

Item No.	Classification Open	Date: 23 January 2013	Meeting Name: Cabinet Member for Transport, Environment & Recycling
Report title:		Gateway 1 - Commercial fleet contract : Procurement Strategy Approval	
Ward(s) or groups affected:		All	
From:		Strategic Director of Environment & Leisure	

RECOMMENDATIONS

1. That the Cabinet Member for Transport, Environment and Recycling approves the strategy outlined in this report for the use of the Government Procurement Service framework agreement to seek competitive quotes for the provision of the council's commercial fleet requirements from April 2013, as well as the Council's current commercial vehicle provider, London Hire.
2. That the Cabinet Member for Transport, Environment and Recycling further approves the use of the Government Procurement Service framework agreement as the exclusive source for commercial vehicles from November 2014 to May 2015 with an anticipated maximum contract cost of approximately £2 million, whilst alternative procurement options are fully evaluated.

BACKGROUND INFORMATION

3. The council's commercial fleet is made up of around 300 vehicles and the annual spend on the existing contract is approximately £1.5 million per annum. The commercial fleet is managed by Fleet Services on behalf of the business units who use the vehicles. Vehicles are procured on a rolling basis, as their leases expire, usually in batches but dependent upon the requirements of the business units.
4. Vehicle types are mainly small/medium vans and caged tippers along with minibuses and some plant. These are provided for services including cleaning, building works and social services. Table 1 below shows the number of vehicles (with costs) used by each business unit.

Table 1:

Business unit	Number of vehicles	Annual cost ('000s)
Building services	91	£357
Community wardens	4	£13
Emergency planning	1	£3
Enforcement	1	£12
Highways	14	£128
Housing	5	£15
Libraries	3	£11
Parks	14	£45
Parking	1	£4
Pest control	25	£82
Property	1	£3
Regeneration	1	£3

Business unit	Number of vehicles	Annual cost ('000s)
Sacred Heart School	1	£5
Security/cashiers	1	£16
Sheltered housing	3	£8
Social services	11	£167
Streets	92	£453
Temporary accommodation	6	£23
Tooley St (pool cars)	4	£15

5. Table 2 below shows the number of vehicles we expect to procure in each financial year, along with the estimated value of those vehicles' five year leases.

Table 2:

Year	2013/14	2014/15	2015/16	2016/17
Expected number of new vehicles required	83	5	166	25
Estimated value of vehicle leases	£1,673,108	£84,000	£3,718,074	£1,383,060

Summary of the business case/justification for the procurement

6. The council has an on-going requirement for a modern, safe and efficient range of vehicles in order to deliver front line services.
7. The council's existing contract with London Hire is due to end in November 2014. Although the existing agreement ends then, the contract end date for each vehicle ordered through this contract is five years after the delivery of each vehicle, so individual vehicle hire arrangements will overrun this period. No vehicles will be ordered through the existing contract after the end date but the council may retain vehicles provided during the contract period for the term of their lease. The retention of any vehicle after the contract period is in accordance with the terms and conditions of the current contract.

Market considerations

8. Over the lifetime of the existing contract, market conditions have altered in that the availability of some of the finance required to enable vehicle leasing companies to operate has been significantly restricted. This has led to increased costs for some vehicle types and, as a result, we are no longer confident that the Council is receiving good value for money.
9. It is anticipated that provision of commercial vehicles to the council will be attractive to both medium and large-scale commercial vehicle lease suppliers, predominantly operating on an international basis. The UK commercial vehicle lease market is highly competitive involving around a dozen major companies. Although it is not believed that there are any local small and medium sized enterprises (SMEs) with the capacity to bid successfully for these contracts, the successful companies are likely to engage local commercial fleet dealerships to supply the vehicles. The annual maintenance of the vehicles is likely to be undertaken predominantly by local dealerships due to their proximity.

