

## **Committee: Cabinet**

**Date: 20<sup>th</sup> January 2014**

Agenda item: [TBC](#)

Wards: All

**Reason for Urgency: This report needs to be considered by the January Cabinet meeting to give officers sufficient time to have a new contract in place by 1<sup>st</sup> October 2014.**

## **Subject: Street Lighting Contract – Options Report**

Lead officer: Chris Lee

Lead member: Councillor Andrew Judge

Forward Plan reference number: [TBC](#)

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### **Recommendations:**

- A. That Cabinet note the content of this report
  - B. That Cabinet delegates to the Director of Environment & Regeneration, in consultation with the Cabinet Member for Environmental Sustainability and Regeneration, the authority to extend the contract by two year, this to be subject to satisfactory finalisation of the negotiations referred to in this report.
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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The purpose of this report is to inform Members of the potential options that are available to the Authority concerning the procurement of the Council's Street Lighting Maintenance and Improvement works from 1st October 2014.
- 1.2. It sets out the officers' comments for consideration by Cabinet before making a decision on the proposed procurement route.
- 1.3. It recommends that Cabinet awards a two year extension to the current term maintenance contractor Cartledge (Kier-May Gurney).
- 1.4. The report notes the contractors performance to date as good and identifies that while there are alternative options available to the Authority, further improvements can be made during the proposed extension period which makes extending the existing contract a viable and attractive option.
- 1.5. It is felt that the existing contract continues to provide value for money and enables the Authority to deliver key front line services within existing budgets.

## 2 DETAILS

- 2.1. On the 22<sup>nd</sup> June 2009, Cabinet awarded Cartledge the current Street Lighting Maintenance and Improvement Contract which commenced on 1<sup>st</sup> of October 2009.
- 2.2. The existing New Engineering Contract 3 (NEC3) Term Service contract was initially awarded for a five year period with a potential two year extension to be awarded at the sole discretion of the Authority.
- 2.3. The contract covers approximately 16,300 units of illuminated street furniture in addition to providing operational support and maintenance of other electrical equipment from multiple departments including Greenspaces, Parking Services, Trading Standards, CCTV, Future Merton and Safer Merton.
- 2.4. Works carried out under this contract include all aspects of the Council's street lighting maintenance functions, including routine fault repairs, emergency standby and callout arrangements, lantern cleaning, bulk lamp changes and cleaning, night patrols, electrical inspection and structural testing, painting, and renewal/replacement schemes. The average annual value of maintenance works carried out under this contract for the first 4 years of its operation is approx £446K per annum.
- 2.5. The Contract also covers Capital works such as energy reduction schemes, lighting upgrades, new lighting projects, traffic schemes, street scene improvement works and the street lighting aspects of town centre regeneration projects. The average value of Capital works carried out under the contract is £462K per annum. It should be noted that the Authority's annual core street lighting Capital allocation is typically £250K however in the 2011/12 and 2013/14 financial years, additional Capital of £950K was made available from Council reserves specifically to fund energy reduction Capital projects, which substantially increased Capital spend under the contract in the last two years.
- 2.6. In addition to Capital and Revenue works, the contractor also provides professional advice and guidance on all aspects of lighting design and installation and deals directly with the Distribution Network Operator (DNO) on all faults relating to the distribution cable network that affects the street lighting service.
- 2.7. The table below shows the annual Capital and Revenue spend for each full contract year (October – September), and the anticipated annual spend for the 2013/14 contractual year.

**Figure 1 - Street Lighting Spend Profile**

Funding	2009/10	2010/11	2011/12	2012/13	2013/14*
Capital	£259,722	£260,737	£620,450	£706,250	£427,000
Revenue	£444,344	£420,922	£488,590	£433,205	£357,000
Total	£704,066	£681,659	£1,109,040	£1,139,455	£784,000

\*Estimated spend in 2013/14 contractual year. Note Capital spend shown assumes the core Capital allocation of £250K will be spent in first 6 months of FY 13/14, prior to contract expiry on 30<sup>th</sup> September 2014.

