



Acquisition and Management of Commercial Vehicles

A New Approach for London

Study Findings and Recommendations

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Executive Summary

Commercial as opposed to passenger vehicles represents an area of fleet management that has hardly been touched in terms of research. This is mainly due to the absence of key information, the complexity of what is being acquired, and the fact that commercial vehicles are acquired by more than one department in many public sector bodies. OGC has estimated that the UK public sector (excluding MOD) expenditure on these is around £630M per annum.

This short study has been produced on behalf of Capital Ambition (London's RIEP) to assess the likely business case and the commercial opportunity for introducing a collaborative approach to the acquisition and management of this category across the Capital. With the help of around half of London's local authorities it has been possible to piece together a good picture of the scale of the opportunity. In summary:

- ♦ London local authorities spend on average £2M a year on commercial vehicles and the average fleet total is around 200 to 250 per authority
- ♦ Ten suppliers account for about 35% of the total London direct expenditure
- ♦ Significant volumes of vehicles are supplied by outsource providers as a part of larger contracts (e.g. waste collection) which are often not visible to the local authorities concerned
- ♦ Taking into account the cost of running workshops, spares and maintenance provision, as well as the cost of direct purchases the total annual expenditure in London is around £100M
- ♦ Acquisitions are made in a variety of ways the most common being outright purchase, leasing and spot hire
- ♦ Grounds maintenance vehicles appear to be another area of significant spend in London according to hearsay evidence in the preparation of this report. These may present an even bigger opportunity in the future
- ♦ There is limited use of fleet management software or vehicle asset registers.

In terms of the acquisition and management of commercial vehicles, this has evolved with the thirty three local authorities. While some employ a fleet manager to manage and control the processes, other have highly devolved approaches, particularly for the acquisition of mini buses. This means that it is very difficult to acquire any consistent information from the authorities, assuming in some cases that it actually exists at all.

The piecemeal approach to commercial vehicles across London has meant that a significant number of efficiency opportunities cannot, at present, be exploited. These include the ability to:

- ♦ plan ahead and share contracting of similar vehicle ranges
- ♦ introduce standardisation policies on fleet and spare holdings
- ♦ share vehicles between authorities on a temporary basis or in cases of civic emergencies

- ♦ manage workshop capacity and allow other authorities to utilise excess capacity
- ♦ engage with suppliers and influence markets to our advantage.

In addition, there is currently no central guidance on acquisition and management techniques which could help reverse this position.

Where attempts have been made to introduce common specifications for fleet ranges, such as refuse freighters which cost upwards of £140k each, cashable savings of up to 10% have been delivered to those taking part in such exercises. If this level of savings was extrapolated in London, it could yield cashable savings of up to £6M per annum before any other policy measures are introduced.

The report presents an evidence based approach to what is a complex, but potentially rewarding, opportunity for Capital Ambition and individual London authorities if tackled sensibly. The survey research provides compelling evidence for a London wide collaborative project, a view that was overwhelmingly endorsed by authority representatives attending the CA consultative workshop. Also, senior representatives from OGC are keen to support London in embarking on such a project, which would be a first in UK local government.

Collaborating in the acquisition and management of commercial vehicles on a regional basis **now** will form the basis for significant cashable savings in the next two to three years. This does not mean centralisation or creating unwieldy contracts, but being far smarter in the way that we plan new acquisitions and manage the resources that accompany them. The report proposes that Capital Ambition grants £250k with a view to creating a new project and starting this process.

1. Background

This section sets out the background to this study, summarises the work undertaken and gives acknowledgements to the team involved.

1.1 Introduction

Collaborative procurement is a proven source of cashable savings and efficiency gains, a point recently strongly re-emphasised in the recent H M Treasury **Operational Efficiency Programme**¹. However, undertaking collaborative procurement is not always straightforward for a variety of organisational and political reasons. There is also a question as to the optimum level for collaboration. This is needed to balance the commercial advantages against the need for flexibility and service responsiveness.

In 2008, the Capital Ambition Efficiency Board (EB) identified three high value product / service areas to investigate in London with a view to understanding more about the opportunities for collaboration. These were commercial vehicles, construction / highways materials and food/ catering. In each area, there was hearsay evidence to suggest that significant opportunities might exist, but little by way of evidence based information to justify taking action.

The EB approved a short study looking at commercial vehicles at its meeting on 15 January 2009. The terms of reference are included at Appendix A. They were particularly interested in ascertaining whether a regional / sub-regional approach to category management might work and what benefits could be expected to accrue.

1.2 Research and Participation

Research for the study was undertaken using the following sources:

- ◆ Interviews with key stakeholders
- ◆ Borough survey sent via the Treasurers and the SLT Efficiency Group
- ◆ Searches of the London Contracts Register (CRS) and On-Line Expenditure Analysis (OEA) tool accessing 2007/8 data
- ◆ General Workshop held on 10 March 2009
- ◆ Web based research and interviews with representatives from the eight other English RIEPs

Nineteen London local authorities took part, which was good given the timetable of less than one month to undertake the work. A full participation map is included at Appendix B, but in summary:

- ◆ 9 local authorities responded to the survey and attended the workshop

¹ Published by H M Treasury April 2009, ISBN 978-1-84532-587-9.

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- ♦ 5 local authorities attended the workshop but did not return the survey
- ♦ 5 local authorities returned the survey but did not attend the workshop

The CRS and OEA were used to validate / clarify our information and fill potential gaps showing their value as collaborative planning tools. We were able to supplement the returns from authorities as shown in Table 1.