10. Specialised vehicles are likely to be provided at better value if supplied by a specialist vehicle provider rather than as part of an overarching commercial fleet contract. For this reason it is proposed that separate arrangements are entered into to cover the provision of the specialist vehicles listed below. These will all be the subject of separate procurement processes with gateway approvals signed off at a delegated level.
- Small mechanical brooms (estimated cost of £100,000 pa)
 - Large mechanical brooms (estimated cost of £50,000 pa)
 - Small refuse vehicle (estimated cost of £25,000 pa)
 - Hiab (crane) vehicle (estimated cost £10-20,000 pa)

KEY ISSUES FOR CONSIDERATION

Options for procurement route including procurement approach

11. Commercial vehicles can be procured through lease/contract hire agreements or outright purchase and the merits of both have been carefully considered. A lease contract arrangement provides flexibility over a reasonably short time frame and does not tie the council into purchasing stock which will age, no longer provide the best industry practice in time and depreciate in price. A leasing arrangement also affords flexibility in that the council is not required to commit to any minimum level of spend and is therefore well placed to respond to changing circumstances.
12. Purchase of vehicles outright would require significant capital investment, although as a result of London-wide collaborative work, and particularly e-Procurement, costs are reducing. 'E-Procurement' is a London-wide collaboration which at this time relates only to the outright purchase of vehicles. Although this has improved the affordability of outright purchase of vehicles, it is considered that the best value option for Southwark at this time is to continue to procure vehicles through lease/contract hire agreements.
13. Vehicle lease periods of five years (plus two further possible extensions of up to 12 months each) are recommended, to tie in with engine and emission technologies balanced with price depreciation. The nature of the leasing arrangement also means that should the benefit of other routes, such as e-procurement, become more favourable, the council is free to adopt these as and when those benefits outweigh those of the council's existing arrangements.
14. The fleet operations of our neighbours have been considered to look at opportunities for joint and collaborative working. Lambeth have outsourced all of their fleet management across several service contracts while Lewisham still own and maintain their own vehicle stock in-house. Neither set-up lends itself to jointly managing fleet provision or to joint procurement opportunities at the current time, although we will continue to work with our neighbours, as well as London-wide initiatives, to look at ways of jointly improving service, reducing costs and sharing best practice.
15. The council's existing lease arrangements are delivered through a single supplier and it is considered that this is unlikely to be providing best value for money. The main issue with a single supplier arrangement is that fixed prices are quoted against detailed vehicle specifications as part of the procurement process. Once the council has entered in to the contract and requirements inevitably vary

over time, there is no mechanism to ensure new prices are competitive. A single supplier arrangement also leaves the council vulnerable to losing its only vehicle supplier in the event that the supplier becomes unable to fulfil the contract requirements, a risk which has increased in the current financial climate. The use of a framework contract would mean that throughout the lifetime of the agreement, quotes for new vehicles would be competitive and enable the council to adapt to changing circumstances more readily.

Proposed procurement route

16. Two existing national framework contracts, one set up by Braintree District Council (which hosts the Essex Procurement Hub, a collaboration between five district and borough councils) and the other by the Government Procurement Service (GPS), cover all our vehicle requirements (with the exception of some of the specialised vehicles which will be procured through separate arrangements, as already described). The Braintree framework ends in August 2013 and no decision has yet been taken on what, if any, arrangements will take its place. The GPS framework runs until May 2015. In view of the timeframes involved it is not considered viable to work with the Braintree framework in the very limited period left before its expiry.
17. The GPS agreement is available to all public sector authorities and it is proposed that the council requests quotations through this framework, along with quotations from the existing provider until November 2014. From November 2015 to April 2015, the GPS framework will be the sole source of quotations. The fleet team will assess these as per the framework criteria and, following further discussions with the framework provider, other framework users and the vehicle suppliers (to ensure our needs can be fully met, see Paragraph 19 below), either adopt the procurement strategy outlined above (via a Gateway 2 report) or begin work on setting up a framework contract of our own. The fleet team will work closely with business units throughout this process to ensure that their requirements are fully met.
18. The following qualitative criteria will be used to assess the suitability of the framework arrangement
 - Sufficient flexibility in terms of potential to return vehicles as a result of changed operating requirements
 - Provision of replacement vehicles to cover downtime due to repair and maintenance work
 - Level of support provided to framework users
19. The GPS framework includes nine different providers, which indicates it would provide a competitive environment for supply of vehicles. The evaluation criteria are set at a 90%:10% (+/-10%) ratio for price/quality scoring against the different lease providers which we believe is a good basis for evaluation.
20. If approved, the use of this national framework agreement would be reviewed and subject to another gateway process after a maximum period of two years because of the end date of the framework in May 2015. We will also keep other framework and procurement options under review, including any replacement arrangements put in place by the Braintree District Council procurement hub.
21. There are just under two years until the council's current contract's expiry (and then a further 12 month extension period if wanted), which means that should

work on reviewing existing frameworks not prove fruitful, there would still be sufficient time to set up our own framework arrangements.

