
Report to: Cabinet **Date of Meeting:** 3 December 2015

Subject: Provision of Liquid Fuels **Wards Affected:** (All Wards);

Report of: Head of Commissioning Support and Business Intelligence

Is this a Key Decision? Yes **Is it included in the Forward Plan?** Yes
Exempt/Confidential No

Purpose/Summary

To agree the approach for the procurement of Liquid Fuels for the period from 1st January 2016 to 30th September 2017

Recommendation(s)

That Cabinet agree to continue to procure Liquid Fuels through the Crown Commercial Services (CCS) Liquid Fuels Supply Framework for the period 1st January 2016 to 30th September 2017.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy	√		

Reasons for the Recommendation:

Sefton Council needs to procure substantial quantities of liquid fuels in order to operate its daily business and the level of expenditure (approximately £0.76m- £1.12m per annum) requires Cabinet approval. It is considered that the Council can best be assured of value for money in terms of price and security of supply by continued procurement through the CCS Framework.

Alternative Options Considered and Rejected:

The Council could decide not to continue procuring Liquid Fuels through the CCS Liquid Fuels Framework and instead undertake its own procurement process. This process would need to be an EU compliant procurement process and would take approximately 6 months to complete. The main risk and the reason this option has not been recommended is it is considered that the separate procurement of lower volumes of fuel (i.e. Sefton procuring fuel alone) is likely to result in a higher price, potentially greater fluctuation in price and potentially less reliable supply. If the Council was to undertake its own procurement process, it is still recommended that procurement continues through the CCS Framework whilst that procurement is undertaken, for the reasons stated above.

What will it cost and how will it be financed?

(A) Revenue Costs

The total cost of procuring through the CCS Framework is made up of *Commodity Cost* (which changes on a weekly basis and is market driven), *CCS Framework Fee* and *Supplier Margin* (both of which will remain fixed until 30th September 2017). Therefore the cost comparison shown in the report can only be regarded as indicative given the potential weekly fluctuation in the commodity cost. Based on current market conditions and current levels of fuel usage the anticipated Liquid Fuel costs are approximately £759k per annum. This compares with approximate costs of £755k in 2014/15 and £1,122,237 in 2013/14. This will be funded through existing supplies and services budgets with the relevant service areas.

(B) Capital Costs

None

Implications:

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Financial	
Legal	
Human Resources	
Equality	
1. No Equality Implication	<input checked="" type="checkbox"/>

2.	Equality Implications identified and mitigated	<input type="checkbox"/>
3.	Equality Implication identified and risk remains	<input type="checkbox"/>

Impact of the Proposals on Service Delivery:

Agreeing to the recommendation is considered the best way of securing value for money in terms of price and security of supply for liquid fuels essential for service delivery.

What consultations have taken place on the proposals and when?

The Chief Finance Officer has been consulted and comments have been incorporated into the report (FD 3909/15)

Head of Regulation and Compliance has been consulted and has no comments on the report. (LD 3192/15)

Implementation Date for the Decision

Following the expiry of the “call-in” period for the Minutes of the Cabinet Meeting

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Background Papers:

There are no background papers available for inspection

Introduction/Background

1. Sefton Council has historically sourced its Heating and Automotive Liquid Fuel requirements via a supply framework managed by Crown Commercial Service (CCS). This organisation provides centralised commercial and procurement services for Government and the UK Public Sector. CCS formed an EU compliant supply framework for the provision of Liquid Fuels. The framework was developed in partnership with the Ministry of Defence and Procurement Scotland in order to capture significant volumes of fuel usage but was also divided into Lots in such a manner that SME's would be able to bid for the business on offer across a range of geographical areas. To illustrate the size of the framework, it covers an annual spend in the region of £240m, serves over 400 customers, with a combined total of over 6,000 sites taking liquid fuel deliveries nationally. In comparison to this, Sefton Council's business alone is valued at circa £759k per annum, servicing just 13 delivery sites consisting of the Council's main vehicle depot's in Bootle and Formby, and a small number of schools and ancillary sites that still run liquid fuel fired heating systems.
2. The current CCS Framework, adopted in 2014, included provision for CCS to carry out a further EU procurement exercise, during 2015, in order to renew the pricing on the framework for the period 1st October 2015 to 30th September 2017. CCS has now carried out this further work and announced the renewed prices. Having considered the new prices and alternative courses the Council might take (e.g. undertake its own tender process) it is recommended that the Council continues to procure Liquid Fuel through the framework for the period to 30th September 2017. A Chief Officer approval is in place for the period until 31st December 2015 but in order to continue with this arrangement until September 2017, due to level of likely expenditure this entails, Cabinet approval is required. Should the Council decide to change its method of Liquid Fuel procurement, prior to September 2017, it can do so by giving each supplier under the contract, 30 days written notice of termination.

Financial Implications

3. The Framework price, per delivered litre, is made up of 3 components :
 - a) *Commodity Cost* - i.e. the market cost of the product
 - b) *CCS Framework Fee* - the commission paid to CCS for using the framework
 - c) *Supplier Margin* - this covers supply cost, distribution cost, cost of credit, suppliers overheads and suppliers profit

The Commodity Cost changes on a weekly basis and is market driven, whereas the CCS Framework Fee and Supplier Margin will remain fixed until 30th September 2017. Therefore the cost comparison shown below can only be regarded as indicative given the potential weekly fluctuation in the commodity cost.

4. The result of the CCS EU procurement exercise has:
 - Reduced the supplier margin that we pay on Biodiesel by some 10.45%, Biodiesel being the product that the Council uses most significantly.
 - Reduced the supplier margin on Kerosene by some 15.43%

- Increased the supplier margin on Gas Oil by a considerable 60.91%. The key reasons behind this is very likely falling demand, fewer locations using Gas Oil and consequently a relative increase in costs of distribution. Sefton's use of Gas Oil has reduced over a number of years and we now have just 13 sites that use this product. The product is used in aged heating systems and was prevalent in schools, for instance, but as Sefton's schools have gradually upgraded their heating systems they have moved over to mains fed gas and our consumption Gas Oil has dropped.

5. The results of the procurement exercise, based solely on current market conditions and current levels of fuel usage, are as follows :-

Product	Current Annual Cost	Anticipated Annual Cost
Heating Fuels	£146,281.17	£151,242.86
Automotive Fuels	£608,903.24	£607,904.11
TOTAL	£755,184.41	£759,147.07

6. The net effect of the procurement and adopting the Framework for the next period is that future expenditure under this framework will rise by approximately 0.52%. However, given the changes that have taken place in the oil market over the last 18 months, and the resulting effect on the commodity cost of Liquid Fuels, the Council's annual expenditure has reduced over that period by approximately 32%, from £1,122,237 per annum at April 2014 to £755,184 per annum at the present time.
7. The main risks of not continuing to procure through the Framework are that the separate procurement of lower volumes of fuel (i.e. Sefton procuring fuel alone) is likely to result in a higher price, potentially greater fluctuation in price and potentially more unreliable supply. An EU compliant procurement process would take approximately 6 months to complete, if that were considered to be the best approach, in order to ensure value for money in terms of price and security of supply, it is still recommended that procurement continues through the CCS Framework whilst that procurement process is undertaken.