

WIRRAL COUNCIL

CABINET

2 FEBRUARY 2012

SUBJECT:	UTILITY CONTRACT RENEWAL
WARD/S AFFECTED:	ALL
REPORT OF:	LAW, HR & ASSET MANAGEMENT
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR BRIAN KENNY
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Members of the impact on the Council Budget of annual changes to the Council's electricity and gas supply contract prices provided under the framework agreement with Government Procurement Service following the end of the 2010/11 contracts on 30 September 2011.
- 1.2 The new contract prices have significantly increased the purchase price of energy for individual accounts. However, the disposal of properties and a number of schools attaining academy status has reduced the number of properties that have to be covered by the energy budget.
- 1.3 Cost projections have shown that it is necessary to increase the General Fund energy budget for Street Lighting by £342,000 in 2011/12 and £492,000 in 2012/13. Other budgets for Electricity and Gas are to remain unchanged. This reflects consideration of cost, energy usage projections and unit energy prices.
- 1.4 Individual Schools are likely to face increases in costs which will need to be met from within their delegated budgets.

2.0 RECOMMENDATION/S

- 2.1 That it be noted that the offer made by Government Procurement Service was competitively tendered and was accepted using Delegated Authority.
- 2.2 That the impact of the revised energy contracts be reflected in the 2011/12 General Fund energy budget for Street Lighting and the increase of £342,000 be met from the General Fund balances.
- 2.3 That the impact of the revised energy contracts be reflected in the 2012/13 General Fund energy budget for Street Lighting and the increase of £492,000 be met from the General Fund balances.
- 2.4 That schools are advised of the additional costs that will impact on their budgets.
- 2.5 That it be acknowledged that, despite changes to the budget provisions that are lower than unit price increases, individual sites will see their energy tariffs rise significantly. Managers are therefore directed to make every effort to save energy at every opportunity.

- 2.6 That it be acknowledged that no provision has been made for the 2012 contract renewals at this stage. Given the unpredictability of the markets further reports will be presented to Cabinet as information is received.
- 2.7 That the revision to the projected annual allowance cost of the Carbon Reduction Commitment for Wirral Council is noted and that the Budget for 2011/12 and 2012/13 is reduced from £532,000 to £203,613.

3.0 REASON/S FOR RECOMMENDATION/S

- 3.1 The recommendations are made to ensure sufficient budget provision to cover anticipated energy costs. Energy cost projections have been undertaken using the new tariff structures and agreed with the Department of Finance following examination of previous expenditure.
- 3.2 The Council has disposed of a number of sites and is taking actions to reduce emissions of carbon dioxide by reducing energy use. Reductions in energy use have contributed to budget changes that are lower than the energy price increases.
- 3.3 Although overall budget figures have not increased in direct proportion to the energy price increases received from the suppliers, individual sites will see energy unit costs rise significantly. Managers are therefore directed to take further steps to save energy at every opportunity.

4.0 BACKGROUND AND KEY ISSUES

4.1 Market Conditions

4.1.1 After the October 2010 prices were fixed, the market reacted to a number of significant events and prices rose sharply before purchasing for the October 2011 energy contract renewals began:

- 2010 saw the coldest December on record, during which new records were set almost daily for highest ever gas demand. December saw total gas demand at 130% of the normal seasonal levels.
- Markets then saw prices falling until the impact of the push for regime change across the Middle-East and North Africa. This saw oil prices reaching a level, taking account of currency effects, higher than the levels of July 2008.
- Finally the earthquake and tsunami in Japan caused rumours of greater demand for Liquefied Natural Gas (LNG) to substitute for closed nuclear generation, while Germany closed much of its nuclear "fleet", leading to greater demand for gas and coal.

4.1.2 The graph below shows the difference in wholesale gas and electricity prices between the buying period that determined the current (2011/12) prices and the market conditions that preceded the fixing of the 2010/11 prices. It can be seen that the wholesale prices from April 2011 were generally higher than those a year previously.