Participants	No. Authorities where CRS was used	No. Authorities where OEA was used
Did not return the survey	5	3
Returned survey	5	8

Table 1: Usage of Capital Ambition Tools

A further seven London local authorities had sufficient information registered on one or both tools to complete and return the survey to a reasonable degree of confidence if they had chosen to do so.

The workshop was well attended with a wide range of stakeholders, including transport / fleet, procurement and finance. Participation levels were high.

Interviews were also carried out with David Rothrie (Commercial Delivery Manager for the Fleet Category at OGC) and Malcolm Gillet (Fleet Manager, Tower Hamlets, and Chairman Association of London Transport Officers).

1.3 Supporting Individuals and Organisations

This report was produced with the active input and support from the following:

Olivia Crill	Tribal
Meriel Winwood	Enterprise Asset Management
Michelle Van Toop	MVT Procurement Solutions

2. Study Findings

This section sets out the study findings.

2.1 Definitions

Broadly speaking, vehicles can be divided into two types, passenger and commercial.

Passenger vehicles are well defined and understood and have been the subject of a lot of collaborative working in the last few years. For example, DWP has a large framework contract in place for vehicles up to 7.5 tonnes which is open to all public sector organisations. It is designed for volume products with a goal of being able to leverage better value from public sector spend. It is well publicised, and according to OGC, over 286 organisations used it last year spending £139M with the suppliers on it. In London, according to a recent OGC survey to which 10 London local authorities responded five were already using the contract, five were interested and only one had negotiated its own arrangements.

Passenger vehicles are very easy to standardise and markets both mature and competitive, particularly since the start of the economic downturn. These have been **excluded** from this study as significant progress has already been made in driving out value for money, and there is little immediate benefit to be derived through duplicating existing work. However, there may be some advantage in working with OGC to complete this picture and ensure that every London authority has a clear understanding of the terms of this deal, plus OGC's helpful work on 'grey fleet²'.

Commercial vehicles cover a far broader category and include refuse freighters, tankers, mechanical sweepers, mini-buses, buses, lorries, diggers / excavators, vans, tipplers, mobile libraries, gully sweepers and gritters. These vehicles form the main focus of this report.

Grounds maintenance vehicles cover such items as mowers, small tractors and other mechanised items. Although we did not include such vehicles in the scope of the study from the outset, it is apparent from our research that there is a significant level of expenditure in this area. Evidence from this study suggests that purchases of grounds maintenance equipment are often made on an ad hoc basis by service departments or even through an outsource provider. This means that much of it is 'off the current radar' for managing and controlling spend. Further research should be undertaken to assess the scale of this opportunity, although gaining information is likely to be challenging.

Finally, there are framework contracts for **spare parts** to support the above vehicle types. The most well defined spares contracts cover the fast moving items such as tyres, exhausts, batteries and windscreens. These are covered by several framework contracts let by groups such as Buying Solutions and the PBOs³. This market was not researched in detail given its relatively small

² This covers environmental issues on passenger fleet and can have a positive impact on cost reduction, for example DWP has reduced mileage by 20% in 2007/8.

³ Professional Buying Organisations such as Eastern Shires Purchasing Organisation (ESPO) and Yorkshire Purchasing

nature. Yet again comments made at the London workshop about the effectiveness of these framework arrangements would suggest that they should be revisited along with passenger vehicles.

2.2 National Situation

Under the Government collaborative agenda, OGC has now taken the lead on fleet procurement, with support from Buying Solutions. There is a Fleet Category Strategy Board including members from OGC, Buying Solutions, NHS, HMRC, DWP and other representatives including PRO5⁴ and the RIEPs. Gillian Brindle from the South West represents all the RIEPs.

- ◆ Buying Solutions are leading on fleet management
- ◆ NHS are leading on vehicle leasing and tyres (they are also programme sponsors)
- ◆ DWP are leading on vehicle purchases
- ◆ Police are leading on windscreens

At a recent Strategy Board meeting (18 Feb 2009), OGC presented the results of their research on heavy commercial vehicles and concluded that there was insufficient demand for this type of vehicle in central government. The group agreed that any potential work carried forward in this area as part of the collaborative procurement programme should be led from within the local authority sector.

This confirms the view held by OGC, that commercial vehicles are too difficult to tackle on a national basis. The main reasons for this stance are:

- ◆ Absence of management information on historic or future planned spend levels – a recent OGC survey received a very poor response
- ◆ Range and complexity of vehicles purchased combined with the fact that they are often acquired by service departments outside the influence of corporate procurement, unlike the passenger fleet
- ◆ Tendency for local authorities to stay with the same manufacturers for warranty reasons and also because of skills availability in their workshops which are often accredited making a change over extremely expensive

That being said, there are several framework contracts for commercial vehicles that can be, and are, readily accessed by London local authorities. The major ones are:

- ◆ **Essex Procurement Hub** – have framework contracts for car parking equipment, commercial vehicles (up to 7.5 T) contract hire and maintenance, commercial vehicles (up to 7.5 T) purchase, road sweepers, grounds maintenance equipment, refuse collection vehicles contract hire and purchase

Organisation (YPO).

⁴ PRO5 is the term used to describe all five PBOs.

