

HIGHWAY SERVICES CONTRACT 2017

To: Highways and Community Infrastructure Committee

Meeting Date: 21 February 2017

From: Executive Director - Economy, Transport and Environment

Electoral division(s): All

Key decision no.: 2017/006 **Key decision:** Yes

Purpose: To inform the Committee of the procurement process and recommendation to award the Highway Services Contract 2017.

Recommendation: That the Committee:

- a) Notes the procurement process utilised in connection with this tender.
- b) Approves the award of the Highway Services Contract 2017 to the preferred bidder.

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1 BACKGROUND

- 1.1 At the County Council's Highway & Community Infrastructure (HCI) committee held on 28 April 2015 Members gave approval for officers to commence the procurement process in order to seek a long-term strategic partner to assist with the delivery of highway services across Cambridgeshire. This report is the culmination of that process and the committee is now asked to approve the award of a new highway contract to the preferred bidder following endorsement of the procurement process that has been followed.
- 1.2 The current Highways Services Contract was awarded to Atkins in 2006 and later assigned by Atkins to Skanska in 2013 following the national selloff of Atkins's operational arm. The contract, a typical client–contractor arrangement, provided for the Council's routine and ongoing maintenance, together with capital maintenance and highway improvements, and provision of professional services, such as transport planning and design. This contract is due to end on 30 June 2017.
- 1.3 The new contract seeks to move away from the traditional client-contractor arrangement and instead drive a much more integrated partnership approach to delivering highway services. It is based on the New Engineering Contract 3 (NEC) Term Service Contract, which has a heavy emphasis on partnering whilst encouraging innovation. This model has been developed specifically for the highway sector, using national best practice and tailored for Cambridgeshire. Such an approach seeks to provide value for money and an appropriate level of service to our customers through a strong partnership with the service provider.
- 1.4 The contract has been designed to cater for highway design and construction, highway maintenance and professional services (e.g. transport planning). Work going through this contract will primarily be associated with the highways maintenance budget, Local Transport Plan and with opportunities for City Deal and other transport related schemes in Cambridgeshire. Longer term the contract also has the potential to deliver work that may originate under the devolution agenda, should the Combined Authority wish.
- 1.5 The ability is also provided to enable Peterborough City Council, Hertfordshire County Council and Suffolk County Council to join the contract should they wish. These three authorities currently have their own highway contracts with different expiration dates and there is no obligation to join, however they are named in the contract should they wish to enter discussion at the appropriate time. Currently Peterborough has a contract with Skanska (ending 2023, but with an option to extend up to 2033), Hertfordshire is with Ringway (ending 2019, option to extend up to 2024) and Suffolk is with Kier (ending 2023).
- 1.6 Recent experience of this and other contracts provides substantial learning in developing a replacement contract. It is intended to build on the strengths of the existing arrangement by building a partnership which can adapt to changes and still deliver an efficient and effective highway service, whilst addressing public expectations of the service at a time of continued severe financial constraints on the Council. The foundation of this approach is built around nine key, high level outcomes:
 1. Customer Service is Effective and Efficient
 2. The Service is Efficient
 3. Financial Savings Are Delivered

4. Preventative Maintenance is Effective
5. The Service Relationships Are Effective
6. Scheme Design and Delivery is Effective
7. The Public and Workforce Are Kept Safe
8. The Network is Effective
9. The Service Delivers Added Value

1.7 The length of contract is initially for 10 years, this can be reduced or extended up to 15 years, depending on the Contractor's performance; robust terms and conditions will be used to manage and monitor the contract effectively. Services can also be withdrawn if the Contractor is not performing in line with the prescribed standards in specific areas. Whilst the arrangement is designed to be flexible, the following contract management tools will enable the council to track cost, performance and manage risk:

- Strategic and Key Performance Indicators
- Defined Service Standards
- Pricing and payment mechanisms
- Partnering and collaboration
- Open Book Accounting and Benchmarking
- Innovation, to deliver efficiencies and effectiveness

2 PROCESS

2.1 Working alongside colleagues in procurement and legal, officers have followed the current procurement regulations to ensure best practice has been followed. The table below (*fig. 1*) sets out the key activities and timeline for this procurement process.

