

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 3 October 2016	<b>Meeting:</b> Cabinet Member for Environment and the Public Realm
<b>Report title:</b>		Gateway 2 Contract Award Approval Leased Cars	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Environment and Leisure	

## RECOMMENDATIONS

1. That the Cabinet Member for Environment and the Public Realm approves the use of Crown Commercial Services framework RM3710, including any new framework that directly replaces it, to procure staff lease cars up to a total value of £3.4m for a period of three years commencing 19 October 2016.
2. That the Cabinet Member for Environment and the Public Realm notes the added environmental benefits and financial savings that will be obtained in relation to a reduced carbon dioxide emissions cap and new insurance group cap.
3. That the Cabinet Member for Environment and the Public Realm notes the requirement for the council to register to use the Crown Commercial Services framework RM3710.
4. That the Cabinet Member for Environment and the Public Realm notes that all lease cars procured under this framework will be compliant with the requirements of the Ultra Low Emission Zone which will be implemented in the congestion zone area from September 2020.

## BACKGROUND INFORMATION

5. The Gateway 1 Procurement Strategy Approval – Lease Cars Cabinet report of June 2016 recommended the provision of lease cars for eligible staff through the use of a single third party framework agreement for a period of three years and up to a value of £3.4m.
6. The last lease car contract operated by the council expired on 31<sup>st</sup> March 2016. Lease car contracts cannot be extended and so interim measures have been put in place, to ensure the service is complying with CSOs and legal requirements, to procure lease cars pending the outcome of this report.

## Procurement project plan (Key Decision)

Activity	Completed by / Complete by:
Approval of Gateway 1: Procurement Strategy Report	21/06/2016
Council evaluation of framework agreements	05/07/2016
Selection of a single preferred third party framework agreement	05/07/2016
Review Gateway 2: Contract Award Report DCRB CCRB	25/08/2015 01/09/2016
Notification of forthcoming decision	
Approval of Gateway 2: Procurement Strategy Report	11/10/2016
End of Scrutiny Call-in period and notification of implementation of Gateway 2 decision	18/10/2016
Start date of council use of fleet frameworks	19/10/2016
Contract completion date	A series of contracts will be completed during the period 19/10/2016 to 18/10/2019 following mini-competitions within framework agreement

## KEY ISSUES FOR CONSIDERATION

### Description of procurement outcomes

7. As noted in the Gateway 1, there are currently three fleet framework agreements available for the council to use for procurement of lease cars and all have been procured under the requirements of OJEU. These framework agreements are as follows:

- Crown Commercial Service RM3710 (CCS)
- Halton Housing Trust (HHT)
- Yorkshire Purchasing Organisation 367 (YPO)

The details of these fleet framework agreements, including OJEU notice and contract award numbers, term and the number and names of suppliers, are shown in Appendix A.

8. The Crown Commercial Services and Yorkshire Purchasing Organisation frameworks are managed in-house by those organisations. The Halton Housing Trust framework is managed on their behalf by Capita Asset Services as part of The Procurement Partnership Ltd. The frameworks operate over a period of three or four years with no extension provision. All framework hosts have confirmed that it is their intention to procure new framework agreements to replace those that expire during the three years that the council intends to use them.

9. Feedback from framework users and suppliers is used to develop and improve the way that framework agreements operate. This process ensures that as framework agreements are updated and renewed they are fit for purpose and work effectively. The cycle of framework renewal also provides for the benefits of development in vehicle technology and efficiency to be captured when ordering new lease cars. This ensures that staff have access to the most up to date, alternative fuel vehicles with the lowest emissions.
10. Each framework agreement has a set of terms and conditions, call-off arrangements, monitoring, management and key performance indicators. Many of these are common to all or several of the framework agreements. Others are unique to individual framework agreements. It is essential that the terms and conditions of any contracts entered into under the framework agreements are consistent with the council's Contract Standing Orders and meet the needs and risk levels of the council.
11. As agreed in the Gateway 1 report, the best procurement outcomes will be achieved by using one of the available fleet frameworks to procure all lease cars required for the three year period, and therefore since the Gateway 1 approval the three frameworks have been reviewed to consider which is most appropriate to use, detail of which are noted below.

