

Finance and Resources Committee

10am, Thursday, 9 June 2016

Adoption of Scottish Government Liquid Fuels Framework

Item number 7.18

Report number

Executive/routine

Wards

Executive Summary

This report seeks the approval of the Finance and Resources Committee to adopt and implement the National Framework Agreement for Liquid Fuels; procured by the Scottish Government on behalf of the Scottish Public Sector, via a mini competition on the Crown Commercial Service Framework for Liquid Fuels.

The framework will be active for a period of two years, with the option to extend for a further 24 months, at 12 month intervals. Inclusive of extension, this contract may be utilised until 13 October 2019.

Over the four year period the value of the contract has been estimated at £11.2 million. This will be dependent on use and fluctuations in global oil prices.

Links

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Council Priorities [CP13](#)

Single Outcome Agreement

Adoption of Scottish Government Liquid Fuels Framework

1. Recommendations

- 1.1 It is recommended that Committee approves the adoption and implementation of the Liquid Fuels Contract, procured on behalf of the Scottish Public Sector, by the Scottish Government via mini competition. The contract is for an initial period of two years, with the option to extend for up to a further 24 months.

2. Background

- 2.1 The Crown Commercial Service established a national framework agreement for the bulk supply and delivery of liquid fuels.
- 2.2 This framework agreement was developed to replace the previous liquid fuels framework, which covered an annual spend in the region of £240million, served over 400 customers, with a combined total of over 6,000 sites taking liquid fuel deliveries. Development of the framework was undertaken in partnership with the Ministry of Defence and Scottish Government. Customer and supplier engagement was carried out prior to commencing procurement activity to ensure customer requirements were addressed and that innovation and savings opportunities included.
- 2.3 The Crown Commercial Service Liquid Fuels Framework Agreement for the bulk supply and delivery of liquid fuels takes the structure of four lots, with each lot further broken down and organised into regional areas. There are 16 suppliers over the four lots, offering the following:-
- 2.3.1 Lot 1: the supply of all types of heating oil for example, gas oil, kerosene, biodiesel etc
 - 2.3.2 Lot 2: the supply of automotive fuel including unleaded diesel and unleaded petrol
 - 2.3.3 Lot 3: the supply of marine oil
 - 2.3.4 Lot 4: a one stop shop where suppliers can offer all of the fuel types in lots 1 to 3 and national coverage. Aviation fuel can also be supplied under this lot.

Savings (the price paid - pence per litre for delivered fuel) are made up of:-

- 2.3.5 Commodity price of the fuel
 - 2.3.6 Duty
 - 2.3.7 Supplier margin
 - 2.3.8 Management charge
- 2.4 Under the Crown Commercial Service the commodity element of the price of fuel purchased is calculated by reference to the PLATTS Index (PLATTS is the leading independent provider of information and [benchmark prices for the commodities and energy markets](#)) which can change on a daily basis. An option is offered, within the framework, to select either daily or weekly lagged prices. A savings methodology was 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.
- 2.5 In order to get the most competitive price, the Scottish Government, on behalf of the Scottish Public Sector, conducted a mini competition on this national framework.
- 2.6 The City of Edinburgh Council procured its supply and delivery of liquid fuels for the previous two years through a similar agreement; a call-off contract from the Crown Commercial Service.
- 2.7 All liquid vehicular and heating fuel to the City of Edinburgh Council is provided by the Liquid Fuels Framework Agreement.

3. Main report

- 3.1 This contract encompasses the provision of liquid vehicular and heating fuel to the Council.
- 3.2 The User Intelligence Group (UIG) consulted with all member Councils and Organisations regarding the procurement strategy to be employed. As a result of the consultation, it was decided that the appropriate procurement route for the next liquid fuels contract should be another call off contract from the existing Crown Commercial Service Framework Agreement.
- 3.3 The rationale behind the UIG's decision that this tried and tested option offered the best route to market included:-
- 3.3.1 Time and resource savings would be achieved
 - 3.3.2 Local delivery efficiencies, which makes up a large proportion of fuel on-cost, could be maximised
 - 3.3.3 Competition amongst market leaders would be generated through the framework

- 3.4 In order to benefit from logistic savings, the mini competition was divided into the geographical regions outlined below:-
 - 3.4.1 Scotland North
 - 3.4.2 Scotland West
 - 3.4.3 Scotland Central
 - 3.4.4 Scotland South
- 3.5 The suppliers successful for the central region are as follows;
 - 3.5.1 Lot 1– Heating oil – Scottish Fuels
 - 3.5.2 Lot 2– Automotive Fuel – Scottish Fuels
 - 3.5.3 Lot 3– Marine Fuel – Henty Oil
 - 3.5.4 Lot 4– Aviation Fuel – Scottish Fuels
- 3.6 The Council only requires the use of Lot 1 and Lot 2.
- 3.7 Fuel prices are based on weekly PLATTS price; these are charged as an average of the daily prices in the week preceding the week of delivery. Savings are achieved by leveraging volume on supplier’s margin and delivery costs.
- 3.8 Inclusive of extension this contract can be utilised until 13 October 2019.

4. Measures of success

- 4.1 For the Council, being part of a national contract enables, through volume leverage and on-going demand, continual cost benefits against the current market costs. This allows the Council to obtain the best fuel prices at the time of ordering.

5. Financial impact

- 5.1 The estimated value of this contract is £11.2 million. However, due to fluctuations of global oil prices it is customary for this figure to vary.
- 5.2 Savings are made on delivery and supplier margins as fuel price is based on weekly PLATTS.
- 5.3 Potential savings have been calculated against figures from financial year 2014/15. The approximate volume of liquid fuel purchased in this period was 2,808,067 litres, if broken down by type, this equates to:-
 - 5.3.1 Diesel - 2,375,256 litres
 - 5.3.2 Gas Oil – 386, 953 litres
 - 5.3.3 Unleaded – 45,858 litres
- 5.4 Per annum savings are estimated at £48,939.65. Over the contract term it is anticipated that a saving of around £195,759.00 can be achieved.

- 5.5 Heating oil prices are subject to constant change, prices reflect demand, which naturally increases during the colder months. Therefore, it should be noted that, the unpredictability of seasonal weather makes it impossible to accurately calculate future usage; consequently actual savings could diverge from those outlined above.
- 5.6 Budget is in place for the initial contract term, however, if the extension is utilised there will be a requirement for consideration within the budget of financial years 2018/19 and 2019/20 for this spend.
- 5.7 The costs associated with procuring this contract are estimated at up to £10,000.

6. Risk, policy, compliance and governance impact

- 6.1 A Fleet Services will be responsible for the contract management including monitoring performance of the contract throughout the term.

7. Equalities impact

- 7.1 There is no relationship to the public sector general equality duty to the matters described in this report and no direct equalities impact arising from this report.

8. Sustainability impact

- 8.1 By procuring fuel as part of national contract, group rates are achieved, ensuring best price and reducing vehicle and property running costs.
- 8.2 It should be recognised that with the Council's continual efforts to move towards more environmentally friendly methods of transport (for example electric vehicles and more efficient fleet) fuel consumption should see a reduction, whilst realising increased environmental sustainability.

9. Consultation and engagement

- 9.1 Scottish Government held cross Public Sector User Intelligence Groups of which the Council was represented by an officer from Fleet Services.

10. Background reading/external references

- 10.1 N/A

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11. Links

Coalition Pledges	P30 - Continue to maintain a sound financial position including long-term financial planning
Council Priorities	CP13 - Transformation, Workforce, Citizen & partner engagement, Budget
Single Outcome Agreement	N/A
Appendices	N/A