

**TO: ENVIRONMENT, CULTURE & COMMUNITIES OVERVIEW & SCRUTINY PANEL
23 OCTOBER 2012**

**PUBLIC REALM SERVICES – SERVICE DELIVERY OPTIONS FOR 2014
Director of Environment Culture and Communities**

1 PURPOSE OF REPORT

- 1.1 The purpose of this report is to brief the Panel of the work that has been undertaken to help inform how the Council should procure a range of council services, some of which are currently contracted to external partners and due to expire in 2014. The Panel's comments are sought on the component parts of any contracts and outline agreement to length of contract and price / quality threshold. A detailed procurement plan is scheduled to be presented to the Executive in December.

2 RECOMMENDATION(S)

- 2.1 **That the Panel notes the research undertaken and highlighted in the report which informs the Officer conclusions primarily detailed in paras 5.22 to 5.26, and 5.36 to 5.42; and**
- 2.2 **Highlights any matters or observation it wishes to be identified to the Executive meeting on 11th December.**

3 REASONS FOR RECOMMENDATION(S)

- 3.1 To ensure the Council delivers its public realm services in the most efficient and effective manner and in a way which accords with the preferences of the Executive.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are numerous theoretical combinations of service delivery options, but those described in the report are felt to be most beneficial to the Council in ensuring cost effective services which can deliver quality public realm.

5 SUPPORTING INFORMATION

- 5.1 The contracts for highways maintenance and works (including gulley emptying), street cleansing, highway consultancy, and street lighting expire in 2014 and these must realistically be re-procured through an EU compliant procurement process. An officer working group led by the Director of Environment, Culture and Communities has been established to manage this process and its membership includes representatives from relevant service divisions and corporate services namely finance, legal and procurement.
- 5.2 Rather than simply focus on re-procuring the status-quo, the working group sought to examine what other options existed for the Council with the objective of delivering a high quality public realm in the most effective and cost efficient way. In addition to those services which are already being delivered by external contractors, the working group also considered service delivery options relating to transport policy and

strategy, traffic management and road safety, management of parks and countryside (routine maintenance is included in landscape services), and maintenance of land via landscape services.

Soft market testing

- 5.3 In order to inform the decision making process, the project team sought the views of contractors delivering a broad range of services, and other councils who have configured different service delivery models. The group has met with four major suppliers – Balfour Beatty, Ringway, Volker and May Gurney – and three councils – Buckinghamshire County Council, Surrey County Council and Wokingham Borough Council. The purpose of these meetings has been to discover what different methods of structuring, tendering and contracting the services have been used and how successfully. The information received is confidential, and the conclusions highlighted below are those of the project team.
- 5.4 The suppliers and councils were asked some fundamental questions:
- What scope of services do they consider could most effectively be combined for tender?
 - What efficiencies have they realised in current contracts, and how have they arisen?
 - What client-side do they consider most effective?
- 5.5 The services considered in this review were:
- Public realm maintenance – highways, paths, subways, drainage, bridges, public spaces, spaces used for services related to the public realm.
 - Public realm works – large scale projects including capital programmes.
 - Street and public lighting.
 - Street cleansing.
 - Landscape maintenance.
 - Management of parks and countryside
 - Highway consultancies.
 - Transport planning and policy
 - Traffic management and road safety

Some of these services are currently provided internally, and the research has included exploration of whether and how such services should be market tested. The approximate annual spend on these service blocks is detailed below:

Contractors

FUNCTION	TOTAL ANNUAL SPEND (approx)	COMMENTS
Highway Maintenance and projects	£6.5m - £7.5m	Capital and revenue, all sources
Street lighting	£500k	Excludes electricity
Street cleansing	£1.2m	Includes subways
Highway consultancy services	£360k	

Internal operations

FUNCTION	TOTAL ANNUAL SPEND (approx)	COMMENTS
Landscape Services	£1.4m	All BFC land inc schools
Parks and Countryside	£1.1m	Excludes landscape £: includes mandatory services
Transport Planning etc	£495k	
Traffic management and road safety	£415k	£ scheme expenditure in contractor value

