

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE:	URGENCY COMMITTEE		
DATE:	21 ST MAY 2022	REPORT NO:	CFO/050/22
PRESENTING OFFICER	CHIEF FIRE OFFICER PHIL GARRIGAN		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	STEWART WOODS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM PROCUREMENT TEAM		
TITLE OF REPORT:	PROCUREMENT OF UTILITIES		

APPENDICES: NONE

Purpose of Report

1. To inform members of the current situation regarding the supply of electricity to Merseyside Fire and Rescue Authority (MFRA) owned properties.

Recommendation

2. It is recommended that Members;
 - a) note the contents of the report, and
 - b) agree to continue procuring utilities via the Liverpool City Council (LCC) energy contract whilst awaiting the outcome of an independent review of arrangement and therefore, approve entering into the Crown Commercial Services framework for the period from 1st July 2022 (or, if possible, sooner) until the 31st March 2023, and
 - c) instruct officers to prepare a report on the alternative options available to the Authority for the future procurement of utilities from March 2023 onwards, and
 - i. this report is to take into account the outcome of the LCC independent review into the Council's management of its electricity contract of which MFRA are an interested and affected party, and
 - ii. is to take into account the internal Audit report commissioned in response to this matter.

Introduction and Background

3. Prior to Merseyside Fire and Rescue Authority being established on 1st April 1986 by the Local Government Act 1985 which made provision for joint

authorities to be established in the major metropolitan areas following the abolition of the metropolitan county councils, all utilities were procured centrally by the county council.

4. Since 1986 MFRA have continued to procure utilities with Liverpool City Council on a legacy basis. Whilst there is no written contract or cost associated with this legacy agreement, MFRA have benefited from the specialist internal energy and carbon team within LCC.
5. MFRA do not currently have the specialist in house energy knowledge or expertise within the Authority to monitor and manage the complex energy supply market and as such have benefitted from this arrangement in the past.
6. The unit price is informally checked and benchmarked against the LCC energy provider and has always been found to be comparable, with the LCC unit price found to be cheaper over the previous 5 year contract period for both Gas and Electric.
7. Since 2011, the procurement of utilities for the seven PFI stations has been undertaken via the PFI Facilities management provider. The utilities for these stations are procured in a basket with the other 9 North West PFI stations as part of a larger basket containing other properties under the control of the PFI Facilities management contractor. A market testing exercise of the PFI utility contract takes place every three to five years dependant on the length of the energy contract.
8. The current contracts for the utilities for the PFI stations finish on 1st April 2024.
9. Members will be aware of the current situation regarding the LCC arrangements and the procurement of an electricity supplier.
10. A report was presented to LCC cabinet on 4th March 2022.
11. However, the decision taken at that time could not be carried out and as a result, the recommendations from the report needed to be withdrawn. This was due to Scottish Power withdrawing from the industrial and commercial energy market.
12. LCC energy officers carried out a review of alternative electricity supplier frameworks, and concluded that in the current exceptional turbulent market with few certainties, contracting with the government approved Commercial Services Framework (CCS) provides the support and stability the LCC requires. CCS also deals with the largest volumes of commercial public sector customers, lending itself to greater resilience.
13. The current CCS framework has an interim contract that covers the **period 1st July 2022 to 31st March 2023**. This will trade on the month ahead with an option for 50% of volume to be flexibly traded going forward should the markets fall. There is no price guarantee over the year as it is wholly market dependant. The CCS trade desk however provides the stability to manage this on the council's behalf (and therefore MFRA's behalf).

