

Item No. 16.	Classification: Open	Date: 7 February 2012	Meeting Name: Cabinet
Report title:		Gateway 1 - Procurement Strategy Approval: Integrated Highways Maintenance, Project Delivery and Professional Services Contract	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Barrie Hargrove, Transport, Environment and Recycling	

FOREWORD – COUNCILLOR BARRIE HARGROVE, CABINET MEMBER FOR TRANSPORT, ENVIRONMENT AND RECYCLING

This report asks the Cabinet to approve the procurement strategy for three related areas; integrated highway maintenance, project delivery and professional services. I am satisfied that in agreeing this report Cabinet will be making provision for the council to secure a contract which will both reduce costs and improve its current services in the long term.

RECOMMENDATIONS

Recommendations for the Cabinet

1. That Cabinet approve the procurement strategy outlined in this report for highway maintenance; design and professional services, project construction and delivery.
2. That Cabinet notes that at the same time as seeking tenders for services the Council continues to participate in the London Highway Alliance Contract (LoHAC) procurement process in order to identify the most economically advantageous option.

Recommendation for the Leader of the Council:

3. That the Leader of the Council delegates authority to the Cabinet Member for Transport, Environment and Recycling to approve the Gateway 2 decision for award of contract.

BACKGROUND INFORMATION

4. The Council currently procures services for the maintenance, improvement design and construction of highways through two contracts, namely; the integrated highway maintenance contract with FM Conway as the term contractor and Transport Planning and Streetscene Services contract with Mouchel plc as the service provider.

Integrated highways term maintenance contract

5. In May 2005 the Executive approved the award of the Integrated Highway Maintenance Term Contract to FM Conway, for a period of five years from 1 July 2005 with an option to extend the contract term for up to two further years subject to reaching performance criteria.
6. In June 2010 the Finance Director approved the contract extension of the Integrated Highways Maintenance Term Contract for a period of two years from 1 July 2010 to 30 June 2012.
7. The scope of the services included within this contract include;-
 - Programmed highway inspections and fault reporting
 - Reactive and planned maintenance
 - Highway capital schemes (projects)
 - Programmed gulley inspections, fault reporting and gulley cleansing
 - Reactive and planned drainage works
 - Programmed inspections of structures and fault reporting
 - Reactive and planned maintenance of structures
 - Winter service

Transport planning and streetscene services contract

8. In December 2005 the Executive approved the award of the Transport Planning and Streetscene Services contract to Mouchel Parkman Ltd (now the Mouchel Group plc) for an initial period of 5 years 3 months expiring on 2 April 2011. The contract was extended by Gateway 3 approved in January 2011, for a further period to 30 June 2012.
9. The contract delivers professional services to the Environment & Leisure and Deputy Chief Executive's [formerly Regeneration and Neighbourhoods] departments. The work is substantially in transport planning, traffic and highway engineering and related services.
10. The scope of the services covered by this contract are principally the feasibility, design and implementation of traffic and transportation schemes. These are primarily funded through capital from a variety of sources – TfL grants, S106 funds, parking revenue etc. The volume of work can fluctuate from year to year and previously it has been the practice to meet peaks in demand by the ad hoc employment of agency staff or consultants. This can be very demanding of management time and can in some cases lead to a failure to complete projects on time. There are two main elements: firstly provision of co-located staff to deliver council services on a 'day to day' basis, and secondly delivery of remote project work or short term secondments to accommodate peaks in workload and/or delivery of specialist skills not available in-house

London Highways Alliance Contract (LoHAC)

11. In July 2009 Transport for London (TfL) on behalf of the London Technical Advisory Group (LoTAG), Capital Ambition and the Office of Government Commerce (OGC) commissioned a project to consider the benefits of Pan

London (TfL, London Boroughs and the City of London) collaborative procurement of highway term maintenance and improvement works.

12. The drivers to the TfL project stem from the recommendations of Capital Ambition's Efficiency Delivery Plan, which identified the need for collaborative procurement and the OGC publication "Aggregation- Is bigger always better?", which identified aggregating within and between public sector organisations as an important step in achieving efficiencies and better value for money.
13. The project is now known as Transforming London's Highways Management and it has identified that at present there are some 100 contracts to maintain and manage London's highway network. These contracts collectively have an annual value of £350 million and the business case suggests that there is a potential for savings ranging from 5% to 15% from the use of common specifications and the procurement of a collaborative contract.
14. Based on the work undertaken as part of this project TfL will lead on the procurement of an anchor contract for Highways Maintenance and Improvement Works on the Transport for London Road Network (TLRN), to be let on four geographic areas based on the current LoTAG sector grouping; North East, North West, Central and South London, with Southwark grouped in the Central Area with Lambeth, Wandsworth, Hammersmith & Fulham, Kensington and Chelsea, Westminster, Camden, Islington, Hackney, Tower Hamlets and City of London.
15. The contract will begin on 1 April 2013 and will be available to all London Boroughs to use if they wish to. The contracts will be based on a common condition of contracts and specification and cover highways, lighting, winter service, horticultural, planned, reactive and emergency activities and design services.