Activity	Timeline
Committee approval to commence procurement	28 April 2015
Publication of contract OJEU notice	27 October 2015
Pre-Qualification Questionnaire deadline	23 November 2015
Competitive Dialogue	01 February - 28 September 2016
Call for Final Tenders	21 October 2016
Tender submission deadline	12 December 2016
Evaluation of the tenders	16 December - 09 January 2017
Moderation of the evaluation scores	09-13 January 2017

Figure 1: Procurement Process

2.2 For procurement of contracts of this nature and scale, current EU regulations require a contract notice to be published in the Official Journal of the European Union (OJEU) stating the relevant procurement process to be used. A Contract Notice for Cambridgeshire County Council Highway Services was published in the OJEU on 27 October 2015.

2.3 The selection process consisted of a Pre-Qualification Stage which involved all interested parties completing a Pre-Qualification Questionnaire (PQQ). Two companies completed the PQQ by the deadline of 23 November 2015. The two potential contractors qualified and were selected to participate in Competitive Dialogue. The Highways Transformation Board considered at length whether to continue the tender process with just two bids or to re-start

the process in an attempt to attract more submissions. After considering the risks involved, on balance it was decided to continue with the two potential bidders. These are:

- Kier Highways Ltd
- Skanska UK

- 2.4 Competitive dialogue ran from 1 February 2016 to 28 September 2016. This is a public-sector tendering option that allows for bidders to develop proposals in response to a client's outline requirements. Officers from services across the council, with a range of skills and expertise, were involved in the dialogue and accompanying workshops; throughout dialogue regular feedback was sought from both bidders and any changes to the council's approach was discussed and agreed in conjunction with both bidders in order to reduce any potential for challenge.
- 2.5 During the dialogue phase both bidders met with Cambridgeshire County Council's Chief Executive for an introductory discussion. In addition the Executive Director for Economy, Transport & Environment met with both bidders to discuss broader aspirations of the council and directorate within which the highway contract sits. The dialogue phase culminated in a presentation from each bidder, to the Executive Director of Economy, Transport & Environment. In October 2016, following completion of competitive dialogue, tenders were invited from both bidders.
- 2.6 The documents were published and made available to the two bidders via the LGSS e-Tendering system (Due North). Tender queries from the bidders were accepted up until 5 December 2016. This provided both bidders with the opportunity to seek clarification regarding any of the tender documents that the council had published. Kier and Skanska both submitted their final tenders by the deadline (midday, 12 December 2016) and following an initial check by LGSS Procurement for any irregularities in the submissions, both bids proceeded to the evaluation stage. .
- 2.7 Whilst cost remains vitally important, the importance of placing greater emphasis on quality is now recognised, as poor quality has been shown to lead to increased longer term costs for authorities. A quality based service, with a strong emphasis on efficiencies through improved practice and integration / removal of double-handling, potentially offers a very attractive option for the Council and fits well with the service outcomes. The tender evaluation was based on a 70/30 quality / price split, an approach that was approved by the Highways Transformation Board.
- 2.8 The bidders' submissions covered six sub-criteria, each with a different weighting according to the importance placed on it by the county council. The six sub-criteria were further broken down into individual method statements (MS) (demonstrating how the bidder will deliver the service on day one) and service improvement plans (SIP) (longer term approach to the delivery of the service). The table below (*fig.2*) sets out the sub-criteria and associated weightings, which were discussed in depth and approved by Board.

Key Criteria	Criteria Weighting	Sub-Criteria	Sub-Criteria Weighting	Method Statements		Method Statement Weighting
Quality	70%		(%)			(%)
		A.1 Overall Approach to Partnership	20	MS1	Governance and Culture	25
				MS2	Cost Management	25
				MS3	Performance Management	25
				MS4	Meeting the Future Requirements of Cambridgeshire	25
		A.2 Overall Approach to Service Delivery	20	MS5	Operational Management and Integration	20
				MS6	Managing Service Delivery	20
				MS7 and	Health and Safety Risk Management	15
				MS8	Standards and Systems	15
				SIP1	Cross Service Improvement Plan	30
		A.3 Delivering Services	15	MS9	Asset Resilience and Routine Highways Inspections	35
				MS10	Highways Services, Network Management and Other Functions - Day 1 Elements Only	35
				MS11	Long Term Services - Strategic	15
				MS12	Long Term Services - Operational	15
		A.4 Delivering Outcomes and Service Improvement	30	SIP 2	Asset Resilience & Routine Highways Inspections	35
				SIP 3	Highways Services, and Other Functions	35
				SIP 4	Long Term Services - Strategic	15
				SIP 5	Long Term Services - Operational	15
		A.5 Managing Mobilisation	10	MS13	Approach to Service Mobilisation	100
		A.6 Delivering Social Value	5	MS14	Social Value Delivery Plan	100

