

TRAFFORD COUNCIL

Report to: Executive
Date: 24th March 2014
Report for: Decision
Report of: Executive Member for Economic Growth & Prosperity and
Executive Member for Highways and Environment

Report Title

**RESHAPING TRAFFORD: Economic Growth and Prosperity & Environment,
Transport and Operations Services.**

Summary

The report sets out proposals to progress the first element of the project 'Reshaping Trafford'. In this regard the report details and seeks approval for proposals to issue a formal Official Journal of the European Union (OJEU) notice seeking bids for the delivery of a range of environmental, highways, professional, technical and infrastructure services currently delivered by the Economic Growth and Prosperity and Environment, Transport and Operations Directorates. The proposals will ensure that service provision is forward thinking, flexible and resilient to meet future challenges and will contribute to the Council delivering the required efficiency savings to meet the budget challenge from 2015/16 onwards.

Recommendation(s)

It is recommended that:

- a) The publication of an OJEU notice for specified services, in three Lots, as set out in paragraph 2.3 of the report is approved;
- b) The Corporate Director for Economic Growth and Prosperity and Interim Corporate Director for Environment, Transport and Operations, in consultation with the Director of Legal and Democratic Services, be authorised to agree terms and to enter into an agreement to extend the current Veolia waste contract by up to 12 months;
- c) The Executive Member for Economic Growth & Prosperity, Cllr Hyman, and Executive Member for Highways and Environment, Cllr Mitchell, are given delegated authority, in consultation with the Corporate Director for Economic Growth and Interim Corporate Director for Environment, Transport and Operations, and the Director of Legal and Democratic Services, to approve the final service specifications, tenderer selection and evaluation criteria to be published with the OJEU notice, including moving services between Lots; and
- d) A further report be brought back to the Executive setting out the outcome of the procurement process and terms of any proposed contract for the delivery

of those specified services for the Executive to consider and approve any proposal to proceed with the proposed procurement prior to any such contract being confirmed.

Contact persons for access to background papers and further information: Richard Roe, Head of Growth and Dianne Geary, Senior Business Change Manager.

Extensions: x4265 and x1821

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	This report supports the following Corporate priorities; <ul style="list-style-type: none"> • Low Council Tax and Value for Money • Reshaping Trafford Council
Financial	The annual current value of direct costs incurred on those services to be included in the procurement exercise is £16.3m. The financial results of the procurement exercise will be reported in due course. If the procurement exercise is supported then it is estimated that £500k will need to be incurred in preparation, evaluation and implementation costs. The source of finance to pay for this cost will need to be identified.
Legal Implications:	Procurement exercise and any extension to the existing contract must be handled in accordance with statutory requirements, EU regulations and the Council's Contract Procedure Rules
Equality/Diversity Implications	Equality Impact Assessments will be carried out and will inform the development of the Reshaping Trafford: ETO & EGP Services specifications.
Sustainability Implications	None at this stage.
Staffing/E-Government/Asset Management Implications	There could be significant staffing implications associated with this report.
Risk Management Implications	A risk management log is being developed as part of the overall governance for the Reshaping Trafford project. Any project of this scale carries risks in terms of achieving key deliverables, specifically savings aspirations and timing. These risks need to be set in the context of the overall financial challenge facing the Council.
Health & Wellbeing Implications	These will be identified and addressed as part of the project plan.
Health and Safety Implications	None at this stage.

