



AGENDA ITEM

6.4

PLANNING, PERFORMANCE & FINANCE COMMITTEE

All Wales NHS Energy Governance & Procurement Management Arrangements

Date of meeting	28 th February 2023
FOI Status	Open/Public
If closed please indicate reason	Choose an item.
Prepared by	Sally May, Executive Director of Finance
Presented by	Sally May, Executive Director of Finance
Approving Executive Sponsor	Executive Director of Finance
Report purpose	FOR APPROVAL

Engagement (internal/external) undertaken to date (including receipt/consideration at Committee/group)

Committee/Group/Individuals	Date	Outcome
(Insert Name)	(DD/MM/YYYY)	Choose an item.

ACRONYMS

--	--



1. SITUATION/BACKGROUND

- 1.1 This paper outlines a proposed and recommended approach to revising the All Wales NHS Energy Governance & Procurement management arrangements for 2023/24.

Executive Summary

- 1.2 The NHS Wales procurement arrangements for purchasing Energy (Gas & Electric) have been in place since 2005 and pre-dates the current NHS organisational structure.

Given the exceptional energy price increases and volatility experienced during 2022/23, there was a review undertaken by the All Wales Directors of Finance group (AWDoFs) to consider current arrangements and how they may be strengthened and made more sustainable for the future.

The current situation has been assessed, options have been considered and benefits identified to support the recommended approach.

In addition the current Energy provider 'British Gas Business' (BGB) have confirmed they will be exiting the industrial & commercial market in the future and will not be offering a renewed contract option. As such a new provider has been sought and Crown Commercial Services are judged to offer the best option for NHS Wales.

The proposal recommended in this paper aims to:

- Continue with the All Wales 'Once for Wales' approach
- Establish a revised compliant procurement arrangement with Crown Commercial Services for NHS Wales – managed through NWSSP
- Establish a new Wales Energy Group (WEG) & a Wales Energy Operational Group (WEOG) as a sub group to the WEG, which will report to the NWSSP Board.

Recommendation

- 1.3 The Committee is recommended to approve the proposed approach to Energy procurement governance arrangements, including;
- The revised governance group arrangements, and
 - The proposed new Energy procurement contractual arrangements with Crown Commercial Services

Situation

- 1.4 The current global energy price crisis has driven significant volatility in the market place with price increases not previously experienced.

The AWDoFs group has considered the need to review and revise the current governance and procurement arrangements in light of the issues currently being experienced.

Given the historical long standing Energy management arrangements via the 'Energy Price Risk Management Group' (EPRMG), there is a recognised need to ensure future governance arrangements are appropriate and the operational management and procurement arrangements are aligned to explicit delegated responsibilities of the current NHS bodies in Wales. Additionally, a resilient and sustainable solution is required which must be less onerous and time consuming and less reliant on a few experts in order to make the process more manageable.

Background

- 1.5 Current national governance arrangements for management and procurement are described below.

All Wales NHS - Energy Price Risk Management Group (EPRMG)

- Established in 2005, when energy was administered by Welsh Health Common Services Authority (WHCSA) for NHS trusts.
- Decisions on when and how much to purchase is taken by EPRMG, chaired by an NHS Director of Finance.
- Membership from All NHS organisations and NWSSP, generally estates, procurement and finance staff
- Purchasing Strategy determined by EPRMG based on Market Analysis, Current Prices and Inherent Risk
 - Traditionally meetings held 4-6 times per annum
 - Currently on a weekly basis
 - During periods of extreme volatility in the last year – 3 meetings a week
- Daily Monitoring of prices undertaken jointly by DoF as EPRMG chair and NWSSP which allows prices to be tracked and tranches of volumes secured when appropriate – benchmarking shows strong historical performance
- EPRMG TORs suggests that the group is established as a sub group under the AWDOFs group and is "accountable to the Directors of Finance" in HBs and Trusts.

All Wales Procurement of Energy Contracts

- Procurement for All Wales Energy contracts is undertaken by NWSSP (excludes PFI and leasehold properties)
- Gas and Electricity is supplied by BGB through two All Wales Contracts
 - Power (electricity) – let 2015; extended May 2022; contract end date 31 March 2025
 - Gas – commenced 1 April 2022; contract end date 31 March 2027
- Ability to purchase Energy on a Monthly or Quarterly basis through multiple tranches
- Market Experts provide 'In Person' monthly Market Analysis and daily Market Overview Briefing documents
- Contracts permit tranches of energy to be forward purchased via the British Gas trading desk

