LONDON FIRE AND EMERGENCY PLANNING AUTHORITY

Report title

Procurement Process for the Authority's Vehicles and Equipment Contract and the Protective Equipment Services

Meeting	Date
Resources Committee Authority	17 March 2014 27 March 2014
Report by	Document Number
Director Finance and Contractual Services 3 March 2014	**FEP 2237**

Public

Summary

The PFI contract for vehicles and equipment with Premier FireServe (PFS) (formerly AssetCo London Limited) was terminated on 13 November 2012 and the company placed into administration. At the same time, an interim replacement contract came into effect, with Babcock Critical Services Limited until a longer term solution could be procured. This report details the re-procurement process for vehicles and equipment as well as the market testing of the Protective Equipment Group (PEG). The report explains the tender evaluation process and the value assessment of options available including the in-house cost models for both Vehicles and Equipment and PEG. This process determined the overall best value solution for the Authority.

Recommendations

That the Authority agrees:

1. That the report be noted;

2. That a contract for the provision of the Vehicle and Operational Equipment Management and Maintenance Services be awarded to the supplier who submitted the most economically advantageous tender, as set out in the part II report;

3. That the services provided by the Protective Equipment Group be retained in-house; and

4. That a business plan be developed for the future development of the Protective Equipment Group, which includes the possibility of relocating to alternative premises.

Vehicles, Equipment and PEG Procurement Process

Background

Procurement and contract options

(1) FEP1997 set out the procurement and contract options that were considered prior to terminating the Fleet and Operational Equipment Items Management and Maintenance contract with Premier FireServe Ltd (formerly AssetCo London Limited). At that time, the option of novating the original PFI contract to Babcock was considered, but that option was not pursued because it was not possible to agree a price that could be accommodated within the existing budget. It was felt that a better outcome could be achieved through subjecting the long term contract to a re-procurement which would access the benefits of wider market competition. It was therefore agreed to award an 18 month interim contract to Babcock. FEP1997 explains that due to the urgent requirement to put alternative arrangements in place at the point the PFS contract was terminated, the Authority awarded the interim contract to Babcock using the negotiated procedure without prior contract notice as permitted by Regulation 14 of the Public Contracts Regulations 2006. Babcock were identified as the preferred interim option as they were already maintaining part of the Brigades fleet under the Long Term Capability Management contract arranged by DCLG. This included 39 vehicles and 37 demountable bodies as well as a significant amount of operational ewuipment assigned to the Brigade.

(2) FEP 2048 set out the proposed re-procurement process for the vehicles and operational equipment together with the option of including the Protective Equipment Group (PEG) services. This was discussed further at the Authority meeting on the 28 March 2013 where it was agreed that the procurement would include an additional separate market testing exercise for PEG. This additional option was therefore included in the Contract Notice for the procurement that was published in the Official Journal of the European Union (OJEU) on 22 April 2013.

(3) Following Members' decision to discontinue the PEG only option after the Pre Qualification stage as set out in FEP 2103X two procurement options were pursued at final tender stage:

- the combined vehicles, operational equipment and PEG option;
- the vehicles and operational equipment only option

(4) Property sub options were also included in the above service options. Given the need for future investment to refurbish Ruislip Workshops (where the vehicles and equipment are currently maintained) and the potential to secure future additional or alternative property solutions (as reported in FEP 2103 and FEP 2156), bidders were also required to include two property sub options in their bids:

- An Authority provided property solution (using existing Authority premises such as Ruislip Workshops where either party may exercise a mutual break clause giving 15 month notice and any new property proposal would be subject to Authority approval);

- and a Contractor provided property solution (the provision of new premises by the Contractor and the potential inclusion of existing Authority premises where appropriate).

(5) As reported in FEP2103, given the materiality of the £30.67m PFI revenue support grant to the Authority's affordability position, it was necessary to include both private and public funding options for the vehicles and equipment contract in the early phases of the procurement process. However, this involved additional cost burdens for bidders and the Authority as well as adding complexity to the procurement. Therefore, the intention was to withdraw one of the funding options as soon as possible. As reported in FEP 2156, the PFI funding option was withdrawn on 12 September 2013 with DCLG's agreement.

