

	London Borough of Hammersmith & Fulham CABINET 14 JULY 2014
POSTAL SERVICES CONTRACT WITH ROYAL MAIL	
Report of the Cabinet Member for Finance – Councillor Max Schmid	
Open Report A separate report on the exempt Cabinet agenda provides exempt information relating to the procurement process.	
Classification - For Decision Key Decision- Yes	
Wards Affected: None	
Accountable Executive Director: Jane West	
Report Author: Sue Cooper, Service Improvement Manager, The LINK	Contact Details: Tel: 0207 3612110 E-mail: sue.cooper@rbkc.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 This report seeks approval to enter into a two year contract with Royal Mail to provide mail services relating to the collection and delivery of letters and parcels to the addressee pursuant to Lot 1 of the Government Procurement Services (GPS) RM 782 Postal Services Framework Agreement. This follows a procurement exercise undertaken by London Councils/Capital Ambition with the London Borough of Camden as the lead authority.
- 1.2 Royal Mail currently provides mail services relating to collection and delivery of letters and parcels for LBHF, however, there is no existing contract in place. The Council can take advantage of Royal Mail's business rates based on volumes. By participating in this Framework, based on budget figures for 2013/14, savings of at least 10-12% are achievable for LBHF as follows:

	Current cost 2014	Royal Mail contract cost 2014 (-10%)	Royal Mail contract saving 2014	Projected saving over 2 year contract period
London Borough of Hammersmith & Fulham	£269,000	£242,100	£26,900	£53,800

- 1.2 The borough will be required to sign up to the Framework call off terms and conditions.
- 1.3 There will be no changes to any existing collection and delivery service levels.

2. RECOMMENDATION

- 2.1 That the Council enters into a two year contract with Royal Mail to provide collection and delivery of letters and parcels to the addressee pursuant to Lot 1 of the Government Procurement Services (GPS) RM 782 Postal Services Framework Agreement.

3. REASONS FOR DECISION

- 3.1 Calling off from the Framework Agreement for a period of two years will deliver a 10-12% reduction on postal costs per annum. Based on past years' volumes this is likely to produce Tri-borough savings in the region of £26,900 per annum or £53,800 over the duration of the contract.

4. INTRODUCTION AND BACKGROUND

- 4.1 The deregulation of the postal services market in 2006 combined with developments in service providers' technology has led to significant opportunities to reduce costs in the handling and distribution of postal items.
- 4.2 In 2009/10 Talis Consultancy carried out a review of postal services across London, with 15 London Boroughs taking part. The review was commissioned by London Councils/Capital Ambition. The review established that there was considerable interest among London authorities and the postal services market in a collaborative procurement using the Government Procurement Service (then OGC) Postal Services Framework. The review predicted a 6% – 28% saving on postal costs as a result of such procurement. In May 2011 a London Postal Services Project Board convened, with a view to progress the procurement. Camden was the Lead Authority for the project.

- 4.3 The Project Board decided to invite tenders for Lot 1, "Collection and Delivery to Addressee" of the Framework. Seventeen London authorities were named in the Invitation to Quote (ITQ) and the contract was initially awarded to UK Mail in January 2012 but the offer was subsequently withdrawn in December 2012 as UK Mail wished to change key clauses of the call-off terms and also failed to engage with the negotiation process.
- 4.4 The London Postal Services Board confirmed that a further competition should occur to re-run the ITQ. New mail profiles were requested from participating Councils and new ITQ documentation was prepared in consultation with the participating authorities.
- 4.5 The services provided in Lot 1 involve the Council's external mail. All standard 1st class and 2nd class letters, large letters and packet services fall within the scope.
- 4.6 Downstream access providers such as UK Mail, TNT etc were included in the tender process but following the subsequent competitive process Royal Mail was the successful bidder and the contract was awarded on 17 May 2013.
- 4.7 Currently 21 London Boroughs are participating in the phased implementation of the Royal Mail Contract of which 14 have entered into formal contractual arrangements.

5. PROPOSAL AND ISSUES

- 5.1 The Council currently utilises various mail products provided by Royal Mail in the despatch of items from the central mailroom.
- 5.2 The main mail product utilised to generate reduced rates by the Council is Business Mail Advanced 1st and 2nd class. This product requires addresses and full postcodes to be printed in an OCR-readable (Optical Character Recognition) font and must be PAF (Postcode Address File) compatible.
- 5.3 To access the proposed contract, the mailroom will be required to replace their existing frank mark with a PPI (Printed Postage Impression).
- 5.4 The PPI will be sprayed on envelopes utilising the existing franking machine equipment and will have no impact on costs or building users.
- 5.5 The following table provides a snapshot of prices of the main mail products used, 1st and 2nd class, that make up approximately 50% of the savings achievable; it highlights the number of mail items despatched that are compliant with Business Mail Advanced for the period 1 April 2013 – 31 March 2014; and shows the savings that will be realised by entering the proposed contractual agreement.