22. In the meantime, there is no exclusivity agreement in the council's current contract and should the new arrangements provide better value for money the council may be able to benefit from improved prices and or services from April 2013.
23. If the GPS framework can meet our needs, a further report will be produced to recommend that we seek competitive quotes from GPS and our current provider until November 2014 and then solely through GPS until May 2015. Five-year vehicle leases would then be purchased through the framework as and when they are needed (and usually in batches) and would not be subject to further Gateway approvals.

Identified risks for the procurement

24. The main potential risks identified with this procurement are as follows:

- The council may need to reduce its vehicle requirements during the lifetime of the contract. Full consideration will be given to this when drafting the documentation to ensure that arrangements are as flexible as possible.
- Changes to either the London Congestion Zone or Low Emission Zone regulations could impact the council's vehicle requirements. This will be carefully monitored throughout the life of the contract and again full consideration will be given to this when drafting the documentation to ensure that arrangements are sufficiently flexible.
- The proposed procurement route outlined in this report may not meet the Council's needs. If this happens, we are still able to use our current provider until November 2014, allowing sufficient time to make alternative arrangements.

Policy Implications

25. Any agreement will need to enable to council to continue to take account of the Mayor of London's air quality strategy and the council's own air quality plan when procuring vehicles.

Procurement project plan (Key decisions)

Activity	Complete
DCRB/CCRB Review Gateway 1:	10/01/2013
Approval of Gateway 1: Procurement strategy report	11/02/2013
Qualitative evaluation of the GPS framework	28/03/2013
Preparation of specifications for latest vehicle requirements	28/03/2013
Quotes requested via GPS framework mechanism	05/04/2013
DCRB/CCRB Review Gateway 2: Contract award report OR new Gateway 1 report	30/05/2013
Notification of forthcoming decision	20/06/2013
Approval of Gateway 2: Contract Award Report	30/06/2013
Notification of implementation of Gateway 2 decision	15/07/2013
Contract award	31/07/2013
Contract start	01/09/2013
Initial Contract completion date	01/05/2015

TUPE/Pensions implications

26. There are no TUPE implications arising from the letting of these contracts.

Development of the tender documentation

27. N/a

Advertising the contract

28. N/a

Evaluation

29. The council will ensure that the qualitative indicators outlined in paragraph 18 can be met through the framework and at the same time speak to authorities using the framework to ensure that the council's quality requirements can be met fully. If this is the case, the council will then request quotes through the GPS framework and evaluate these as per the framework criteria (see paragraph 19).

Community impact statement

30. The changes proposed in this report relate only to the provision of the council's fleet lease arrangements. They do not impact on service design, outcomes or access. There is therefore no direct community impact arising from this report.

Economic considerations

31. Although it is not believed that there are any local small and medium sized enterprises (SMEs) with the capacity to bid successfully for these contracts, the successful companies are likely to engage local commercial fleet dealerships to supply the vehicles.

Social considerations

32. Given the national nature and scale of the companies supplying commercial fleet is not one which is readily accessible to a variety of suppliers including SMEs and the voluntary and community sector.
33. 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.

Environmental considerations

34. The council has a strong track record of introducing green fleet policies and outcomes based on both economic and environmental business cases. The council has a green fleet policy which aims to minimise the environmental impact of all its fleet vehicles. The policy endeavours to achieve this through setting objectives which reduce local emissions and take into account the global effects of its transport fleet. Any contractual arrangements will need to enable to council to continue to meet these objectives.

Plans for the monitoring and management of the contract

35. The contract will be managed by the Fleet Services Team. Performance of providers will be closely monitored through agreed KPIs and reviewed at regular contract meetings. Regular feedback will also be sought from the end user business units.

Staffing/procurement implications

36. It is anticipated that managing a framework contract rather than a single supplier will require increased input from the Fleet Services team. However because it is expected that a framework arrangement will also mean improved supplier performance (as well as better value for money) it is expected that the contract can be managed within existing staffing levels.