- 2.8. It should also be noted that the energy bill associated with the Councils illuminated street furniture stood at approximately £636,500 per annum at the time of award (1<sup>st</sup> October 2009). The Council's energy cost has reduced by 23% as a result of work undertaken with the contractor.
- 2.9. During the first 4 years of the contract a number of significant Street Lighting projects have been delivered, including:
- Destination Wimbledon – New lighting columns, upgrade of town centre lighting to 'white light', pavement up-lighters and LED variable mood lighting on Wimbledon Station forecourt.
  - Raynes Park Town Centre Improvement Works – New LED lanterns and mood lighting in the Cattle Arch.
  - Merton High Street – New lighting columns with CMS controlled Cosmo 'white light' lanterns to allow variable lighting levels.
  - Leopold Road Shop Parade improvements – New lighting columns with Cosmo 'white light' lanterns and mood lighting to new planter.
  - Provision of new lighting or upgraded lighting in several PRWs including Railway Path, Carlingford Gardens, Blagdon Lane, Graham Road and Deer Park Gardens.
  - Installation of new zebra crossing equipment in Haydon's Road, Trinity Road, Lillieshall Road and Wide Way.
  - Upgrade of the Borough's School Flashers to remote controlled LED's
  - Upgrade of street lighting on the Public Highway in the vicinity of the Carters Estate and Phipps Bridge Estate in response to public safety concerns.
  - Implementation of illuminated signs in association with 20MPH zones in Claremont Avenue, Pollards Hill, Ashcombe Road and Cromwell Road.
  - Implementation of local safety scheme signing in Christchurch Road, Burlington Road, Armfield Crescent, and Durham Road.
  - Mitcham Town Centre Lighting Improvements – New lighting columns and lanterns on Upper Green East and Langdale Parade.
- 2.10. In order to assess the performance of the contractor, Officers have looked at nine specific areas to obtain a detailed and balanced view of both the contractor's performance and the value for money that this contract offers. The nine specific areas are shown below and further information on each of these areas is provided in sections 3 through 11 of this report.
- Achievement against Key Performance Indicators (KPI's)
  - Health and Safety Management
  - Responsiveness
  - Innovation and Improvements
  - Quality of Work and Supervision
  - Customer Satisfaction / Complaints

- Value for Money / Competitiveness
- Compensation Events
- Resources

### 3 ACHEIVEMENT AGAINST KPI'S

3.1. The original contract contained six 'core' KPI's and information regarding these KPI's can be seen below.

- 3.2. KPI 1 – The Number of Emergency Call Outs Responded to On Time  
 KPI 2 – Number of Defects Found During Night Scouts  
 KPI 3 – Number of Defects Reported via the Authority's *Confirm* System  
 KPI 4 – Average Number of Days Taken to Repair 'Out of Light' Faults  
 KPI 5 – The Contractors Performance in Relation to Health and Safety  
 KPI 6 – Percentage of Waste Sent for Recycling

3.3. During the course of the contract, an additional KPI was added to measure the percentage of lighting column 'Out Of Light' repairs completed within 3 working days and this is referred to as KPI 4B below.

3.4. The tables and graphs below show the contractors annual performance against these KPI's over the life of the contact.

KPI 1 – The Number of Emergency Call Outs Responded to On Time

**Figure 2 - KPI 1 Performance**

Year	No. of ECO's Reported	No of ECO's Attended to Within 2 hrs	Target	% of ECO's Attended to Within 2 hrs
2009	177	177	100%	100%
2010	193	193	100%	100%
2011	181	181	100%	100%
2012	177	173	100%	98%
2013	30*	30	100%	100%

\*Totals correct at time of report. Full year can only be reported at year end- September 2014.

3.5. KPI 2 – Number of Defects Found During Night Scouts.

The contract sets a target of a maximum monthly average of 245 night scout faults per month in year one of the contract which then decreases by 10 faults for each subsequent contract year. Faults that are the responsibility of the Distribution Network Operator (DNO) are outside of scope and do not form part of this KPI.

**Figure 3 - KPI 2 Performance**

Year	2009/10	2010/11	2011/12	2012/13	2013/14
Monthly Target	245	235	225	215	205
Avg Monthly No. of Defects	171	174	155	139	*

\*Can only be reported at year end- September 2014

3.6. KPI 3 – Number of Defects Reported via the Authority’s *Confirm* System

KPI 3 deals with faults reported by residents and logged on the Council’s *Confirm* system. Faults that are the responsibility of the Distribution Network Operator (DNO) are outside of scope and do not form part of this KPI.

**Figure 4 - KPI 3 Performance**

Year	2009/10	2010/11	2011/12	2012/13	2013/14
Monthly Target	85	80	75	70	65
Avg Monthly No. of Defects	81	68	66	76	*

\*Can only be reported at year end- September 2014

3.7. KPI 4 – Average Number of Days Taken to Repair LC ‘Out of Light’ Faults

KPI 4 deals with the average number of days taken to repair a lighting column ‘Out of Light’ fault from the time of report. Faults that are the responsibility of the Distribution Network Operator (DNO) are outside of scope and do not form part of this KPI.

