed for 12 mths
	Now Purchasing	1st October 2023	31st March 2024	
	To Be Delivered	1st April 2024	31st March 2025	Fixed for 12 mths
Electricity	Proposed contract	From	To	
	Purchase Electricity	1st April 2024	30th Sept 2024	
	Deliver Electricity	1st October 2024	31st March 2025	Fixed for 6 mths
Gas and Electric	Aligned contract	From	To	
	Purchase both	1st April 2024	31st March 2025	
	Deliver both	1st April 2025	31st March 2026	Fixed for 12 mths

Options for Green Gas and Electricity

21. We have also discussed green energy with CCS. There are no effective options for purchasing green gas through their framework at present (and limited options across the sector for green frameworks that are compliant with public procurement regulations); Green gas is both expensive and its environmental credentials are questionable, and so, it is not recommended that the council looks to source green gas.
22. The Council's *current* electricity contract (procured by calling off from the ESPO framework) is 100% renewable and will be so until it expires on 30 September 2024; it is recommended that the Council continues procuring green electricity as part of any new contract it enters. The current Environmental Strategy 2020-2025, adopted by Cabinet on 8th July 2020, commits to "[ensuring] 100% of the council's energy is sourced from a "green" tariff". Likewise, the council's 2030 net-zero commitment is a *de facto* commitment to green electricity. Whilst this is not explicit in the commitment, reaching operational net-zero by 2030 without

green electricity will be practically impossible.

23. CCS' proposed additional uplift for customers from the April 2024 start date for "UK Renewable for Business" – which is specifically "sourced from a range of renewable technologies across the UK only" – is 0.85 pence per kWh. Based on consumption rates, this would mean an additional cost of approximately £70,000 per annum. Our contract will begin in October 2024, with forecast prices available nearer the time.
24. In carbon terms, based on consumption rates and DEFRA's latest emissions conversion factors, our electricity consumption equates to approximately 1,635 tonnes CO_{2e}. This is, essentially, the amount of CO₂ that will be saved by opting for green electricity. For reference, the council's total emissions at the last measurement (2021/22 financial year) was 3,610 tonnes CO_{2e}. Not opting for green electricity would thus increase our emissions by approximately 45%. Reducing 1,635 tonnes CO_{2e} for £70k is highly cost effective, working out at a carbon cost effectiveness of £41.05/tonne CO₂.
25. The green electricity provided through the CCS framework is 100% REGO backed, meaning that it is entirely legitimate to count this as zero carbon and we can be confident that it's origin is renewable sources.
26. In the near future, it might be that the Council seeks to reserve an option to procure a small portion of its electricity through new and emerging peer-to-peer trading arrangements, notwithstanding that such arrangements are acceptable in terms of the council's due diligence and procurement processes. Such arrangements have successfully been implemented by other local authorities with significant savings in cost and improvements in flexibility around low-carbon technologies. Should the council wish to pursue this option and procure energy according to a peer-to-peer arrangement then a separate paper will be brought to cabinet to consider this matter.

Consultation

27. Recharged utility costs form part of the communal areas service charges for some residents and leaseholders and also for those in sheltered accommodation that do not have individual metered supplies. All these residents receive heating and energy by way of communal heating schemes which must be recharged at actual cost. There is no requirement for formal consultation as the contract is for a 12 month period.
28. However, given that those paying service charges have no choice to opt out of these schemes it is imperative that the council considers communicating the impact of rising utility prices on them as early as possible and in ways which gives advice and support to them managing these costs.

Implications Financial and Resources

29. The current budgets for utilities costs for 22/23 and 23/24 are set out below, for information and comparison.

2022/2023	Gas (£)	Electricity (£)	Total (£)
General Fund	77,901	532,939	610,840
HRA	783,552	492,930	1,276,482
Total	861,453	1,025,869	1,887,322
2023/2024	Gas (£)	Electricity (£)	Total (£)
General Fund	284,300	1,328,530	1,612,830
HRA	3,858,993	1,308,919	5,167,912
Total	4,143,293	2,637,449	6,780,742

30. CCS and ESPO continue to provide the council with regular budgetary projections as their buyers procure from the market for gas and electricity. The most recent estimated figures reflect an overall positive position against budget for 2023/24.

2023/2024	Budget £	Estimated Spend £	Variance £
Gas	4,143,293	2,370,600	1,772,693
Electricity	2,637,449	2,758,995	-121,546
Overall	6,780,742	5,129,595	1,651,147

31. Estimated projected spend levels, including the green tariff uplift, for 2024/2025, show a further reduction, it should however be noted that future economic and political factors may impact utility prices, so this should be reflected in any overarching budget predictions. Officers will continue to work with ESPO and CCS to review budgetary projections as we move towards the new financial year.

2024/2025	Gas (£)	Electricity (£)	Total (£)
General Fund	125,737	1,301,923	1,427,660
HRA	1,445,964	1,250,867	2,696,831
Total	1,571,701	2,552,790	4,124,491

32. The council is under a formal duty to ensure that the HRA costs are recharged to service users through their rent and service charges; this includes tenants of shared areas, both HRA tenants and leaseholders, as well as district heating scheme users. As such, the costs do not impact directly on to the council, but the wider context is the potential impact of such costs on our residents.

33. The service charges made to residents are for district heating and shared heating schemes, such as communal areas for buildings and sheltered housing schemes. It is not possible for residents to opt out of these schemes and secure their own, separate utility supplies.

Legal

34. The value of the council's gas and electricity contracts mean that the council must follow the public procurement regulations 2015 in its purchase of energy. The purchasing route (call off from frameworks) provided by Crown Commercial Services are compliant with the regulations.
35. S.151 of the Commonhold and Leasehold Reform Act 2002 only requires a formal leaseholder consultation where the contract is more than 12 months; as such, no formal consultation is required for the proposals in this report. The Council will need to ensure any charges to leaseholders and HRA tenants reflect the actual cost of service provision.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	The decision on the procurement route for the purchase of utilities does not itself create equality or diversity implications.
Health, Social and Economic Impact	As highlighted above, there is the potential that the increase in utility pricing may make it more challenging for residents to be able to afford service charges. The report sets out some of the support provided by the Council to the people of Norwich in tackling the cost of living crisis
Crime and Disorder	None
Children and Adults Safeguarding	None
Environmental Impact	This report does not propose to increase the use of energy; however, not procuring green electricity will significantly increase the council's emissions. This is outlined in paragraph 19 and 24 above.

Risk Management

Risk	Consequence	Controls Required
Impact on the Council's financial position as a result of increased utility prices	<ul style="list-style-type: none"> Increased savings requirement within the MTFS Potential for increased debt in the HRA due to increase in service charges 	<ul style="list-style-type: none"> Identification of potential costs within MTFS Regular updates on budget estimates from CCS and ESPO Monitoring of debtors Ongoing support to debtors through non-commercial debt policy

Risk	Consequence	Controls Required
Impact on residents of increased service charges	<ul style="list-style-type: none"> Residents suffer hardship as a result of increased utility costs 	<ul style="list-style-type: none"> Continuing support to residents as outlined in paragraph 32 above

Other Options Considered

36. The options available to the council at this stage are set out in Table 1 and throughout this report.

Reasons for the decision/recommendation

37. The council's contracts for utilities are critical to delivering services within the council, as well as providing services to residents. It is essential that the council agrees a way forward for these contracts.

38. As this report sets out, the market for utilities continues to be challenging. The same challenges the council is facing at this time are the same as being faced by households, businesses and other parts of the public sector throughout the country.

39. This report seeks to analyse the options available to the council to ensure it is best placed to try to secure the most economically advantageous option available.

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