The procurement process

(6) The procurement has been conducted in accordance with the Public Contract Regulations 2006, using the competitive dialogue procedure. This procedure enables detailed discussions between the Authority and potential providers of the service in order to develop and refine solutions before the dialogue is closed and final tenders are invited. Following the publication of the Contract Notice in the OJEU, Pre-Qualification Questionnaires (PQQs) were issued to interested parties, to be returned by 23 May 2013. This was then followed by competitive dialogue involving clarifications and discussions with bidders starting on 12 June 2013 and ending on 28 November 2013. During this period, bidders were invited to submit detailed solutions (ISDS) on 30 September 2013. Officers discussed these submissions in detail with the bidders and on 28 November 2013 issued the Invitation to Submit Final Tenders (ISFT). The final bids were returned on 14 January 2014.

In house cost models

(7) As reported in FEP 2048, the costs of providing both the PEG and the vehicles and equipment services in house have also been considered as part of the process. To this end, in house cost models have been developed for vehicles and equipment and for PEG respectively. The models are not in house bids to the tendering process, but are rather Public Sector Comparators (PSC) which have been used in the value assessment process to decide which package offers best value to the Authority as explained further in paragraphs 33 and 34 below. In accordance with good procurement practice, the models were finalised and 'locked down' prior to receiving the first detailed solutions submissions from bidders on 30 September 2013.

In house cost model for vehicles and equipment

(8) The cost model for an in house provision of the vehicles and equipment service is a maintenance cost model only.

(9) To determine staff costs, it was assumed that the existing contractor's staff numbers as at August 2013, including known vacancies, would be transferred under TUPE to the Authority at current salary levels but subject to the Authority's employment terms including membership of the Local Government Pension Scheme (LGPS). This pension provision added

approximately £1m annually when compared to the private sector. A one off transition management cost of £285,000 and an increase of 2 procurement officers were included. This was to support increased tendering requirements for the fleet and equipnment repoacement programme and to ensure these comply with the Procurement Regulations.No change to operational efficiency, either improved or reduced, was assumed following the transfer of staff to the Authority.

(10) It was assumed that the services would continue to be delivered from the Authority owned Ruislip site, and therefore no additional costs for other sites have been included. The estimated annual property running costs for the site were included in the model along with the costs for the required refurbishment of the Ruislip site within the first 10 years of the contract. This is as identified by the external condition survey (as reported in FEP 2103) and includes the cost of the associated disruption to the services. These costs were amortised over the life of the contract and built into the cost.

(11) Consistent with HM Treasury's advice on best practice for the construction of comparator costs, the model included an element of corporate overhead costs absorption such as Human Resources, ICT and Health and Safety. This was calculated as a proportionate share of the Authority's overheads by analysis of the 2013/14 budgets, based on the number of staff identified in the model.

(12) Maintenance spares, consumables and fuel costs were derived from a detailed vehicle type by type cost modelling, previously used to establish prices for individual vehicle "slot prices" under the PFI contract. This approach accounted for variations in the age profile of the fleet. It enabled a calculation of a productive labour full time equivalent (FTE) estimate using averaged direct labour rates which closely matched the cost assumptions in the slot price models developed by Premier FireServe Ltd, the previous PFI contractor. It was also used to calculate the number of vehicle delivery and collection events. It was assumed that the Authority would procure spares and consumables on the same general commercial terms as an external contractor. Costs for specialist areas of the service, which are currently sub-contracted, were estimated based on current knowledge from the contract management of the service. Other costs, including the provision of vehicles in support of the contract delivery, were estimated based on the known number of vehicles as at August 2013.

(13) After taking all these factors into account the annual value of the in house cost model (used as the Public Sector Comparator – PSC) is £14.1 million, excluding the one off transistion management costs that have been identified.

In house cost model for PEG

(14) An improved PEG in house cost model, effective from a service commencement date of August 2015, was also developed in conjunction with PEG managers. The 2011/12 budget report (FEP 1698) anticipated that a saving of £210k per year could be achieved as a result of "externalising some or all of the work of PEG". This savings figure has therefore been used as a baseline efficiency and factored into the PEG in house cost model. However as detailed in paragraph 22 further efficiencies are expected to be identified in developing the business plan for the future PEG service.