**Figure 5 - KPI 4 Performance**

Year	2009/10	2010/11	2011/12	2012/13	2013/14
Monthly Target (Days)	3.0	3.0	3.0	3.0	3.0
Avg No of Days taken to repair LC OOL Fault	2.74	2.14	2.97	2.94	*

\*Can only be reported at year end- September 2014

3.8. KPI 4B – Percentage of lighting column ‘Out Of Light’ repairs completed within 3 working days.

KPI 4B did not form part of the original core contract KPI’s but was introduced mid contract term to address some shortcomings with KPI 4 – Average Number of Working Days to Repair a LC OOL Fault. Please note that there is no Target Level set for this KPI.

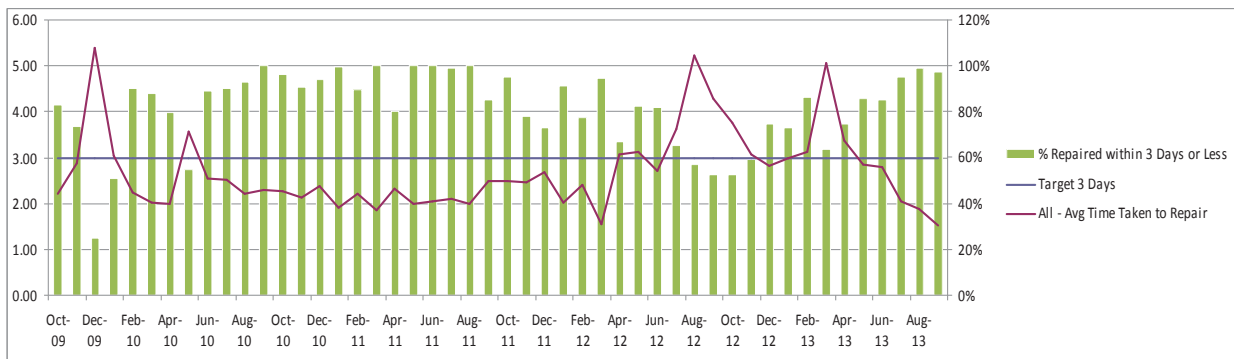
**Figure 6 - KPI 4B Performance**

Time to Repair LC OOL Faults	2009/10	2010/11	2011/12	2012/13
3 Days or Less	77%	95%	77%	77%
4 Days	13%	3%	14%	11%
5 Days	4%	1%	1%	4%
> 5 Days	5%	1%	1%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

3.9. Over the first 4 years of the contract, it can be seen from Figure 5 that each year, the average number of days taken to repair a lighting column ‘Out of Light’ repair has been within the target of 3 working days. On average 81% of faults are repaired by the 3rd working day and 95% have been completed by the 5<sup>th</sup> working day after the fault has been reported.

3.10. The graph below illustrates KPI 4 and KPI 4 B’s performance on a monthly basis over the life of the contract and also demonstrates that for the majority of months, the contractor’s KPI performance was within the target specified in the contract.

**Figure 7 – Overview of KPI 4 & 4B’s Performance**



3.11. **KPI 5 – The Contractor’s Performance in Relation to Health and Safety**

While no formal targets exist in relation to this KPI, it is accepted that the number of ‘RIDDOR’ (The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accidents represents a clear picture of the Contractor’s commitment to health and safety.

**Figure 8 – Overview of KPI 5 Performance**

Year	2009	2010	2011	2012	2013	Total
RIDDOR*	0	0	0	0	0	0

\*RIDDOR - The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

### 3.12. KPI 6 – Percentage of Waste Sent for Recycling

Once again while no formal target has been agreed for this KPI an informal target of 90% and above has been adopted and clearly demonstrates the Contractors commitment to sustainability and recycling.

**Figure 9 – Overview of KPI 6 Performance**

Year	Recycled Material (t)	Material to Landfill (t)	% of Material Recycled
<b>2009</b>	205.85	21.00	91%
<b>2010</b>	226.65	18.75	92%
<b>2011</b>	340.65	25.50	93%
<b>2012</b>	232.51	15.75	94%
<b>2013</b>	183.00*	11.25*	94%
<b>Total</b>	<b>1005.66</b>	<b>81.00</b>	<b>93%</b>

\*Totals correct at time of report

## 4 HEALTH AND SAFETY MANAGEMENT

4.1. The table below shows the contractors Safety, Health, Environment and Quality (SHEQ) statistics over the life of the contract.

