

REPORT TO EXECUTIVE COMMITTEE

Date of Meeting: 9 April 2019

**Report of: Service Lead – Commercial and Procurement / Cleansing and Fleet
Manager**

Title: Fleet supply and maintenance contract award

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Executive

1. What is the report about?

1.1. This report describes the procurement process for the Council's supply and maintenance of vehicles, and recommends awarding the contract to Supplier C

2. Recommendations:

- (i) That Executive Committee awards the contract jointly with Mid Devon District Council for supply and maintenance of vehicles to Supplier C with effect from 1 June 2019 for a term of 7 years with an option for 7 year extension.
- (ii) That the Cleansing and Fleet Manager explores further opportunities for joint working for Fleet Management

3. Reasons for the recommendation:

- 3.1 The above recommendation ensures that the Council will have in place a legally compliant contract that demonstrates value for money and minimises operational, legal and financial risk to the Council.
- 3.2 A shared approach to fleet management offers the potential to achieve revenue cost savings.

4. What are the resource implications including non financial resources?

- 4.1 The table below compares the projected cost of fleet over the next seven years based on our current model of purchasing vehicles and paying separately for maintenance. Whilst Council will have some flexibility over the timing of purchases, there is a significant need to replace a large part of the fleet in the near future. Owing to the relatively short length of vehicles, the Council's current policy would be to finance the vehicles from revenue (New Homes Bonus). This would be impossible in the first year as the Council does not have sufficient revenue to fund £3.3 million of vehicle acquisitions and therefore the Council would need to borrow over 7 years to address this.
- 4.2 Based on current revenue budgets, built into the Council's MTFP, and the need to purchase new vehicles (which will have to be financed from borrowing to fund the significant investment required), the impact on the Revenue budget will be as follows:

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------|------------------|------------------|
| Existing | | | | | | | |
| Revenue Budget | 744,580 | 744,580 | 744,580 | 744,580 | 744,580 | 744,580 | 744,580 |
| Capital costs of borrowing | <u>497,255</u> | <u>583,339</u> | <u>685,336</u> | <u>799,609</u> | 837,953 | 981,325 | 992,843 |
| Total | <u>1,241,825</u> | <u>1,327,919</u> | <u>1,429,916</u> | <u>1,544,189</u> | 1,582,533 | 1,725,905 | 1,737,423 |
| Winning Bid | 1,235,852 | 1,294,137 | 1,436,189 | 1,518,828 | 1,557,787 | 1,677,110 | 1,677,137 |
| Saving | (5,983) | (33,782) | 6,273 | (25,361) | (24,746) | (48,795) | (60,286) |

4.3 The new proposal therefore offers a saving of £192,680 over the next 8 years, compared to the existing policy of purchasing new vehicles. Whilst the existing MTFP (which is based on setting aside £400,000 a year for vehicle purchases) does not cover the cost of either option, there is sufficient room within the current policy of using New Homes Bonus to fund vehicles, to support either option.

4.4 The contract hire model entails a shift from purchasing our own vehicles with capital funding towards a new funding approach for supply and maintenance of vehicles.

4.5 Following the successful commencement of the contract, further opportunities to achieve savings may be considered:

- Sharing Fleet Manager staff resources and vehicles across Mid Devon DC and Exeter CC fleets
- Reducing the frequency of statutory Large Goods Vehicle inspections from six-weekly to eight-weekly, subject to satisfactory performance and regulatory compliance
- Payment of invoices annually in advance rather than monthly in arrears

5. Section 151 Officer comments:

5.1 There are clear benefits to moving to a contract hire option, in that it will smooth the costs associated with vehicles so that the Council is not faced with steep acquisition costs that it cannot afford. Additionally, this will be a fully compliant procurement reducing significantly the risks to the Council going forward.

5.2 From 2020/21, a change in accounting for leases means that much of this cost can still be capitalised and therefore, the Council will be able to use other forms of financing going forward, just as it can for purchasing the assets.