Summary of the business case/justification for the procurement

16. It is necessary that Southwark Council as a Highway Authority meets the statutory requirement that the highway network is 'kept safe' – Highways Act 1980 Section 41. This in practice places a responsibility on the local authority to maintain and improve the highway to the benefit of all users at public expense. The traditional mechanism to achieve this is through the appointment of term contractors.
17. The proposed contract and contract specification will enable the Council to administer the 'peaks and troughs' of management and supervisory work load involved in project delivery and professional services elements.
18. The proposed contract and contract specification will also derive efficiencies in the delivery of projects such as the non principal road programme and LiP funded schemes.
19. The proposed contract and contract specification will also need to enable the Council to access on the limited occasions when needed specialist non-retained skills such as design expertise in bridge construction, traffic flow analysis, flood and water management.
20. In order to achieve this, the current arrangements with incumbent contractors will be extended to end of March 2013 to enable the Council to review and take advantage of all available contract procurement options (see separate reports).

21. The contract specification and tender documents will be prepared by officers within the Environment & Leisure Department – Public Realm Division and will reflect current engineering practice and operations whilst ensuring the introduction of innovation has been considered.
22. Pre-qualifying for the tender process will include the need to demonstrate service excellence, and the desire for continuous improvement. The contract specification will also include key performance indicators which will monitor performance, penalising or rewarding below or above performance expectations.

Internalisation of services

23. Internalisation of these service areas has been considered but not pursued due to the capital and start-up costs related to a contract of this nature. Depot / yard, plant, equipment and vehicles would make the internalisation cost prohibitive.

Shared services

24. Southwark, Lambeth and Lewisham have met to consider the possibility of establishing a shared service for the delivery of highway services across the three boroughs. Officers have shared operational, technical, and financial information relating to their current term contracts.
25. The boroughs' existing contracts have been prepared using bespoke contract requirements targeted at each borough's perceived need. Each has different scope, specification and mechanisms for performance management and improvement.
26. Each of the boroughs also have varying levels of capital and revenue funding, staff and client structure, cost centres and as noted above different specification. Until these differences can be realigned to provide a reasonably common operational basis, the sharing of services is considered premature. It is recommended that the established practice of sharing intelligence between these boroughs is continued.
27. Lambeth and Lewisham are pursuing a similar procurement strategy to Southwark, i.e. sourcing a supplier from the market whilst retaining the option of participating in the London Highways Alliance Contract at a later date. It is concluded that there is little benefit to be derived from considering a shared service with Lambeth and Lewisham as an alternative to a 'dual approach' of single borough procurement alongside LoHAC. It is understood that currently a number of the London boroughs are adopting a similar 'wait and see' approach to committing to LoHAC.

Consolidation of existing services

28. Historically term maintenance and design services have been procured separately as service providers tended to operate in two different fields. Consolidation of this market in recent years has meant that procurement of these services through a single process provides opportunities for savings through reduced overheads.
29. In order to deliver the most economically advantageous procurement output it is proposed to combine the above services into one procurement package

commencing 1 April 2013. Should the recommendations of this report be agreed in order to provide service continuity up to 1 April 2013 it will be necessary to realign the end dates of both of the current contracts to 31 March 2013. This will be effected by :

- Combined Gateway 1 and 2 procurement strategy and contract award report which is also on this meeting's agenda which seeks the approval of a single supplier award to the incumbent term contractor terminating 31 March 2013. The additional time period gained by this award will allow sufficient flexibility to adopt , if considered appropriate, other procurement packages;
- Gateway 3 for the variation and extension of the professional services contract from 30 June 2012 to 31 March 2013. This is a delegated decision to be taken by the finance director.

Market considerations

30. In the London area there has been consolidation trend in organisations providing highway maintenance to local authorities where smaller / medium size organisations have been absorbed by larger organisations or have a limited sub contracting role. Of the hundred current contracts and excluding the TfL contract, two organisations account for 80% of the overall value.
31. A less dramatic trend change has occurred in organisations offering professional services support to public sector clients due to the wider market offered by the private sector, more varied contract arrangements and fluctuations in work demand.
32. A possible implication in the longer term of procuring a combined highway and professional service is that less importance may be applied to latter since it represents a far smaller proportion of the overall value of the contract. The mitigation measure for this is addressed later in this report.