#### **Description of framework evaluation**

12. An evaluation of the three frameworks has been undertaken to examine a range of factors as follows:
  - the tender process used by the organisation offering the framework agreement and the evaluation criteria used for selecting suppliers
  - the standard framework terms and conditions and lease contract arrangements
  - ability for the council to use its own standard evaluation methodology at mini-competition stage
  - additional charge arrangements
  - other framework details

Table 1 below provides an overview of how the three frameworks compare in relation to these factors and the level of importance of these factors in determining which framework is the best option.

**Table 1 – Overview of Frameworks for Lease Cars**

	Importance	CCS	HHT	YPO 367
OJEU compliant procurement procedure	High	✓	✓	✓
Ability to adjust standard framework T&Cs	High	✓	✓	✓
Lease contract	High	Single framework master lease	Individual supplier leases	Individual supplier leases

Ability to use council's standard cost and quality 70:30 evaluation for mini-competitions	High	✓	✓	✓
	Importance	CCS	HHT	YPO 367
Early termination cost	Medium	Fixed (lowest available)	Fixed	Variable
Return condition charges	Medium	Variable, waiver on first £150	Variable, waiver on first £250	Variable
Mileage excess charge	Low	✓	✓ (potential rebate for under-run)	✓
Tyre damage replacement	Low	✓	✓ (including driver fault)	✓
Vehicle Excise Duty included	Low	✓	✓ (plus first 7.5% of increase)	✓

13. All of the frameworks were procured using procedures compliant with Public Contract Regulations 2015. The tender processes used, the evaluation methodologies and outcomes have been reviewed. This review has determined that a robust tender and evaluation process was followed. OJEU details for each framework shown in Appendix A. To determine which framework agreement is the best option for the council it is the advantages they offer in relation to the factors of high and medium importance that must be considered. These can be summarised as follows:

- CCS - the most significant advantage is that there is a single master lease contract which would simplify the set up of lease contracts and the management of each lease car, also offers the lowest cost fixed early termination cost which impacts on business unit budgets for around 10 returns per annum.
- HHT – the most significant advantage is the highest level of waiver on return condition charges which affects all vehicles, this benefits the driver in most cases and the Business Unit for around the 10 early returns per annum.
- YPO – no specific advantages.

14. Based on this evaluation the CCS framework is the best option for the council. Therefore, it is recommended that the CCS framework, including any new framework that directly replaces this, is used to procure staff lease cars up to a total value of £3.4m for a period of three years commencing 23 September 2016.

## **Policy implications**

15. Arrangements for the procurement of lease cars are required to facilitate the provision of vehicles to staff who meet the eligibility criteria. Leased cars are provided primarily to staff who are essential users so that they can carry out their duties as efficiently as possible, to allow equipment to be carried and in case of the need for site attendance at short notice or at unsocial hours. They are also provided as an optional recruitment and retention initiative for hard to fill roles and to senior managers (JNC) who were in receipt of a lease car in 2007. The Council makes a fixed financial contribution to the cost of the car based on the grade of the member of staff and the employee pays for all remaining costs, except the cost of insurance repairs. The criteria for eligibility to lease cars as set out above are currently subject to a review being lead by HR. Whilst the outcome of this review is not currently known, this GW report does not commit the Council to a minimum level of spend.
16. The council is able to encourage the use of greener cars by setting a maximum level for CO2 emissions from lease cars. Regular servicing of new lease cars ensures that pollution is minimised. These measures take account of the Mayor of London's Air Quality Strategy and the council's own air quality plan. The council has a strong track record of promoting green fleet which aims to minimise the environmental impact of all vehicles used for council business.
17. Procurement of lease cars must take into account the new Ultra Low Emission Zone (ULEZ) covering the congestion charge zone which is due to be introduced in September 2020.

## **Tender Process and Evaluation**

18. As the proposal is to use framework agreements, no tender documentation was needed. The tender processes used to establish the three fleet framework agreements were considered, along with the tender evaluation methodologies and outcomes. This review has determined that a robust tender and evaluation process has been followed.
19. For each lease car request a mini-competition will be undertaken. Within the mini-competition the council will set out the specification of the vehicle, support arrangements required and evaluation methodology. Evaluation of bids will be based on the council standard price and quality ratio of 70:30.