Business Mail Advanced product	No: of mail items 2014	Current rate cost per item	Current volume cost	Proposed contract cost per item	Proposed contract volume cost	Proposed contract saving
LBHF 1st class	6366	0.437	£2,782	0.346	£2,203	£579
LBHF 2nd class	98082	0.287	£28,150	0.242	£23,736	£4,414

- 5.6 The following table identifies the remaining expenditure (non Business Mail Advanced) which is classified as Universal Services. The 10-12% reduction extends across the extensive range of Royal Mail products that comprise Universal Service.

Universal Service franked mail products	Current cost 2014	Royal Mail contract cost 2014	Royal Mail contract saving 2014	Projected saving over 2 year contract period
London Borough of Hammersmith & Fulham	£219,000	£197,100	£21,900	£43,800

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1 **Option 1** - Do nothing and continue to utilise the existing Royal Mail rate card for universal postal services and pricing structure and do not generate any savings.
- 6.2 **Option 2** - Enter into a two-year contractual agreement with Royal Mail as detailed above thereby generating a 10-12% reduction on postal costs per annum.

7. CONSULTATION

- 7.1. No consultation is required.

8. EQUALITY IMPLICATIONS

- 8.1. There are no equality implications.

9. LEGAL IMPLICATIONS

9.1 The Bi Borough Director of Law has been consulted and comments that the Postal Services Framework is described by the Crown Commercial Service, (CCS), as providing public sector bodies with easy access to all their postal requirements. For the purposes of the procurement exercise carried out by the CCS, postal services were divided into 14 lots. Royal Mail is one of a number of suppliers on the Framework. The framework commenced on the 10th of August 2010 and was let for a period of 4 years. The Agreement will expire in August 2014; however, authorities are able to call off under it for two years beyond the expiry date, meaning that the agreement can run to August 2016. Prior to entering into a contract with a supplier, authorities are required run a competitive exercise and the report explains the process carried out in that regard. Should the recommendation be approved, the Council will enter into a contract with Royal Mail, pursuant to the formalities required by the Council's Standing Orders.

9.1 Implications verified/completed by: Dian West, Locum Solicitor (Contracts) Bi-Borough Contracts and Employment Team 0208 753 2335.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 The Head of Finance (London Borough of Hammersmith & Fulham) has been consulted and concurs with the financial implications set out in this report and the potential savings as set out in Paragraph 1.2. The mail service is managed by Amey under the Tri Borough TFM with monthly invoices sent to each borough as a pass through costs therefore the savings of approximately £27,000 will be attributed directly to the Council.

10.2 Implications verified/completed by: Gary Hannaway, Head of Finance, 0208 753 6071

11. RISK MANAGEMENT

11.1 This is not applicable in this case.

12. PROCUREMENT AND (IT STRATEGY) IMPLICATIONS

12.1 After liaison with the GPS category team, 6 suppliers were invited to quote for Lot 1 on 20 March 2013. Responses were received on 15 April from 3 suppliers. These tender submissions were then evaluated and the award made by the London Borough of Camden after a voluntary contract award standstill ('Alcatel') period on 17 May 2013.

12.2 The process undertaken was conducted in line with the documented procedures required for a further competition exercise under the

Government Procurement Service Framework. A 50:50 price/quality model was used to evaluate the bids and the tender process was run as follows:

Invitation to Quote invited	20/03/13
Closing date for supplier responses	15/04/13
Tender Presentation	18/04/13
Contract award date	17/05/13

12.3 The evaluation team was comprised of officers from participating boroughs as follows:

Procurement Officer, London Borough of Camden
 Post Room Manager, London Borough of Camden,
 Information & Communications Manager, London Borough of Enfield
 Information & Communications Manager, London Borough of Enfield
 Procurement and Corporate Programmes, London Borough of Islington

12.4 The suppliers were asked to submit five method statements, which were each scored on a 0 – 5 basis with up to 5% awarded at a presentation focusing on implementation. The final panel consensus scores are shown below (please see Confidential Part B Appendix for details of the other bidders). Royal Mail Group was ranked highest and is therefore the preferred supplier.

LOT 1: Collection & Delivery RM782	Proposed Approach for Service Provision	Proposed Implementation Approach / Lead Times:		Mission Statement	Methodology Statement	Proposals for Innovative Solutions	Cost Effectiveness	Total Score
		Method Statement	Presentation					
Weighting (%)	20.00	15.00	5.00	1.00	8.00	1.00	50.00	
Royal Mail Group	100.00	100.00	100.00	100.00	100.00	95.00	100.00	99.95
Bidder 1	70.00	60.00	50.00	75.00	60.00	55.00	97.22	80.21
Bidder 2	75.00	75.00	100.00	90.00	60.00	90.00	98.89	87.29

12.5 Procurement has been consulted and comments that the use of central purchasing bodies' frameworks is a good way of leveraging savings out of combining demand for common goods and services. The public procurement law risk in establishing a framework rests with the contracting authority that concludes it. In this case, that is the GPS (now called Crown Commercial Services). The risk in the call-off contracts rest with the contracting authorities who make them. Provided the contracting authority is eligible to use the framework agreement and the call-off contract is awarded within the terms of the framework, the procurement will have been properly executed.

12.6 Implications verified/completed by: Alan Parry, Bi-borough Procurement Consultant (TTS), Corporate Procurement Team 0208 753 258.1

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Existing contract	Sue Cooper 0207 361 2110	