Proposed procurement route

33. Given the anticipated financial value of these contracts, the Council is obliged to follow an OJEU compliant procedure.
34. Following the evaluation of the Pre Qualifying Questionnaire, it is proposed that a minimum of five service providers will be invited to bid for each of the three tender packages.
35. The timing of the Southwark tendering process and the identification of the Most Economical Advantageous Tender will allow evaluation against the winning LoHAC bid(s).
36. Following the above, a decision will then be made on the most advantageous option for the Council.

Options for procurement including procurement approach

37. The estimated total annual value of the new contract arrangements is £11.588 million per annum equating to £66.528 million for six years and £87.704 million if extended a further two years for eight years.

38. The procurement options available are listed below and a more detailed evaluation is presented in Appendix 1:
- Procurement Option 1 – For Southwark to develop a form of contract and specification and procure from the market contractor or contractors to deliver the identified services.
 - Procurement Option 2 – To utilise the emerging LoHAC initiative which is programmed to commence 1 April 2013.
 - Procurement Option 3 – For Southwark to independently obtain competitive tenders for identified services and to then undertake a comparative evaluation with the returned LoHAC tenders.
 - Procurement Option 4 – To align Southwark with 1 other (or more) borough to complete a joint procurement process.
 - Procurement Option 5 – To internalise the contract and service delivery.
39. Based on the evaluation, the adoption of Option 3 is recommended as this offers the opportunity for Southwark to market test as an individual Borough whilst retaining sufficient flexibility to adopt the LoHAC procurement initiative should that prove advantageous in both cost and quality.
40. The contract package will seek to secure three elements of service delivery for the Council, namely:
- Integrated highway maintenance
 - Project delivery (works)
 - Professional services.
41. The contract packaging options are listed below and a more detailed evaluation is presented in Appendix 2:
- Contract Option 1 – Separate Function Contracts – e.g. one for surfacing, one for structures, one for design and management, one for projects etc
 - Contract Option 2 – One Large Works Contract with separate professional services contract
 - Contract Option 3 – A combination of lots comprising one, two or three of the contract elements, namely integrated highways maintenance, project delivery (works) and professional services
 - Contract Option 4 – Private Finance Initiative
 - Contract Option 5 – Contracts split on a geographical basis
42. Contract Option 3 is recommended as this provides suppliers the opportunity to provide costs at or below comparable market rates in their chosen field. It also provides the opportunity for a single multi-skilled supplier to provide further economies of scale based on success in two or more lots.
43. The procurement process and contract documentation will allow for suppliers to provide services to one, two or all three elements of the contract package.

44. A discount mechanism will be included in the contract specification which will allow Southwark to receive further savings against submitted tender prices should a single supplier win two or more elements of service.
45. Should three separate suppliers win individual elements three contracts will be let. Should two be successful in one or two elements then two contracts will be let. If one supplier is successful in all elements then one contract containing all three elements will be let.

Identified risks and how they will be managed

46. The table below identifies a number of risks associated with this procurement strategy and controls to mitigate the risks:

Risk No	Risk Identification	Risk Control
R1	Gateway 1 approval delayed	Contingency plan for resubmitting report.
R2	Procurement process becomes delayed	Timetable needs to be realistic and able to accommodate changes, continuous reviews of the procurement process to ascertain whether on course for start date.
R3	Deadline for advertising contract delayed.	Re-assess and re-evaluate position, link into R2 item above.
R4	Contract start date amended	Provide sufficient time for contractor to maintain resource level.
R5	No contract in place on 01/04/2013	Service delivery will be affected and negotiations with the current contractors would have to take place. Seek advice from Legal and Procurement
R6	Contract fails to perform to specification standard	Default and termination clauses within documentation. Spot prices to be provided from local providers for emergency works pending appointment of new contractor.
R7	Under resourcing of the Contract	Identify any issues during tendering process including staffing levels required to carry out contract.
R8	Contractor ceases to trade or suffers financial difficulty	Ensure appropriate vetting procedure as part of procurement process, ensure appropriate bond or other protection is agreed in contract
R9	Contractors will be reluctant to bid knowing there will be a secondary evaluation against LoHAC tender returns	Make sure the tender and evaluation process is transparent with suppliers able to adopt a strategic decision based on the process requirements
R10	Risk of potential contractors not wishing to go through two tendering processes	As far as possible align contract / tender details with that of the LoHAC initiative to minimise additional tender preparation.
R11	Delay in availability of LoHAC returned tender evaluation for comparison with Southwark procured tender evaluation	The LoHAC procurement programme is currently 3 months ahead of Southwark representing a built in safety margin against delays.
R12	Non disclosure of returned tender evaluation by LoHAC	Secure written commitment from LoHAC representatives that LoHAC tender evaluation results and financial model will be made available.