## **Plans for the transition from the old to the new contract**

20. The previous lease car supply contract expired on 31<sup>st</sup> March 2016. The suppliers to the contract were Lex Autolease, Automotive and Hitachi. Interim procurement arrangements have been put in place for lease car procurement with these suppliers pending the completion of this procurement strategy process.

## **Plans for monitoring and management of the contract**

21. The client management of the framework arrangements and lease contracts will be undertaken by the Fleet Services Team. Framework agreements have some key performance indicators built-in that relate specifically to the operation of the agreement itself, for example the time allowed for submission of bids for a mini-

competition. There is flexibility within framework agreements and leases to set out local key performance indicators to meet any specific needs that the council may have. The requirement for local key performance indicators needs to be carefully managed to avoid building in unnecessary additional cost. The following KPIs will be included:

- Adherence to vehicle delivery dates and times
- Compliance with vehicle specifications
- Vehicle downtimes
- Breakdown response times

**Identified risks for the new contract**

22. The identified risks for the procurement and how they will be managed are set out in the Table 2 below.

**Table 2 - Risks for Fleet Procurement**

	Risk	Risk level	Mitigation
1	Risk that vehicles will have to be returned before full lease term has expired.	Low to medium	In the majority of cases early return costs are the responsibility of the driver. The recommended CCS framework has the lowest built-in return cost matrix.
2	Framework agreements currently available will expire over time.	Medium	The fleet framework agreement market is well-established. Framework contracts that have expired recently have been replaced with new framework agreements that are similar in nature. The hosts of all framework agreements under consideration have confirmed the intention to set up new agreements giving continuity of supply.
3	Additions and amendments to standard terms and conditions impacting on number of bids at mini-competition stage.	Low to medium	Engage with suppliers ahead of mini-competition process to allow time for additions/amendments to be considered.  Keep additions/amendments to a minimum.
4	Fragmentation of supplier base making fleet management more complex.	Medium	The recommended CCS framework has up to 12 suppliers, but all suppliers are required to operate under a single master lease contract which aids the day to day management of vehicles.

## **Community impact statement**

23. The proposals in this report relate to the provision of lease cars for staff and do not impact on service design, outcomes or access. Therefore, there is no community impact arising from this report.

## **Sustainability considerations**

24. The Public Services (Social Value) Act 2012 requires the council to consider a number of issues including how what is proposed to be procured may improve the economic, social and environmental well-being of the local area for higher value contracts. The council is committed to these principles for all contracts and relevant issues were identified in the attached Gateway 1 report.

## **Economic considerations**

25. It is not likely that local small and medium sized enterprises have the capacity to bid successfully for inclusion in fleet framework agreements. However, the suppliers used by the council under the framework arrangements are likely to use local dealerships to supply vehicles and use local motor trade networks for servicing and maintenance.

## **Social considerations**

26. There are no specific social considerations. The London living wage is not applicable due to the supply nature of this contract.
27. The use of frameworks will be in due regard to section 149 of the Equality Act 2010 under which the council has a duty to have due regard in its decision making processes to the need to;
- Eliminate discrimination, harassment, victimisation or other prohibited conduct;
  - Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not
  - Foster good relations between those who share a relevant characteristic and those that do not share it.
28. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. The Public Sector Equalities Duty also applies to marriage and civil partnership. There are no equality implications associated with this procurement.
29. The council will ensure that any arrangement it enters into is flexible enough to enable it to meet requirements relating to wider road safety issues, for example those of the London Cycling Campaign's "Safer Lorries, Safer Cycling" pledge.
30. All vehicles procured under these arrangements will meet the requirements of the Fleet Operators Recognition Scheme, Gold Accreditation standard.

### **Environmental considerations**

31. The use of third party framework agreements will provide the opportunity for the full range of fuel efficient, alternative fuel and hybrid lease cars to be procured. The number of these types of vehicles that are procured is dependent upon the preferences of staff who will use them. The main tool for encouraging the use of these types of lease cars is the CO2 emissions limit.
32. As part of the council's drive to implement green fleet policies, staff lease cars are subject to carbon dioxide (CO<sub>2</sub>) emissions limits that have been progressively reduced and currently stand at 130 grams per kilometre (g/km). This limit will reduce again to 120g/km upon the start of this new contract.
33. It should be noted that all vehicles procured under the proposed arrangements will be automatically compliant with ULEZ requirements due to currently established emissions standards.

