


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">CABINET</p> <p style="text-align: center;">9 OCTOBER 2017</p>	
<p style="text-align: center;">PROCUREMENT STRATEGY FOR THE PROVISION OF TRANSPORT FUEL</p>	
<p>Report of the Cabinet Member for Environment, Transport and Residents Services – Cllr Wesley Harcourt</p>	
<p>Open report A separate report on the exempt part of the Cabinet agenda provides financial information.</p>	
<p>Classification - For Decision</p> <p>Key Decision: Yes</p>	
<p>Consultation: The following internal stakeholders have been consulted: Legal, Procurement, Finance, and Risk Management. Procurement have been consulted throughout the development of this procurement strategy. The following external stakeholders have been consulted: LASER Energy Buying Group and ESPO Energy.</p>	
<p>Wards Affected: All</p>	
<p>Accountable Director: Nick Austin, Director for Environmental Health</p>	
<p>Report Author: Alistair Ayres, Head of Emergency Services</p>	<p>Contact Details: Tel: 020 8753 3994 E-mail: alistair.ayres@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This Council aims to be the greenest borough in the country. Air pollution and improving air quality are key areas to make this a reality. This procurement is for diesel fuel, which we recognise is not a clean fuel. However, at present the technology does not exist for large commercial vehicles, such as dust carts, to run as hybrid or electric vehicles. We are actively researching what changes we can make to our fleet in general and having discussions with contractors about greening their fleet as when vehicle contracts come up for renewal. The Council is tackling pollution in other ways such as the electric car club and the launch of a network of on street charging points and set a target of eight percent of journeys to be by bicycle in the borough. We hope that within the

next two years' technology will have progressed enough for us to review the need for diesel and use cleaner fuels.

- 1.2. The council currently buys diesel fuel for fleet and contracted service vehicles from Harvest Energy Ltd. The contract was procured in 2016 through an energy procurement framework, hosted by the LASER Energy Buying Group (who act on behalf of a number of authorities and central government departments). The current contract expires on 30th September 2018. As such, a retender exercise needs to be undertaken for a new 24 month fuel supply contract to run from 1st October 2018 to 30th September 2020. Below is detailed the procurement strategy.

2. RECOMMENDATIONS

- 2.1. To approve the procurement strategy to use LASER Energy Buying Group to procure the fuel through the new Crown Commercial Services (CCS) framework agreement.

3. PROPOSAL AND ISSUES

- 3.1. In 2017/18, the Council purchased 612,009 litres of diesel at a total cost as set out on the exempt part of this report. The majority of fuel is consumed by external customers (mostly the Council's waste and street cleansing contractor, Serco), which is sold at cost plus a mark-up. The Serco contract stipulates a 7.5% mark up. All other external customers are charged a 10% mark up.
- 3.2. The proposal is to tender through LASER Energy Buying Group, who acts on behalf of a number of authorities and central government departments to procure fuel on their behalf. The energy procurement frameworks are OJEU compliant, contracted with Kent County Council acting as a Central Purchasing body.
- 3.3. It is proposed that the tender be conducted through an open procedure using LASER Energy Buying Group to access the Crown Commercial Service Liquid Fuels Framework Agreement.
- 3.4. The actual price paid per litre for delivered fuel under this framework is made up of:
 - 3.4.1. Commodity price of the fuel (diesel)
 - 3.4.2. Duty
 - 3.4.3. Supplier margin (fixed for the contract period)
 - 3.4.4. Management charge (fixed for the contract period)
- 3.5. Under this framework the commodity element of the price of the fuel purchased is calculated by reference to the Platts Index which can change on a daily basis. The preferred option is for a weekly lagged price. Where the council is charged an average of the daily prices in the week preceding the week of delivery.

- 3.6. The successful Supplier will be required as part of the pre-approval process for the Framework Agreement, the appropriate levels of insurance and demonstrate competency.
- 3.7. Through using the framework agreement, the council benefits from a reduced price (economies of scale due to the large volume of fuel being purchased across the framework). This would not be available if the Council tendered as an individual outside of the framework agreement. A savings methodology has been approved to assess the savings made by customers having access to this flexible pricing rather than having a fixed price for the commodity element of the price. In the last year of the previous Liquid Fuels framework savings were assessed at 3.5% of total spend across the framework.
- 3.8. This procurement is for diesel fuel. It is recognised that diesel is not a green fuel. However, the vast majority of the diesel is sold onto Serco to service their fleet. At the present time there is not the requisite technology for the dust carts to operate with a greener fuel type. The Serco contract ends in 2021. It is hoped that by this time the technology will be in place to allow an alternative fuel provision.