Figure 2: Quality criteria & weightings

- 2.9 Within the submissions the bidders had to convey and demonstrate a suitable level of confidence in their ability to deliver highway services within Cambridgeshire. In determining whether the submissions met the Council's requirements, the potential contractors' method statements and service improvement plan submissions were evaluated and scored against the following four evaluation themes:
- Quality and Deliverability
 - Partnering and Commitment
 - Vision and Innovation
 - Commercial and Risk
- 2.10 Under the pricing element bidders were required to demonstrate affordability over the short term (the first two years of the contract), followed by affordability over the longer term (year three onwards). Given the contract commences on 1 July 2017, year one is based on a nine month financial period. Year two onwards reverts to the standard twelve month financial reporting period.
- 2.11 The starting point for the new contract regarding the revenue budget is £5.4million. This is based on the 2016/17 highway service operating budget. As part of the submissions bidders were required to demonstrate that the cost of year one would be no greater than the current operating budget. This requirement was set as pass/fail and both bidders met this affordability criteria.
- 2.12 In addition bidders were set the challenge of achieving savings totalling £3million over the first two years of the contract, comprising £800k revenue in year one and £2.2million made up of a mixture of revenue and capital in year two. During dialogue it was acknowledged that the first year revenue saving of £800k will be challenging due to the already low starting revenue budget coupled with a nine month year one.
- 2.13 The pricing model comprised five sub-criteria, each weighted according to importance, determined by the County Council (*fig.3*). The criteria and weightings were debated at length and approved by Board.

Key Criteria	Sub-Criteria	Key Criteria Weighting (%)	Sub Criteria Weighting (%)
B – Price		30	
	B.1 Cost of Service Provision (Revenue)		40
	B.2 Uplift Fees		10
	B.3 Local Management Overheads		10
	B.4 Sample Scheme Sensitivity		25
	B.5 Base Price – Basket of Rates		15

Figure 3: Pricing sub-criteria & weighting

- 2.14 The quality and price submissions were evaluated by 9 teams which were each allocated method statements and service improvement plans or the price model. Each team comprised of a minimum of 3 people, selected based on their expertise and role within the Council. A scoring matrix of 0 (fails to meet criteria/ no submission) to 10 (excellent), in increments of two was used to evaluate the bids. The scores were loaded in to AWARD, an electronic evaluation tool, which then provided the overall scores for quality and price and derived the results of the preferred bidder.
- 2.15 Careful choice of a contractor, as a long term strategic partner, will help ensure that the Council has access to the necessary skills and capacity to deliver its ambitions for maintaining and improving our roads, whilst providing value for money. The next steps in the process and associated timeline is shown in the table below (fig.4):

Next Steps	
Activity	Timeline
Publication of Decision Statement	22 February 2017
Decision review period	24-27 February 2017
Issue intention to award letters	28 February 2017
Stand still Period	28 February – 10 March 2017
Award Date	11 March 2017
Mobilisation	11 March – 1 July 2017
Operational Date	1 July 2017

Figure 4: Next steps in the procurement process

- 2.16 **Appendix 1** (confidential) sets out the results of the procurement process, including identification of the preferred bidder and the scores. The scoring is broken down into quality and cost.

3 EFFICIENCIES & SAVINGS

- 3.1 The Council's Business Plan, for 2016/17 – 2020/21 includes a total revenue saving of £1.3million to be delivered from this contract, £800k in 17/18 and £500k in 18/19. However, given the ongoing funding pressures on the Council, consideration needs to be given to achieving greater savings in the long term. The savings requirement is predicated on steady state costs of providing the service as outlined in the member approved Highway Infrastructure Asset Management Plan (HIAMP), therefore savings will need to come from a more efficient delivery model, greater integration with our partner and the introduction of innovations from industry, to provide value for money and savings throughout the Partnership.
- 3.2 As part of the vision for collaboration and partnership working, co-location is considered a very effective way of integrated working. In addition to the four depots, the current highway contract operates out of an office in Girton, which primarily accommodates Atkins and Skanska staff, although there is also a small contingent of County Council highway staff based there. The Girton arrangement is a commercial lease between Atkins-Skanska and a private landlord, however the council pays £240,000 per year towards the rent and running costs. This payment is made in monthly instalments as part of the contract overhead payment. Upon completion of the current highway contract Girton will no longer be available

and therefore there was a need to identify a suitable alternative for accommodating staff associated with the management and operation of the new contract.