6. What are the legal aspects?

- 6.1 This decision ensures compliance with Public Contract Regulations 2015.
- 6.2 The Council holds an Operator's Licence for the Large Goods Vehicles (refuse collection and a sweeper) based at the Exton Road depot. It is a requirement of this license to have in place a robust and effective vehicle maintenance regime.

7. Monitoring Officer's comments:

- 7.1 This report raises no issues for the Monitoring Officer.

8. Background:

- 8.1 Exeter City Council operates over 140 road-going vehicles and mobile plant such as lawn mowers and diggers.
- 8.2 Fleet assets have been purchased as capital items as and when required, resulting in a fleet varying in age from new to over 10 years old. The Essex Procurement Hub has been used as the procurement framework for vehicle and plant purchases.
- 8.3 The Council uses three main suppliers for its commercial vehicle maintenance requirements, as well as a number of other suppliers for tyre replacement and specialist maintenance and repair. To ensure compliance with procurement regulations it was necessary to retender for these services.
- 8.4 In the three full financial years since 2015, our combined spending on vehicle acquisition and maintenance has been between £1.256m - £1.722m. The forecast outturn for 2018/19 is £0.749m because of a moratorium on replacing vehicles during this procurement process.
- 8.5 The Council's annual spending on replacement of vehicles has varied, depending on the availability of capital funding. The optimum life span of a commercial vehicle is 7 years, but there has been a tendency to achieve savings by operating vehicles beyond this life span, in some cases to well over 10 years. Exeter's compact geography, resulting in low mileages being travelled, has facilitated this approach. However, older vehicles do tend to incur increased maintenance costs and result in higher emissions compared to newer vehicles. A large number of vehicles purchased in 2008-12 and are now overdue for replacement.
- 8.6 For the purpose of comparison, the cost of repairing accident damage has been excluded from both the 'business as usual' and contract hire scenarios.
- 8.7 In 2017 Exeter City Council and Mid Devon District Council were in the same situation: owning their own vehicle fleet, with maintenance carried out by long standing contractors. Both Councils needed to tender their contracts to ensure compliance with procurement regulations and demonstrate value for money. The two Councils therefore jointly used the services of Ricardo to assist with the procurement of a new contract. The specialist nature of fleet contracts, and the length of time that had elapsed since either Council had been involved in this type of tender, meant that appointing a consultant was the most cost effective approach to ensuring a successful procurement exercise. By sharing the cost across two authorities, Exeter's contribution was £17,880. On the advice of Ricardo, the tender was based on a contract hire arrangement, under which the contractor would provide a fleet to the Councils and manage the repair and maintenance. For Lot 2 (Exeter), bidders were asked to price

for an option for the Council to purchase the vehicles with the contractor providing maintenance. However, bidders chose not to price for this option as they deemed it uneconomic.

8.8 Contract Hire is generally more cost effective than prudential borrowing because the leasing companies have more expertise in disposing of vehicles at the end of life and they can maximise the residual value, thereby reducing the whole life cost. The other advantages of this option are;

- The leasing companies have greater purchasing power and are able to secure more competitive prices from the manufacturers than the Council.
- Leasing companies are able to secure comprehensive extended vehicle warranties from the manufacturers that may not be available to the Council.
- These suppliers as owners of very large numbers of vehicles are able to utilise their relationship with manufacturers to resolve issues and warranty repairs swiftly.
- The leasing company takes on the risk of the residual value of the vehicles at the end of the term.
- Contract hire is generally more flexible should there be a change in requirements or method of working and would allow swapping of vehicles (provided it is included in the specification).

9. Contract considerations

9.1 The term of the contract was set at seven years, with an option to extend for a further seven years. This is in line with the optimum operational life span of municipal vehicles to make the service attractive to potential bidders.

9.2 The tender specification required bidders to explain how they offer flexibility over the profile of the vehicle fleet during the term of the contract. This could include accommodating service changes (e.g. new recycling services), adding new services or reducing the fleet through double-shifting vehicles or reducing services. The tenders provided satisfactory responses on this matter.

9.3 There are no issues with our current suppliers with regard to the Transfer of Undertakings (Protection of Employment) Regulations 2006.

