

REPORT FOR: CABINET

Date of Meeting: 15 December 2011

Subject: Highways Construction Contract

Key Decision: Yes

Responsible Officer: Brendon Hills, Corporate Director
Community and Environment

Portfolio Holder: Councillor Phillip O'Dell, Portfolio
Holder for Environment and
Community Safety

Councillor Thaya Idaikkadar, Portfolio
Holder, Property and Major Contracts

Exempt: No, except Appendix B. This is exempt
from publication under paragraph 3 of
Part I of Schedule 12A to the Local
Government Act 1972 (as amended)
as it contains information relating to
the financial or business affairs of the
Council and the tenderers

**Decision subject to
Call-in:** Yes

Enclosures: Appendix A – Scope of works within
each of the three contract lots.
Appendix B – Tender Evaluation Data

Section 1 – Summary and Recommendations

This report sets out the procurement and evaluation process undertaken and seeks approval to award the new Highway Contracts to May Gurney Limited.

Recommendations

Cabinet is recommended to:

1. Approve the council entering into a contract with May Gurney Limited for the delivery of all of the council's Highway works.
2. Delegate authority to negotiate and agree the final terms and conditions of the contract to the Corporate Director of Community and Environment in consultation with the Portfolio Holders for Property and Major Projects, and Environment and Community Safety.
3. Delegate the authority to the Director of Finance and Corporate Director of Community and Environment to realign budgets following the award of contract.

Reason: (For recommendation)

The Council has a statutory duty to maintain its Highway assets, achieving this through engaging and working with external contractors.

The condition of the Public Highway impacts upon everyone, residents, businesses and visitors to Harrow. It must be kept fit for use and safe for users at all times, contributing significantly to the corporate priorities, in particular: **Keeping neighbourhoods clean, green and safe.**

For the last six years or so a single supplier has delivered this service through a partnership arrangement. On 17 March 2011 Cabinet approved an extension of nine months to the existing contract with Enterprise Mouchel until 31st March 2012 to allow time for the Council to consider options and arrange a competitive procurement for a new contract, and instructed the Corporate Director of Community and Environment to commence procurement of replacement arrangements to be in place to ensure a smooth continuation of the services when the contract expires.

Officers have now completed the procurement process and have evaluated final tenders received. May Gurney Limited submitted the most economically advantageous tenders for all Lots.

To ensure a continuous service and effective mobilisation for the new contract by early February 2012 the council needs to make the contract award decision before the end of December.

Section 2 – Report

Introduction

Following Cabinet's approval last March to extend the current Highway contract arrangements to the end of March 2012, the process began to find a suitable supplier/s to ensure service delivery continuity. Procurement was conducted fully in compliance with the public procurement regulations following the 2-stage restricted procedure process. Expressions of interest were sought and evaluated and selected suppliers were then invited to tender.

Full project governance was established in accordance with Harrow's project management guidelines. The Corporate Director of Community and Environment is the Project Sponsor establishing both a Board and Team that would successfully deliver the project.

A Project Board was established that included cross party Members, senior officers with specialist skills from other Directorates and chaired by the Divisional Director of Environment Services. It met monthly, provided overall project direction, ensured widespread engagement and authorised any changes.

In turn, a Project Team was established that included specialist officers from across the Council. External specialist advisors were used for quality assurance purposes and to supplement in house skills. This team provided day to day project management delivering the project principles and the project plan.

The Project Team undertook a detailed analysis and evaluation of all the tenders and submitted recommendations to the Project Board. The Project Board has approved the project Team's recommendations.

Background

Current situation

All Highway construction services are currently delivered through a long term partnering agreement, due to expire on the 31st March 2012. This arrangement had an emphasis on joint management, supplier control, innovation and aligning with the then Government's partnering agenda. It has worked well for Harrow but with the economic downturn it is timely to consider returning to a more cost driven contract reducing the previous emphasis.

Options considered

The Project Board considered and evaluated a number of procurement and contract options and, on the basis of delivering the best value for Harrow, directed the Team to procure a cost driven contract used by a number of neighbouring Councils.

Cost is minimised through direct delivery so the contract is based around three areas of activity, Civil Engineering, Road Surfacing and Lighting. Longer-term contact arrangements promote best value so the contract is over a term of five years extendable to seven years at the Council's discretion.

Moving away from partnerships and using the process driven NEC3 (New Engineering Contracts) contract provides Harrow with more control over cost, management and programming. The NEC suite of contract conditions govern the way processes between client and supplier are implemented; this third edition is written especially for highway maintenance term contracts.

This is a different approach for Harrow and will be achieved through development of a distinct clienting function, providing one point of contact for all works, requiring additional personnel with specialist skills. Contract Management, works programming and co-ordination will all be undertaken by this expanded specialist Commissioning Team.

