

WIRRAL COUNCIL

SUSTAINABLE COMMUNITIES OVERVIEW AND SCRUTINY COMMITTEE – 28TH MARCH 2012

SUBJECT:	PARKS & COUNTRYSIDE SERVICES PROCUREMENT EXERCISE (PACSPE) INTERNAL/ EXTERNAL BID COMPARISON
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF TECHNICAL SERVICES
RESPONSIBLE PORTFOLIO HOLDER:	CLLR LESLEY RENNIE, CULTURE TOURISM AND LEISURE
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 This report has been prepared in response to a request by the Sustainable Communities Overview & Scrutiny Committee on 30th January 2012 for further information regarding a Parks & Countryside Services Procurement Exercise (PACSPE) internal/ external bid comparison.
- 1.2 This report contains information which has been classed as Exempt Information in accordance with paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. This is because the information concerned is still of commercial value and could be used to the advantage or detriment of the tenderers involved in the PACSPE process.

2.0 BACKGROUND

- 2.1 At Cabinet on 22nd September 2011 a resolution was passed to not award a contract for the future delivery of the Council's Parks & Countryside Services but to retain these services in-house to be delivered directly by the Council (Minute 117 refers).
- 2.2 This decision was subsequently subject to 'Call In' for further scrutiny by the Council's Sustainable Communities Overview & Scrutiny Committee on 20th October 2011 (Minute 41 refers).
- 2.3 On 3rd November 2011 Cabinet resolved to keep to their original decision of 22nd September 2011 and not award a contract and retain these services in-house (Minute 173 refers):

“Resolved - This Cabinet notes that:

(1) The District Auditor has recently stated his intention to qualify the Value for Money statement in the Council’s Annual Governance Report, which is due to be published shortly, drawing attention to “weaknesses identified in the arrangements for securing value for money in respect of the HESPE contract”.

(2) A qualification of this kind is highly unusual and significant.

(3) This was because the Council was unable to provide sufficient information on pre and post contract activity levels, service quality and performance management to be able to demonstrate that letting the HESPE contract has resulted in improved value for the money being spent.

(4) No in house bid was allowed as part of the tendering process, and no direct comparator costs with the tender specifications were drawn up to act as a “yardstick” against which to evaluate any tender.

(5) The District Auditor has advised “there are risks in letting a 10 year contract if there is only very limited information on the costs and activities levels of the existing service and Members should be made aware of this increased risk. This is because there is nothing to monitor against when assessing whether or not letting the contract has delivered better value for money”.

(6) Again, it is highly unusual and significant for this kind of warning to be issued.

(7) Although it is recognised that several processes were followed before taking the decision to put the Parks and Countryside services out to tender, these processes are ultimately dependent on the quality of data they receive in the first place.

(8) The Council has also just received a highly critical independent report on its Corporate Governance Arrangements which, amongst other things, refers generally to “not being able to commission, manage and, where necessary, dismiss failing contractors and suppliers”.

(9) The difference in cost between the current Council budget and the preferred tenderer is sufficiently marginal for that difference to be eroded over a period of three years by the contractual cost of inflation at current rates of CPI, less any contractually agreed efficiency savings.

(10) At these rates, over the ten year life time of the contract, for every £1m value of the contract, inflation would increase the £10m cost to £11.46m. Over the following seven years the continued impact of the contractual inflation provision would be likely to work to the Council’s disadvantage at a time when the Council is being required substantially to reduce its annual expenditure.

(11) Further savings from value engineering to set against these increases are subject to negotiation and cannot be guaranteed.

(12) In the current severe economic climate, Local Authorities are facing unprecedented levels of reduction in their funding and Wirral needs to save in excess of £85million over the next three years. Maximum flexibility will be needed in this context to continue to provide good quality services within limited resources. By its very nature, a ten year contract will limit this maximum flexibility, even with levels of flexibility built into the contract, because such flexibility will be likely to come at a cost to the Council.