10. The Procurement Process

10.1 The procurement was conducted using the competitive procedure with negotiation (CPN).

Advertising the contract

10.2 The contract was advertised via a contract notice in OJEU (the official journal of the European Union) on 28/08/2018.

- 10.3 Following publication of the notice, there was a window of opportunity for suppliers to express their interest in the project and submit their completed SQ (Selection Questionnaire). The closing date for receipt of SQs was 22/09/2018 midday
- 10.4 The notice prompted 54 expressions of interest but only 6 companies submitted a completed SQ by the date and time required.
- 10.5 All 6 of these companies passed the initial SQ stage and invited to the next stage of the process; ISIT (Invitation to submit initial tenders).

Evaluation Criteria and weightings

- 10.6 Any contract will be awarded on the basis of the most economically advantageous tender. The award criteria contained a mix of quality and commercial considerations.
- 10.7 The high level award criteria and weightings used for this procurement are set out below:

Quality 400

| | | |
|-----|-----|--|
| MS1 | 30 | Service Management Plan to include: Management Structure for the Contract, Social Value and innovation and flexibility |
| MS2 | 30 | Staff resources, including their management training and recruitment |
| MS3 | 60 | Vehicle / Plant Resources |
| MS4 | 120 | Service Delivery |
| MS5 | 70 | Vehicle and Plant workshop |
| MS6 | 30 | Mobilisation and Exit plan including TUPE Transfer |
| MS7 | 20 | Performance monitoring, local, management and reporting, including customer care and ICT arrangements |
| MS8 | 40 | Health and Safety and Quality Management Plan |

Price 600

Based on a single Annual Service Payment ('ASP') will be used as the basis for payments to the Provider for the services, it reflects all core services, and will be designed to provide a consistent payment profile for the services.

The Annual Equivalent Sum (AES) used to calculate the total tendered price will be calculated as follows:

$$\text{AES} = \text{ASP} \times 7 \text{ (years)}$$

Scoring Methodology

10.8 The scoring methodology used to evaluate the quality criteria was:

| Score | Classification | Definition |
|-------|--|---|
| 0 | No response (complete non-compliance) | No response at all or insufficient information provided in the response such that the solution is totally un-assessable and/or incomprehensible. |
| 1 | Unsatisfactory response (potential for some compliance but very major areas of weakness) | Substantially unacceptable submission which fails in several significant areas to set out a solution that addresses and meets the requirements: little or no detail may (and, where evidence is required or necessary, no evidence) have been provided to support and demonstrate that the Provider will be able to provide the services and/or considerable reservations as to the Provider's proposals in respect of relevant ability, understanding, expertise, skills and/or resources to deliver the requirements. Would represent a very high-risk solution for the Councils. |
| 2 | Partially acceptable response (one or more areas of major weakness) | Weak submission which does not set out a solution that fully addresses and meets the requirements: response may be basic/ minimal with little or no detail (and, where evidence is required or necessary, with insufficient evidence) provided to support the solution and demonstrate that the Provider will be able to deliver the services and/or some reservations as to the Provider's solution in respect of relevant ability, understanding, expertise, skills and/or resources to deliver the requirements. May represent a high-risk solution for the Councils. |
| 3 | Satisfactory and acceptable response (substantial compliance with no major concerns) | Submission sets out a solution that largely addresses and meets the requirements, with some detail (or, where evidence is required or necessary, some relevant evidence) provided to support the solution; minor reservations or weakness in a few areas of the solution in respect of relevant ability, understanding, expertise, skills and/or resources to deliver the requirements. Medium, acceptable risk solution to the Councils. |
| 4 | Fully satisfactory/ very good response (fully compliant with requirements). | Submission sets out a robust solution that fully addresses and meets the requirements, with full details (and, where evidence is required or necessary, full and relevant evidence) provided to support the solution; provides full confidence as to the relevant ability, understanding, expertise, skills and/or resources to deliver the requirements. Low/No risk solution for the Councils. |
| 5 | Outstanding response (fully compliant, with some areas exceeding requirements) | Submission sets out a robust solution (as for a 4 score – above) and, in addition, provides or proposes additional value and/or elements of the solution which exceed the requirements in substance and outcomes in a manner acceptable to the Councils; provides full confidence as to the relevant ability, understanding, expertise, skills and/or resources not only to deliver the requirements, but also exceed it as described. Low/No risk solution for the Councils. |