14. The CCS have a **mandatory cut-off date of the 10th June 2022** for any organisation that wishes to join the 1st of July basket to sign-up to its framework, terms and conditions and provide all the relevant supporting information.
15. LCC cabinet considered a report on the alternative electricity supply options at its meeting on the 6th May 2022, at which is approved the report's recommendation for the **procurement of Electricity supplier via the Crown Commercial Services Framework (CCS) from the 1st July 2022** (or, if possible, sooner) **until the 31st March 2023**.
16. The report also highlighted that the Gas contract has been extended via automatic renewal with Total energy until 1st April 2023. Gas unit prices were already expected to significant increase on renewal and MFRA are currently awaiting the latest bill but expect to see around 180% increase in unit costs.
17. Members of LCC expressed concerns over the control failures and errors in the process to secure an alternative electricity supplier and the Council has commissioned an independent review to report back on their findings.
18. MFRA (and LCC) since 1st April 2022 has been subject to an out of contract standard 'variable' rate **which has seen increases of 400% on the Authority's electricity costs**.
19. The Authority's electrical supply demand has been included within the "LCC basket", and can therefore transfer over to the CCS framework via the LCC contract **unless** MFRA immediately informs LCC to withdraw our capacity requirements.
20. MFRA therefore have two realistic options in the short term available
 - a) Continue with LCC and procure electricity via the CCS framework as per their recommendation, or
 - b) Withdraw from LCC basket and research the market independently and secure our own energy contract. MFRA would then stay on the current supplier's standard variable rate whilst this was negotiated.
21. Energy costs are extremely volatile at the moment due to current global events and economic conditions, and are fluctuating daily and significantly.
22. Securing an energy contract which allows MFRA to come off the Scottish Power standard variable rate in the quickest possible time is the safest and most economically beneficial option.
23. For MFRA to independently proceed to procure an energy contract would inevitably introduce further significant delays, resulting in further significant costs whilst continuing on the variable rate and potentially ending up on the same CCS framework as LCC but with potentially higher costs.

24. Officers have been in discussion with Liverpool City Council with regards to the situation and at this time we await the outcome of the independent review before making any long term commitment notwithstanding the pressing considerations now.
25. The proposed 2022/23 MFRA Internal Audit Plan includes a scheme to review how the Service manages and monitors the current non-PFI electricity contract and officers will implement any recommendations from this review.
26. If the recommendation is approved Officers will prepare a report on the options available to the Authority for the future procurement of utilities from March 2023. This report will advise Members on the outcome of the LCC independent review into the Council's failures over renewing its electricity contract. The report will consider what options are available to the Authority for the procurement of its utilities from April 2023.

Equality and Diversity Implications

27. There are no direct implications as a result of this report.

Staff Implications

28. Officers have been reviewing the options and will continue to implement the relevant recommendations and contract management.

Legal Implications

29. MFRA has a duty of care to its employees and therefore needs to ensure the supply of gas and electricity to its premises whether at a standard variable rate or under an agreement within the CCS framework. Whilst MFRA would be bound by the terms of the CCS agreement this would only be until March 2023 giving Officers time to review their position and options for the future.
30. The remaining legal implications are contained within the report.

Financial Implications & Value for Money

31. The Authority previously spent approximately £0.600m annually on electricity through the Liverpool City Council agreement and £0.180m on electricity at the PFI stations (this is under a separate contract through the PFI provider).
32. Since moving to the Scottish Power standard variable rate (from April 2022) the Authority has seen the price of electricity rise by 400% (+£2m p.a.)
33. If the Authority moves to the CCS framework, we expect to reduce the above increase to around 200% (+£1m p.a.).
34. The Authority had made budgeted provision for an increase in all utility costs within the MTFP but not at this scale. The Director of Finance & Procurement will recommend Members as part of the outturn report, to use the 2021/22

revenue underspends (expected to be around £2.0m) to increase the inflation reserve by £1.4m to cover the 2022/23 increase in electricity costs.

35. The 2023/24 budget process will consider if a permanent increase in the utility budget beyond the normal inflationary increase is necessary.

Risk Management, Health & Safety, and Environmental Implications

36. Energy costs are extremely volatile due to current global events and economic conditions. In the short term it is difficult to mitigate against this risk.
37. MFRA have commissioned an internal audit for a review of our agreement with Liverpool City Council from an Authority perspective and report back recommendations from this review for members to consider.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

38. This report enables us to ensure accountability and transparency to the public that we serve and the continued scrutiny ensures we deliver the best services we can, as economically as possible.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

MFRA	Merseyside Fire and Rescue Authority is the physical and legal entity. When writing reports MFRA is the “object”.
MFRS	Merseyside Fire and Rescue Service is the service provided by MFRA. When writing reports MFRS is the “action”
MTFP	Medium Term Financial Plan