Risk No	Risk Identification	Risk Control
R13	Insufficient interest in responding to the PQQ resulting in a cessation of the procurement strategy	Undertake market research of current /potential contractors in London area and timings of contracts. Have in place a contingency plan, i.e. join LoHAC initiative and reassess against response to (earlier) OJEU Notice
R14	Sub standard delivery by professional services provider in a combined services procurement due to the relatively smaller value in comparison with contracting activities	Include key performance indicators and robust monitoring in the contract.
R15	Southwark and LoHAC evaluations based on different specifications.	Evaluation model to be robust and include like for like descriptions of work types

KEY ISSUES FOR CONSIDERATION

Key decision policy implications

47. This procurement strategy is for a Council wide works and professional services contract arrangements is worth over £11.5 million per annum over six years + a possible two year extension and therefore subject to a key decision process. The adoption of a contract duration identical to that of the LoHAC will assist in a later entry to this initiative should this prove advantageous.
48. The procurement strategy set out in this report is consistent with policies in the current corporate plan and all supplementary plans such as the Highways Asset Management, Transport and Parking Plan.
49. The table below provides a comparison between the procurement milestones for the Southwark and LoHAC initiatives.

Procurement project plan (key decisions)

Activity	Milestones	
	Southwark	LoHAC
Forward Plan	November 2011	
DCRB Review Gateway 1: Procurement strategy approval report	08/12/2011	08/12/2011
CCRB Review Gateway 1: Procurement strategy approval report	15/12/2011	15/12/2011
Approval of Gateway 1: Procurement strategy report Cabinet – 7 Feb	07/02/2012	24/01/2012
Scrutiny Call-in period and notification of implementation of Gateway 1 decision date to be added subject to CCRB	22/02/2012	03/02/2012
Advertise the contract	14/03/2012	06/11/2011
Completion of tender documentation	09/04/2012	

Activity	Milestones	
	Southwark	LoHAC
Closing date for expressions of interest	13/04/2012	14/11/2011
Completion of short-listing of applicants	18/05/2012	
Invitation to tender	04/06/2012	06/02/2012
Closing date for return of tenders	20/07/2012	30/04/2012
Completion of evaluation of tenders	16/11/2012	
Completion of any interviews	30/11/2012	
DCRB/CCRB/CMT Review Gateway 2: Contract award report	Dec 2012	
Notification of forthcoming decision (five clear working days)	Dec 2012	
Approval of Gateway 2: Contract Award Report	Jan 2013	
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	Jan 2013	
Alcatel Standstill Period notice period 10 days to be added	Feb 2013	
Contract award	Feb 2013	Nov 2012
Contract start	01/04/2013	01/04/2013
Contract completion date	31/03/2019	31/03/2021
Contract completion date (post extension)	31/03/2021	

TUPE implications

50. TUPE may apply if the incumbent contractor(s) are unsuccessful in winning the new contract(s). This may result in the transfer of staff to the new contractor.
51. As part of the procurement process and before the invitation to tender stage, the incumbent contractor will be required to supply relevant TUPE details listing those staff eligible for transfer. This information will be updated on a regular basis throughout the procurement period. Legal Services will be asked to provide any necessary advice and assistance.

Development of the tender documentation

Contract period

52. The proposed contract period for all three contract elements is 6 years with an option of a further two year extension. This period will allow suppliers long enough to recoup / amortize capital investment with sufficient payback period across the contract term and also aid Southwark in receiving optimum rates.
53. The possible extension period will also allow Southwark to continue to receive those beneficial rates subject to supplier performance.

Contract form

54. The proposed form of contract will be New Engineering Contract (NEC) 3 which is also the basis for the LoHAC contracts.
55. The current contract in use for Highways Maintenance and Project delivery is Institution of Civil Engineers (ICE) 6th edition. This contract form is no longer supported by the institution. NEC3 is the form of the current professional services contract. The Institution of Civil Engineers endorses NEC3 which is a family of contracts that facilitates the implementation of sound project management principles and practices as well as defining legal relationships.
56. NEC 3 will be the contract form used in managing the services set out in this report. It is suitable for procuring a diverse range of - Works, Services and Supply spanning major framework projects through to minor works and purchasing of supplies and goods.