### **Market considerations**

34. The UK fleet supply chain is very large, well developed and highly competitive. There are around ten major companies able to provide a wide range of different makes/models through lease arrangements.
35. It is unlikely that any local small and medium sized enterprises (SMEs) would have the capacity to compete. However, suppliers to the council may engage local fleet dealerships to supply the vehicles and to undertake servicing and maintenance due to their proximity.

### **Staffing implications**

36. There is potential for the use of framework contracts to reduce the level of administration required for obtaining quotes for individual vehicles. This is because some frameworks operate on-line quotation portals that are quick and simple to use. Therefore, it is expected that procurement through the use of a framework can be managed within existing staffing levels.

### **Financial implications**

37. Based on the nature and size of the current leased car fleet, the anticipated level of expenditure against framework agreements under the proposed procurement arrangements is estimated at £3.4m over three years, an annual average of £1.13m. Note that there is no obligation for the council to procure any particular number and type of vehicles and there is no minimum contract value under these arrangements.
38. The funding for the contract sum is from council and employee contributions as set out in the council's car leasing scheme.



39. The budget for the contract expenditure relating to the council's contribution towards the lease car costs are spread across the various departments as shown in Table 3 below:

**Table 3 – Departmental Staff Lease Car Budgets**

Department	Contract sum £'000	Management fees £'000	Total Budget £'000
Chief Executive's	37	4	41
Children's & Adults	590	49	639
Environment & Leisure	290	25	315
Finance & Governance	25	2	27
Housing & Modernisation	185	13	198
<b>Total</b>	<b>1,127</b>	<b>93</b>	<b>1,220</b>

40. Assuming the level of requirements remains stable no additional funding will be required to meet the cost of the new contract. The primary budget will be managed by the in-house Fleet Services Team with costs recharged to individual drivers and business unit cost codes.
41. In order to ensure that the charges for staff lease cars procured through the use of a framework agreement are appropriately accounted for, it will be necessary to make a determination as to whether leases are classified as finance leases or operating leases. The information required to make this determination will be requested from suppliers and the necessary accounting adjustments will be made in the annual statement of accounts.
42. In addition to the cost of lease car contracts, the council provides insurance arrangements for lease cars. In 2015/16 the cost of insurance arrangements was £411k. The breakdown of these costs is shown in Table 4 below.

**Table 4 - Staff Lease Car Insurance Costs**

Item	Cost (£,000)
Policy	31
Claims handling	18
Own repair costs	304
Third party costs	58
<b>Total</b>	<b>411</b>

43. Table 4 shows that the most significant area of insurance expenditure is for repairs of staff lease cars. The level of expenditure on lease car repairs is linked to the insurance group of individual vehicles which are categorised in a range of groups from 1 to 50. Insurance group 1 is the lowest and would generally have the lowest repair costs, whereas insurance group 50 is the highest and would generally have the highest repair costs. In light of this, a cap is to be introduced that will limit the insurance group of any car leased by a member of staff to insurance group 20 as a maximum.

44. The council will not receive any direct charge for the use of framework agreements. Framework hosts do receive payment (0.5 per cent of contract value) from suppliers based on supply contracts that are entered into by users, the cost of which is built into the prices tendered in successful bids.

### **Legal implications**

45. Please see concurrent from the Director of Law and Democracy.

### **Consultation**

46. The following groups have been consulted as part of the evaluation of the frameworks:
- Other authorities using the frameworks
  - Providers of frameworks
47. Other authorities that are using fleet framework agreements have been asked for feedback on the suitability and ease of use of the frameworks in meeting their fleet needs. The feedback received suggests that fleet framework agreements work adequately for meeting the needs of the authorities that responded.
48. Framework hosts have provided documentation including details of tender processes and evaluations, framework terms and conditions, lease contract details and other supplementary information around support for users of framework agreements and contacts for authorities that are already using them.