In the light of the above, Cabinet does not believe it would be in the Council's best interests to let this contract to an external contractor and agrees to retain these services in house.

Cabinet recognises, however, that it is essential to improve the quality of services provided in a sustainable way, within the budget provided, and that to do so will mean substantial improvements in management and working practices and some capital investment to assist in achieving efficiencies.

Cabinet therefore asks the Director of Technical Services to report back to Cabinet in November with a detailed three to five year Business Plan demonstrating how this will be achieved.

As part of this Business Plan Cabinet wishes to see an explanation of how the collection and analysis of detailed cost data and other information will be improved to assist in the proper monitoring of the activities within the remit of the Business Plan.

Cabinet has every confidence in the skills and abilities of its workforce and their commitment to the services they provide, and is confident that, with proper support and good management, they will co-operate fully in delivering an excellent, high quality service for the people of Wirral in the future.

Cabinet confirms that, in response to the criticisms outlined above and elsewhere on this agenda, it is totally committed to transforming the Council's Corporate Governance arrangements in order to prevent any such situations arising again."

- 2.4 On 24th November 2011 an Outline Delivery Plan was endorsed by Cabinet with the purpose of establishing a modern, cost effective and efficient service broadly comparable to that offered by the private sector by Spring 2013 (Minute 205 refers).
- 2.5 On 30th January 2012 Sustainable Communities Overview & Scrutiny Committee requested that their Work Programme be varied to include a report on 'PACSPE Internal/ External Bid Comparison' (Minute 73 refers) and this report has been prepared in response to this request.

3.0 INFORMATION – PACSPE INTERNAL/ EXTERNAL BID COMPARISON

3.1 Outline Business Case Assumptions - Overview

- 3.1.1 Based on the exclusions from the PACSPE procurement exercise approved by Cabinet on 13 January 2011, the 2010/11 gross budgets (less recharges) for

the services to be included in the new contract totalled £8.1 million. These services included grounds maintenance functions for all parks and open spaces, golf courses and cemeteries and the Ranger Service. This also included the highway verge and arboriculture functions that were already delivered by external contracts.

- 3.1.2 The Outline Business Case approved by Cabinet on 22 July 2010 was subsequently updated to reflect the refined scope of services to be included in the new contract and this was endorsed by Cabinet on 17 March 2011. Based on the updated business case, it was suggested that by moving to the new 'Option 3 Total Service with Single Provider' service delivery model, which was the basis for the new contract, the Council should expect to achieve efficiency savings of £440k p.a. This saving was against the original £8.1 million budget and equated to a target maximum total contract value of £7.66 million p.a.
- 3.1.3 Following the Council's EVR/VS exercise, the available budget for these services for 2011/12 was reduced by £0.7 million to £7.4 million. This is the total budget available for the services and tenderers were given an indication of the likely funding to be available as part of the Invitation To Tender process in the form of an 'Affordability Guide Price'.
- 3.1.4 The comparison of tenders against the 'Affordability Guide Price' confirmed that if the contract had been awarded to the preferred external provider then the target contract price in the updated business case would have been achieved. Furthermore, the tender from the preferred external provider also achieved the more challenging 'Affordability Guide Price' threshold set by the Council as part of the Invitation To Tender process.
- 3.1.5 If the service had been externalised and a contract had been awarded to the preferred external provider then there would have been an ongoing pension deficit cost to be paid by the Council as highlighted in the previous report to Cabinet on 17 March 2011. The estimated cost was included in the financial appraisal of letting the contract, however the actual cost could not have been known definitively until the date of transfer.
- 3.1.6 In relation to not letting a contract, the updated business case suggested that by keeping the service in-house and proceeding with the 'Option 1 In-house plus External Support' service delivery option, the Council could expect to achieve efficiency savings of £90k p.a. against the original £8.1 million budget and deliver the services within the scope of the new contract in-house for £8 million p.a. As indicated above, the EVR/VS process in 2010/11 resulted in a budget reduction of £0.7 million.