Contract specification

57. The contract specification being developed whilst balancing associated cost will reflect innovation, continuous improvement and transfer of risk. It is intended that the borough will, even if it procures single contract, use a specification substantially the same as the specification developed by LoHAC which reduces duplication of effort,
58. Consideration will be given to innovation in materials, available and new technologies, work practices and methods of management. Continuous improvement and quality based specification selections and regular reviews of performance against key performance indicators. Appropriate transfer of risk to supplier should they be best placed to manage the identified contract or service risk.
59. The contract specification will also where applicable include recommendations from Environment, Transport, Communities and Citizenship Scrutiny Sub-Committee which is currently reviewing this work area.

Performance indicators

60. Included in the contract specification will be 3 suites of Key Performance Indicators (KPI's). Each set of KPI's will reflect each of the 3 identified work elements in the new combined contract:
 - Integrated highway maintenance
 - Project delivery
 - Professional services
61. The KPI's will reflect appropriate mechanisms to ensure performance measurement and management and contract compliance. Similar KPI's are being proposed for both the LoHAC and Council contracts.

Contract management and supervision

62. Whilst it would appear that there may be an increase in client duties with the possibility of contracts increasing from two to three, the reality is that officers currently operate contract administration of the three elements of service soon to be reflected as contract lots.
63. As part of the contract specification writing process a review of officer administrative and management structure will take place along with exploration of self supervision contained in the contract.

Advertising the contract

64. Companies interested in tendering will be sought through advertisements through an OJEU notice and trade journal Local Transport Today as well as 'Local Government Tenders'. In order to encourage local companies to bid, the opportunity will be advertised locally in the 'South London Press'.

Evaluations

65. Three evaluations will be required to inform the final award recommendation. These are:
 - Evaluation of the returned Pre Qualification Questionnaire(s)
 - Evaluation of returned tenders
 - Evaluation of comparison between the outcomes for the Southwark process and that of the declared LoHAC award

PQQ

66. In response to the OJEU Notice, organisations expressing an interest in tendering will receive a PQQ designed to provide the Council with the information necessary to assess their suitability to become a prospective provider.
67. The response contained in the returned PQQ may form part of the contract should that organisation subsequently be awarded the contract.
68. The information requested will fall under the following headings:
 - Identity of applicant
 - Financial standing
 - Technical capacity and ability
 - References
 - Health and safety
 - Professional conduct
 - Equal opportunities
 - Environmental considerations
 - Technical.
69. An evaluation team comprising suitably qualified officers and reference to EXOR reports will initially review for compliance and eligibility and then proceed with the detailed evaluation. The officer representation on the evaluation panel will

reflect the nature of the three separate elements of the contract. A detailed evaluation report will be prepared.

70. As a result of this evaluation it is anticipated that a minimum of five tenderers will be invited to bid for each of the three elements forming the contract.

Evaluation of returned tenders

71. Returned tenders will be reviewed by an evaluation panel comprising suitably qualified officers reflecting the nature of the three elements of the contract. The panel will initially review for completeness and correctness of each of the bids and then proceed with the detailed evaluation.

72. The evaluation will be based on a 70% / 30% split of price and quality respectively. The price component will be based on reference to three financial models reflecting the anticipated profiled spread of work informed by experience of the current contracts. The quality component will be assessed in two stages; as presented in the interview and secondly on the basis of the documents submitted in the sealed bid.

73. The quality component will be scored by the panel with assigned predetermined weightings for each subcomponent. The tenderer will have previously been advised of the price / quality split, scoring sub totals and weightings in the OJEU Notice and guidance provided with the invitation to tender. The tenderer will also be advised on the weighting between each of the three elements of the contract.

74. At the interview and review of submitted documents the assessment panel will judge or evaluate each contractor on quality based on the following headings, the scoring distribution of which will be agreed by the review panel:

- Quality of presentation
- Quality of team
- Portfolio of Experience
- Understanding of the project
- Response to questions.

75. The Quality tender submission will evaluate each contractor on quality using the following five headings:

- Delivery Methodology
- Previous Experience
- References
- Proposed Management and Delivery Team
- QMS / EMS Accreditation.

