

Policy and Sustainability Committee

10.00am, Thursday, 9 July 2020

Framework Adoption and Contract Awards for the Supply of Natural Gas and Supply of Water and Waste Water Services

Executive/routine
Wards
Council Commitments

Routine

1. Recommendations

- 1.1. That Committee:
 - 1.1.1 Notes that, through national agency agreements, both for Natural Gas and for the supply of Water and Waste Water Services which the Council is a party to, the Scottish Government will, on behalf of the Council, award contracts to Total Gas & Power Ltd for the supply of natural gas and Scottish Water Business Stream Ltd for the supply of water and waste water services; and,
 - 1.1.2 Approves the provision of delegated authority for the Executive Director of Resources, in consultation with the Convenor and Vice Convenor of the Finance and Resources Committee, to approve further Contract Awards from the Scottish Government national framework agreements where an agency agreement is in place (Gas, Water and Electricity).

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Executive Director of Resources

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Report

Framework Adoption and Contract Awards for the Supply of Natural Gas and Supply of Water and Waste Water Services

2. Executive Summary

- 2.1 The Supply of Natural Gas call-off contract will initially be awarded by the Scottish Government to Total Gas & Power Ltd, on the Council's behalf, for a period of 2 years from 1 April 2020 to 31 March 2022 with an estimated value of £7.6m. The Scottish Government can extend the framework for a further 3 x 12-month periods – up to 31 March 2025.
- 2.2 The Supply of Water and Waste Water Services will initially be awarded by the Scottish Government to Scottish Water Business Stream Ltd, on the Council's behalf, for a period of 3 years from 1 April 2020 and will run until 31 March 2023 with an estimated value of £6.9m, with the option for a further 1 x 12-month period – up to 31 March 2024.
- 2.3 Cost avoidance savings calculated by the Scottish Government for The Supply of Natural Gas are estimated at 0.1693%, which forecasts a cost avoidance of £243k per annum, £486k over the two-year period for the Council.
- 2.4 Cost avoidance savings calculated by the Scottish Government for The Supply of Water and Waste Water Services are estimated at 27.48%, which forecasts a cost avoidance of £871k per annum, £2,613m over the three-year period for the Council.
- 2.5 The Agency Agreements between the Council and the Scottish Government for utilities (Gas, Electricity and Water framework agreements) have no set end date and therefore will run until the Council seeks to terminate the agreement. A 12-month notice period would be required to terminate the Gas or Electricity Agreements, with a 3-month period required for Water and Waste Water Services.

3. Background

- 3.1 The Council has Agency Agreements in place with the Scottish Government for Gas, Electricity and Water and Waste Water Services allowing the Scottish

Government to procure these utilities on the Council's behalf and on the behalf of all participating public sector organisations.

- 3.2 A new framework for the Supply of Gas to the Scottish Public Sector was awarded, on 1 April 2019, by the Scottish Government to Total Gas and Power Ltd for a period of three years with the option to extend for three 12-month periods to 31 March 2025 at the sole discretion of the Scottish Government.
- 3.3 During the first year of the framework it is available to the Scottish Government only to enable forward buying of gas. The framework became available for public sector call-off on 1 April 2020.
- 3.4 A new framework for the Supply of Water and Waste Water Services to the Scottish Public Sector was awarded, on 24 January 2020, by the Scottish Government to Scottish Water Business Stream Ltd for a period of three years from 1 April 2020 to 31 March 2023 with the option to extend for a further 12-month periods to 31 March 2024 at the sole discretion of the Scottish Government.

4. Main report

- 4.1 The Scottish Government followed a robust tendering process in accordance with Public Contracts (Scotland) Regulations 2015 to award both new framework agreements, with Total Gas & Power Ltd being the successful bidder for gas and Scottish Water Business Stream Ltd for water and waste water services.
- 4.2 The Scottish Government utilised the first year of the Gas framework for wholesale trading using a flexible purchasing model to ensure that advantageous rates are available to the Scottish Public Sector at contract start. Pre-purchase of energy continues throughout the life of the framework via a robust process and is overseen by a Risk Management Committee (comprising of representatives from Central Government, Local Authorities, NHS etc), adhering to strict rules of exposure limits and their risk management strategy. The flexible purchasing model smooths out the peaks and troughs of market fluctuations and avoids payment of a 'risk -premium' to suppliers, whilst improving budget predictability, in order to keep cost down.
- 4.3 As per the Agency Agreement between the Scottish Ministers and the Council, the Scottish Government carried out the tendering of gas and water and waste water services on the Council's behalf.
- 4.4 The Scottish Government will award contracts on behalf of the Council for gas for a 2-year period (from 1 April 2020 to 31 March 2022) and for water and waste water services for a period of 3 years (from 1 April 2020 to 31 March 2023).
- 4.5 As the Council has Agency Agreements in place, until such time as the agreements are deemed to no longer offer best value, it is requested that the Committee delegate authority to the Executive Director of Resources, in consultation with the Convenor and Vice Convenor of the Finance and Resources Committee, for approvals on the Gas, Electricity and Water and Waste Water Services framework

agreements, reporting to Committee if/when the Council wishes to issue the appropriate termination notices on the Agency Agreements.

