

## **APPENDIX 1: BUSINESS CASE AND PROCUREMENT STRATEGY REPORT**

### **BUSINESS CASE**

#### **1. BUSINESS CASE – WHY THE PROCUREMENT IS NEEDED**

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 30<sup>th</sup> September 2018. As such, a retender exercise needs to be undertaken for a new 24 month fuel supply contract to run from 1<sup>st</sup> October 2018 to 30<sup>th</sup> September 2020. Below is detailed the procurement strategy.

#### **2. FINANCIAL INFORMATION**

In 2017/18, the Council purchased 612,009 litres of diesel at a total cost as set out in paragraph 3.1 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. OPTIONS APPRAISAL AND RISK ASSESSMENT**

It is proposed that this procurement is based 100% on cost.

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 1<sup>st</sup> October 2018 and expiring on 30<sup>th</sup> September 2019. This is the recommended option.

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 five suppliers. In addition the ESPO rebate cost is 0.3ppl compared to 0.25ppl through LASER Energy Buying Group.

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.

It is proposed that option 1 is taken forward on the basis that 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. Procuring through the framework is likely to secure the cheapest price, which will benefit the users of the service.

#### **4. THE MARKET**

There are no suppliers within LBHF who can provide this service.

The contract was procured in 2016 through LASER Energy Buying Group (who act on behalf of a number of authorities and central government departments) to access the Crown Commercial Service Liquid Fuels Framework Agreement.

The proposal is to tender through LASER Energy Buying Group, who acts on behalf of a number of authorities and central government departments. The energy procurement frameworks are OJEU compliant, contracted with Kent County Council acting as a Central Purchasing body.

The actual price paid per litre for delivered fuel under this framework is made up of:

- 1.1.1. Commodity price of the fuel
- 1.1.2. Duty
- 1.1.3. Supplier margin
- 1.1.4. Management charge

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.

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.

### **PROCUREMENT STRATEGY**

#### **5. CONTRACT PACKAGE, LENGTH AND SPECIFICATION**

The contract consists of fuel delivery from supplier to the Bagley's Lane Deopt only. Delivery of fuel is approximately 38,000 litres per week.

The contract will be for a period of two years from 01/10/18 to 30/09/20.

#### **6. SOCIAL VALUE, LOCAL ECONOMIC AND COMMUNITY BENEFITS**

As part of qualifying for the CCS Framework Agreement, suppliers will be required to demonstrate past and current examples of delivering social value in comparable contracts/organisations.

An example of the above is that Suppliers will need to provide assurances that as part of service delivery they will take measures to reduce their environmental impact through the use of modern vehicles and effective logistic planning. Delivery will be monitored by the Council throughout the life of the contract.

There are no suppliers within LBHF who can provide this service. The nature of this procurement is inappropriate for the provision of any apprentices or training schemes as the contract is for fuel delivery only.

## **7. OTHER STRATEGIC POLICY OBJECTIVES**

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.

## **8. STAKEHOLDER CONSULTATION**

The following internal stakeholders have been consulted: Legal, Procurement, Finance and Risk Management. These stakeholders have reviewed the report and provided comment. 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.

## **9. PROCUREMENT PROCEDURE**

The proposal is to tender through LASER Energy Buying Group, who acts on behalf of a number of authorities and central government departments. The energy procurement frameworks are OJEU compliant, contracted with Kent County Council acting as a Central Purchasing body. The procurement will be a call off from the framework agreement.

## **10. CONTRACT AWARD CRITERIA**

It is proposed that this procurement is based 100% on cost.

## **PROJECT MANAGEMENT AND GOVERNANCE**

### **11. PROJECT MANAGEMENT**

Tender will be completed through the framework agreement by LASER Energy Buying Group. LASER will send the costings and service specifications which will then be assessed by:

Alistair Ayes (Head of Emergency Services) and Roy Finan (Fleet Manager).

**12. INDICATIVE TIMETABLE**

The current contract expires on 30<sup>th</sup> September 2018. As such, a retender exercise needs to be undertaken for a new 24 month fuel supply contract to run from 1<sup>st</sup> October 2018 to 30<sup>th</sup> September 2020.

The tender through the framework will be completed no later than 31<sup>st</sup> March 2018.

**13. CONTRACT MANAGEMENT**

Alistair Ayres and Roy Finan will manage the service. Due to the nature of the procurement the contract will require little monitoring beyond monitoring fuel use and Platts price.

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