76. A detailed evaluation report will be prepared and the officer's recommendation included in the Gateway 2 submission.

Evaluation of comparison between the Southwark award and the declared LoHAC award

77. The tender documents will include a requirement for the tenderer to price six representative schemes (two for each of the three work elements) base on their submitted rates in the schedule of rates. These six representative schemes will

also be priced using the rates supplied by the LoHAC awarded bidder. The financial model used to provide the final evaluation comparison will factor the proportion that each of the representative schemes represents on the anticipated overall work programme.

78. The financial model used in the evaluation of the returned LoHAC tenders will be based on aggregated anticipated work profiles of the constituent boroughs, which may not necessarily be representative of Southwark. A compensation for this will need to be made in the comparison with LoHAC tender evaluation outputs.
79. The procurement of the contracts would be administered by seconded staff from London Boroughs and TfL staff.
80. Proposed contractual arrangements would mean each borough in a particular sector would use and manage the same supplier. Local contract management teams would still be in existence with additional pre-agreed governance arrangements for sector and Pan London contract performance and compliance reviews.
81. In the business case for the development of LoHAC financial savings of between 5 and 15% equating to between £11m and £34m across London were identified. These savings were based on the completion and submission of questionnaires on contractual arrangements and rates which were returned by twenty five of the thirty three London Boroughs plus TfL.
82. Further analysis by officers of the anonymous information provided by TfL (each borough were only told which part of the financial detail was theirs) identified that Southwark currently receive the cheapest highways footway and carriageway maintenance rates in Inner London therefore savings which are based on the highest and average inner London costs would not be achievable by Southwark.
83. The proposed contract will be a framework arrangement with TfL named as the principal party. Joining London Boroughs will enter into a separate contract with the supplier.
84. TfL / LoHAC have agreed to allow a sharing of their evaluation of returned tenders to allow a comparison with the Southwark returned tenders. If this comparison demonstrates that the LoHAC procurement route would be the most cost advantageous then Southwark would commit (Gateway 1 applies) as a Tier 1 borough. If on the basis of this comparison Southwark decides to implement their own procurement then we would have a Tier 2 status which will still allow Southwark to join the LoHAC initiative at a later date.
85. The LoHAC procurement process is in advance of Southwark having already posted the OJEU Notice and issued invitations to tender. Currently the award of contracts is anticipated in November 2012 with a contract commencement on the 1 April 2013.
86. This robust approach to the comparative evaluation will inform the delegated decision recommended in paragraph 3 and allow for the alignment of Southwark's and LoHAC timetables if required.

Community impact statement

87. People in all areas of the borough are affected by the quality of the public highway and its assets.
88. The very young and the elderly would benefit the most by having a footway network which is well maintained and safe to use.
89. The award of this contract is not considered to have any detrimental impact on local people and communities.
90. All service elements contained in the contracts are a borough-wide service. Contract specification will address planning and delivery of planned and responsive works and will seek to improve quality of the service and product and customer satisfaction.
91. The impact of the service will affect all communities/groups, residents, businesses, visitors and those that pass through the borough and will in turn improve the quality of life to all. Particular attention will be paid to the responses to the PQQ and tender responses regarding equality issues. Direct benefits are a well maintained infrastructure which makes an important contribution to the safety of all. Continued emphasis on maintenance will especially benefit the most vulnerable members of the community i.e. the elderly, the disabled and young children.

Sustainability considerations

92. The proposed contract will adhere to the Council's Sustainability Policy and debris from highway maintenance will be recycled and reused in the borough whenever possible.
93. The service provider will be instructed to implement the principles of an Environmental Management System and gain certification during the contract's life.

Economic considerations

94. Through the overall project plans and tender submissions suppliers will be encouraged to include:
 - A local economic benefit plan
 - Asking contractors/suppliers to engage with apprenticeship schemes
 - Advertising opportunities in local press, and a range of publications to reach small businesses, ethnic minority owned business and social enterprises
 - Asking contractors/suppliers to engage with borough-wide employment programmes such as Southwark Works and Building London Creating Futures to support unemployed residents' access to training, skills and sustainable employment
 - Encouraging contractors/suppliers to use local companies in their sub-contracting and supply chain arrangements.

Social considerations

95. Due to the size of this contract, there are only a few companies in this particular market which will be able to undertake all elements of this work. Given this it is not possible to ensure that the procurement process is accessible to a variety of suppliers.
96. Small Medium Enterprises are not precluded from bidding for these contracts and may be in a position to supply elements either directly or through Joint Venture but it is unlikely they would be able to provide the full range of services required.
97. All companies providing any service will be expected to have addressed their corporate social responsibility and this will be examined under the PQQ.
98. Compliance with the London Minimum Living Wage initiative will be a contractual requirement in the new combined contract.