- ♦ **ESPO** - have frameworks in place for commercial vehicles and specialist vehicles that are again open to all UK local authorities. The value of contracts placed last year was £26m. Prices are individual, on request so there is no information package available

There is also evidence of localised attempts to create more framework contracts, such as with the Central Buying Consortium (CBC) and Association of Greater Manchester Authorities (AGMA)

As far as the other RIEPs are concerned, there is little by way of direct activity in the commercial vehicles arena, the most notable activities being:

- ♦ **West Midlands** - utilizing e-Auctions for passenger transport contracts. This has mainly been home to school routes and which it is claimed has saved in excess of £2.5m
- ♦ **East Midlands** - has an interesting case study on its website on a joint procurement project for 27 refuse collection vehicles, showing £114k cashable savings through the use of a single specification across eight authorities in Nottinghamshire. Further added value of £13k was obtained through the reduced cost of spares and training and additional technical support worth £35K. The provision of hired replacement vehicles in the contract was worth a further £30k bringing the estimated non-cashable savings to £143K in the first year

2.3 London Analysis

The following sections set out the fieldwork findings and summarises the main points from the London workshop.

2.3.1 Annual Spend

The fieldwork suggests that commercial vehicles expenditure, plus its support infrastructure such as spares, maintenance and repair in London local government is likely to account for around £100M per annum⁵. This figure comprises both direct and indirect expenditure and its constituent elements are examined in the following paragraphs. Getting accurate and reliable figures has been challenging, a point Tribal encountered last year in producing their recent **Street Services Productivity Review**⁶ which set out to benchmark the cost of street cleaning in London.

The main reasons for this difficulty vary across London, but include:

- ♦ No common focal point, with procurement of commercial vehicles decentralised to service departments, therefore there is no overview of total spend across an authority
- ♦ Absence of information provided by out source providers to their client organisations
- ♦ Inadequate information on vehicles kept in the asset register
- ♦ Details of main contracts not kept on registers

⁵ This figure is arrived at by an average of £2M per borough per annum, i.e. £66M across London plus spares at about £5M, repairs and maintenance at about £25M. Grounds maintenance equipment expenditure is estimated at £30M across London, although much of it is likely to be acquired by outsource providers.

⁶ Copies of the presentation from Tribal can be obtained from the Capital Ambition website.

- ♦ Poor account coding (often lumped in with outsourcing payments or general project codes)

The average commercial vehicle fleet per London borough is about 200 to 250⁷, which suggests a **minimum of 6,000 vehicles** operating in London local government.

Table C1 at Appendix C summarises the main spend as provided via the survey. The value of commercial vehicle expenditure, as declared by survey participants, averages at just under **£2M per annum**. The lower variations for some authorities are accounted for by the fact that some local authorities have outsourced the acquisition of some commercial vehicles under other contracts (e.g. Veolia often buys refuse freighters on behalf of some authorities). Although the Capital Ambition Supplier Relationship Development (SRD) project has been able to collect useful information on the claimed effectiveness of this process, the amount of money spent by each authority following this route was not forthcoming.

There is a close correlation of suppliers used with some suppliers being used by over 20⁸ London authorities. Table C2 at Appendix C shows the total 2007/8 London annual spend from the top 10 suppliers of commercial vehicles by value as indicated in the survey. The spend with these suppliers alone by the survey participants was **£16,841,574** rising to **£25,451,847** for the whole of London.

We have carried out further searches on some of the large outsource providers that are known to purchase and in some cases maintain vehicles on behalf of individual local authorities. The total expenditure figures are large and include:

- ♦ Enterprise⁹ plc - £51,705,219 (used by Haringey and Islington, plus 22 other London local authorities)
- ♦ Veolia - £158,376,453 (used by Richmond and Lambeth plus 20 other London local authorities)
- ♦ Sita - £39,902,638 (used by Kensington and Chelsea, plus 20 other London local authorities)

It is not possible to ascertain what percentage of these totals is accounted for by commercial vehicle purchases and far more work would need to be done to extract these numbers with confidence. Several local authorities have already indicated that they do not collect such information from their outsource providers.

General spares (e.g. tyres, windscreens, exhausts, and batteries) are estimated at £150k per borough per annum or £5M based on searches of the OEA, however it is impossible to determine the split between passenger and commercial vehicles for financial coding reasons.

Acquisition of commercial vehicles is done through a variety of sources according to the survey, the most common being procurement departments, fleet managers and individual service departments (particularly for mini-buses). Appendix D shows 'who does the purchasing' as indicated from the survey.

⁷ Numbers were drawn from survey and confirmed by workshop participants.

⁸ Figures derived from OEA search against 2007/8 information sets.

⁹ According to their website there are 33 trading companies involved with this group.

In terms of purchasing, there are multiple approaches to purchasing including outright purchase, vehicle hire, leasing and outsourcing. According to the survey and feedback from participants, the debate about which is the best route to follow is largely determined by funding availability and timing of the acquisitions. The recent financial turbulence indicates widely varying opinions as to which route ultimately offers best value for money. Also, there is no information readily available on any of the hire / leasing arrangements to allow any value for money judgements to be made.

The final aspect of the expenditure on commercial vehicles comes to the running of workshops for maintenance and repairs. We did not investigate this aspect of the business, given the pressure on time. However, it is clear from the workshop that a majority of London authorities still have access to one. Some are run in-house and others outsourced. The annual costs of running these, range of skills provided, and capacity utilisation are, again, not known at present.

The OGC estimates that spend on commercial vehicles across non-MOD public sector is about £630M ¹⁰per annum. This figure appears to be an underestimate, especially when one considers the size of London local government business alone.