Professional Services, included in existing contract arrangements, are subject to separate investigations around framework options. A number of established frameworks have been identified and are being evaluated to ensure that they provide the best value for money to Harrow and will also be managed through the Commissioning Team.

Procurement process

The procurement process was conducted fully in compliance with the public procurement regulations following the 2-stage restricted procedure process. Expressions of interest were sought and evaluated and selected suppliers were then invited to tender. Twenty-three companies completed and returned a Pre-Qualification Questionnaire, detailed evaluation followed and from this a shortlist of 9 was chosen and invited to tender across the three Lots.

Evaluation and results

A key feature of the procurement process has been to evaluate and select on the basis of cost as well as quality; price 65%, fees 10% (direct and sub-contractor) and quality 25%. The price and fees criteria provide for a cost driven solution, and quality evaluates the supplier's ability to undertake work to contract standards, their contribution toward Harrow's vision and references taken up with existing clients together with assessing site safety standards.

Scores in all areas are then combined to establish which supplier is best placed to provide Harrow the most efficient value for money service. All short listed bidders had to meet minimum quality standards.

Implications of the Recommendation

The award decision is based upon a detailed tender evaluation supported by external expert advice provided by Turner and Townsend.

A detailed tender report and award appraisal is set out in Appendix B.

New contract working arrangements demanded by the NEC3 require a definitive Commissioning Team to be established acting as one point of contact with the Council for the new supplier. This new team controls all contract operations, programme co-ordination, works ordering and payments. This provides clarity and hence confidence to the supplier who will price work accordingly.

Working with Access Harrow the new team will also provide the focus for customer contact, informing, consulting and explaining about Highway works.

Financial Implications

The financial impact of awarding this contract will lead to potential savings against both capital and revenue budgets. The outcomes of the tender process are detailed below.

The revenue savings are estimated up to £700k per annum, of which £400k has already been factored in 2012/13 MTFS. Allowing for the clienting function with estimated costs of £178k per annum, the net additional revenue benefit is approximately £122k. The gross savings excluding inflation are £522k per annum and £2,610k over the five year contract life. Building construction inflation (BCIS) is included in the ITT and therefore will be included in the final contract. The BCIS has been consistently lower than the RPI which is currently at 5.2%, whilst the weighted average BCIS across the three lots is 4%. The inflation on the individual lots varies from 5.8% for surfacing to 2.3% for electrical and is dependant on the total spend. Based on the average weighted inflation over the life of the contract the net savings are £2,186k. This needs to be factored into the future MTFS.

As the total savings are across three separate lots Civil, Electrical and Surfacing, the budgets will need to be realigned between these services. The awarding of this contract by cabinet will also approve the delegation to Director of finance and Corporate Director of Community and Environment to allow for budget realignment.

The impact on capital savings is currently being assessed and will be reported in due course.

Professional services are not included above and will be procured as and when required and charged to specific projects. The procurement of professional services is being investigated separately to ensure best value for money.

Performance Issues

The Council is committed to continuous improvement in service delivery and will be using a suite of Key performance indicators (KPIs) to measure the Contractor's performance during the course of the Contract in achieving efficiency and continuous improvement.

The contract will be monitored through these indicators, reported and monitored through a contracts board. Where poor performance is unresolved, under the terms of the contract it can result in a financial penalty.

The current supplier uses offices and storage/operational yard facilities located at Harrow's Central Depot under a lease agreement. The same facilities are being made available to the new supplier with an annually renewable lease, the cost of which is obviously recovered through contract charges.

Environmental Impact

All tenderers provided Environment statements as part of the pre qualifying stage, describing how they manage the impacts of their construction activities. All are or are in the process of being accredited with the International Management award of ISO 14001 that binds the holder to strict environmental policies and processes.

Risk Management Implications

Contract transition has inherent risks. These are managed through identification and mitigation. Contract handover is phased for early 2012 and through this transition there is a programme of activity and responsibilities that should ensure no deterioration in service.

This is a relatively new approach to working and there is potential risk in terms of contract understanding. Process driven, this new way demands client control particularly around management and communications. One point of supplier contact with the Council through a new Commissioning Team will ensure compliance

Some training will be required to meet the new demands for managing this new commercial relationship.

Equalities implications

An initial Equalities Impact Assessment was undertaken. No adverse consequences for particular groups were identified so a full assessment was not required.

Tenderers provided their Equal Opportunity policies at pre qualifying stage and were invited to tender on the basis these were satisfactory.

Section 3 - Statutory Officer Clearance

Name: Kanta Hirani	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 5 December 2011		
Name: Matthew Adams	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 2 December 2011		

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap



Divisional Director
Partnership,
Development and
Performance

Date: 5 December 2011

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards



Divisional Director
(Environmental
Services)

Date: 2 December 2011

Section 6 - Contact Details and Background Papers

Contact: Dave Masters – Engineering Services Manager 020 8424 1580

Background Papers: ITT (Invitation to Tender)

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]