

Report of: Facilities Management Business Manager

To: Executive Board

Date: 8th October 2007

Item No:

Title of Report : Award of Contract for the Supply of Motor Fuel



Summary and Recommendations



Purpose of report: To request delegated powers for the Strategic Director for the Physical Environment to award a contract to provide Motor Fuel to Oxford City Council.

Key decision: YES

Portfolio Holder: Councillor Jim Campbell, Better Finances

Deputy Responsibility: Finance Scrutiny Committee


Ward(s) affected: All

Report Approved by:

 Councillor Jim Campbell

 Mark Luntley, Strategic Director of Finance and Corporate Services

 Aaron Cosgrove, Strategic Director for the Physical Environment

 Nichol Stretton, Finance and Asset Management

 Lindsay Cane, Legal and Democratic Services

 Colin Bailey, Business Manager City Works



Policy Framework: Oxford City Council Corporate Plan

- Be an effective and responsive organisation, providing value for money services.



Recommendation(s):

That the Executive Board agrees:

- 1. To award a contract to Silver Group Fuels Limited to provide biodiesel to Oxford City Council.**
- 2. To award a contract to Pace Petroleum Limited to provide unleaded petrol and kerosene to Oxford City Council.**
- 3. That the proposed contract will be for 18 months starting on 1st November 2007 with an option to extend for up to 1 further year.**

1 Background

- 1.1 Further to the passing of resolution 149 (3) at the Executive Board Meeting on Monday 6th November 2006, namely that 'Major Project Approval be granted to seek new arrangements for the purchase of bio fuels and additives', an open tender process in accordance with the EU Procurement regime was put in place.
- 1.2 The Council purchases an average of 500,000 litres of diesel, 120,000 litres of unleaded petrol, 30,000 litres of ultra low sulphur gas oil and 5,000 litres of kerosene per annum.
- 1.3 The Council currently purchases diesel, unleaded petrol and kerosene via Oxfordshire County Council's party to the Central Buying Consortium (CBC) contract with Pace Petroleum Limited. The ultra low sulphur gas oil is purchased from Greenergy as Pace is unable to supply it.
- 1.4 It was agreed by the City Works team that the tender should seek agreements not only for the supply of biodiesel but the other three major motor fuels currently purchased by the Council, as it was felt this may provide an opportunity for savings.
- 1.5 Further to the Executive Board's approval in November 2006 of the purchase of bio fuels Pace, Petroleum agreed to supply a 5% blend of biodiesel under the CBC contract, but advised that the contract would not allow for the supply of higher blends. As a result, all of the Council's diesel powered fleet has been transferred to a 5% blend of biodiesel.
- 1.6 Provision is also being made to supply vehicles where the manufacturer's warranty allows a 30% blend of biodiesel. The Council has also purchased a Euro 4 diesel recycling vehicle that has been adjusted to work on 100% biodiesel. As a result of this need for flexibility, the changing needs of the diesel fleet and the emerging nature of the biodiesel market (with the presence of independent

biodiesel producers unable to supply the other fuels), it was decided to offer the tender in two lots – Lot A being biodiesel blends from 5% up to 100% pure biodiesel and Lot B being the other 3 main fuels.

- 1.7 Further to discussions with other public sector partners, it was agreed that Oxford City Council should be the lead authority in a shared contract agreement with Cherwell District Council with other local authorities in Oxfordshire having the option to join the agreement at a later stage. Each authority will have the responsibility of managing its own contract.

2 Tender Process and Evaluation

- 2.1 An advertisement was placed in the local press, our website and other national websites, a professional journal and the Official Journal of the European Union in May 2007. This contract attracted a good deal of interest both locally and nationally with 17 requests for tender packs.
- 2.2 In spite of the initial interest in the contract only two tenders were received. The feedback received from the companies who decided not to submit a tender referred to the specialist requirements of Lot A (i.e. companies were happy to supply the standard 5% biodiesel blend but were not currently in a position to supply the higher blends or pure biodiesel) and the problems of cost-effective supply of the low volume requirements of Lot B in the Oxford region.
- 2.3 The two tenders received were marked on a 60 / 40 split, with 60% based on the quality of the submission and 40% based on the pricing, where quality included financial competency, technical capability, sustainability and innovation. Marks awarded for innovation were attributed to the reduction in the environmental impact and risk management of the production and delivery of fuel to our fleet of vehicles.
- 2.4 The Specification made it clear that the onus is on the supplier to provide a guarantee that all biodiesel supplied is from a sustainable resource and has not resulted in deforestation, providing upon request evidence of the source for all biodiesel supplied by the company.
- 2.5 The prices submitted for everything apart from blends of biodiesel above 5% were based upon adding a supplier margin to the weekly lagged Platts price index (the international benchmark for fuel prices) and the duty payable for each fuel type. This both allows for the simple benchmarking of prices against those currently paid under the CBC contract and ensures that we receive a competitive price throughout the lifetime of the contract based upon a fixed margin. Prices submitted for blends of biodiesel higher than 5% were fixed for three months, as there is currently no international benchmark for biodiesel.
- 2.6 Having evaluated the two tenders, it was decided that both the pricing and the quality of service on offer warranted inviting both companies to

give presentations. Both companies answered in-depth questions on how their organisations would provide innovative solutions to reducing the Council's environmental impact, fulfilling a policy of sustainable procurement.