Financial implications

37. The predicted maximum spend on this contract is based on a forecast of business units' new vehicle leasing requirements over the next two years and the cost of those commitments over their five-year lifespan. The contract costs will be fully recharged to the business units based on usage. The estimated maximum commitment of approximately £2 million is based on current leasing requirements and therefore, it is safe to assume that it can be contained within the current budget allocations. The contract will not commit the council to any minimum or maximum level of spend.
38. The payment mechanism within the proposed contract will be structured in a manner that does not expose the council to any minimum contract value and is flexible to accommodate variations in vehicle numbers to a maximum level, say due to any change of policy in services delivery, from year to year. The cost of any future variations to the contract will be contained within the budgets of the user divisions.

Legal implications

39. See comments of the Director of Legal Services.

Consultation

40. The following groups will be consulted as part of the evaluation of the frameworks:-
- service users (council business units)
 - other authorities using the frameworks
 - potential bidders
 - potential providers of frameworks

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement (MG/01/13)

41. This report seeks the approval of the Cabinet Member for Transport, Environment and Recycling to a strategy for considering the lease hire of the council's commercial fleet via the GPS framework from April 2013 and the use of the framework as the exclusive source for such vehicles from November 2014 to May 2015.
42. The report details the need to procure a range of vehicles and shows the number currently in use and their annual cost by business unit.
43. The report confirms that partnership and collaboration opportunities have been explored but that none of these provide a satisfactory solution at the present time.
44. The report explains that during the course of the council's existing contract with London Hire the company's ability to access the finance enabling them to operate has been much restricted. Furthermore, it is considered that a single supplier arrangement with prices fixed only on vehicles available at the time of tendering is unlikely to be providing best value for money. It is therefore recommended that the council looks to join or establish a framework involving multiple providers.
45. Two existing national frameworks have been identified which could meet the council's general fleet requirements. One of these frameworks completes in August 2013 so is not considered to be a viable option. The other framework is provided by the GPS and runs until May 2015.
46. It is proposed to request quotations via both the GPS framework and from London Hire until November 2014 when the council's current contract completes. From then until May 2015 will be the sole source of quotations.
47. The proposed procurement process to be followed will be compliant with Contract Standing Orders and OJEU requirements. The maximum estimated spend is £2m between November 2014 to May 2015.
48. This matter has been reviewed by both the departmental and Corporate Contract Review Boards and recommended changes have been incorporated into this final report.
49. This concurrent has been provided by the Head of Environment and Leisure Procurement.

Director of Legal Services (SB/01/13)

50. The Director of Legal Services (acting through the Contracts Section of the Corporate Team) has advised officers in connection with this matter and notes the content of this report. Given the nature and estimated value of the contract, it would be necessary to procure in accordance with the requirements of the EU Procurement Regulations, which include the publication of a contract notice in the Official Journal (“OJEU”) for the purpose of seeking expressions of interest. However, the GPS framework has been procured through a competitive EU compliant tendering process and the council is one of the bodies which is expressly authorised to use that framework in order to source vehicles. The report confirms that a competitive exercise will be undertaken amongst suppliers on the GPS framework in order to obtain best value for the council, and that the framework is to be used alongside the council’s existing contract with London Hire for the remaining period of the latter.
51. In view of the anticipated maximum contract cost, the decision to approve the report recommendations can be taken by the relevant individual decision maker here, the Cabinet Member for Transport, Environment & Recycling) under Contract Standing Orders

Strategic Director of Finance and Corporate Services (CR/01/13)

52. The reports seeks approval of strategy and framework agreement for the provision of the council’s commercial fleet requirements from April 2013, as well as the Council’s current commercial vehicle provider, London Hire.
53. The Head of Sustainable Services has confirmed that there are no additional financial implications as a result of accepting the proposed framework agreement. The finance implications detailed in paragraphs 39 and 40 make clear that the cost of any future variation to the contract will be contained within the budget.
54. The strategic director notes the strategy will seek to achieve best value and not expose the Council to financial risk by requiring minimum contract levels. The cost of resources to implement this contract will be contained within current budgets.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
None		

APPENDICES

No	Title
None	

AUDIT TRAIL

Lead Officer	Deborah Collins, Strategic Director of Environment & Leisure	
Report Author	Ian Smith, Head of Sustainable Services, Environment & Leisure	
Version	Final	
Dated	23 January 2012	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		23 January 2013