1. BACKGROUND

- 1.1 The budget for 2014/15 was confirmed in February 2014, addressing a £17m resource shortfall made up of £6.1m Government funding reductions and £10.9m cost pressures. This is on top of the £50 million of savings the Council has delivered over the last three years.
 - 1.2 The budgets for 2015 to 2018 will require further innovative savings provisions to be considered. This will involve a number of different approaches including reducing contract costs through improved procurement, commissioning of services, managing demand and partnership working.
 - 1.3 The Council, taking these different approaches forward through its 'Reshaping Trafford' project, is identifying potential alternative delivery models, opportunities for increasing income and efficiencies across the full range of our services.
 - 1.4 The outcome will be the development of the right delivery model for each service rather than adopting a 'one size fits all' approach. This pragmatic approach will deliver benefits expeditiously and will also allow us to plan ahead for the medium term.
 - 1.5 Importantly, this project is directed at achieving sustainable service outcomes for residents whilst protecting jobs as far as practicable against the backdrop of reduced financial resources, driven by the four guiding principles of:
 - Building on what we do well
 - Forward thinking
 - Being positive
 - Innovation
- Further reports will be brought to the Executive as other projects are developed in more detail.
- 1.6 One strand of the proposals for reshaping Trafford has explored the opportunities for adopting a partnering approach (contractual details to be confirmed) in relation to the delivery of a number of Council services, with the potential to provide significant budget gains, whilst minimising the effect on service delivery. It is considered that this approach is particularly suitable for a range of services in the Economic Growth & Prosperity (EGP) and Environment, Transport & Operations (ETO) directorates
 - 1.7 The services being considered under this proposal are the Council's Environmental Services, including Commercial Waste, Domestic Waste, Street Cleaning and Grounds Maintenance; plus Highways Services, including Winter Maintenance, Bridges, Traffic and Transportation, Road Safety, Street Lighting and Furniture; Drainage; Greenspace Strategy; the Let Estate; Corporate Landlord; and Major Projects teams.
 - 1.8 These services are responsible for a wide range of Council functions including the management of the Council's £1 billion highways network which includes the maintenance of over 500 miles of roads and footways, 30,000 street lights and signs and 150 bridges.

- 1.9 Highways professional services include the strategic asset management of the network, project management, design and contract management of new major highway projects / highway improvement works, liaison with developers with regard to S278 and S38 Agreements. Trafford is the lead local flood authority, sustainable urban drainage approving body and undertakes the strategic management of land drainage. The management of these functions will be included in this Lot and the strategic overview will be retained as part of lean client function.
- 1.10 Property and Development includes the management of the Council's entire operational property portfolio, plus the Council's investment estate which includes shops, offices, industrial estates and farm land which generate over £2 million of income per annum. The team also undertakes the design and management of major capital building projects.
- 1.11 In terms of Environmental Services, household waste is currently removed from 95,000 homes and the current waste recycling rate is around 60%. The proposals would also include commercial waste collection within this lot, together with street cleaning as it is considered that there are clear opportunities for efficiencies by putting these services together in this way.
- 1.12 The budgeted value for these services in 2014/15 is c. £16.3m annual revenue expenditure plus £13m capital expenditure. In addition, subject to consultation, a positive outcome from the procurement process in terms of savings which would be achieved and the acceptable mitigation of any potential impacts identified and Executive sign-off, c. £9.3m of capital (over the two years 2015/16 & 2016/17) has been allocated for the rollout of LED street lighting.
- 1.13 The current recycling and waste contract with Veolia Environmental Services commenced in 2004 and due to the fact that it comes to an end in September 2014, a procurement exercise was being prepared. However, in line with Reshaping Trafford, it is proposed that the service could be incorporated in the partnering approach to future service delivery and so waste is now included as part of Environmental Services Lot 1 in section 2.3 below.
- 1.14 Contract(s) will be required to be in operation from early 2015/16 and to deliver significant budget savings from the outset, whilst maintaining high levels of service delivery and customer satisfaction.

2. SERVICES IN SCOPE

- 2.1 This new arrangement will combine a number of environmental and technical services within one procurement exercise with the aim of achieving better value for money and providing alternative sustainable delivery options for those services.
- 2.2 It is proposed that the contract(s) will be procured through a single procurement exercise, based upon competitive market dialogue, with services being offered in three Lots, including two sub-lots. Potential partners will be able to tender for any combination of Lots (and sub-lots), being:

Lot 1: Environmental Services:

Domestic waste;
Commercial waste;
Grounds maintenance; and
Street cleansing.

