

BUDGET AND PERFORMANCE PANEL

Whole Life Costing in Procurement 07 September 2010

Report of Procurement Manager

PURPOSE OF REPORT

To provide Members with an update on the use of Whole Life Costing within the Council.

This report is public

RECOMMENDATIONS

(1) **That the report be noted.**

1.0 Introduction

1.1 Whole life costing typically involves recognising the lifetime costs of acquiring an asset rather than simply focusing on the initial purchase price or capital cost. The latter scenario can result in the purchase of an apparently low cost asset, which proves more expensive in the long run taking account of the asset's useful life.

1.2 Lancaster City Council acknowledged some time ago that simply accepting the cheapest tender was not always in the best interests of the authority and the public it served. As a result, the authority amended its Contract Procedure Rules to reflect that a Responsible Spending Officer could, where appropriate, define criteria that provide for the most economically advantageous offer being determined (where considerations other than purchase price also apply). Additionally a document titled – A Guide to Whole Life Costing was published to accompany the LAMP (Lancaster's Approach to Managing Projects) documentation – see **Appendix**.

2.0 What is Whole Life Costing?

2.1 The process of determining the whole life costs needs to take account of the total cost of an asset over its life, from determining the need for it through to its eventual disposal and replacement. It includes the costs of maintaining and operating the asset, as well as the purchase (or lease) price and the cost of consumables.

2.2 The methodology often uses net present values (NPV) to enable comparison to be made between the whole life costing of different options. Present value (PV) is the capitalised value of a stream of future costs or benefits. It enables the cost of revenue streams of different options to be put on to a comparable footing by

expressing them in terms of their current-day value. NPV describes the net value of a stream of costs and a stream of benefits.

- 2.3 Ideally whole life costing should be applied at a strategic level to assess different options (for example, do nothing, new build or refurbishment) and should also be used to assess tenders. It should be used to compare the costs of buying, renting or leasing an asset.
- 2.4 Most people make decisions that incorporate aspects of the whole life costing approach. For example, they might choose a car based on the selling price, their personal taste and its fuel economy. Whole life costing provides a framework for comparing these different aspects objectively. It requires those involved in procurement decisions to specify and understand from the outset how the asset will be used. This in turn helps to define the technical specification, what will be required to support it, and for how long.

3.0 Application of Whole Life Costing

- 3.1 The whole life costing principles set out above have already been adopted and applied by the Council in various scenarios. Some examples include the half yearly evaluation of vehicle fleet procurement, Access to Services, HRA 30-year Business Plan, Council Housing re-fencing works and also Lancaster Market options.
- 3.2 A recent review has shown that whole life costing is being undertaken, sometimes formally and sometimes the considerations are not formally being recorded but are undertaken. Sometimes though, whole life costing has not been used when constructing the evaluation criteria for a tender exercise.
- 3.3 Under EU rules criteria within tender documentation has to be very specific and measurable. This practice gives officers the opportunity to gather very specific information to compare, evaluate and score and then to determine which tender is the most favourable to the Council. The different criteria are scored individually though, rather than combining the evaluation results to indicate necessarily a 'whole life' score.

4.0 Conclusion

- 4.1 Whole life costing is a valuable options appraisal tool that can be used to good effect in some procurement and evaluation processes. However, it must be recognised that it is not relevant to all forms of procurement and should only be used where it is appropriate and adds value to the process.
- 4.2 Whole life costing is being undertaken by the Council but not necessarily on a consistent basis. Officers are currently drawing together a programme of training to provide guidance on Sustainable Procurement for different levels of purchasing, and it is planned that whole life costing will be included within this training. Regarding more general options appraisal and decision-making, whole life costing is provided for in current internal arrangements but again it will be covered in future training events.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

None directly arising from this report.

FINANCIAL IMPLICATIONS

None directly arising from the report, though actions to improve the appropriate usage of whole life costing should support better value for money being achieved in future procurement exercises.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to add.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments to add.

BACKGROUND PAPERS

None.

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