- 5.6 The drivers for the review are considered as follows:
- To continue to drive out inefficiencies to give members a choice post 2014 – current service level at reduced cost or improved service at current cost.
 - Current strategy of investing in highways maintenance is unsustainable in that it is set to simply minimise the decline of our highways network.
 - Improving safety of the highway network is a national driver.
 - An increasing public demand for better quality public realm
 - The impact of the SPA on the borough’s development

Observations from meetings with suppliers and councils

- 5.7 Efficiencies are possible by co-locating and integrating with the supplier. However, neither councils nor suppliers evidenced any tangible financial savings through co-locating in terms of a reduced workforce for example, but the need for close working relationships helped by co-location was probably the one consistent message from all the meetings. None of the councils had established separate organisations such as joint ventures. All had, to some extent, established practices which involved integrated teams staffed both by the council and the contractor, usually but not exclusively co-located. The councils and suppliers were enthusiastic about this approach, which was not static – changes to who did what continued through the life of the contracts.
- 5.8 All identified that evolution of services was better than revolution since it often appeared not immediately apparent where efficiencies could be derived from. This is probably particularly important for BFC since our resources are small when compared with Bucks or Surrey for example.
- 5.9 Perhaps not surprisingly, contractors felt the best evolution of the relationship between the Council and the supplier would be best achieved by ensuring that the 2014 contract is both wide in its scope and has flexibility for change in the relationship e.g. transfer of particular services to the supplier can happen at the point where it is appropriate, or not at all.
- 5.10 It is not clear how such flexibility to change (5.8 and 5.9) can be built into a compliant tender process, where there is a requirement to tender for a clearly defined set of services, and changing these services after contract award could introduce risk of challenge.
- 5.11 Pricing schedules, contract terms, and performance measurements are crucial for success. They may vary between different elements of the contracted services, and

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may be changed over time (but see 5.10). While contractors were keen to see very long contracts put in place, discussions highlighted that up-front investments (in plant and equipment for example) were most efficiently written-off in about 7 years and therefore that may be a basis for contract duration. BFC successfully drove down the cost of the waste collection contract by financing vehicles, and this would be worth exploring again.

- 5.12 A commitment to spend beyond a one-year planning horizon was said to potentially generate a 10-15% saving on materials (e.g. tarmac) by allowing contractors to negotiate longer term supplies and therefore get lower prices. This was felt to be a reasonable assertion and is typically seen in other businesses. Other operational efficiencies were also said to be possible through longer term planning. While this commitment may seem to operate outside the annual budget cycle adopted by the Council, a detailed assessment of risk (of not funding what was planned) and reward (savings made by a commitment) remains worth exploring.
- 5.13 Some of the councils use the contract term and the potential for extensions to it as a reward for good performance. For example, in a five year contract, award an additional year's extension after two years of good performance. Or, in a ten year contract, reduce the contract by one year for consistently bad performance. Such an approach requires clear and agreed performance measurement and reporting.
- 5.14 Including as a performance measurement the alignment of the supplier's objectives or outcomes with the Council's.
- 5.15 Including as a performance measurement the delivery of efficiencies and/or savings to the Council by the supplier. One example noted was the inclusion as a performance measurement of a commitment to move from reactive maintenance to proactive preventative maintenance. It is unclear how the supplier can be held accountable when this is a client-led activity, and would certainly require a committed capital spend from the Council.
- 5.16 Some of the councils undertook a competitive dialogue form of tender, but limited the scope – by intensive effort over a short period of time and/or by limiting the areas which were in the dialogue. This approach is not favoured by the project group and it doesn't seem that we can meet the statutory conditions for using this form of tender
- 5.17 More than one supplier referred to cross-skilling the workforce. A trivial example mentioned was to ensure that a supplier's employee can pick up "sharps" when cutting the grass. On a larger scale, one council mentioned redeploying street cleansing staff to woodland clearance when appropriate.
- 5.18 Two of the councils use their prime contractor as a managing agent for other contracts – at Bucks many of the lots were won by other contractors but the prime contractor then manages these contracts on behalf of the council.
- 5.19 None of the contractors or councils were delivering the entire range of services that BFC were considering as part of its overall public realm contracts and in terms of financial scale and therefore focus, all of the contracts were biased towards highway maintenance and improvement works. While all the contractors stated that "biggest is best" in terms of contract scope, the financial or efficiency statements to support this assertion were unconvincing.
- 5.20 While there were different delivery models, all of the contracts and councils had retained a strategic client for integrated transport elements of highway improvements

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primarily to retain local knowledge, for continuity, and to reduce risk. Buckinghamshire County Council had mixed teams working on highway design and strategy, but the majority of the “intelligent client” remained under the direct employment of BCC.