4.1.3 The Government Procurement Service market commentary notes a confused picture of the forward energy markets towards the end of summer 2011. Early forecasts of snow in October were proven wrong. The mild autumn and increased flows of gas from Norway and Holland in early October saw gas prices reaching lows that have not been seen for some time. GPS has reported that forward trading levels are low. The speculation is that many energy traders have not bought forward in significant volumes going into winter which would lead to an expectation that prices are set to stay at current levels or fall.

4.2 Contract Renewal Details

4.2.1 The energy content of the four contracts detailed below is purchased on our behalf by Utility Traders at Government Procurement Service (GPS), an executive agency of the Cabinet Office, over the six months prior to the October renewal. The individual energy suppliers then provide a dedicated customer service team to supply and administer a particular contract.

- **Non-Half Hourly Electricity Contract (NHH):** This contract is administered by British Gas Business on behalf of GPS, and is provided to sites with a maximum demand of less than 100kw of electricity in a half hourly period.
- **Half Hourly Electricity Contract (HH):** This contract is administered by EDF Energy on behalf of GPS, and is designed for sites requiring over 100kw of electricity in a half hourly period.
- **Natural Gas Contract (All Sites):** This contract is administered by Corona Energy on behalf of GPS, and supplies all sites with natural gas.
- **Street Lighting Contract:** This contract is administered by EDF Energy on behalf of GPS. It includes street lighting, associated highways lighting, traffic control systems and car parks.

4.2.2 New energy prices are accepted by GPS on Wirral Council's behalf under delegated powers first provided by a Service Level Agreement (SLA) between the Council and OGCBS (Office of Government Commerce Buying Solutions) received on 22/09/2006. The Authorised Signatory was CJB Hughes, Group Solicitor. In 2010, the SLA was superseded by a Customer Access Agreement (CAA) that covers the current renewal round.

4.2.3 The contracts normally operate for a period of twelve months from October to September each year when the prices are reviewed by GPS. Owing to contractual changes within the framework agreement over which the Council has no control, the EDF prices for HH and Street Lighting are only provided until 31 March 2012. The Council has been informed that prices covering the period 1 April 2012 to 30 September 2012 will be issued early in 2012.

4.2.4 At present, it is not possible to be certain if the EDF prices from 1 April 2012 to 30 September 2012 will rise, fall or stay the same. EDF have stated that these prices will be issued early in 2012. Once the prices are received, the impact on the budget can be assessed and any necessary increases or decreases will be reported to Cabinet as required. If the prices remain the same and no changes to the budget are required, no further report will be submitted.

4.2.5 For the reasons detailed in section 4.1 above utility prices in general have seen significant increases over the last twelve months.

4.2.6 As there are individual tariff structures within the NHH, HH and Gas contracts based on operational profiles, transportation and metering costs, each site is individually priced based on the various detailed information. Therefore the average price increase for each contract has been calculated. The Non-Half Hourly contract has seen an average increase of 19.1%; the Half Hourly contract has seen an average increase of 26.2% for the period 1 October 2011 to 31 March 2012. The average price of gas compared to last year's prices has risen by 29.6%. The contract price for street lighting has increased by 26.86% for the period 1 October 2011 to 31 March 2012.

4.3 Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES)

4.3.1 The CRCEES Reporting Update included as Item 27 of the Cabinet meeting of 8 December 2011 (Draft Minute 234 refers) showed that the estimated purchase of allowances and other operating expenses will cost £487,583. Contributions from Wirral Schools and the Pension fund of £283,970 will reduce the impact on general fund budgets. As a consequence of this the current budget of £532,000 for 2011/12 and £2012/13 can be reduced by £328,387.

5.0 RELEVANT RISKS

5.1 Overestimating or underestimating the energy budget could lead to sub optimal allocation of resources and could adversely affect resources required for the delivery of essential services. The details contained in this report are based on an assessment of expenditure as opposed to a simple increase to the budget. It assumes that energy consumption will be similar to the projections that have been calculated.

6.0 OTHER OPTIONS CONSIDERED

6.1 This report describes the annual energy tariff changes delivered by the framework agreement provided under Wirral Council's contract with Government Procurement Service. There are consequently no other options for consideration other than breaking the contract. This option is discounted as it would most likely lead to higher costs.