**Figure 10 – RIDDOR Performance**

Year	RIDDOR*	Minor Accidents (No Lost time)	Environmental Incidents	Near Miss Reports
2009	0	0	0	91
2010	0	1	0	49
2011	0	0	0	17
2012	0	0	0	20
2013	0	3	0	12
<b>Total</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>189</b>

\*RIDDOR - The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

4.2. Cartledge has demonstrated a positive approach to health and safety and has good systems in place to deal with dips in performance. Through the life of the contract it has not been necessary to issue any Corrective Action Notices (CAN's) for any breach of health and safety law or policy.

4.3. The Contractor has demonstrated a strong understanding of the Construction Design and Management (CDM) Regulations 2007 and has a good working knowledge of the roles and duties of Clients, Designers, Principal Contractors and the CDM-Coordinator.

4.4. At the time of tender, Cartledge issued a strong 'Contractors Plan' which suggested that health and safety and the wellbeing of its operatives were of great importance to the Company. This has been demonstrated through the

initial term of the contract and Officers have no concerns regarding the company's health and safety policies.

- 4.5 It should be noted however that it has been necessary to raise a number of specific concerns with Cartledge's contract management team regarding the signing and guarding and general site conditions in connection with a recent concrete column replacement programme. These concerns were addressed quickly with no further remedial action required

## **5 RESPONSIVENESS**

- 5.1. The contractor's general responsiveness is deemed to be good; however there have been a few occasions where the contractor has failed to respond to specific issues within the required timescales. These have now been addressed with a change of operatives within the contractor's workforce.
- 5.2. The current contract covers emergency call out and repair to the Councils street lighting and illuminated street furniture both inside and outside of normal working hours. The response time to emergency call outs is 2 hours from time of call to attendance on site and the quality of information recorded and passed to the contractor is paramount to the success of this element of the contract.
- 5.3. On average the Council receives approximately 182 Emergency Call Outs per year and a further 4,300 general lighting faults, of which approx 75% (3,160 jobs) generate some maintenance or repair activity under this contract. (Note not all street lighting fault reports generate maintenance activities as they may relate to DNO cable faults, duplicates where residents also report faults identified through the night scout process, or may relate to Merton Priory Home or TfL lighting assets located in the borough). It should be noted that this is over and above the core cyclical maintenance activities to look after and manage approximately 13,000 lighting columns, 1,000 solar and reflective bollards 2,000 illuminated signs, and approximately 50 zebra crossings.
- 5.4. These cyclical scheduled maintenance activities annually necessitate approx 4,300 lighting column lamp bulk changes, 2,000 illuminated sign lamp bulk changes, 5,000 bollard washes, electrical testing of approx 2,700 unit and non destructive structural testing of approx 2,500 columns.
- 5.5. When high profile schemes and issues do arise the contractor has responded well. A recent example of this can be seen in connection with the 2013/14 festive decorations. For the first time, Traffic and Highway Services have been responsible for the supply, erection and maintenance of the boroughs festive decorations. With no formal handover, extremely limited information, budget and time, the contractor along with Officers from Traffic and Highway Services have mobilised, scouted, erected and tested in excess of 200 festive decorations in addition to assisting other Council departments with the erection and dressing of a number of Christmas trees across the borough.



## 6 INNOVATION AND IMPROVEMENTS

- 6.1. Since the contract began, both the London Borough of Merton and Cartledge have looked at innovative ways of generating savings and service improvements. It is felt that this is one of Cartledge's strongest areas and as an experienced street lighting contractor, Merton has benefited from Cartledge's contacts, knowledge and vision in the area of product development and best practise.
- 6.2. As highlighted in section 2.8 of this report, at the time of contract award, the London Borough of Merton's energy bill in connection with its street lighting and illuminated street furniture operations was in excess of £636K per annum.
- 6.3. Through the use of energy efficient products and as a result of a major update to the Council's street lighting asset inventory undertaken in 2012, the Authority has been able to drive down its energy usage by approximately 23% and generated savings of approx £120K per annum.
- 6.4. A number of the key projects which helped to contribute to this saving can be seen below and demonstrate the contractor's commitment to innovation and ongoing improvement.
- The introduction of LED lanterns and luminaries to reduce energy usage and maintenance costs.
  - The replacement of Merton's internally illuminated bollard stock with solar and reflective units to drive down energy consumption.
  - The introduction of LED sign lights and photocells to prevent 'day burning' of sign lights and reduce energy usage.
  - The upgrade of zebra crossings from obsolete tungsten technology to new LED belisha beacons to help reduce maintenance and energy costs.
  - The introduction of a Central Management System (CMS) trial to monitor individual units, measure energy usage and enable dimming and flexible lighting levels to be applied.
  - The introduction of a Bi-Party Agreement with the Distribution Network Operator (DNO) to enable Cartledge to operate as an Independent Connections Provider (ICP) to improve service delivery and reduce costs.
  - The introduction of a 'Share Point' IT system between Contractor and Client to streamline communication; act as a central document depository, and drive back office efficiencies.
  - Key asset data recording and reporting during the cyclical maintenance activities which acted as a key input to the Street Lighting Asset Inventory project and helped to reduce the Authority's annual energy bill.
- 6.5. In addition to the innovative projects mentioned above a number of key improvements and projects are also proposed should the contract extension be awarded.
- 6.6. On the 1<sup>st</sup> October 2014 the Carbon Reduction Energy Efficiency Scheme and Carbon Reduction Commitment (CRC) will for the first time include all unmetered energy usage. As a result, the Authority will be charged £16 per