Lot 2: Highways & Street Lighting (operational):

Lot 2a: Highways:

Highways;
Winter maintenance; and
Gully cleansing.

Lot 2b: Street Lighting

Street lighting infrastructure;
LED street lighting project; and
Street furniture.

Lot 3: Technical Services:

Highways and Bridges (engineering etc.);
Professional Services including Engineering Design; Asset, Project and Contract Management; and Developers Interface;
Building Professional Services including Major Building Projects; Structural Engineering; Mechanical and Electrical Engineering; Landscape Architects;
Operational Estate/Asset Management for the Corporate Estate and Schools;
Property Development; and Land Sales;
Management of the Council's Investment Estate; and
Major Projects Team (Capital Build Team).

- 2.3 The Lots will be structured flexibly to meet changing future requirements, including changes in budget availability, service standards and corporate priorities; incorporate venturing (risk / reward sharing) elements; and should enable other AGMA members or partners to participate at a later date (e.g. Highways).
- 2.4 The shape of these Lots has been influenced by soft market testing undertaken during late 2013/early 2014 with potential private sector partners and dialogue with local authorities who have taken a similar approach. This research indicated a market preference to bundle services together in such a way as to increase financial value and maximise synergies as well as a preference for longer contract terms in order to support the recovery of their upfront investment and in turn to generate and expedite savings for the Council.
- 2.5 Reflecting this intelligence, together with the typical waste vehicle replacement cycle (7 to 8 years), it is anticipated that the common contract length(s) will be in the region of 15 years with the exception of LED street lighting which would be for around 20 years. The contractual arrangements will include formal review points whereby the Council may exercise an option to terminate the arrangement if partnering organisations are not meeting their obligations or if the contract otherwise fails to

deliver. As part of the procurement process we will assess any financial implications of any of these review points.

3 STAFFING IMPLICATIONS

- 3.1 Collectively the services set out in paragraph 2.3 above directly employ up to 300 staff, excluding staff currently employed under the Veolia waste contract. If we move to this type of arrangement it is likely that the majority of staff directly employed by the Council in these service areas, plus those employed by Veolia on the Trafford contract, would transfer to the relevant new partner, with their length of service and terms and conditions protected under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations.
- 3.2 The joint venture contract(s) should build in future resilience for the Council in a time of uncertain budgets and potentially provide a greater level of security for both staff and the Council.
- 3.3 In addition to the directly employed staff, a number of staff in support services may also be affected by these changes but further work will need to be undertaken in this regard to complete the analysis.

4 PROCUREMENT PROCESS AND TIMETABLE

- 4.1 Given the scope of services concerned, together with the relative complexity of the Council's requirements, it is intended that the contract(s) will be procured via the OJEU Competitive Dialogue procedure. Competitive Dialogue is preferred over the Restricted or Open procedures because it actively engages the market and facilitates robust, innovative partnering solutions which are matched to local needs and flexible in terms of meeting changing future requirements.
- 4.2 Contract award would be based upon a transparent set of tenderer selection and evaluation criteria, which are yet to be developed but which will be substantially driven by the targeted net financial gains (see paragraph 6.1 below) and other factors such as service quality, commercial risk for venturing and so forth which will be embedded in the criteria.
- 4.3 Given that the business case which supports these proposals will only be clarified as we progress through the competitive dialogue process it is of vital importance that the Council will reserve the absolute right to terminate the procurement process in part or in total at any stage; for example should it be adjudged that the targeted net gains are unrealisable or if implications for service delivery are not acceptable. Whilst not envisaged, should that outcome come to pass then the Alternative Options set out in paragraph 8 would have to be re-visited. In turn, the procurement process will, as a matter of course, include a number of formal financial gateway reviews at key procurement stages, the timing and basis of which will be communicated to the market.
- 4.4 As set out below, contract award is targeted for early 2015 and with a short mobilisation phase to enable commencement as early as practicable in 2015/16.