2.3.2 Current Organisation

There are wide variations in terms of the organisation for acquiring and managing the commercial vehicles fleet. There is no consistency of approach and each borough has evolved a system and approach to suit its own needs. Some authorities have fleet specialists to manage their task, while in others, service departments define and acquire commercial vehicles around their business needs and priorities on an ad hoc basis.

Twenty seven authorities currently belong to The Association of London Transport Officers (ALTO), with an average of sixteen attending the quarterly meetings. ALTO was formed in the 1980s in response to Compulsory Competitive Tendering (CCT) and Land Tax.

ALTO's work is limited by lack of funds and resource, although they do benchmarking on buses passenger transport through the Association of Public Service Excellence (APSE). They work with TFL and also Freight Transport Association (FTA). Meetings often discuss a wide range of subjects varying from CCTV on buses, licensing and emissions from fleet.

ALTO sees significant benefits in far closer collaborative working, although they have some concerns about potential legal objections around shared contracts that might be encountered. The potential benefits of collaborative working envisaged by the current Chairman of ALTO are:

- ◆ Ability to plan and coordinate vehicle purchases – many authorities do not currently have long term forward plans for vehicles
- ◆ Potential to share information on the location of specialist vehicles e.g. for floods, terrorist strikes, weather) such as snow gritters, cranes and water tankers
- ◆ Options to standardise on vehicle ranges and approach markets in a coordinated manner (for example on buses and mini-buses)

¹⁰ This figure was volunteered by the OGC representative at the London Workshop.

- ♦ Introduction of a specialist trials unit to evaluate and feed back on new vehicle types, particularly for new environmentally friendly options
- ♦ Policy standardisation, for example on tyres
- ♦ Creation of sub-regional transport hubs and shared workshop capacity

Apart from isolated examples of neighbouring authorities attempting to work collaboratively (such as Croydon / Sutton Transport Hub, and a shared taxi facility in SW London), there is little by way of organised collaboration. OGC has tracked five OJEU ¹¹ notices in the last year from London boroughs advertising contracts for both commercial and passenger vehicles. Even during the research of this report, four authorities independently indicated their intention of purchasing refuse freighters which cost on average £120k to £150k per unit reflecting the urgent need for a formalised and shared vehicle replacement schedule.

2.3.3 Workop Findings

The 10 March Workshop generated a significant amount of discussion from those present and attracted an average score of nearly 4 (on a scale of 1, poor to 5, excellent). The full agenda and list of attendees is at Appendix E. The main findings were:

- ♦ Almost all those present supported the need for collaborative working and identified with the business case for a category management approach in commercial vehicles
- ♦ Markets and choices appeared constrained, and there was evidence of suppliers being badly hit by the lack of credit in order to finance deals. Lambeth recently went out to tender for 200 light vehicles and two suppliers pulled out because of financing issues
- ♦ While core specifications were seen as the way forward by all attendees, there needed to be a recognition that some people in individual local authorities would still want 'specials' which increased production costs
- ♦ Some authorities with workshops and in-house skills tended to maintain brand loyalty to ensure their resources were fully utilised and avoid the need for re-skilling the workforce to maintain other models
- ♦ With one or two exceptions present (e.g. Sutton, Croydon and Barking and Dagenham) no one used vehicle asset tracking systems
- ♦ No authorities present knew the total cost of ownership or kept information on reliability, downtime and associated maintenance
- ♦ Some authorities indicated that the current OGC spares frameworks needed revision, as local companies often proved more competitive and were able to deliver replacement parts in less than 30 minutes (e.g. replacement tyre on a 'meal on wheels' vehicle)
- ♦ Development of London core specifications, building on the work of others, and extension to buses and mini-buses was widely supported

¹¹ These have come from Hackney, Southwark, Barnet, Greenwich and Lambeth.

- ♦ Everyone agreed that there was too little information available on vehicles. This was likely to be problematic not only from the financial perspective, but also in meeting future environmental demands. Carbon Commitment means that in April 2010, all Authorities will be ranked for environmental performance
- ♦ More needs to be done to alert senior management teams to the potential opportunities that exist in exploiting opportunities with commercial vehicles
- ♦ Attention should also be given to grounds maintenance equipment, which in many authorities is either provided by the private sector or acquired on an ad-hoc basis

3. Joining up London

This section summarises the opportunities for improving the acquisition and management of commercial vehicles in London local authorities and recommends a way forward for making significant improvements in the next two financial years.

3.1 The Prize

While it is clear that most London authorities do their utmost to optimise the acquisition and management of their commercial vehicles, there is a major question whether the whole process should continue to be replicated 33 times over. The pressure to reduce costs, fully exploit physical resources (such as vehicles and workshops) and maximise the knowledge and skills sets already working in London local government has never been stronger. The 2011/12 financial settlement is expected to be the one of the most challenging for all of local government.

When collaborative working is considered, it always needs to be addressed at five levels:

- ♦ Localised (authority level)
- ♦ Cluster (two or three neighbouring authorities)
- ♦ Sub-regional (around five to eight authorities in a geographical quadrant of London)
- ♦ Regional (all 33 local authorities)
- ♦ National (English public sector)

There is no one-size fits all answer. For example, too much aggregation and creating unwieldy contracts can be just as damaging as piecemeal and uncoordinated working. The issue is being able to decide which level provides the maximum advantage for each local authority and which will achieve the optimum balance between efficiency and flexibility.