- 5.21 While Landscape Services are considered to offer an efficient and effective service, there is clearly a mature market for this type of work and therefore the opportunity should be taken to market test landscape services in 2014.
- 5.22 None of the contractors managed parks and countryside although some undertook minor maintenance works within parks and countryside and therefore further research was undertaken through local authorities to look at alternative service delivery models. The majority utilised a model similar to BFC’s in which management of parks and countryside was distinct from routine maintenance which were delivered either by an in-house team or by an external contractor. Milton Keynes has established a charitable trust to manage its parks and countryside and this is seen as an effective way of protecting the countryside from harm and to avoid forced budget economies. For the trust to agree to manage land, endowments are required to provide sustainable finance for maintenance. Surrey has an arrangement with a local wildlife trust to manage its countryside estate. These are primarily large estates with at least one Ranger on site so the land holding portfolio is quite different to Bracknell Forest’s. London Borough of Hounslow has virtually its entire leisure, culture and environment portfolio managed by John Laing Integrated Services over a 10 - 15 year contract.

Subsequent conclusions by the project team

- 5.23 Internal inefficiencies should not be outsourced. Outsourcing of inefficiencies allows the supplier to receive all or some of the saving. Inefficiencies should be removed internally. Such inefficiencies, whether related to organisational structure, processes or administration need to be identified by the relevant Chief Officers and included in BFC savings/ efficiencies prior to any tender process and as part of the Council’s budget setting process.
- 5.24 Although the project team felt it was feasible to consider in-sourcing the street cleansing contract since primarily this is a service based contract and had synergies with landscaping, the conclusion reached was that for all services currently outsourced, this should continue to be the case.
- 5.25 The Council should retain its own intellectual capability in terms of strategic highway management and design and decisions relating to the ongoing maintenance of the highway. There was no evidence given from the soft market testing about how an equivalent highway consultancy services provided through a contract, usually as part of sub-contract to a highways maintenance contract, was more cost effective than an in-house team which in BFC’s case was originally in-sourced to generate efficiencies and resulted in higher member satisfaction. This intellectual capability would critically ensure continuity in terms of highway strategy and maintenance, and retain the capability to prepare, issue and manage complex technical briefs.. However, specialist consultancy services that the Council only requires intermittently should continue to be provided through external sources. However, discussions with all the contractors highlighted that there may be efficiencies to be made in reviewing the relationship between client and contractor in specifying works and projects and this needs to form part of any implementation plan with a contractor.
- 5.26 Although landscape services have generated service efficiencies over the years, there is clearly a mature market for this type of work and it seems appropriate that the

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service should be tested again against the market (there have been competition and best value reviews previously). The quality of work and responsiveness of the landscape team is good and therefore it is felt that an option to continue an in-house service should form part of the tender offer. This also allows local, specialist landscape services to bid for a "landscape only" contract thus increasing competition. Outsourcing will require the Council to have new client side costs and re-apportion overheads but these will form part of the overall decision.

- 5.27 While research showed there were various options for externalising the management of parks and countryside, these were not common and there was limited evidence of any financial economies or service efficiencies. Relationships with the charitable sector were apparently primarily established to protect open spaces but in BFC's circumstances this would not be a strong driver. Particularly relevant for BFC is its location adjacent to the SPA and the ongoing need to adopt new open spaces as SANGS, and to develop existing open spaces to be SANGS in response to development. While all service delivery models should be reviewed on a regular basis, the discussions and research highlighted that management of parks and countryside appear to be normally distinct from the other services under consideration for a 2014 procurement and therefore they should not be included in the range of services considered for contract in 2014.

Collaboration

- 5.28 The project group sought potential partners in order to create a more significant procurement package. The 5 other Berkshire authorities, the council's of the South East 7 (SE7), and the local town and parish councils were all written to asking them if they wished to participate. 7 of the potential partners responded but none expressed what could be considered a realistic and tangible offer of partnership. Critically, the timescale for the various procurements did not match up with BFC's. The project group therefore determined that with this lack of interest it would be un-productive to pursue a partner for the BFC contract(s).