7.0 CONSULTATION

7.1 Consultation with the Department of Finance and the Asset Management Group concerning the content of this report has taken place.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no direct implications for voluntary, community and faith groups.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 The projected costs for 2011/12 and 2012/13 are based on energy projections. An exercise has been undertaken to compare usage and budgets. This has enabled increases in electricity and gas to be contained within existing budgets. For street lighting expenditure has been more in line with its budget and the rise in prices has been reflected in the recommended budget increase. The containment of energy increases have also been mitigated by the impact of energy efficiency measures that have been implemented over a number of years by the Council.

Service / Contract		Original Budget 2011/12	Required Budget 2011/12	Required Budget 2012/13
		£	£	£
GENERAL FUND				
Electricity		2,094,000	2,094,000	2,094,000
S/ Lighting		1,235,000	1,577,000	1,727,000
Gas		1,514,000	1,514,000	1,514,000
NET TOTALS		4,843,000	5,185,000	5,335,000
SCHOOLS				
Electricity		1,548,000	1,563,000	1,563,000
Gas		1,204,000	1,215,000	1,215,000
TOTAL IMPACT		2,752,000	2,778,000	2,778,000

9.2 Compliance with the Council's Carbon Budget will assist efforts to reduce costs further. The Sustainability Unit is working with managers and staff to reduce consumption of energy that will reduce energy costs and carbon emissions.

9.3 Use of a managed contract for buying energy can be shown to have saved the Council money. The Government assesses the Government Procurement Service (GPS) savings model for each of their 'portfolios'. The GPS energy portfolio expenditure is currently £1.3 billion for the UK of which £190 million

can be influenced. A number of specific savings areas are reported to Cabinet Office and total predicted saving nationally for 2011/12 is £30m. This represents approximately 16% of the amount that can be influenced. Assuming these relationships to apply to each Customer, they suggest the 2011/12 benefit of Wirral Council using the Government Procurement Service managed service to be approximately £232,000 in avoided cost.

- 9.4 Current financial projections for the CRC Scheme are £487,583 in 2011/12 and 2012/13, assuming the Environment Agency introduces no additional cost elements. The current budget provision is £532,000 and contributions to the Councils CRC payment are due from Wirral Schools and the Merseyside Pension Fund. A saving from the 2011/12 and 2012/13 budget of £328,387 have been recommended and reflect the costs and contributions due.

10.0 LEGAL IMPLICATIONS

- 10.1 There are no legal implications.

11.0 EQUALITIES IMPLICATIONS

- 11.1 There are no equalities implications.

- 11.2 Equality Impact Assessment (EIA)

(a) Is an EIA required? No

12.0 CARBON REDUCTION IMPLICATIONS

- 12.1 The significantly increased unit costs for energy provide an additional incentive to reduce energy use and thus reduce carbon emissions. The Sustainability Unit will ensure that Managers and Staff are made aware of the price increases and continue to provide advice and assistance that will reduce energy use and reduce carbon emissions.

- 12.2 Meeting the reduction targets set out in the Carbon Budget by rationalisation of the Council's estate and by improving energy efficiency will help to reduce the impact of higher energy tariffs.

- 12.3 The Council cannot claim emissions reduction from the purchase of renewable sources of energy, because the Electricity Generators are required to claim these emissions as part of their licence agreements. As a result, the amount of CO₂ indirectly attributable to the purchase of certified green electricity by the Council will reduce emissions by approximately 11,800t. CO₂. This will be reported in the locally published Greenhouse Gas Emissions Report that succeeds National Indicator 185 as requested by the Department of Energy and Climate Change (DECC) as part of the Single List of Central Government requirements from Local Government (2011/12).

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 13.1 There are no planning or community safety implications.

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APPENDICES

None

REFERENCE MATERIAL

Energy market and procurement report for October Locked Contracts – October 2011, Government Procurement Service

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet (CRCEES Update – Item 27)	8 December 2011
Cabinet	9 December 2010
Cabinet	14 January 2010
Cabinet	5 February 2009
Cabinet	9 July 2008