Looking at commercial vehicles from a London wide perspective, there is a significant opportunity to influence outcomes and markets with a view to delivering cashable savings and efficiency gains. In summary:

- ♦ An organisation spending a minimum of £65M ¹²per annum and with a total fleet size in excess 6,000 is highly attractive and capable of influencing markets for its benefit, even more so in times of economic uncertainty. Individual London authorities will be unable to achieve this level of influence working in isolation
- ♦ With so many common suppliers, and the adoption of three year forward replacement schedules by London local authorities, the ability to plan and coordinate acquisitions, standardise on ranges of equipment and even operate shared vehicle policies becomes a reality

¹² This is just the annual vehicle spend across London and excludes all other costs.

- ♦ It will be possible to utilise a greater variety of techniques, including supplier relationship development and market management. For some vehicle ranges it will be feasible to utilise e-Auctions which could include giving access to outsource providers as has been done in recent years with ICT hardware
- ♦ Once details are known about the local authority vehicle workshops, including their capacity and technical specialisms, it will become possible to trade capacity across London. Central evaluation of new vehicle ranges using eco-friendly technologies would also be possible and help prevent suppliers from encouraging fragmentation
- ♦ Improved responses can be made to civil emergencies, particularly in response to utilising vehicles that are not often used, such as gritters and snow ploughs
- ♦ Working with the broader public sector in London, particularly the Metropolitan Police Service (MPS), London NHS, and London Fire and emergency Planning Authority (LFEPA) is an attractive proposition. This can realistically only happen with a coordinated response from London local government

A sub-regional / cluster approach is likely to prove more attractive in other areas such as:

- ♦ Shared transport hubs (being developed by Sutton / Croydon and explored by others)
- ♦ Creation of framework contracts for spares provision, where location, spares availability and response time is critical. This would also allow contracts which support the needs of the local economy and SMEs to be encouraged
- ♦ Shared vehicles options and emergency loans where geographical location are important
- ♦ Contract alignment where neighbouring authorities use the same contractor to perform similar service (e.g. street cleansing or refuse collection)

While a national approach has merits in some commodity areas, it will likely to be too unwieldy and inflexible if it tries to achieve a consensus on something as complex as the commercial vehicles category. The OGC has always been a useful catalyst for change and there is a clear advantage in working with it in this capacity as London has done successfully with energy, ICT and agency staff.

Other organisations have achieved the right balance with their vehicle fleets already. In central government, organisations such as Ministry of Defence (MOD) have been operating tri-service vehicle standardisation for nearly forty years with joint planning, procurement and management activity.

Putting an exact number on the level of cashable and efficiency gains that can be achieved is impeded by the problems in gaining access to future planning information and contract details across London. The potential is likely to be significant, a point actively reinforced by L B Brent when reviewing this document. For example, the work that has been done by others on commercial vehicle standardisation alone has already achieved cashable savings of up to 10% on some vehicle ranges such as refuse freighters. These savings are attractive when the unit cost often exceeds £100,000. If 10% was achieved on the whole annual London expenditure it would generate cashable gains of over £6.5M. In addition, Croydon and Sutton believe that cashable savings and efficiency gains of over £1.2M could be accrued through implementing their shared

transport hub¹³.

The consensus from those participating in this study, which is supported by the outcomes from the survey, is that significant cashable savings and efficiency gains will accrue by acting and planning at a regional level.

3.2 Way Forward

In the light of the clear level of opportunity and commercial advantage that a coordinated approach to the acquisition and management of commercial vehicles presents, there are two solutions for going forward:

- ♦ **Option 1** - Spend more time and resource researching the exact figures so that a compelling business case can be prepared and each local authority decide as to the potential value it presents
- ♦ **Option 2** - Create a series of controlled pilot projects that will help fill the knowledge and information gaps across London, and which will provide the necessary information¹⁴ and impetus to support shared activities for the delivery of cashable savings and efficiency gains in the next 12 months

There are compelling reasons for adopting option 2.

- ♦ The increasing urgency to deliver cashable savings, means that work has to start in 2009/10 if it is to be in a position to achieve results in 2011/12
- ♦ Filling the planning and information gaps now will allow each local authority to start work on preparing their own localised plans
- ♦ Launching a project now will enable Capital Ambition to test the validity of its support ¹⁵for a regional and/or sub-regional approach to category management
- ♦ The absence of any detailed work on commercial vehicles at a national level, will allow CA to adopt a lead role in the commercial
- ♦ There is potential for up to £200k ¹⁶in grant funding for work on transport improvement and efficiency the Department for Transport (DfT)

Option 1 provides a safe option, but does not allow any progress to be made. It is also likely to be time consuming.

In terms of taking forward option 2, it is proposed to adopt a two stage approach with stage one being completed by April 2010. Each stage would include several work streams and should be managed and directed by a small multi-stakeholder Steering Group, including members of

¹³ Approval for the outline business case was granted by the CA Efficiency Board on 23 April.

¹⁴ This will need to be collected using a consistent methodology.

¹⁵ Details will be published in June 2009 in the London Procurement Strategy.

¹⁶ This needs to be completed by mid June 2009.

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ALTO, Treasurers and Corporate Procurement. It would also be advantageous to include representatives from OGC, the London NHS Procurement Project, LFEPA and the MPS.