(15) The PEG in house cost model was established at £2.07 million annually. The model was constructed using details from the current in house service as well as efficiencies (equivalent to 3 full time equivalent staff) arising from the property improvements described below. The model includes the existing logistics arrangements and Service Level Agreement with the Brigade Distribution Centre as detailed in the instructions to tenderers. It also includes corporate overheads as explained above for the in house cost model for vehicles and equipment.

(16) To improve the efficiency of maintenance operations, health and safety, and PEG's performance in relation to the Disability Discrimination Act, the cost model proposes the relocation of PEG to a new more suitable premises in the Croydon Area. This cost has been included and amortised over 21 years for the fit out of a leased premises of 1,300 square metres. Revised facilities management and site rental costs have also been included in the model. No allowance has been made for the potential to lease the existing premises to a third party. As a result of efficiencies from improved maintenance activities, the new premises allow a reduction of 3 full time equivalents (FTE) in technical staff (a saving of £150k annually) and further savings in spares and consumables costs without impacting on the current standards of services and availability of equipment. . These savings total £210k.

(17) The cost of a contract compliance team, which would be required if the service was out sourced, has been included in the cost model as an avoided cost – i.e. reduces the in house cost. This equates to a total annual cost avoidance of £360k which reduces the in house cost model comparator.

(18) The PEG in house cost model has been constructed in accordance with the terms of the procurement process to enable a fair comparison to be made. However, there are further improvements opportunities that could be realised such as improving logistics and reducing the amount of reserve equipment needed. If the recommendation to retain the service provided by PEG in house is agreed a business plan will be developed for the in house operation which will include further improvements and efficiencies, including the potential to provide services to external organisations on a commercial basis. This plan will also take into account whether any of the capital receipts expected to be realised from the sale of the vacant fire stations could be used on an invest to save basis to fund the relocation to alternative premises and whether the cost of this could be offset as a result of the disposal of the existing site. It is expected that this work could be used to inform the budget setting process for 2015/16.

DCLG and the PFI revenue support grant

(19) As reported in FEP 1997, FEP 2048 and FEP 2103, DCLG's commitment to continue to provide the revenue support grant (PFI credits) to 2021 (the original expiry date for the PFI Contract) was on the basis of the new contract being a PFI. Given the materiality of the PFI revenue support grant funding, the PFI option was included in the procurement. However, discussions with the market confirmed that private sector funding was very unlikely to be available for a 7 year arrangement and that this option would therefore be impractical, costly and unattractive to potential suppliers. Furthermore, a PFI would result in the vehicle and equipment assets remaining in private sector ownership, whereas a non PFI contract would result in the ownership of the assets returning to the Authority.

(20) On 17 May 2013, the Authority submitted a business case to DCLG requesting the continuation of the revenue support grant on the basis that the new contract was not on a PFI

basis. The business case showed that the proposed non PFI outsourced contract could achieve the same outcomes and operational risk transfer as PFI, and that these benefits could be achieved via cheaper non PFI financing thereby providing greater overall value for money.

(21) As reported in FEP2156X, DCLG wrote to the Authority to confirm its support of the Authority pursuing a non PFI contract option because better value for money would be achieved without PFI. Therefore, on 12 September 2013 the PFI funding option was withdrawn from the procurement and the bidders informed accordingly.

