

Report of Assistant Head of Financial Services, Business Support Centre

Report to Chief Officer, Shared Services

Date: 7th June 2018

Subject: Waiver of CPR9 to call-off from the CCS framework for Purchasing Cards and approval to procure new contract.

Are specific electoral Wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, name(s) of Ward(s):		
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, Access to Information Procedure Rule number:		
Appendix number:		

1. Summary of main issues

2. The contract for a purchasing card provider was awarded to Lloyds Banking Group PLC ('Lloyds') from 1st April 2015 for a period of 2 years plus a 2 year extension up to 31st March 2019 with no further extension periods now available.
3. The award of the contract to Lloyds was via a Crown Commercial Service (CCS) framework from which the UK Public Sector, including Local Government, were able to award contracts for purchasing cards. This framework allowed the Council to undertake a mini competition process in order to award a contract to a preferred supplier. Unfortunately this framework is due to expire in August 2018. CCS are currently procuring a new framework which Leeds City Council (LCC) will be able to utilise in due course.
4. To allow time for the CCS to procure a new framework, approval is requested for the waiver of Contract Procedure Rules CPR9.1 and 9.2 to make a further direct award of a contract to Lloyds on the same terms and conditions as the current contract for the maximum period permitted under the existing framework which will be 16 months and 18 days. This will cover the period 1st April 2019 to 18th August 2020, after which the intention is to procure a new Purchasing Card contract in a mini competition process utilising the updated CCS's Framework Contract.

5. Recommendations

Waiver Report for the contract extension for a purchasing card with Lloyds Banking Group PLC

6. The Chief Officer of Shared Services is recommended to approve the waiver of Contract Procedure Rules CPR9.1 and 9.2 to make a further direct award of a contract to Lloyds Banking Group PLC for 16 months and 18 days on the same terms and conditions as the current contract. This will cover the period 1st April 2019 to 18th August 2020 after which the intention is to procure a new purchasing card contract in a mini competition process utilising the updated Crown Commercial Service's Framework Contract. The Chief Officer of Shared Service is therefore also recommended to approve the procurement of a new purchasing card contract in accordance with CPR3.1.8.

1 Purpose of this report

- 1.1 The purpose of this report is to seek approval to waive Contract Procedure Rules CPR9.1 and 9.2 to award a contract to Lloyds for 16 months and 18 days using the existing CCS framework. This will allow the CCS time to procure a new framework and then LCC will procure a purchasing card contract in a mini competition process utilising the new CCS framework.

2 Background information

- 2.1 The current contract for the purchasing card provider was awarded to Lloyds from 1st April 2015 for a period of 2 years plus a 2 year extension up to 31st March 2019 with no further extension periods now available.
- 2.2 The contract was awarded following a tender exercise to call off from the Government Procurement Service which is part of the CCS. The role of the CCS is to provide an integrated commercial and procurement service for Government and the UK Public Sector, including Local Government.
- 2.3 The CCS commenced a multi lot procurement process for the e Purchasing Card Solution (ePCS), which was completed in October 2013. This resulted in a framework for use by the UK Public Sector, including Local Government, and which allowed LCC to award a contract for electronic Purchasing Cards.
- 2.4 Unfortunately this framework is due to expire on 18 August 2018 and CCS are currently undertaking a procurement exercise to procure a new framework. However, the new framework will not be in place in time for LCC to conduct a further competition and potentially switch providers by the expiry of the current extension period on 31st March 2019.
- 2.5 As the current contract with Lloyds has no further options to extend, and to ensure LCC continues to meet best value, this report is to seek approval to make a further direct award of a contract to Lloyds for 16 months and 18 days. This will cover the period 1st April 2019 to 18th August 2020, after which LCC will then be able to utilise the new CCS framework and undertake a mini competition process to award a new contract to the preferred bidder.

3 Main issues

- 3.1 CCS are due to undertake a procurement exercise to award a framework to suppliers of purchasing cards to replace the current framework which expires in August 2018. CCS have a dedicated contract management, legal and personnel team who will ensure they negotiate the best available deals and meet regularly with providers to ensure best practice.

- 3.2 It should also be noted that significant costs would be incurred by the Council in undertaking a procurement exercise of its own rather than using the CCS framework once refreshed and in place.
- 3.3 Therefore approval is required to initially award a contract for Purchasing Cards to Lloyds via a direct call off for 16 months and 18 days after which the intention is to then procure the purchasing card contract utilising the new CCS framework by undertaking a mini competition process to secure a value for money solution for the Council.
- 3.4 While there is no payment to Lloyds for this contract, the contract includes a rebate payment from the supplier to the Council based upon levels of spend. This rebate, totalling £413k for 2017/2018, has therefore been taken into consideration in determining which Contract Procedure Rules should be followed. As the rebate exceeds the current EU threshold of £181k (for services), making a direct call-off from the current CCS framework will ensure LCC complies not only with our Contract Procedure Rules but also the Public Contracts Regulations 2015.
- 3.5 Consequences if the proposed action is not approved**
- 3.6 Given the success in the rollout of purchasing cards across the council since their introduction there are now more than 900 users and a further purchasing card contract is required. If the approval to waive CPR9.1 and 9.2 is not granted then the Council will need to enter in to a full tender exercise immediately to ensure that adequate provision of a purchase card solution is in place without the associated benefits of using a framework.
- 3.7 Under the purchase card scheme the payment to suppliers is made automatically within 4 days of the transaction being completed, however the Council takes extended payment terms with Lloyds by settling a monthly statement which is received on the 27th of each month.
- 3.8 The use of purchase cards therefore assists greatly with the Council's obligation to make payment promptly to its suppliers, with 116,339 transactions being made by purchase card during the 2017/2018 financial year on a total spend of £40m. Consequently the Council's overall prompt payment performance would be adversely effected should an adequate purchase card solution not be in place to automate these transactions.
- 3.9 The Council receives a rebate payment from the purchasing card supplier. The level of rebate is determined by the level of spend on the cards. It is anticipated that the rebate payment will be around £400k per annum based on the current spend levels, at £40m per annum. This income stream would be at risk if the procurement of the new purchase card solution is not appropriately managed and the best price achieved.
- 3.10 As a direct result of the strategy to promote and move payment transactions, where possible, to purchase cards the Central Payments Service has seen a reduction in staffing numbers and is now not staffed to a level that would enable it to process the

invoices that would be received as a consequence of purchase cards transactions reverting to payment via invoice.