3.2 Summary of Tender Results

- 3.2.1 The outcome of the tender evaluation exercise was as follows:

Company:	Routine Maintenance Tender Price (£):	Affordability Bonus (Routine < £6.8M):	Quality Score (out of 30%):	Price Score (out of 70%):	Combined Score (out of 100%):	Ranking:
Company A	6,301,690 (* £6,902M)	YES	29.61	68.52	98.13	1
Company B	X,XXX,XXX	YES	30.00	64.72	94.72	2
Company C	X,XXX,XXX	YES	24.71	70.00	94.71	3
Company D	X,XXX,XXX	YES	26.41	67.33	93.73	4
Company E	X,XXX,XXX	YES	22.71	67.28	89.98	5
Company F	X,XXX,XXX	YES	18.56	65.65	84.21	6
Company G	X,XXX,XXX	NO	26.07	56.71	82.78	7
Company H	-	-	-	-	Declined to tender	8

(*: actual anticipated contract value – see Quantitative Assessment below)

3.3 Quantitative Assessment

- 3.3.1 As stated above, the updated business case for the project suggested that the Council could expect to achieve efficiency savings of at least £440k p.a. This was against the original £8.1 million budget, giving a target maximum total contract value of £7.66 million p.a. Following the Council’s EVR/VS exercise, the available budget for the services covered by the new contract has been reduced by £0.7 million to £7.4 million.
- 3.3.2 This available budget was then used to calculate an ‘Affordability Guide Price’ figure for the Routine Management/ Maintenance elements of the contract. This was provided to tenderers as part of the Invitation To Tender process. In addition to tenderers being provided with this figure (to enable them to understand the Council’s aspirations regarding affordability), the financial element of the Tender Evaluation Model was specifically weighted to incentivise and reward companies that tendered within this ‘Affordability Guide Price’ figure.
- 3.3.3 It was anticipated that an annual budget of approximately £500k would be necessary for Non-routine Management/ Maintenance and affordability would

have been ensured by simply reducing the quantity of work carried out via 'time charge' or 'schedule of rates' as necessary. In addition, contractors would have been eligible for an annual Performance Incentive Bonus of up to £100k p.a. This would have been based on the successful achievement of Contract Key Performance Indicators (KPIs) and Collective Partnership Targets (CPTs) recognising the importance of joint working between the Council, the provider and the Community and Voluntary Sector.

3.3.4 Once these Non-routine Management/ Maintenance and Performance Incentive Bonus elements had been deducted, the Council was in a position to set an 'Affordability Guide Price' of £6.8 million p.a. for Routine Management/ Maintenance.

3.3.5 The Company A tender of £6.3 million was just under £500k below the 'Affordability Guide Price' set by the Council. When the Non-routine Maintenance and Performance Incentive Bonus elements were added, this gave an actual anticipated contract value of £6.9 million p.a. compared with the £7.4 million p.a. funding available.

3.3.6 Overall, the £6.9 million p.a. actual contract value equated to a £1.2 million p.a. saving against the original 2010/11 gross budget of £8.1 million which exceeded the £440k p.a. updated business case target. The estimated Pension Deficit Cost of £182k referred to above reduced the savings to £318k p.a. against the £7.4 million p.a. funding available.

3.3.7 As highlighted in the report to Cabinet of 17 March 2011, contract inflation and continuing to achieve efficiency savings on an ongoing basis are crucial issues and tenderers were asked to submit prices based on using the Consumer Price Index (CPI) to calculate annual contract inflation. The CPI in July 2011 was 4.4%. However, the contract contained an automatic Gershon Efficiency Saving adjustment that reduces this CPI rate by 1.5%. On the July level of CPI this would have resulted in an annual net increase on the contract price of 2.9%, which equates to £200k p.a. However, it should be noted that the contract had no inflation provision for the initial year (2012/13). If the current inflation rate were to continue during the 10-year contract period, the Director of Finance advised that within a further 3 to 4 years (even allowing for non-pay inflation to the Council if a contract was not let) the initial cost advantage offered by the preferred external provider would have been eroded.