(22) DCLG subsequently offered £10 million as a lump sum payment in early settlement of the outstanding PFI revenue support grant, however, officers emphasised that this offer was unacceptable and engaged in a series of meetings with Departmental officers to explain the potential consequences of this offer on the Brigade. Following these meetings DCLG reconsidered its response and its Investment Sub-Committee has since approved the sum of £14.95m. This includes the payment of a lump sum of £12.76m for the early settlement of the outstanding PFI revenue support grant. After taking into account the effect of inflation, DCLG's offer is £11.59m below the total amount due for the remaining 7 years of the original PFI period i.e. to 2021. However, this shortfall will be mitigated by the Authority's ability to access cheaper borrowing than PFI sources such as via the Public Works Loan Board (PWLB). Officers have modelled savings of £12.3m between 2014 and 2021 as a result of this cheaper borrowing, noting that the exact amount of these savings and the time when such savings will materialise will depend upon variable factors such as the interest rates at the time, the terms and profiles of loans and the available sources of public financing. Savings are also expected to be possible as a result of the reduced capital replacement requirements following the implementation of LSP5 (i.e. the reduction of 14 pumping appliances and 2 fire rescue units over 12 year life cycles).

New Dimensions vehicles and equipment

(23) Following the 9/11 and 7/7 terrorist incidents, the Government provided fire and rescue authorities with a range of new vehicles and equipment under the New Dimensions (ND) programme to improve operational capabilities and resilience. These assets include high volume pumps (HVPs) and incident response units (IRUs). The full list of ND assets for London is provided in Appendix 1. These assets are already in operational use within the Authority. DCLG have since transferred the ownership of the ND assets from DCLG to fire and rescue authorities in England and Wales with the exception of London. As reported in FEP 1899, the Authority and DCLG had agreed to put the transfer of ownership for London on hold during the period of AssetCo London Ltd's (the previous PFI Contractor) financial difficulties.

(24) The payment of the revenue support grant (£14.95m) by DCLG is conditional upon the Authority agreeing to the transfer of ownership of the ND assets from DCLG to the Authority. The Commissioner has written to DCLG confirming the Authority's agreement to the proposed transfer of ownership of these assets and thereby enabling the payment of proposed revenue support grant as set out above. Officers are working closely with DCLG to finalise the proposed transfer by 1 April 2014. The change in ownership refers to title only and does not alter DCLG's current responsibility to arrange and pay for the maintenance of the New Dimensions fleet.

Budget

Affordability

(25) Under the PFI arrangement the budget for vehicles and operational equipment included combined capital and revenue expenditure. As such, it was the contractor's responsibility to manage the capital programme (life replacement of assets) as well as the revenue elements of the contract (maintenance and repairs). The departure from PFI for vehicles and equipment means that the Authority is now responsible for the capital replacements and therefore, it is necessary to redefine the capital and revenue elements of the budget as part of the re procurement process. An Affordability Statement was issued to bidders for the revenue element. This was calculated on the basis of the annual budget of £19.3 million minus a 2.5% efficiency saving. This figure was further reduced by separating out the £7.5 million average annual capital requirement for replacement vehicles and equipment. Therefore, the affordability level for vehicles and equipment given to bidders was £11.35 million which is equivalent to £169.07 million net present value (NPV) for the contract period. In this report, NPV is the net present value of unindexed cash flows, discounted at 3.5% annually. The Vehicles and Equipment in house cost model is not directly comparable with this figure as it is not based on the same annual budget figure used in the Affordability calculation but the actual costs of labour, premises and parts required to provide the service if it is provided in house.

(26) An affordability statement was also issued for the services provided by PEG. This amount of £2.03 million was based on the 2014/15 for the current PEG service. This is not directly comparable to the PEG in house cost model because the PEG in house cost model (as a Public Sector Comparator) includes property costs, facility costs and central overhead absorption charges (which are not included in departmental budget costs) less the avoided cost of a contract monitoring team.

Evaluation and Decision Process

Stage One: The Tender Evaluations - Most Economically Advantageous Tenders (MEAT)

(27) A team of evaluators from Procurement, Operations, Technical Service & Support, Health and Safety, Finance, HR and Legal were appointed to evaluate the final tenders. The evaluation has been undertaken on the basis of the "Most Economically Advantageous Tender" (MEAT). This simply means that a combination of cost and quality is taken into account in the evaluation, as opposed to lowest price which would otherwise exclude quality considerations. For this procurement, price has been given a weighting of 30% and quality has been given a weighting of 70%.

(28) For the vehicles, operational equipment and PEG option, one final tender was received. For the vehicles and operational equipment only option, two final tenders were received. All three tenders included responses to the two different property solutions. Therefore, in effect there was a total of 6 "bids" at final tender stage.