10.9 The scoring methodology used to evaluate price was:

Lowest price AES submitted receives maximum score of 600. Other Applicants prices are scored in accordance with the following equation:

$$\% \text{ Score} = \frac{\text{Lowest Tendered price}}{\text{Tenderer's price}} \times 600$$

AES = Annual equivalent sum

Initial Tendering Stage

- 10.10 Tender documents were released through the e-tendering portal www.supplyingthesouthwest.org.uk on the 11th October 2018. Under the CPN procedure this is known as the Invitation to Submit Initial Tenders (ISIT).
- 10.11 Submissions were received on the 9th November 2018 from a total of 3 suppliers.
- 10.12 The remaining 3 suppliers who were sent the ISIT chose not to submit a bid. No reasons were provided by these suppliers for their non-response.
- 10.13 Supplier names are anonymised here to retain commercial sensitivity. Full details are set out in the confidential Annex A Part II report which accompanies this report.

Initial Evaluation

- 10.14 The first part of the evaluation of initial tenders is a compliance checklist containing the following mandatory requirements:

| | |
|----|--|
| a) | Was the submission received on time? |
| b) | Has the Provider submitted all the necessary Forms and Certificates, and are they appropriately signed? |
| c) | Has the Provider submitted a completed set of Method Statements comprising a Service Delivery Plan and all requested enclosures? |
| d) | Has the Provider submitted a completed Pricing Schedule and have all the items been priced? |
| e) | Has the Provider completed the mandatory Vehicle and plant requirements in Schedules 3a and 3b?[1] |

- 10.15 Supplier A failed to meet c, d and e of the above mandatory requirements and they were advised of this fact and that their bid wouldn't be considered in the onward process.
- 10.16 The evaluation of the initial bids for the remaining suppliers is shown in the table below:

| | Supplier B | Supplier C |
|---|-----------------------|-----------------------|
| Compliance Pass/ Fail | Pass | Pass |
| Financial Score | 600 | 559.18 |
| Technical & Professional Ability | 202 | 234 |
| Total | 802 | 793.18 |
| Ranking | 1st | 2nd |

- 10.17 A number of clarifications for both supplier tenders were raised during the evaluation. These were sent to the suppliers for response, along with a list of items which the Councils were seeking to negotiate on. In addition, the suppliers were asked to provide a list of the items that they wished to negotiate on. This meant that in advance of the negotiation meetings, both parties knew all items which were tabled for negotiation and could prepare accordingly.

Negotiation Stage

- 10.18 Negotiation meetings were held on 11th and 12th December 2018 at Exeter City Council offices.

- 10.19 The meetings were recorded and full notes taken and issued to respective suppliers. The notes included each negotiation point and the resolution reached during the meeting discussion.
- 10.20 Suppliers were also notified where a changes that would affect their bid had been agreed with the other supplier. This was to ensure that at the next round of tenders, there remained an even playing field.

Final Tender Stage

- 10.21 All points from the negotiation meeting were incorporated into the tender documents to produce a final version of the tender and accompanying schedules.
- 10.22 These Final tender documents were released through the e-tendering portal on the 24th December 2018. Under the CPN procedure this is known as the Invitation to Submit Final Tenders (ISFT).

ROCO Meeting

- 10.23 Following the negotiation meetings, based on the volume of points which were discussed and the intricacies of the contract, the project team decided to add an additional stage to the procurement process in the form of the Revised or Confirmed Offer (ROCO) meeting.
- 10.24 The purpose of this meeting was to ensure that both parties (Councils and Suppliers) were clear on and had fully understood the discussion that took place in the negotiation meetings.
- 10.25 Again, full notes were taken and issues to respective suppliers who confirmed their agreement to them by return.