5. Next Steps

- 5.1 The new contract pricing will take effect for both contracts on 1 April 2020 for sites within the Council estate currently registered with Total Gas & Power Ltd for gas supply and Scottish Water Business Stream Ltd for water and waste water services. Whilst the majority of non-domestic supplies are already on contract, any new sites requiring transfer will be processed for registration and access to the contract rates.

6. Financial impact

Gas:

- 6.1 The cost of gas is determined by wholesale costs of gas (which is determined by market demand and availability) as well as infrastructure charges relating to distribution. Due to a comparative drop in the cost paid for wholesale gas for 2020/21 and forecasts for 2021/22, gas charges for year 1 and year 2 of this contract are currently forecast to remain consistent with 2019/20 charges.
- 6.2 Based upon the Council's gas consumption, the 2-year contract is valued at approximately £7.6m.
- 6.3 Cost avoidance savings calculated by the Scottish Government for The Supply of Natural Gas are estimated at 0.1693%, which forecasts a cost avoidance of £243k per annum, £486k over the two-year period for the Council.
- 6.4 The savings methodologies used were based on the Scottish cross public sector benefits reporting guidance and calculations include; cost avoidance across flexible trading of wholesale gas, avoidance of paying commission to Third Part Intermediaries and favourable contract management fees.
- 6.5 Through the gas framework the Scottish Government have made cost avoidance savings by flexible trading of wholesale gas and the procurement process offered an aggregation of supplies and volumes that led to lower service cost fees for customers.
- 6.6 The billing rate for 1 April 2020 to 31 March 2021 has been fixed. Year 2 wholesale energy is still currently being traded and therefore is a forecast. It should be noted that figures are subject to change due to the nature of the commodity.

Water and Waste Water Services:

- 6.7 Based upon the Council's current usage of water and waste water services the 3-year contract is valued at approximately £6.9m. Cost avoidance savings calculated by the Scottish Government for The Supply of Water and Waste Water Services are

estimated at 27.48%, which forecasts a cost avoidance of £871k per annum, £2.613m over the three-year period for the Council.

- 6.8 The savings methodologies used were based on the Scottish cross public sector benefits reporting guidance and calculations include Price Versus Market Savings, Direct Price Based Savings and efficiency savings through added value services.
- 6.9 Utilisation of the Agency Agreements with the Scottish Ministers remain the best route to market for utility supplies through aggregated Public Sector spend and continues to offer best value to the Council.
- 6.10 The costs associated with procuring this contract are estimated to be up to £10,000.

7. Stakeholder/Community Impact

- 7.1 The Scottish Government consulted with a wide variety of stakeholders across the public sector to support increased Climate Change targets through the Scottish Governments Energy Strategy and have included the option to buy green gas.
- 7.2 Framework suppliers have indicated that they:
- Pay the Living Wage and are working toward Foundation accreditation;
 - do not operate Zero Hours contracts; and
 - are signed up to the Scottish Governments Scottish Business Pledge and currently meet or are working on the 9 Scottish Business Pledges.
- 7.3 Sustainability benefits achieved as a result of the framework include:
- a range of Energy Efficiency Services are available as additional services.
- 7.4 Community Benefits are available via the framework and engagement is set to begin in the coming months, Benefits will be recorded and measured using the Benefits system. The Community Benefits available via this framework are as follows:
- apprenticeship training programmes including apprentice schemes;
 - engagement with Scottish companies for sub-contracting works & services; and
 - funding towards community projects and supported education and training schemes.

8. Background reading/external references

- 8.1 Finance and Resources 20 March 2012, seeking approval for the Council to adopt The Scottish Government Agency Agreement - [Item 18 Agency Framework Agreements for the Purchase and Supply of Electricity and Natural Gas on Behalf of the City of Edinburgh Council](#)

- 8.2 Finance and Resources 20 March 2012 Minutes of approval (refer to No. 16) – [Minute 20 March 2012](#)

9. Appendices

- 9.1 None.