Stage Two: The Value Assessment

(29) Following the identification of each MEAT for the four options, a value assessment was undertaken to determine which package offered best value to the Authority. This assessment was undertaken by a team with representatives from Procurement, Technical Service and

Support, Legal, Operations and Finance. The process was published as part of the invitation to participate in dialogue (ITPD) and the invitation to submit final tenders (ISFT) and involved grouping the various MEAT bids, the respective property solutions, and the in house cost models (Public Sector Comparators – PSC) into five packages, as follows:

i. The PEG and Fleet and Operational Equipment in house cost models - assumes use of the Ruislip Workshops and existing PEG locations solution for premises;

ii. The 'MEAT' bid for vehicles and equipment only Authority provided property solution for premises and the PEG services in house cost model;

iii. The 'MEAT' bid for the vehicles and equipment only Contractor provided solution for premises and the PEG services in house model;

iv. The 'MEAT' bid for the combined vehicles, equipment and PEG services option and the Authority provided solution for premises;

v. The 'MEAT' bid for the combined vehicles, equipment and PEG services option and the Contractor provided solution for premises.

(30) A comparative value assessment of the five packages was undertaken on the basis of quality (70%) and price (30%). Officers compared the five packages set out above to identify the overall solution which offers best value to the Authority. The determination of best value was carried out according to the published methodology in the ISFT which is set out in Appendix 2. This was used to examine and score the benefits and disadvantages of each package.

(31) The results of this process are set out in the part 2 report . This is in support of the recommendation to award the contract for Vehicle and Operational Equipment Management and Maintenance Services to the MEAT tenderer for that option and to retain the services provided by PEG in house.

(32) The recommended option is within the current budget for the service and the detail is provided in Part Two report.

Extension of the interim contract

(33) The interim contract with Babcock for vehicles and equipment has been extended until noon on 13 November 2014 in accordance with the extension provisions. This date is the planned service commencement date for the new vehicles and equipment contract.

Next steps - implementation

(34) Subject to Member approval, following contract award, it is anticipated that the new contract for vehicles and equipment will be signed in May 2014 with a service commencement date of 13 November 2014. The contract provides extensive implementation planning and appropriate milestones and officers will work closely with the new contractor to manage the implementation of the new service. Progress updates will be provided to Members as part of the regular update on the operation of this contract to Resources Committee.

Head of Legal and Democratic Services comments

(35) The Head of Legal Services has reviewed the report and the comments have been included.

Director of Finance and Contractual Services comments

(36) This report recommends that a contract for the provision of Vehicle and Operational Equipment Management and Maintenance is awarded to the supplier named in part 2 of this report. The recommended option is within the budget available for the award of this contract.

(37) There are a number of factors that will affect the final budget position in the 2014/15 financial year, which have been set out below.

- The contract price proposed by the contractor excludes some changes to the contract, the financial impact of which is being reviewed. These changes include the impact of the LSP5 on the number of appliances and the life extension to some vehicles.

- An annual PFI revenue support grant of £4.4m has previously been payable by DCLG to LFEPA. This has now been replaced by a one off capital payment of £12.8m, for the early settlement of that grant. This decrease in funding is expected to be partly offset by decreased capital costs.

- The £7.5m set aside for capital payments is likely to be lower in the early part of the contract, before the acquisition of new vehicles. The value of these capital financing payments is expected to reach a steady state from 2021.

(38) The full financial impact of these will be reported to members as part of the quarterly Financial Position reports to the Resources Committee. The one off capital payment from DCLG includes the final PFI revenue support grant payment for this financial year which will now be paid as capital. The impact of this will be assessed as part of the final accounts process and included in the report on the final outtun for 2013/14 that will be reported to this Committee in July.

(39) This report also recommends that the services of the Protective Equipment Group remain in house. The report states that if the recommendation to retain the service provided by PEG in house is agreed, a business plan will be developed which will include further improvements and efficiencies. This will take into account whether any of the capital receipts expected to be realised from the sale of the vacant fire stations could be used on an invest to save basis, to fund the relocation to alternative premises. Any potential savings would then be included in the budget setting process for 2015/16.