- 3.11 Many transactions with suppliers, including Government organisations, are now conducted on line, this includes making payment where required. In order to be able to continue to transact in this manner then Council needs the purchase card to provide a secure and safe way to make payment online.
- 3.12 The introduction and use of purchase cards has drastically reduced the need for petty cash to support small purchases in many services areas and schools, thereby drastically reducing the cost and risk associated with the management of these cash imprests. If a suitable purchase card solution is not in place then services and schools will again need to revert to managing petty cash.
- 3.13 The management information that is available from the system that supports the purchase card users enables greater detail to be obtained on the spend activity of at different levels and enables controls to be implemented that help restrict how much a card holder can spend and review their spend activity, but also enables them the freedom for them to do their job effectively.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Internal consultation has taken place between Shared Services and the Council's Procurement Management around the procurement strategy proposed.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The equality screening assessment attached to this report has identified no issues relating to equality and diversity by the approval to waive CPR9.1 and 9.2 in this instance.

4.3 Council Policies and Best Council Plan

- 4.3.1 One of the Council's Values which underpins the Best Council Objectives is Spending Money Wisely, as set out in the Best Council Plan.
- 4.3.2 The approval to waive CPR9.1 and 9.2 is in this instance in line with the Council's Contract Procedure Rule 27.

4.4 Resources and Value for Money

- 4.4.1 As set out in 3.3, the Council does not pay Lloyds Banking PLC for this contract, but instead receives cashback for any spend on purchasing cards. Therefore there are associated revenue implications of not awarding this interim contract. The revenue achieved in 2017/2018 was £413k.

- 4.4.2 In addition, increasing the number of transactions on purchasing cards reduces the number of invoices that are required to be processed by the Central Payments Service, allowing staff savings to be realised. Since the Central Payments Service was established in 2008, staff numbers have steadily reduced as the number of invoices that needed to be manually processed has reduced. The number of invoices processed in 2017/2018 was 305,431 while the number of purchasing card transactions has increased to 116,339.
- 4.4.3 The service areas and schools that currently use purchase cards would need to make considerable operational changes to the way in which they work and pay for many of the small value goods they purchases. This would likely be a return to the most costly use of petty cash.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 While there is no payment to Lloyds for this contract, the contract includes a rebate payment from the supplier to the council based upon levels of spend on the purchase cards. This rebate has therefore been taken into consideration in determining compliance with LCC's decision making protocols. As the anticipated level of income will be in excess of £250k, this decision constitutes a Key Decision and is therefore subject to call in.
- 4.5.2 As the current value of the contract exceeds the EU Public Contracts Regulations threshold of £181k (for services), the decision to make a direct call-off with Lloyds under the current CCS framework ensures that LCC is fully compliant with the Regulations.

4.6 Risk Management

- 4.6.1 CCS are due commence a multi lot procurement process for the Purchasing Card Solution. This will result in a framework from which the UK Public Sector, including Local Government, will be able to award contracts for purchasing cards. CCS have a dedicated contract management, legal and personnel team who negotiate the best available deals and meet regularly with providers to ensure best practice.
- 4.6.2 The consequence of not approving this decision would result in purchasing card holders within LCC being unable to continue purchasing goods and services with purchasing card enabled suppliers until an alternative contract was in place. Furthermore, any break in availability of a purchasing card system may result in existing card holders reverting to raising orders in order to purchase goods and services. This would have an impact on resources both in services where they would be required to raise, authorise and receive goods, and in the Central Payments Team where they would be required to process a higher number of invoices for payment and investigate additional invoices in query. Any such increase in invoices volumes could not be accommodated from within existing resources, there would be a financial impact to this and a detrimental impact on the Council's ability to pay its suppliers promptly.

4.6.3 In addition, the setting up of a new purchasing card supplier will require a lead-in period of in excess of three months to ensure that the back office system is correctly configured. As such, adequate time from the award of the new contract to implementation needs to be factored in to the procurement timetable. Any delay or disruption to this would result in purchasing card expenditure not being posted into the Council's Financial Management System (FMS). This could have significant consequences in terms of the integrity of FMS and budget monitoring information and in year budget projections.

5 Conclusions

5.1 In light of the CCS procurement process for a purchasing card framework for the UK Public Sector, approval to make a further direct award of a contract and then procure via a mini competition exercise under the new CCS framework would appear to be the most effective solution under the circumstances.

6 Recommendations

6.1 The Chief Officer of Shared Services is recommended to approve the waiver of Contract Procedure Rules CPR9.1 and 9.2 to make a further direct award of a contract to Lloyds Banking Group PLC for 16 months and 18 days on the same terms and conditions as the current contract. This will cover the period 1st April 2019 to 18th August 2020 after which the intention is to procure a new purchasing card contract in a mini competition process utilising the updated Crown Commercial Service Framework Contract. The Chief Officer of Shared Service is therefore also recommended to approve the procurement of a new purchasing card contract in accordance with CPR3.1.8.

7 Background documents

7.1 None