### **Other implications or issues**

49. There are no other implications or issues.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Head of Procurement**

50. This report is seeking IDM approval to use the Crown Commercial Services (CCS) framework RM3710 for the provision of staff lease cars, up to a total value of £3.4m for a period of three years commencing 23 September 2016. It is further noted that there is a requirement for the council to register to use the CCS framework RM3710.
51. Paragraphs 7-11 identify the three different frameworks that are available to the council to procure fleet. The detail as to how the frameworks are managed, the period left on each framework and other common features across all three frameworks are identified.
52. Paragraphs 12 – 14 outlines how each framework was evaluated and ultimately recommends that the CCS framework should be used. This is based on the fact that there is a single master lease contract which will simplify setting up lease contracts and it offers the lowest fixed early termination cost, in comparison with the other two frameworks.
53. Paragraph 19 identifies that there will be a requirement for a mini-competition to be undertaken when a lease car request is made. This will require the council to

set out a specification as to the vehicle and support arrangements required which will then be issued to all providers under the framework. Award will be based on a 70:30 price/quality split.

54. The report notes that the Fleet Services Team will have responsibility for the management of lease contracts and management of key performance indicators.
55. The report notes that there is no direct charge for the use of the framework.

#### **Director of Law and Democracy**

56. This report seeks the cabinet member's approval to the use of the CCS framework for procuring staff lease cars, as further detailed in paragraphs 1-4. As the possible total value for lease cars over the 4 year period is £3.4m the decision to approve use of the framework is reserved to the relevant cabinet member.
57. The nature and value of the vehicles and services to be supplied under this framework are such that they are subject to the full tendering requirements of the Public Contract Regulations 2015. However, vehicles will be procured following a mini-competition through the CCS framework which has been procured through an EU compliant tender process, and was tendered on the basis that local authorities could use their framework. Contract standing order 2.3 requires that no steps are taken to award a contract unless the expenditure involved has been included in approved estimates, or otherwise approved by the council. Approval for the individual orders for each vehicle/batch of vehicles will identify the financial implications prior to the placing of an order for those vehicles.
58. Legal officers from law and democracy have reviewed the terms and conditions of the existing CCS framework, and will review any new frameworks which may be established once the existing one expires. Any Southwark specific requirements will be incorporated into the tender documentation at the mini-competition stage.

#### **Strategic Director of Finance and Governance (EL16/012)**

59. The strategic director of finance and governance notes the recommendations in this report for the award of the lease car contract. The costs of the contract will fall in financial years from 2016-17 to 2019-20, a period over which resources available to the council from government grant are declining, and for which the council faces a 'budget gap' of over £23m which will have to be addressed by further efficiencies, savings or income generation activities. Any lease agreement is for a three year term so there are potential financial consequences up to 2022-23.
60. This contract award in itself does not commit the council to any expenditure. Costs of the lease contracts are recharged to departments. It is noted that insurance costs amount to over £400,000 annually.
61. It is noted that there is a review of lease cars underway which will include the recovery of costs, changes to the wording in the terms and conditions T&C's and improvements in the invoicing and cost recovery process which currently net around £25k per annum.

## BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
<p>Headline information about the framework agreements referred to in this report can be found on the relevant web-sites using the following links:</p> <p><a href="http://www.ypo.co.uk/contract/detail/900155">http://www.ypo.co.uk/contract/detail/900155</a></p> <p><a href="http://ccs-agreements.clabinetoffice.gov.uk/contracts/rm3710">http://ccs-agreements.clabinetoffice.gov.uk/contracts/rm3710</a></p> <p><a href="http://www.tppl.co.uk/">http://www.tppl.co.uk/</a></p> <p>For more detailed information about individual framework agreements contracts please contact the named officer.</p> <p>Details about the Mayor's Clean Air consultation can be found on the following link:</p> <p><a href="https://www.london.gov.uk/press-releases/mayoral/mayor-unveils-action-plan-to-battle-toxic-air">https://www.london.gov.uk/press-releases/mayoral/mayor-unveils-action-plan-to-battle-toxic-air</a></p>	<p>Environment and Leisure, Waste and Transport Service, Integrated Waste Management Facility, Devon Street SE15 1AL</p>	<p>Michael McNicholas</p> <p>020 7525 3449</p>

## APPENDICES

No	Title
Appendix A	Fleet Framework Agreements – OJEU details

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Ian Wingfield, Cabinet Member for Environment and the Public Realm	
<b>Lead Officer</b>	Ian Smith, Director of Environment	
<b>Report Author</b>	Michael McNicholas, Head of Waste and Cleaning	
<b>Version</b>	Final	
<b>Dated</b>	23 September 2016	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>		23 September 2016