Sustainability Implications

(40) Opportunities to improve delivery of the GLA Group Responsible Procurement Policy for Vehicles and Equipment and Emergency Fire Crew Capability have been addressed through the re-procurement process.

Staff Side Consultations Undertaken

(41) The representative bodies have been consulted regularly throughout the re procurement process and throughout the fleet replacement project regarding future vehicle specifications.

List of Appendices to this report:
Appendix 1 – Summary of New Dimensions Assets
Appendix 2 - Value Assessment methodology as detailed in the Invitation to Submit Final Tenders.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	
List of background documents	
Proper officer	**Director Finance and Contractual Services**
Contact officer Telephone Email	**Nicol Thornton** **020 8555 1200 ext 31151** **nicol.thornton@london-fire.gov.uk**

Appendix 1

Appendix 1 Summary of New Dimension Assets		
No	Description	Quantity
1	Incident Response Unit (Inc. Fork Lift Truck and other inventory) (IRU)	10
2	Detection, Identification, Monitoring Vehicle (DIM)	2
3	Mass Contamination Re-robe Unit	2
4	Mass Contamination De-robe Unit	3
5	High Volume Pumping Hose Module (HVP)	6
6	High Volume Pumping Pump Module (HVP)	6
	Urban Search and Rescue Units(USAR) of which:-	
7	Module 1 - Structural Collapse	4
8	Module 2 - Major Transport Incident	4
9	Module 3 - USAR Support to Module 1+2	4
10	Module 4 - Multi Purpose Vehicle (MPV, Bobcat)	4
11	Module 5 - Timber	4
12	Prime Mover Units used in conjunction with Items 3-11	25

Appendix 2

Value Assessment methodology as detailed in the Invitation to Submit Final Tenders.

(Note: the Authority provided premises solution was referred to as "Mutual Solution" at this stage of the procurement process)

5.3.1 The Authority will compare the Most Economically Advantageous Tenders (MEAT) in relation to the in house costs (as a Public Sector Comparator (PSC)) to ensure fair comparison of Lots and options to ensure that best value is provided to the Authority. The combining of the tenders and the PSC ('the Combined Solution') will be carried out as follows;

- 5.3.1.1 Mutual Solution for Premises - Lot 1 MEAT Tenderer Only
- 5.3.1.2 Mutual Solution for Premises - Lot 2 MEAT Tenderer and Protective Equipment PSC
- 5.3.1.3 Mutual Solution for Premises - Protective Equipment PSC and Fleet and Operational Equipment PSC
- 5.3.1.4 Contractor Solution for Premises - Lot 1 MEAT Tenderer Only
- 5.3.1.5 Contractor Solution for Premises - Lot 2 MEAT Tenderer and Protective Equipment PSC

The Authority will compare the five combinations set out at 5.3.1.1 to 5.3.1.5 above to find the solution which offers best value to the Authority. In deciding whether to award Lot 1 or Lot 2 the Authority will use the Protective Equipment PSC to assess both the Quality and Price offered by the in-house provision of the protective equipment services combined with the highest scoring Lot 2 solution when comparing this with the most economically advantageous Lot 1 solution.

5.3.2 For Combined Solutions the market value of the rent for the Leases will be incorporated for the purposes of fair comparison with Contractor Solution for Premises.

5.3.3 The Combined Solutions and measurement of best value will be carried out within the following methodology, which will examine and score the benefits and disadvantages of each Combined Solution.

Overall Weighting	Weighting
Price	30%
Quality	70%

Breakdown of Quality Criteria	Weight
Resourcing Proposal for the Solution	30%
Staff Terms and Pension Arrangements	10%
Resilience and Contingency of the Solution in relation to; • Staff • Premises • Delivery of Services	35%
Revenue Generation from Third Parties	5%
Management of the Service Provision	20%

Breakdown of Price Criteria	Weight
Price Assessment	100%

5.3.4 The assessment of the Combined Solutions will determine the basis upon which to award a Contract (as set out in 5.3.1 above).