Environmental considerations

99. The equipment used by the contractor will comply with all mayoral policies relating to vehicle emissions with plant regularly maintained.
100. The contract specification will set defined levels and requirements relating to use and management of materials including recycling and reuse.

Plans for the monitoring and management of the contract

101. The monitoring and management of this contract will be split in accordance with the three service elements of the contract. Each element will reflect current practice carry out the following:
 - Weekly – Local operational review and updates
 - Bi-weekly – Programme reviews
 - Monthly – Contract monitoring and current / trend performance review
 - Annually - Contract review and objective setting.
102. Monthly and annual reviews will examine the reports from the contract performance data against the stated performance criteria as set in the contract specification. These will include key performance indicators based on:
 - Quality
 - Programme delivery
 - Health and Safety inc. Construction Design and Management
 - Customer satisfaction
 - Compliance with legislation (Traffic Management Act / New Roads and Street Works Act).
103. The LoHAC contract has similar performance criteria and reporting of monitoring / audits frequencies but with added reviews at monthly area partnering forums comprised of representatives from each borough and also quarterly by the strategic board.

Resource implications

104. The staffing cost for this proposed procurement strategy will be met by the current budget.

Staffing/procurement implications

105. There are no additional staffing resource implications connected with this contract although with the introduction of a new form of contract (NEC 3) there will be a training need for all staff associated with the contract supervision and administration. Note however that the professional services contract currently held with Mouchel is NEC3.

Financial implications

106. The anticipated annual basic cost for the Contract shown below equates to the provision available for these works and fees within the Asset Management revenue and capital budgets. This budget will support the identified core services of Inspections, highways and structures maintenance, gulley cleaning and winter services (gritting). The proposed contract will not commit the council to any minimum level of expenditure during the year.

107. The expected contract expenditure is set out in the table below. The Council is not obligated to a minimum spend.

	Indicative Annual Expenditure (£m)	Indicative Contract Spend over 6 years (£m)	Indicative Contract Spend over 6 + 2 years (£m)	Notes
Highways Maintenance (Revenue Budget)	1.980	11.88	15.84	This is based on an average of the last 5 financial years minus 10% - budget reductions already agreed
Project Delivery (LBS Capital Provision for Non Principal Roads)	5.000	27.00	35.00	This is based on the medium term capital strategy
Project Delivery (TfL Capital)	3.533	21.198	28.264	This is based on an average of the last 5 financial years
Professional Services (Revenue budget for Asset Management unit except for capitalised salaries which are charged to Non Principal Roads)	1.075	6.45	8.60	This is based on an average of the last 5 financial years
Total Prospective expenditure	11.588	66.528	87.704	

Legal implications

108. Please refer to legal advice in paragraph 113 below.

Consultation

109. Southwark staff familiar with the workings of the current contracts have already been consulted on the options available for this contract. Included in this consultation were improvements to the content of the specification.

110. Further consultation, where appropriate, will be undertaken with other officers and service areas as appropriate throughout the procurement process.

111. Ongoing discussions are taking place with Transport for London to ensure the proposed procurement strategy is not in conflict with the London Highways Alliance Contract strategy.

Other implications or issues

112. No other implications or issues have been identified.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance (SB1211)

113. The Strategic Director of Communities, Law & Governance (“SDCLG”, acting through the Contracts Section) has advised officers in connection with the procurement of the proposed contract/s and notes the content of this report. In view of the nature and estimated value of the contract/s this procurement falls within the definition of a Strategic Procurement as prescribed by the council’s Contract Standing Orders (“CSOs”), which means that the decision on the approval of the procurement strategy must be taken by the cabinet, after taking advice from the Corporate Contract Review Board (CCRB). The Procurement Project Plan contained within paragraph 60 confirms the timing of the CCRB’s appraisal of this report.

114. Paragraph 41 describes the three elements which will comprise the proposed integrated contract, and those elements will include a substantial volume of both works and services. However, for the purposes of compliance with EU Procurement Regulations and CSOs, the Estimated Contract Value is considerably in excess of the revised EU financial thresholds applicable to works and services contracts (effective from 1 January 2012) and therefore it will be necessary for expressions of interest to be sought through the publication of a contract notice in the Official Journal of the European Union (“OJEU”). As the existing highway maintenance contract had been procured as a service contract, the SDCLG advises that the proposed integrated contract should be advertised in the same manner. The report confirms that officers also intend to publicise the procurement through appropriate trade journals and other domestic media, in line with corporate Procurement Guidelines.