- 3.3 An options appraisal was undertaken to seek the most cost effective approach for providing office accommodation to support the new arrangement. It was felt that the best option in terms of value for money, greatest flexibility and future income potential, was for the County Council to purchase a property and operate a licence to occupy arrangement with the preferred bidder. Whilst there will still be a cost associated with the running of the building, it is acknowledged that this will be significantly cheaper than the current accommodation, as well as providing a sustainable longer term option for the council. On this basis Members of the Asset & Investment Committee approved the authorisation of the acquisition of a new property in Huntingdon on 16 December 2016.
- 3.4 Whilst delivery of savings currently identified in the Business Plan will be challenging, it is important to ensure sufficient resource is available to ensure the new arrangement commences in a positive manner. The partnership approach has far greater potential for delivering longer term savings through greater collaboration and integration with the provider. In turn such an arrangement will provide increased capacity and resilience to deliver work. The Contract allows the flexibility to evolve over its lifetime and the options for achieving these savings have been discussed in dialogue and form part of the contract assessments.
- 3.5 The Council will initially enter into an arrangement similar to the present one, but with an intention to develop a long term strategic relationship with the provider. This option has the flexibility to change over time and can be tailored to Cambridgeshire's needs. The links for members and communities to local officers will remain unchanged on day one of the new contract and service continuity will be maintained.

4. RISK MANAGEMENT

- 4.1 As with any procurement process there is risk associated with the chosen approach and care has therefore been taken to minimise the level of risk that the County Council could be exposed to during the process. A risk register has been in place throughout the process and updates to the register are reported to and signed off by the Board on a monthly basis.
- 4.2 Alongside the generic risks associated with staff resource, budget and IT, additional risks specific to this procurement were identified: ensuring both bidders remained engaged with the process and that the County Council received two quality and affordable bids at the end; changes to the approach by the authority during the process; the scope of the contract; evaluation process, including scoring and weightings; and risk of challenge by the unsuccessful bidder.
- 4.3 One of the benefits of incorporating a competitive dialogue phase within the procurement process is that there are regular opportunities to develop and build rapport with the bidders. Part of the dialogue sessions was therefore used to discuss any proposed changes to the approach and ensure that both bidders were in agreement with the route the County Council was taking. The evaluation model was discussed at length to ensure understanding and a number of iterations of the cost model and terms and conditions were provided to the bidders for comment. The dialogue sessions coupled with regular correspondence via the

procurement portal helped to significantly reduce the risk of a bidder withdrawing from the process and ensured two quality bids were received for evaluating.

- 4.4 Advice and support throughout the process, from the LGSS legal, procurement and finance teams, helped to ensure that the approach the County Council took was in accordance with relevant legislation and followed due process. Whilst it was acknowledged that the County Council has a high level of highway specific expertise, a gap in knowledge and experience of the procurement approach adopted and in particular the development of the quality and cost models was identified. Therefore external support was sought and provided by V4 Services (project management), Cardiff City Council (procurement and evaluation approach, including the quality model) and CW Infrastructure Services (cost model).

5. MEMBER INVOLVEMENT

- 5.1 Throughout the process Members have been kept updated and informed via a number of different methods. Feedback from Members during the sessions outlined in the table below (*fig.5*), was fed back to both bidders throughout the dialogue process in order to help shape the final proposals and ensure that both the local and political context was understood.