3.4 Qualitative Assessment

3.4.1 The Qualitative Assessment contains information which has been classed as Exempt Information in accordance with paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972. This is because the information concerned is still of commercial value and could be used to the advantage or detriment of the tenderers involved in the PACSPE process. This information is set out in the appendices to this report.

3.4.2 In summary, awarding the contract to Company A would have given an anticipated contract cost of £6.9 million and incurred additional pension costs

of £0.2 million against the funding available of £7.4 million. The contract would then have been subject to annual inflationary increases based upon the CPI less 1.5%.

3.5 Parks & Countryside Service Modernisation Project

3.5.1 A detailed progress update in relation to the Parks & Countryside Service Modernisation Project in support of the Corporate Goal to “Provide and maintain high quality parks & open spaces in partnership with local communities” is also to be considered at this Committee meeting.

3.5.2 At Cabinet on 12 January 2012 an update was provided on the integration of the Highways Grounds Maintenance Service previously delivered by an external contractor back into the Council (Minute 261 refers). Approval was given to use £500k of the existing Capital Programme allocation for Cultural Services assets to purchase plant and equipment necessary to deliver the service from 1st February 2012. The report also highlighted there has been an additional cost to the Council of up to £300k per annum to directly employ the workforce transferring to the Council from the previous contractor to be contained within existing budgets.

3.5.3 The realisation of qualitative and quantitative benefits via the Parks & Countryside Service Modernisation Project is still very much in progress and will be heavily influenced by a number of key factors including:

- The cost of new plant, equipment and vehicles and funding arrangements
- The cost of depot rationalisation and improvement
- Efficiencies through changes to workforce working practices
- Efficiencies through business process review and re-engineering
- Added value through improved engagement and working arrangements with the voluntary and community sector

3.5.4 On this basis it is suggested that it is too early to make a detailed assessment of the qualitative and quantitative benefits of the modernised service compared with what was offered in the Company A tender submission as we are still in the early stages of the 18-24 month plan.

3.5.5 Reports on the Parks & Countryside Service Modernisation Project including a Proposed Workforce Working Practices Pilot plus a Proposed Plant and Equipment Capital Investment Programme are planned for Cabinet in April 2012.

4.0 RELEVANT RISKS

4.1 This is an information report hence there are no implications under this heading.

5.0 OTHER OPTIONS CONSIDERED

5.1 This is an information report hence there are no implications under this heading.

6.0 CONSULTATION

6.1 This is an information report hence there are no implications under this heading.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 This is an information report hence there are no implications under this heading.

8.0 LEGAL IMPLICATIONS

8.1 This is an information report hence there are no implications under this heading.

9.0 EQUALITIES IMPLICATIONS

9.1 This is an information report hence there are no implications under this heading.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 This is an information report hence there are no implications under this heading.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 This is an information report hence there are no implications under this heading.

12.0 RECOMMENDATION/S

12.1 Committee is requested to note the information provided in this report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 This report has been prepared at the request of the Committee.

REPORT AUTHOR: **Mark Smith**
 Deputy Director
 telephone: (0151) 606 2103
 email: marksmith@wirral.gov.uk

APPENDICES

Overview of Qualitative and Quantitative Benefits – Company A Proposal.

REFERENCE MATERIAL

None.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet – PACSPE Contract Award	22 September 2011
Sustainable Communities O&S Committee – PACSPE Contract Award Call in	20 October 2011
Cabinet – PACSPE Contract Award (following Call in)	3 November 2011
Cabinet – Parks & Countryside Services Modernisation Project – Integration of Highway Services and Outline Delivery Plan	24 November 2011
Sustainable Communities O&S Committee – Work Plan	30 January 2012