115. The proposed procurement is consistent with relevant corporate policy and will assist the council to fulfil its statutory duties as local highway authority. The report describes the extent to which consultation has taken place and equalities issues have been taken into account.

116. The SDCLG will provide advice and assistance to officers throughout the procurement process, particularly in relation to the preparation and publication of the OJEU contract notice, the drafting of amendments to the NEC3 conditions of contract and the effect of the TUPE Regulations on the award of the contract.

Finance Director (NR1211)

117. This report recommends that the Cabinet approves the procurement strategy for the Integrated Highways Term Contract.
118. The Finance Director notes that capital and revenue budgetary provision exists to support the estimated contract value. The proposed contract variation does not commit the council to a minimum level of expenditure. Officer time to effect the recommendations will be contained within existing budgeted resources.

Head of Procurement (MG1211)

119. This report seeks the Cabinet's approval of the procurement strategy for the Integrated Highways - Maintenance, Project delivery and Professional Services – Contract.
120. The report details the background to the services packaged within the proposed contract and notes that tenderers will be able to bid for one, two or all three elements of the Council's contract package. A discount mechanism will apply should a single supplier win two or more elements of the Council let contract.
121. The Council's procurement will be running whilst a similar LoHAC tender for a pan-London integrated highways contract is already underway. The report sets out the rationale for pursuing a twin-track approach instead. Nevertheless, officers will continue to contribute to the LoHAC procurement and monitor its progress. Ultimately the successful bid(s) for the Southwark contract will be compared against that of the winner of the local regional LoHAC contract with the award recommendation being made to the best priced submission(s).
122. The report confirms the process and the criteria that will be used at tender evaluation to select a provider(s) to deliver this contract.
123. An OJEU restricted process will be followed with a minimum of five providers invited to tender for each of the three contract packages.
124. The report identifies a number of key procurement risks which could affect the procurement and sets out risk control mitigations. These risks will have to be actively managed throughout the process and it is recommended that an internal risk workshop is undertaken to give specific attention to these issues. Close attention will need to be given to the LoHAC procurement to ensure that the Council is able to respond to the impacts of any changes to the LoHAC timetable.
125. The key selection criteria for both PQQ shortlisting and tender evaluation are set out in outline only and these will have to be further developed and shared with interested parties and bidders. Tender evaluation of the Council led process will be on the basis of a 70%:30% price: quality ratio.
126. The timescales are tight and sufficient resources and focus will therefore need to be given to the procurement. The timetable could also be affected if the LoHAC

procurement itself is delayed. In order to help ensure flexibility in the timetabling of the award decision the report recommends that the decision is delegated to the Cabinet Member.

127. The proposed procurement process to be followed will be compliant with Contract Standing Orders and OJEU requirements. The total estimated contract value including possible extensions is £87.7m over a six plus two year contract term. It should be noted that the contract term has been selected to ensure that it matches that of the LoHAC contract.
128. The client section will be responsible for overseeing the procurement and monitoring the subsequent contract through regular meetings and service reviews. A range of relevant key performance indicators will be developed and included in the tender documentation.
129. This matter has been reviewed by both the Environment and Leisure Departmental and Corporate Contract Review Boards and recommended changes have been incorporated into this final report.
130. This advice has been provided by the Head of Environment and Leisure Procurement.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Gateway 1 & 2 – Integrated Highway Maintenance Contract	Copeland Road Depot	Mick Lucas 020 7525 1140
Gateway 3 – Consultancy Contract	160 Tooley Street, London SE1 2QH	Matt Hill 020 7525 3541
Contract Register Update		

APPENDICES

No.	Title
Appendix 1	Evaluation summary of procurement options
Appendix 2	Evaluation summary of contract options

AUDIT TRAIL

Cabinet Member	Councillor Barrie Hargrove, Cabinet Member for Transport, Environment & Recycling		
Lead Officer	Gill Davies, Strategic Director of Environment and Leisure		
Report Author	Des Waters, Head of Public Realm, Environment and Leisure		
Version	Final		
Dated	27 January 2012		
Key Decision?	Yes	If yes, date appeared on forward plan	November 2011
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
	Officer Title	Comments Sought	Comments included
	Strategic Director of Communities, Law & Governance	Yes	Yes
	Finance Director	Yes	Yes
	Head of Procurement (Head of Environment and Leisure Procurement)	Yes	Yes
	Contract Review Boards		
	Departmental Contract Review Board	Yes	Yes
	Corporate Contract Review Board	Yes	Yes
	Cabinet Member	Yes	Yes
	Date final report sent to Constitutional Team		27 January 2012