4. REASONS FOR DECISION

- 4.1. Through using the framework agreement, the council receives a reduced price, which would not be available should we tender as an individual outside of the framework agreement. This is therefore expected to be the cheapest option for service users.

5. OPTIONS AND ANALYSIS OF OPTIONS

- 5.1. It is proposed that this procurement is based 100% on cost.
- 5.2. Option 1: Use LASER Energy Buying Group to procure the fuel through the CCS national fuels framework agreement. The Council's new fuel contract will begin on 1st October 2018 and expiring on 30th September 2019. This is the recommended option.
- 5.3. Option 2: Use ESPO Liquid Fuels Framework to procure the fuel. This is not through the CCS framework. ESPO have conducted their own tender and secured a framework agreement. This is not a recommended option as the ESPO framework for liquid fuels has only one supplier the council can access. The CCS framework has 21 suppliers. In addition the ESPO rebate cost is 0.3ppl compared to 0.25ppl through LASER Energy Buying Group.
- 5.4. Option 3: LBHF procure as an individual authority through the Capital e-Sourcing platform. If the Council procures as an individual without access to the framework, it will not benefit from the reduced costs offered through the framework (the Council's fuel consumption is too small to offer suppliers any economy of scale). This is not a recommended option.

6. CONSULTATION

- 6.1. Public consultation is not necessary for this procurement.

7. EQUALITY IMPLICATIONS

- 7.1. There are no equality implications for this procurement.

8. LEGAL IMPLICATIONS

- 8.1. The Council is not specifically named in the OJEU notice as a contracting authority that is able to access the framework, however there is a link to a list of local authorities in which the Council is named. Therefore any risk of challenge in this respect is considered low. It is understood that the mini-competition has been carried out in compliance with Regulation 33 (8) (c) of the Public Contracts Regulations 2015. Legal Services will work with officers to arrange for the execution of the Call-Off contract and the Order Form.
- 8.2. Implications verified/completed by: Babul Mukherjee - Senior Solicitor, Contracts, telephone 020 7361 3410.

9. FINANCIAL IMPLICATIONS

- 9.1. Procuring through the framework is likely to secure the cheapest price, which will benefit the users of the service. Given that fuel is sold to external customers at cost plus a mark-up, it should be noted that any reduction in cost will lead to a reduction in the mark-up income generated by the Transport service. There would need to be a significant reduction in price for this to have any material effect on income levels - based on current usage, every 1 pence reduction in price would result in circa £500 of lost income for the whole year. There are no expected budgetary savings for the council as a result of this procurement.
- 9.2. Implications completed by Kellie Gooch – Head of Finance Environmental Services, telephone 020 8753 2203.

10. IMPLICATIONS FOR BUSINESS

- 10.1. There are no implications for local businesses in the borough. There are no suppliers within LBHF who can provide this service.

11. COMMERCIAL IMPLICATIONS

- 11.1. By collaborating with other councils on joint tendering exercises the Council usually achieves savings through aggregated demand and greater economies of scale. For the most part, should these potential savings occur, this will be a positive procurement outcome for Serco who consume the majority of the diesel fuel. The saving will help maintain their lower running costs for the provision of the council's waste and street cleansing services and consequently lower the risk of the contract being overly sensitive to cost

pressures whilst the Council will still receive the income that is generated through the mark up.

11.2. By using an OJEU compliant framework it will comply with the transparency requirements.

11.3. Comments completed by Joanna Angelides - LBHF Procurement Consultant, 0208 753 2586

12. OTHER IMPLICATION PARAGRAPHS

12.1. No strategic risk management comments.

12.2. Implications completed by Mike Sloniowski - Shared Services Risk Manager, telephone 020 8753 2587.

13. BACKGROUND PAPERS USED IN PREPARING THIS REPORT

None.

LIST OF APPENDICES:

Appendix 1: BUSINESS CASE AND PROCUREMENT STRATEGY REPORT