Stage 1 – Tactical Preparation

The proposed content of this stage is set out in Table 2 overleaf. If this is achieved in the current financial year it will:

- ◆ Ensure that good progress is made to exploiting the cashable savings / efficiency gains in time for 2011/12
- ◆ Inform the potential for adopting similar approaches for categories such as highways materials and food/catering
- ◆ Allow London to inform developments at OGC and in other RIEPs

Workstream	Content	Estimated Funding
Research	<ul style="list-style-type: none"> ◆ Commercial Evaluation of all existing framework contracts involving commercial vehicles and publication of findings (see Good Practice) ◆ Updating London CRS to ensure that all contract details covering commercial vehicles are posted and shared ◆ Completing information gathering from remaining London authorities that have not provided it for this study ◆ Mapping details of all London local authority workshops (including those outsourced) – covering utilisation, capacity and technical specifications ◆ Gaining details of the level of business currently being delivered through outsourcing contracts ◆ Ascertaining core specifications already in use for commercial vehicles (see Core Specifications) ◆ Mapping people resources in each authority 	£80k
Planning	<ul style="list-style-type: none"> ◆ Preparation of three to five year forward plan for commercial vehicles and publication on London CRS for sharing ◆ Central register of specialist vehicles for civil emergency 	£50k
Good Practice	<ul style="list-style-type: none"> ◆ Guide to framework contacts – see Research ◆ Guide on benefits and evaluation of procurement methods (outright purchase, hire, leasing, and outsourcing) ◆ Guide on adopting asset tracking / management software for vehicles 	£40k
Core specifications	<ul style="list-style-type: none"> ◆ Evaluation of core specifications and adoption / amendment for London wide use ◆ Preparation of vehicle types where specifications do not exist and commissioning of such work ◆ Evaluation of OGC Framework Contract for spares and development, particularly around availability and delivery lead times ◆ Guide to the benefits of different approaches to purchasing e.g. fleet specialists, centralised purchasing team, decentralised etc 	£60k

Table 2 – Stage 1 Tactical Preparation

Stage 2 – Strategic Implementation

This stage can only be planned after the completion of Stage 1, but depending on outcomes, it can be expected to include:

- ◆ Proposed supplier relationship management programmes for selected suppliers
- ◆ Joint contracting and potential e-Auctions for given ranges and volumes of equipment
- ◆ Creation of new contracts at regional / sub-regional level depending on identified gaps and confirmed demand
- ◆ Creation of London commercial category management team backed by an on-line information resource

Top management engagement and support from each London local authority needs to be sought at the outset to ensure that rapid progress is made. This will include finding interested authorities willing to take part in each workstream. The total funding needed to launch Stage 1 is £230k.

Appendix A – Terms of Reference

Background

All London local authorities purchase / lease or hire vehicles as a part of the process of delivering front line services. These efforts are duplicated in other London public sector organisations even though the types of vehicle may be different (e.g. for the Emergency Services). The exact level of expenditure is not known at present, but given the range of vehicles purchased (cars, vans, refuse freighters, street cleansing equipment) the figure could easily exceed £50M per annum. In addition, some of these vehicles are purchased as part of outsourcing arrangements which could easily inflate this figure still further.

At present, each borough is responsible for its own arrangements, even though there is almost certainly a close correlation between the suppliers and type of vehicles acquired. With a few exceptions, most vehicles fall into the 'Tactical Profit' quadrant of the Supply Positioning model. In this area one would expect to see a wide choice of potential suppliers with margins still quite healthy. However, there are also likely to be a significant potential for exploiting new opportunities for example:

- ◆ Standardisation of specifications for ranges of all vehicles
- ◆ Better exploitation of market knowledge
- ◆ Streamlined procurement operations between authorities and improved engagement with the private sector
- ◆ Better use of repairs / maintenance operations between authorities
- ◆ Fleet standardisation policies, including spares holdings and commercial support arrangements
- ◆ Removal of mark ups etc when outsourcing firms purchase vehicles on behalf of the public sector
- ◆ Use of e-Auctions for some vehicles