Activity	Dates
H&CI Spokes	Since July 2014, monthly standing agenda item - verbal update by the Head of Highways.
Transformation Board - Board Members: <ul style="list-style-type: none"> • Chair & Vice Chair of H&CI Committee • Service Director Infrastructure Management and Operations • Service Director Strategy and Development • Head of Service – Highways • Transformation • LGSS Legal and Procurement • Finance • HR • Audit 	Commenced 8 October 2015; 13 meetings to date
Member Seminar	15 April 2016
Member Briefings	Liberal Democrats – 18 July 2016 Conservative – 19 July 2016 Labour – 6 September 2016 UKIP – 9 September 2016

Figure 5: Member engagement

- 5.2 During engagement with members a number of themes emerged, particularly around the day to day operation of the contract and the County Council's continued ability to meet local needs. For example the value placed on the role of the Local Highway Officer (LHO) as a local point of contact and the appreciated level of customer service they provide. Bidders fully understand the value of the LHO and this role will continue to be provided from day

one of the new partnership.

- 5.3 Robust terms and conditions have been produced and discussed with the bidders, which provide mechanisms to manage and monitor performance. The provisions in the document will enable the County Council to reduce or increase the length of the contract accordingly, subject to performance. The ability of the County Council to change the approach to service delivery within the contract was raised by members and the terms and conditions provide the tool with which to do that if required.
- 5.4 Members are also keen that local firms are supported. Local firms already play a key role in the current highway contract, making up a large proportion of the supply chain. This approach will continue under the new contract and both bidders have confirmed that engagement with the local supply chain forms a key part of their delivery plan. The volume of work being carried out across Cambridgeshire means that the contract would not work without the support and involvement of local firms.

6. ALIGNMENT WITH CORPORATE PRIORITIES

6.1 Developing the local economy for the benefit of all

The following bullet points set out details of implications identified by officers:

- Maintaining and improving road infrastructure has been identified as a key priority for the continued development of the local economy
- Procurement of a new Highway Services Contract will provide a key means of delivering highways schemes that support existing investment programmes

6.2 Helping people live healthy and independent lives

There are no significant implications for this priority.

6.3 Supporting and protecting vulnerable people

There are no significant implications for this priority.

7. SIGNIFICANT IMPLICATIONS

7.1 Resource Implications

The following bullet points set out details of significant implications identified by officers:

- This is a significant procurement and required LGSS resource, principally from Finance, Human Resources, Procurement and Legal. Additional external support was also required to provide technical expertise, funded from existing resources, provided by V4 Services/Cardiff City Council and CW Infrastructure.

7.2 Statutory, Risk and Legal Implications

The following bullet points set out details of significant implications identified by officers:

- The value and nature of this procurement means that it is subject to the provisions of the Public Contract Regulations 2015. LGSS Law have advised CCC on the legal issues.
- The residual risks associated with this procurement for Cambridgeshire are similar to other contract procurement exercises. Both LGSS Law and the LGSS procurement team have experience of this type of procurement. The LGSS procurement team has led on the management of the procurement process in this case, assisted by LGSS Law when required.
- These risks will be mitigated through the drafting of the contract, informed by the work of the Government sponsored Highways Maintenance Efficiency Programme (HMEP).

7.3 Equality and Diversity Implications

There are no significant implications within this category.

7.4 Engagement and Consultation Implications

There are no significant implications within this category.

7.5 Localism and Local Member Involvement

There are no significant implications within this category.

7.6 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Chris Malyon
Has the impact on Statutory, Legal and Risk implications been cleared by LGSS Law?	Yes Name of Legal Officer: Quentin Baker
Are there any Equality and Diversity implications? – No significant implications	Yes Name of Officer: Tamar Oviatt-Ham
Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Mark Miller
Are there any Localism and Local Member involvement issues? – No significant implications	Yes Name of Officer: Tamar Oviatt-Ham

Have any Public Health implications been cleared by Public Health No significant implications	Yes Name of Officer: Tess Campbell

Source Documents	Location
Spokespersons reports on Highways Service Contract	ETE, Shire Hall
Highway Transformation Board minutes	ETE, Shire Hall
Highways &Community Infrastructure Committee paper: <i>Highway Services Review</i> dated 28 th April 2015	https://cmis.cambridgeshire.gov.uk/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/316/Committee/7/Default.aspx
Assets and Investments Committee paper: <i>Proposed acquisition of a new Highways Office & grant of an Occupational Agreement</i> dated 16 th December 2016	https://cmis.cambridgeshire.gov.uk/ccc_live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/469/Committee/31/Default.aspx