Indicative Date	Deliverable
February – March 2014	Development of contract documentation
Early April	Place OJEU notice
May 2014	PQQ's issued and received
June – August 2014	Invitation to Submit Outline Solutions
August 2014 - December 2014	Invitation to Submit Detailed Solutions
January – February 2015	Evaluation and decision making
March 2015	Award of contract
April 2015 onwards	Contract commencement and mobilisation

- 4.5 The contract(s) will need to be implemented such as to ensure a seamless transition from the existing provisions (to be based upon an agreed 100 day transition plan).
- 4.6 To facilitate the contract(s), an extension of up to 12 months (to allow for any slippage in the timetable) will be required for the existing Veolia waste contract. The principle of such an extension has been agreed by Legal and Veolia have also indicated their acceptance in principle.

5 RETAINED SERVICES

- 5.1 A number of services will be retained by the Council, relating to both contract management and supporting the Council's strategic/enabling roles. These retained services will include:

- 'Lean Client' functions including contract management
- Waste strategy
- Property strategy
- Green space park strategy
- Strategic Planning, Highways & Development Control
- Economic Growth, Housing Strategy and Town Centres
- Sustainability & Greenspace

- 5.2 In terms of the 'Lean Client', it is a key learning lesson from other authorities that the retained client management functions must be 'lean' and 'intelligent'. This will require them to be appropriately resourced and enabled in order to effectively manage and monitor the on-going service delivery, ensuring that the targeted net gains are fully realised.

- 5.3 The exact shape of these retained services will be developed over the coming months, in parallel with the procurement process, and in line with wider corporate changes through the overall Reshaping Trafford programme.

6. FINANCIAL INFORMATION

- 6.1 Over the last four years the EGP and ETO Directorates have together delivered £13.0m of savings and increased income to help meet the corporate financial challenge. Building upon this success, the proposed contract has the potential to provide a practical and forward thinking solution for the future allowing for long term sustainability in the delivery of services.

- 6.2 The direct gross cost for the services that comprise the three Lots is £16.3m. There is external income of £4.2m (e.g. from fees and charges and property rents) which the Council will be looking to grow.
- 6.3 In terms of direct costs (£16.3m), pre-soft market testing has indicated that potential savings of the order of 20% are achievable. In practical terms, it is considered that this should be the minimum aspiration for the contract(s) with early savings to be guaranteed. Further gains would be sought through the process, noting that these will be influenced by decisions as to service priorities together with the scale of market opportunities and risk/reward appetite for venturing activities.
- 6.4 In engaging the market, the Council is seeking to secure substantial net budget gains through a combination of:
- savings and income generation;
 - reduction in direct costs through innovation, efficiency and the application of best market practice;
 - re-investment of savings to support joint venturing activities, directed at increasing net income derived by the Council; and
 - re-profiling of services over time to align them with customer needs and available financial resources.
- 6.5 This is a relatively complex equation and ultimately the amount of the net gains can only be determined through the market engagement process allied with a parallel, systematic review of the on-going requirement for delivery overheads and retained direct costs.
- 6.6 Overheads associated with service delivery are £1.9m and retained direct costs (e.g. property, energy) are £9.3m. (Source: 2014/15 approved budget). Undoubtedly there would be further consequential savings in this area through the contract(s), although the quantum would depend upon the outcome of the overall Reshaping Trafford solution (options currently under review).
- 6.7 Environmental Services, i.e. Waste, Groundforce and Highways, operate out of three locations: Carrington Depot, Trafford Park Depot, and Wharf Road Depot in Altrincham. The latter is a prime re-development site and is already on the Land Sales Programme. Dependent upon the operating model of the selected partner, there may be an option to further rationalise depot provision.
- 6.8 Taking all of these components together, it is considered that the contract(s) have a realistic potential to make a substantial contribution towards meeting the corporate financial challenge, something that will be tested during and through the process.