- 2.7 The evaluation panel, consisting of Paul Einon (Transport Fleet Officer, Oxford City Council), David Cookson (Fleet Technical Support Coordinator, Oxford City Council), Stuart Cruickshank (Transport Manager, Cherwell District Council) and Viv Hichens (Procurement Officer, Oxford City Council), agreed unanimously to recommend that the Council award contracts both for lots A and B, as follows:
1. Award a contract to Silver Group Fuels Limited to provide biodiesel in blends of 5% to pure biodiesel to Oxford City Council.
 2. Award a contract to Pace Petroleum Limited to provide unleaded petrol and kerosene to Oxford City Council.
- 2.8 As previously advised, Pace Petroleum are unable to supply ultra low sulphur gas oil and so the Council will continue to source the small annual expenditure of around £1600 per annum on this product with Greenergy.
- 2.9 The key benefits of the contract with Silver Group Fuels Limited are:
- Flexible contract for the supply to various sites of any amount from 1,000 to 30,000 litres per delivery of biodiesel in blends from 5% up to 100% pure biodiesel.
 - Silver holds a low impact Integrated Pollution Prevention Control permit demonstrating a high standard of environmental protection.
 - Local company based in Banbury that has put in place the following measures to reduce its carbon footprint:
 - Uses 100% pure biodiesel in its delivery vehicles.
 - 80% of suppliers are based within 30 miles of the plant with its furthest supplier being only 80 miles away.
 - Has a trading agreement with a local farmer for the supply of ready crushed rapeseed oil.
 - Receives much of its feedstock hot from local suppliers to reduce the energy used in the production process.
 - Recovers methanol from the production process for selling on instead of washing away, as done by many biodiesel producers.
 - Projected annual savings of over £6,000 per annum based on current usage levels.
- 2.10 The key benefits of the contract with Pace Petroleum Limited are:
- National supplier with a local presence via its depot in Banbury.
 - Currently rolling out a VISIT delivery planning system for more effective routing of deliveries to reduce impact of delivery tankers on the environment.

- Projected annual savings of over £3,000 per annum based on current usage levels.
- 2.11 Please note that the bulk supply of fuel is a high volume / low margin business with the difference in margins being between 2 and 4 pence per litre, meaning that the savings to be gained even on the supply of 500,000 litres per annum of diesel amount to relatively small sums – e.g. if we are charged 79 pence per litre of 5% biodiesel, around 27 pence is the cost of producing the fuel, 48.35 pence is paid on duty and the supplier is left with 3.65 pence per litre to cover delivery, staffing, etc while still making a profit. So even if we squeeze another half a pence out of the margin that will only amount to a saving of £2,500 per annum.

3 Other Options

3.1 The Constitution and Procurement Strategy advises that the Executive Board considers what other options are available before giving major project approval and awarding a contract over 100K. These are detailed below.

3.2 Continue as we are

- If we are to provide biodiesel in blends higher than 5% the continuation of our current contract is not an option and we need to seek an alternative.
- If we continue to source our unleaded petrol via the CBC contract we will miss the opportunity for savings.

3.3 Set up a framework agreement with a number of suppliers

- Due to the high volume / low margin nature of the business it is not viable to enter into a framework agreement.
- The hypothesis of structuring the tender in two lots has proved the right one as our preferred supplier for the supply of biodiesel is unable to supply us with other fuels.

3.4 Use a contract set up by another organisation

- A fair amount of research was done into available contracts and it was found that the current Office of Government Commerce (OGC), Eastern Shires Purchasing Organisation (ESPO) and Yorkshire Purchasing Organisation (YPO) contracts do not currently have provisions for the supply of biodiesel in blends higher than 5%.
- To add to this, research showed that other local authorities of a similar size who had benchmarked prices on offer from organisations such as OGC did not produce savings on the prices achieved via their own tenders, particularly due to the low margin nature of the business.

4 Benefits of this contract

- 4.1 Substantial reduction in the Council's carbon footprint as some 30 vehicles in our fleet will be able to move over to 30% biodiesel immediately with the facility to test our new 100% biodiesel capable recycling vehicle. The aim is to increase the percentage of vehicles that will take higher blends and even 100% biodiesel in the future to further reduce the impact on the environment.
- 4.2 Further reductions in the environmental impact of the supply of fuel for fleet by working with a local company that has a raft of measures in place to reduce its own carbon footprint:
- Uses 100% pure biodiesel in its delivery vehicles.
 - 80% of suppliers are based within 30 miles of the plant with its furthest supplier being only 80 miles away.
 - Has a trading agreement with a local farmer for the supply of ready crushed rapeseed oil.
 - Receives much of its feedstock hot from local suppliers to reduce the energy used in the production process.
 - Recovers methanol from the processing for selling on instead of washing away, as done by many biodiesel producers.
- 4.3 Projected initial total annual savings of more than £9,000 per annum. These savings will remain the same in spite of fluctuations in overall fuel price levels as the margin being paid via these new contracts is less than that paid under the current contracts. Should the Council continue to invest in 100% pure biodiesel vehicles there is the potential for even greater savings due to the reduced duty paid on bio fuels.

5 Financial Implications

- 5.1 See point 4.3 above.
- 5.2 Vehicles using greater than the 5% blend of biodiesel do incur minor additional maintenance costs due to a 25% increase in the frequency of fuel filter changes. If the whole refuse fleet were to change to a blend of more than 5% the extra costs would not exceed £1500 per annum.

6 Legal Implications

- 6.1 There are no legal implications as this contract has been tendered in accordance with the EU procurement regime.

7 Staffing Implications

- 7.1 There are no staffing implications.

8 Other means of achieving this objective

- 8.1 Other means of achieving this objective are explained in paragraph 3.

9 Recommendation

That the Executive Board agrees:

- 9.1. To award a contract to Silver Group Fuels Limited to provide biodiesel to Oxford City Council.**
- 9.2 To award a contract to Pace Petroleum Limited to provide unleaded petrol and kerosene to Oxford City Council.**
- 9.3 That the proposed contract will be for 18 months starting on 1st November 2007 with an option to extend for up to 1 further year.**

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Background papers:

None.