Final Evaluation

- 10.26 Both suppliers provided on time submissions by the deadline of 5th February 2019.
- 10.27 Evaluation was conducted individually by officers of the contracting authorities who then came together in a moderation meeting to review and agree final scores and comments.
- 10.28 A summary of the final scoring is shown below:

| | Supplier B | Supplier C |
|---|-----------------------|-----------------------|
| Compliance Pass/ Fail | Pass | Pass |
| Financial Score | 561.34 | 600.00 |
| Technical & Professional Ability | 292.00 | 320.00 |
| Total | 853.34 | 320.00 |
| Ranking | 2nd | 1st |

Pricing

- 10.29 A breakdown of the tendered prices has been set out in the confidential Annex A Part II report which accompanies this report.
- 10.30 The above table clearly demonstrates that Supplier C has returned the lowest cost and highest quality submission. It is therefore recommended that the contract is awarded to Supplier C for the supply of Vehicles with Maintenance. The contract term should be for 7 years with the option to extend for a further 7 years.

11. How does the decision contribute to the Council's Corporate Plan?

- 11.1 Leading a Well Run Council: this decision ensures that the Council has in place a legally compliant contract for the operation of its vehicle fleet, and demonstrates value for money.
- 11.2 A Leading Sustainable City: awarding the contract will enable the timely replacement of a large number of old diesel-powered vehicles. In Year one of the contract, seven diesel vans will be replaced with fully electric-powered equivalents, the maximum number for our existing charging infrastructure. Other older diesel vehicles, including seven refuse collection vehicles, will be replaced by new equivalents that meet the current Euro 6 emission standards, supporting our objective of improving local air quality. From 2020 we expect to have the option to begin introducing electric refuse collection vehicles. A contract hire arrangement reduces the technical risk to the Council of adopting new technology. The fleet management team is working with the Council's Corporate Energy Manager to progress the business case for the required electricity supply and charging infrastructure.
- 11.3 Supplier C Services will make extensive use of local supply chains to provide maintenance services, supporting existing business in Exeter.

12. What risks are there and how can they be reduced?

- 12.1 A key risk during this process was the potential for failure to attract competitive and realistic bids from suppliers who met all the tender requirements. This risk was mitigated by using Ricardo as consultants to draft the tender specification and guide bidders through the competitive procedure with negotiation.
- 12.2 There is always a risk that a contractor ceases trading or goes into administration, with potential for disruption to services. Supplier C is owned by a bank with the equivalent of a parent company guarantee. The tender also offers a suspensive lease, which allows the Council to take on the vehicle lease costs in the event of the contractor ceasing trading. This avoids the potential for the Council to have to hand the vehicles back to an administrator. The Council would still have to make interim vehicle maintenance arrangements but this is not considered a significant operational risk given Exeter's good access to local vehicle maintenance businesses.
- 12.3 Other risks such as a no-deal Brexit increasing the cost of goods and materials, and difficulties for contractors in recruiting local skilled labour, apply to any model of fleet vehicle service delivery. Letting a contract hire arrangement with a national supplier with access to a broad supply chain is likely to be the best way to mitigate these risks.
- 12.4 A significant benefit of a contract hire arrangement is the removal of risk of unforeseen maintenance costs. The risk of major component failure becoming

greater with the increased average age of our current vehicles is mitigated with this model.

13. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

13.1 The decision will result in a number of older diesel vehicles being replaced with electric or Euro 6-compliant diesel equivalents in year one of the contract. Reduction of local diesel emissions will have a positive impact on health and the environment.

13.2 No other impacts have been identified.

14. Are there any other options?

14.1 An alternative option is for the Council to continue acquiring fleet vehicles from capital funding using an agreed procurement framework. A maintenance-only contract would need to be let separately. The forecast in Section 4 indicates that this would be a more expensive option due to the backlog of older vehicles in the fleet that are overdue for replacement. Furthermore, there is no guarantee that a new maintenance-only contract would result in the same costs that we currently incur on maintenance: these could increase as previous suppliers review the prices they have charged.

14.2 This alternative would also prolong the Council's exposure to legal risks from failure to market-test its vehicle maintenance arrangements.

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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