Other Financial Benefits: Venturing (Income Growth)

- 6.9 In presenting the procurement as a partnership based contract with commercial venturing elements, income growth is sought on a shared risk / reward basis. Such growth is a key component in the net gains equation and is foreseeable for example in relation to property development, highways venturing, commercial waste development etc.

- 6.10 In practical terms, it should be understood that such income growth requires investment (or at least re-investment) and takes time (typically up to five years) to deliver substantial returns.
- 6.11 In terms of quantifying the financial benefits, as part of the bidding process, outline commercial business cases will be developed in concert with the potential partners to establish the scope and scale of market opportunities together with the associated investment requirements and potential returns. In so doing, the partnering organisation(s) could, as a general principle, be expected to take the majority of the associated risk.

Other Financial Benefits: Potential Capital Efficiency

- 6.12 There may be further, although currently unquantifiable, financial benefits in terms of capital efficiencies if the contract(s) were to be secured by a suitably integrated operator who can both manage and internally deliver the capital programme associated with these services.

Set up costs

- 6.13 The cost to implement this element of Reshaping Trafford project is estimated at c. £500,000 and a detailed plan of resource requirements is being prepared. Where practicable, the resource will be managed by backfilling key roles internally. EGP & ETO Heads of Service are instrumental to the business case, service specifications and key performance indicators and will play a pivotal role in managing the staff through the changes. Other resource is required from HR, Legal, Procurement, Finance, Audit, Communications, Public Health, ICT and Transformation.

7 CORPORATE SOCIAL BENEFITS

- 7.1 This proposal is expected to provide corporate social benefits with beneficial impacts in terms of improving the local economy (including local supply chain) as well as employment of local staff including opportunities for apprenticeships and training schemes.

8. ALTERNATIVE OPTIONS CONSIDERED

Do Nothing:

- 8.1 The current waste contract ends September 2014. As this service is a statutory requirement, it would be necessary to procure the future delivery of this service independently. This would not allow the Council to maximise the potential benefits from procuring the waste collection as part of a wider procurement.
- 8.2 For other services in EGP & ETO, savings targets have been consistently met over recent years. However, given the need for forward thinking, medium term practical solutions and for continuous service provision together with the need to provide significant future savings to do nothing would mean that it would be difficult to continue to deliver services and the range of services which could be delivered and the quality of those services would be affected.

Bring in house:

- 8.2 For the waste contract, to bring this in house is not a financially viable option due to the capital spend which would be required. This was considered in the original Waste procurement business case and discounted.

Collaboration with other Local Authorities:

- 8.4 There are different time and financial pressures facing other AGMA authorities and partners. Trafford needs to address its own challenges in the next 12 months. However, through the procurement route will enable other authorities to join at a later date.

9. CONSULTATION

- 9.1 Extensive consultation will take place with staff affected by these proposals throughout the procurement process, and this will be incorporated in a comprehensive communications strategy.
- 9.2 Where appropriate or required to meet the Council’s duties in this regard, there will be consultation with residents and stakeholders.

10. RISKS

Risk	Mitigation
Under-performance by the commercial partner(s) resulting in under-delivery in terms of service levels and/or net financial gains.	Partnership working culture, supported by active client side monitoring/management regime, underpinned by robust contractual arrangements.
New contractor unable to mobilise within the timescales	Mobilisation period incorporated in the project delivery plan

11. REASONS FOR RECOMMENDATION


- 11.1 To enable the Reshaping Trafford project for ETO and EGP services to move to the next phase and formal market engagement through the issuing of an OJEU notice, supporting the delivery of budget savings from 2015/16.

Key Decision: Yes

If Key Decision, has 28-day notice been given? Yes

Finance Officer Clearance ID

Legal Officer Clearance JLF



CORPORATE DIRECTOR’S SIGNATURE

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.