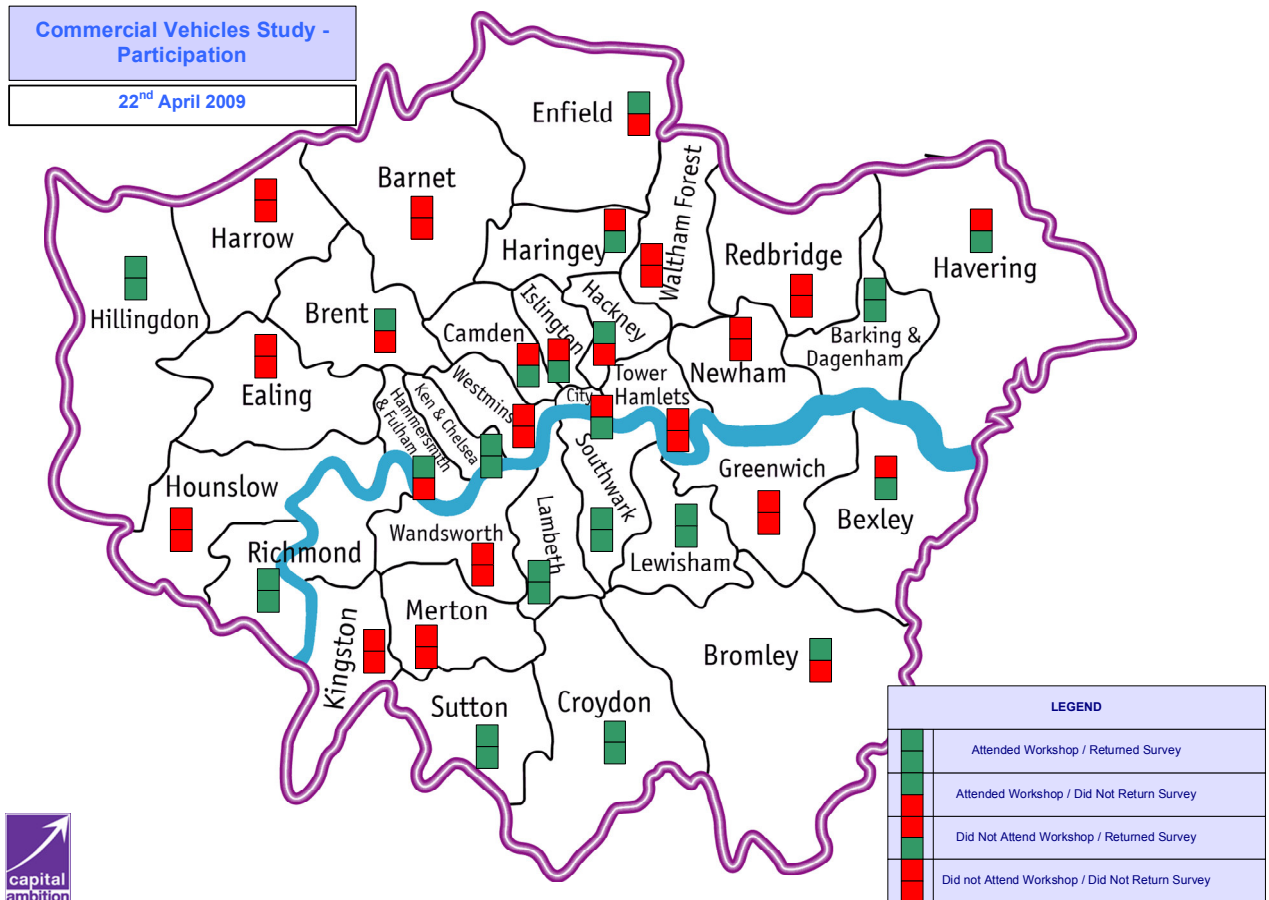
The Study

The potential for greater collaborative working and shared contracting in procurement has been identified in a recent RSE study of London boroughs as being the future direction for new sources of cashable savings. There is enough emerging empirical evidence to suggest that the scale of current activity in this area makes it an ideal time to study the way in which authorities acquire vehicles and whether alternative methods such as regional / sub-regional or cluster operations might deliver improved outcomes and cashable savings.

It is intended that the Study will be evidence based and, able to support a robust business case. In broad terms it will examine:

- ◆ The range of vehicles (commercial and industrial) purchased across authorities together with suppliers used and value of business
- ◆ Acquisition routes (direct / hire / lease / PFI / outsource) and the benefits claimed for each model
- ◆ Supporting infrastructure such as in-house repairs spares provision and maintenance
- ◆ Availability of skills and knowledge sets deployed to plan and manage the acquisition process
- ◆ How other parts of the London public sector operate
- ◆ Role of central organisations such as OGCBS and the local government consortia
- ◆ Potential risks from changing the current operational models
- ◆ Potential Opportunities for exploiting supplier capacity caused by the current economic downturn

Appendix B – Participation Map



Appendix C – London Data Summary

Authority	Annual Spend £M	Main Providers	Other Information
Barking and Dagenham	2.0M	Translinc – Leasing, KCC - for fuel, Fiveways, Dagenham Motors	Currently out to tender
Bexley	1.85M	Dennis Eagle, Faun Municipal Vehicles, Stormont Truck and Van, Applied Sweepers	
Camden	0.82M	Plaxton Coaches, Bluebird Vehicles, Pendragon Group, UV Modular, Chassis Developments	
City of London	0.4M		
Croydon	0.4M	London Hire, Automotive Leasing, Lloyds TSB	
Hackney	2.0M	Dennis Eagle, London Hire, Target Vehicle Hire, Mellor Coachcraft, Gullivers Hire, Masterlease, Applied Sweepers	Issued OJEU notice in 2008 (awarded 2009) for framework contract for the contract hire of mechanised sweeping vehicles. Estimated value £1.9M
Haringey	1.1M (all through Enterprise)	Outsourced to Enterprise plc - part of the integrated transport and waste contract. Overall spend with them is £11.9M for 2007/8	
Havering	2.59M	London Hire	Use ESPO contracts
Hillingdon	1.95M	Fiveways, Target Vehicle Rental, SG Equipment Finance, METTS, RMT Tyres	
Islington	Not Known	Outsourced to Enterprise plc - part of PFI in place until 2013. Spend in 2007/8 £12.8M	
Lambeth	0.5M	Translinc, Automotive Leasing, Arval, London Hire, High Tec Cars	Issued OJEU award notice in 2008 for light commercial vehicles lease provision. Estimated value £1.2M
Lewisham	3.3M	U V Modular, Plaxton, Dagenham Motors, Geesink Norba	
Richmond	2.9M	Faun Municipal Vehicles	
RB K & C	0.4M	Lloyds TSB	Only had details of passenger fleet – as given
Southwark	2.5M	Automotive Leasing	Issued OJEU Notice in July 2008 for Council Commercial Vehicle Fleet Lease. Estimated value £12.5M. Currently out to tender
Sutton	1.62M	London Hire, Automotive Leasing, Five Ways Municipal Hire	Use ESPO as their main advisors on vehicles