Context

- 1.6 The current situation which is advocating the need to refresh management governance arrangements and the requirement to consider revised procurement arrangements are presented below:
- Energy Market 'spiked' inexplicably in Autumn 2021
 - Expected to be short lived because there were no underlying factors such as 'outages of processing' or shortage of supply
 - When Markets began to reduce to lower levels, Russia invaded Ukraine in Spring 2022
 - When Markets show sign of reducing to lower levels, flows by Gazprom reduce/stop
 - Supply/Demand in Europe is finely balanced due to closure of Nuclear and Coal Plants and loss of Oil and Gas supply from Russia
 - UK appears sufficiently supplied but there are pipelines for both Gas and Electricity to Europe – Energy operates on a Global price Market basis
 - The outlook and market direction for energy remains unpredictable

Between August '21 and August '22 NHS Wales energy prices rose by 670% for Gas (£44 to £281 per therm) and 484% for Electricity (£40 to £218 per Mega Watt hour) – these are prior to the non-recurrent government price cap support.

Management Governance -

- EPRMG TORs states that "representatives should have delegated authority of their respective organisations" – given the establishment in 2005 it is unclear whether this is explicitly in place for current organisation structures.

- NHS Energy Management in Wales report (Wales Audit Office, Dec-2005) notes that Welsh Health Supplies had established an energy price risk management group to agree, in advance, target price thresholds with “decision-making delegated further down the management chain than is normal”.

Procurement –

- BGB announcement in Aug-22 of withdrawal from industrial and commercial sector but will honour current contracts.
- While there is a termination period under the contract, there is an option to terminate early without penalty being discussed with BGB to allow for a new arrangement to be put in place

Resilience & Sustainability

- Expertise is limited with a potential single point of failure in the leadership of the current purchasing arrangements via EPRMG
- Meetings were 4 to 6 times per year and are now up to 3 times per week
- A refreshed arrangement is required to manage the current volatility more sustainably

Assessment & Proposal

The volatility of the current global economic environment, particularly impacted by the Ukraine crisis, is affecting the energy market globally, with significant volatility being experienced. While the UK government is supporting costs with ‘caps’, this is not recurrent and a future proofed solution is required for NHS Wales.

The key points identified above for ‘context’ support the need to refresh management arrangements for NHS Wales (this could potentially grow to Public sector Wales, but this paper focusses on proposals for NHS Wales as a priority).

An AWDofFs Task & Finish Group was established to progress a review, consider options and make recommendations.

Management Options

The AWDofFs considered several permutations and options including;

- Continuing with EPRMG in current form
- Retaining decisions at organisation level (no national procurement)
- Establishing a revised all Wales approach, with clear organisational Board delegation for decision making and monitoring

The preferred option is to establish a revised all Wales approach, with clear organisational Board delegation for decision making and monitoring. This includes;

- Advocating the continuation of the All Wales, 'Once for Wales' approach – ie. single decisions for all NHS Wales procurement.
- NWSSP Board (**NWSSPB**) to act as the oversight Board for All Wales Energy Purchasing.
- Establish a new Wales Energy Group (**WEG**) - with delegated authority to agree national purchasing decisions (ToR and membership tbc) & report to NWSSPB – to meet quarterly.
- Establish a new Wales Energy Operational Group (**WEOG**) as a sub-group to the WEG – for operational management issues (TOR and membership tbc) -to meet monthly

Procurement Options

NWSSP undertook market analysis to identify alternative service providers and contractual routes to market with a view to replace BGB as the business intelligence provider and market interface for Energy procurement.

Additional information is contained within **Appendix 1**- NWSSP Procurement Services, Contract ratification paper Public Sector Procurement Organisations (Energy Framework Agreements)

A number of public sector buying organisations (and associated Framework Agreements) were reviewed as follows:

- Crown Commercial Services (CCS)
- LASER Energy Services (operated by Kent County Council)
- North East Procurement Organisation (NEPO)
- Yorkshire Purchasing Organisation (YPO)

The largest, consolidated energy provision contractual arrangement has been identified as CCS. The combined expenditure of the remaining three organisational frameworks above and combined with a range of smaller public sector organisations is estimated to be approximately 30% of the total CCS public sector energy expenditure.

Commercial Brokers

Other NHS Trusts in England utilise commercial brokers as advised by CCS. Three of the largest are:

- Inspired Energy
- Energy Information Centre
- Inenco

CCS estimate that all commercial brokers combined would not reach 1/3 of CCS total public sector spend.



Alternative Frameworks

In addition to the above, CCS estimate that 6-8 English NHS Trusts utilise NHS Countess of Chester Hospital framework, and some Trusts source energy themselves as per NHS Wales' current arrangements.

Energy Consultancy

At present no such consultancy is available within the market outside of the energy brokerage and procurement organisation options stated above. As a consequence, the recommendation is that the WEG will be established with delegated authority to make purchasing decisions for energy. The key decisions will be around "basket selection" and are therefore anticipated to be less frequent than the current process with commitments for periods of 6 months through to 30 months dependent on type of basket selected.