Contract configuration

- 5.29 The team considered how best to structure the contract offers. While there are several options available and contractors in particular were keen to see very large contracts in terms of scope, the project team concluded that the best outcome in terms of service delivery, least risk and financial efficiency would come with developing two major contracts broadly relating to "works" and "services".
- 5.30 While it was accepted that in theory there could be some savings in management costs and overheads with a very large contract, the range of services delivered were so different that only modest savings would be likely to accrue from re-apportionment of senior management costs. In operational terms this means less management capacity to ensure contracts ran smoothly and performance remains high. Given the high public visibility of public realm this was felt to be an un-necessary risk with no obvious financial benefit. Poor performance would also require additional client side resource to be employed. The team also concluded that it would be extremely difficult (although not impossible) to terminate a contract if only one part was failing badly (eg good highway maintenance but poor landscaping). It was felt that a highway maintenance/works contract involving complex plant, consistently changing materials and a well trained work force was fundamentally different to street cleansing and landscape which utilise relatively simple equipment and a lower trained workforce.

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- 5.31 It is therefore recommended that the first contract bundle should include for all highway maintenance and improvement works including maintenance of street lighting, including gully emptying. .
- 5.32 Bundle 2 should relate to street cleansing and grounds maintenance but with an option for the services to be delivered either independently or as one contract. Members may wish to note that the “contract” with schools for grounds maintenance adds considerable complexity to the procurement process and options are currently being discussed with colleagues in Education.
- 5.33 Bundle 3 should relate to specialist highway consultancy.
- 5.34 Contractors could bid for all services but in anticipation that a combined bid would be less costly than single bids, they would be expected to demonstrate where the efficiencies were derived from as part of the council’s quality assurance processes. We would want to particularly assure ourselves that lower spend areas such as street cleansing but which are particularly important to the Council and residents would continue to receive the appropriate management focus.
- 5.35 Members should note that the management of public realm within the Town Centre once it has been developed is a matter for ongoing discussion and may affect the specifications that relate to contracts. However, no Member action is required at this time other than to note the complication.

Contract Term

- 5.36 The assessment is that it would be preferable to have a contract term of 7 years, extendable by up to a further 7 years subject to performance and long term investment plan. This is a base position since the detailed procurement plan will explore options to deal with either excellent or poor performance (e.g. by reducing the term in the latter case). The contracts for consultancy, which are not asset based, may have to be limited to 4 years depending on the type of contract

Price / quality weighting

- 5.37 While a detailed methodology has yet to be developed, the award of contract should be based on 60% price and 40% quality. The various contracts need not have the same weighting if Members prefer.

Tender options

- 5.38 While there are several possible configurations possible, the Officer group believe that the most effective combination is to offer 4 bundles to the market with the possibility of combining Street Cleansing and Grounds Maintenance: (1) Highways maintenance/street lighting: (2a) Street cleansing (2b) Grounds maintenance (4) Highway consultancy. In addition to allowing a stand alone contract for landscape services, this option encourages a joint bid to include street cleansing.
- 5.39 Bundle 1 Highways maintenance and improvement works/street lighting
- 5.40 Bundle 2a : Street Cleansing, with the option of combining with 2b
- 5.41 Bundle 2b: Grounds Maintenance, with the option of combining 2a
- 5.42 Bundle 3: Highway consultancy services

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- 5.43 While the preferred position is to procure a works contract, a service contract and a consultancy contract, various “in combination” bids may be received and these would need to be assessed for value for money, efficiency and risk.

Other officers

Borough Solicitor

- 5.44 The legal issues that have emerged so far are discussed elsewhere in this report. The services required can only be procured through a Public Contracts Regulations compliant procedure, and the procurement timetable has been drawn up on the basis that the restricted procedure, which the Council has made use of many times before, will be used for this procurement.

Borough Treasurer

- 5.45 The figures presented in the report are a reasonable indication of the average annual cash spend of contracts and in-house services.

Head of Procurement

- 5.46 These are incorporated within the report.

Contact for further information

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