

North Lanarkshire Council

Report

Finance and Resources Committee

approval noting

Ref

Date 28/05/20

National Framework Contract for Supply of Natural Gas

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Executive Summary

The Council (and its ALEO's) have a requirement to secure a regulated provider of natural gas for use in heating and hot water systems within its operational properties, catering / cooking facilities and science laboratories in schools.

Historically, most Scottish public sector bodies (including the Council) have utilised Scottish Procurement framework contracts for their natural gas requirements. The current national framework contract for the Supply of Natural Gas that the Council participated in was procured by Scottish Procurement in 2013, awarded to Total Gas and Power Limited and expired on 31 March 2020.

Committee is asked to note the Council's continued participation in Scottish Procurement national framework contracts for natural gas supply via the new national framework contract for the Supply of Natural Gas (the "Contract") resulting from the work recently undertaken by Scottish Procurement to put in place the next generation of the national framework contract for natural gas on behalf of the Scottish public sector.

Recommendations

It is recommended that the Committee notes:

- 1.) the Council's continued participation in the 4th generation of national framework contract for the Supply of Natural Gas for its entire term as guided by Scottish Procurement

The Plan for North Lanarkshire

Priority Enhance participation, capacity, and empowerment across our communities

1. Background

- 1.1 The Council (and its ALEO's) have a requirement to secure a regulated provider of natural gas for use in heating and hot water systems within its operational properties, catering / cooking facilities and science laboratories in schools.
 - 1.2 Scottish Procurement (a division of the Scottish Government) has a remit to develop and implement procurement strategies for the national major commodities / contracts on behalf of the entire public sector in Scotland.
 - 1.3 The Council has participated in Scottish Procurement frameworks for its natural gas requirements since the initial identification and development of the first generation framework contract in 2009. Since then, two further framework contracts have been awarded with the Council participating in all three to source its natural gas requirements.
 - 1.4 The current (3rd generation) national framework contract for the Supply of Natural Gas was procured by Scottish Procurement in 2013. This framework contract was awarded to Total Gas and Power Limited and expired on 31 March 2020.
 - 1.5 Following a rigorous EU procurement process undertaken in 2019, Scottish Procurement have confirmed the next (4th) generation of the Supply of Natural Gas framework contract has again been awarded to Total Gas and Power Limited and commenced on 01 April 2020.
 - 1.6 Based on historic spend patterns and ongoing remedial action to improve consumption within the Councils operational properties, it is anticipated the Council will spend no more than £16,500,000 (averaged as £3,300,000 per annum) throughout the full term of the Contract.
 - 1.7 The Contract has been awarded again to Total Gas and Power Limited and commenced on 01 April 2020 and will cover an initial period of two years to 31 March 2022 with the option to extend for a further three one year periods until 31 March 2025.
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2. Report

- 2.1 The Council (and its ALEO's) have a requirement to secure a regulated provider of natural gas for use in heating and hot water systems within its operational properties, catering / cooking facilities and science laboratories in schools.

Through the existing contract the provider has installed a number of Automated Meter Readers (AMRs) in sites across the portfolio to ensure that billing information is accurate.

- 2.2 The Council has participated in all historic generations of natural gas collaborative contracts. Collaborative procurement by the public sector is considered to be the

most efficient and best value approach of dealing with major procurements and Scottish Procurement implement various contracts on behalf of the public sector in Scotland.

3. Equality and Diversity

3.1 Fairer Scotland Duty

The report is not about a key strategic decision and not subject to the Fairer Scotland Duty.

3.2 Equality Impact Assessment

An Equality Impact Assessment is not required.

4. Implications

4.1 Financial Impact

Based on historic spend patterns and ongoing remedial action to improve consumption within the Councils operational properties, it is anticipated the Council will spend no more than £16,500,000 (£3,300,000 per annum) throughout the full term of the Contract.

The cost of the Contract shall be met from existing revenue budgets and it is anticipated that the collaborative approach adopted by Scottish Procurement for natural gas will ensure the Council secures the best value outcome for requirements.

Savings

Scottish Procurement has advised that following analysis of costs received within the tender exercise that they expect cost avoidance savings of circa £7.9m per annum (against the anticipated £120m cumulative spend per annum) within the Contract representing a circa 6.58% saving target. Savings have been calculated by way of:

- Flexible Trading - Scottish Procurement's flexible trading of wholesale gas;
- Commission - avoidance of paying commission to Third Party Intermediaries; and
- Management Fees - favourable contract Management Fees applied

Savings have been calculated by identifying the pence per kilowatt-hour (p/kwh) for each of the three savings criteria detailed above. Using the savings methodology provided by Scottish Procurement, it is anticipated that the Council could obtain a cost avoidance saving of circa £154k per annum via the Contract

The estimated savings detailed above is based on the most recently available historical annual usage figure (91,143,977 kWh for 2018/19) and is detailed further within the table below:

Basis of Savings	Cost Avoidance Rate Advised by Scottish Procurement	Estimated Cost Avoidance Savings Per Annum
Flexible Trading	0.000783 p/kWh	£71k
Commission	0.000570 p/kWh	£52K
Management Fees	0.000340 p/kWh	£31k
Total Estimated Cost Avoidance Savings Per Annum		£154K

Estimated savings detailed above are subject to change due to the Councils demand / usage and other additional cost factors including UK government levies and the cost of wholesale gas, which may result in greater cost per kWh to those identified by Scottish Procurement.

4.2 HR/Policy/Legislative Impact

Community Benefits

Total Gas & Power have committed to a range of Community Benefits which include:

- An apprenticeship training programme, with an apprentice providing direct support to the framework.
- Sub-contract metering services to Scottish SMEs and with them to source local metering engineers and local subcontractors.
- Providing framework customers with upskilling opportunities through customer workshops, industry training and educational material.
- Working with key customer stakeholders to develop bespoke material on an annual basis that is targeted towards community education.
- Actively promoting the Better Energy School Awards, in partnership with Total Exploration and Production.

Fair Work Practices

Total Gas and Power Limited demonstrated commitment to Fair Work practices including commitment to support new and novel small firms in their supply chain

Equalities

The procurement procedure excludes any Tenderer where a complaint had been upheld after investigation by the Equality and Human Rights commission or its predecessors and a failure to take remedial action.

4.3 Environmental Impact

There are no significant environmental impacts arising from this report.

4.4 Risk Impact

There are no significant risk implications arising from this report.

5. Measures of success

5.1 The Contracts will deliver the following outcomes;

- a. the appointment of a service provider who has the experience and capability to deliver an innovative, high quality and responsive service;
- b. the Contract award procedure is compliant with the procurement legislation and internal procedures;
- c. that best value is both demonstrable and achieved;
- d. that the Contract performance is proactively managed against a number of Key Performance Indicators both nationally and locally; and
- e. a collaborative approach to the procurement of the requirement, minimising the burden on internal resource and leveraging the economies of scale.

6. Supporting documents

**The plan for North
Lanarkshire**

Enhance participation, capacity, and empowerment
across our communities



James McKinstry
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