Contract Proposal

The current Energy market landscape has highlighted exposure to risk of utilities supply. This has been demonstrated by a few suppliers who have dissolved over the past 12 months in particular. Additionally, the reduced number of participants within the larger I&C supply market means procurement exercises will be subject to reduced or no competition.

In addition to aggregation benefits that the CCS RM6011 framework can offer, the benefit of collaborating with other public sector organisations within the CCS family (customer base) in this time of huge energy market uncertainty will enable NHS Wales to have a protected market supply whereby the UK government can intervene in case of emergencies/force majeure. Therefore, the option to join the CCS framework should be considered.

CCS have the largest aggregated public sector energy spend in the UK with 1104 customers for supply period fy 22/23. This is made up of 34% Central Government, 35% NHS, and 31% wider public sector. For fy 21/22 approximately 60% of NHS England trusts utilised the framework. The scale of CCS energy team of circa 36-colleague would offer NHS Wales security that the sourcing of energy would be handled appropriately by a team of energy experts and analysts. CCS have indicated that their independent risk management strategy group would welcome NHS Wales colleague/s to participate in their risk strategy governance.

CCS offers several Baskets which are either locked (prices are secured prior to delivery period) or variable (purchasing continues



into the delivery period). Variable 30 is the most comparable basket compared to NHS Wales' current flexible trading arrangement. However, further information and data analysis can be provided by CCS to aid and inform the decision of basket(s) that NHS Wales may consider utilising. CCS confirmed that it is possible for different NHS sites to utilise different basket options to manage the portfolio across NHS Wales appropriately.

In addition to the basket options, there are also bespoke baskets for consideration. CCS have indicated that they would not be willing at this stage to consider creating a new bespoke basket for NHS Wales, but that the option to join existing bespoke baskets may be available. CCS have confirmed that fees for utilising the framework are charged at meter level and are based on an annual fixed fee which is paid monthly within non-commodity charges. They estimate based on NHS Wales portfolio that the annual fee would be circa. £100k.

Consideration should be taken for the reduced resource and time requirements of NHS Wales staff across the EPRMG, Energy team and finance team who are involved in purchasing strategy and currently meet weekly. This has increased to as frequent as 3-times per week at the start of the Ukraine conflict. Interaction and communication between the Energy team and BGB trading desk takes place several times per day.

The transfer of purchasing arrangements is expected to take approximately 6 months to allow for a termination of the BGB contract and the new establishment of the CCS contract.

Recommendation

- 1.7 It is recommended that NHS Wales commences negotiation with BGB to discuss the early exit of both contracts NMD-OJEU-36871 Supply of Natural Gas, and AW3642 Supply of Electricity and progresses the process of joining CCS framework RM6011 Supply of Energy and Ancillary Services for both Gas and Electricity by no later than the **15 March 2023** deadline. Consideration and insight should be given to which basket choices would be most suitable for NHS Wales' portfolio.

Benefits

The proposed changes will create a more sustainable arrangement for Energy purchasing for NHS Wales which will:

- Re-align and make explicit management governance and delegated decision making with current NHS Wales organisational structures.
- Provide clarity on the future of Energy procurement arrangements for NHS Wales



- Improve resilience in future decision making and monitoring

Conclusion

- 1.8 The proposal recommended in this paper aims to:
- Continue with the All Wales 'Once for Wales' approach
 - Establish a revised compliant procurement arrangement with Crown Commercial Services for NHS Wales – managed through NWSSP
 - Establish a new Wales Energy Group (WEG) & a Wales Energy Operational Group (WEOG) as a sub group to the WEG, which will report to the NWSSP Board.

2. IMPACT ASSESSMENT

Quality/Safety/Patient Experience implications	There are no specific quality and safety implications related to the activity outlined in this report.
Related Health and Care standard(s)	Governance, Leadership and Accountability If more than one Healthcare Standard applies please list below:
Equality Impact Assessment (EIA) completed - Please note EIAs are required for <u>all</u> new, changed or withdrawn policies and services.	Choose an item. If yes, please provide a hyperlink to the location of the completed EIA or who it would be available from in the box below. If no, please provide reasons why an EIA was not considered to be required in the box below.
Legal implications / impact	There are no specific legal implications related to the activity outlined in this report.
Resource (Capital/Revenue £/Workforce) implications / Impact	Yes (Include further detail below)
Link to Strategic Goals	Sustaining Our Future



3. RECOMMENDATION

- 3.1 The Committee is recommended to approve the proposed approach to Energy procurement governance arrangements, including:
- The revised governance group arrangements, and
 - The proposed new Energy procurement contractual arrangements with Crown Commercial Services