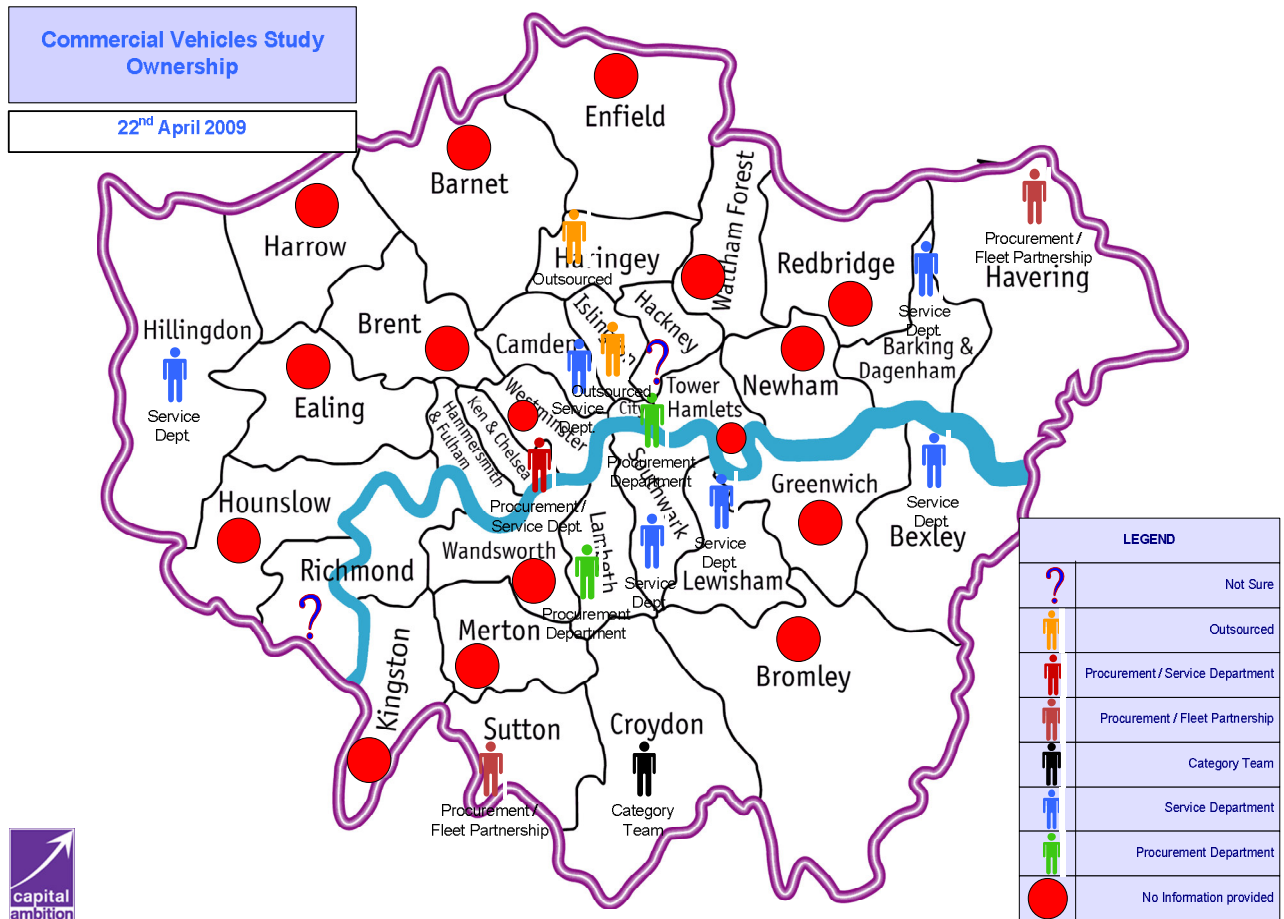
Table C1 – Expenditure by local authority participating in the survey

Supplier	Authorities using supplier	Total Value
AUTOMOTIVE LEASING	8	6,756,101
LONDON HIRE	23	5,200,249
FAUN MUNICIPAL VEHICLES	4	2,884,490
TRANSLINC	3	2,236,898
PLAXTON	8	2,003,517
GEESINK NORBA	15	1,760,896
DENNIS EAGLE	15	1,889,693 ¹⁷
FIVEWAYS MUNICIPAL VEHICLE HIRE	8	1,238,494
UVMODULAR	10	950,618
Dagenham Motors	12	530,892
		25,451,847

Table C2 – Top ten suppliers used by local authorities participating in the survey

¹⁷ This number is likely to be significantly higher as there is a 'mix and match' approach for vehicle chassis and many hire /lease arrangements are likely to be for these vehicles (e.g. Automotive Leasing)

Appendix D – Department doing the purchasing



Appendix E – London Vehicle Workshop

Agenda

- ◆ Introductions and objectives
- ◆ Commercial vehicle expenditure in London
- ◆ The London picture – findings so far
- ◆ Outcomes from street cleaning review
- ◆ Approaches to procuring vehicles
- ◆ Opportunities for future collaboration
 - Where could we collaborate?
 - What benefits would you like to see delivered?
 - What is needed to make it happen?
- ◆ Next steps – where do we want to go from here?
- ◆ Summary and close

Attendees

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