tonne of CO<sub>2</sub> it generates from its street lighting operations. However, this is due to be reviewed in 2016 which could lead to the authority being exempt from CRC levy.

- 6.7. Cartledge have offered to work with the London Borough of Merton to install, manage and run a Photo Electric Cell Unit (PECU) Array, which will measure the switch on and switch off times of the Authority's lighting assets. By moving from 'non half hourly' to 'dynamic' trading it could have the potential to save 1% of the Authority's energy consumption estimated to be worth approximately £4K per annum.
- 6.8. Cartledge have recently begun to offer clients a managed reclaim service which deals with the administration and recovery of costs associated with 3<sup>rd</sup> party damage through Road Traffic Accidents (RTA's) to street lighting assets. This has the potential to achieve higher claim numbers, better recovery rates and faster recovery times than the Authority can currently deliver and reduce the number of man hours the Council spends dealing with this activity. On average, Merton pursues claims against third parties for damage to lighting columns in RTA's of approx £18K per annum and its recovery rate is an estimated 65%. By using the new Cartledge recovery services, it is expected that both the number of potential claims and their recovery rates can be improved.
- 6.9. In addition, Cartledge are keen to work with the London Borough of Merton to help secure Salix funding for energy reduction projects which will enable the Authority to benefit from interest free loans for specific energy projects while reducing energy consumption and CO<sub>2</sub> production. Cartledge have assisted other London boroughs with their Salix funding bids and have expertise in this area which the Authority currently lacks without a dedicated Street Lighting Engineer.

## **7 QUALITY OF WORK AND SUPERVISION**

- 7.1. There are no particular concerns regarding workmanship, the Authority does not have the technical ability to formally comment on the electrical work undertaken by the contractor.
- 7.2. Regular monthly contract management meetings have taken place with the contractor's Contract Team as have weekly 'catch up' meetings with the contractor's Works Supervisor. These meetings have enabled the Authority to raise any specific works issues and discuss contract performance on a more formal basis.
- 7.3. The contractor has recently had a period of stability and clear improvements have been seen in programme management, leadership and supervision. With the right resources in place Officers are confident in the ability of Cartledge to manage and supervise its works.
- 7.4. The number of repeat visits to correct known faults is a good indication of the quality of the contractor's work. While the 'first time fix' rate is relatively high there have been a number of high profile repeat visits which suggest at times the contractor has struggled with operative competency and specific fault diagnosis. These matters have been addressed through formal contract management meetings and such instances are declining.

## 8 CUSTOMER SATISFACTION AND COMPLAINTS

8.1. As part of the 2012 Residents Satisfaction Survey, 67% of residents thought that the street lighting service was excellent, very good or good. This was a 4% reduction on the previous year but remains above the outer London average and in line with inner London's performance.

8.2. Figure 11 below, taken from the latest Residents Satisfaction Survey, shows the residents satisfaction in connection with street lighting over the last 15 years. Since 2009, when the contract was awarded, the trend has been of gradual improvement and the Authority is now 4% above the 2009 figure for resident's satisfaction in this service area.

**Figure 11 – Residents Satisfaction Results – Street Lighting**

Scores have fallen in line with London average back to 2010 levels



of 26% cheaper than the other 5 tenderers, was 19% cheaper than the incumbent contractor EDF Energy, and was 6% cheaper than its nearest competitor.

9.2. It has not been possible to benchmark the current contract rates against the recently tendered London Highway Alliance Contract (LoHAC) as there are significant differences in how the contract is set up and the make up of the contract Price List.

9.3. It should be noted that Bromley evaluated the LoHAC Street Lighting contract as part of their work in 2012 and found it to be more expensive than other tenderers.

9.4. With the exception of TfL, Haringey is the only other borough known to be using the LoHAC contract for street lighting operations. According to the minutes of Haringey's Cabinet meeting, dated 18<sup>th</sup> June 2013, the LoHAC contract offered savings in the region of 10% over their incumbent contractor VolkerHighways.

9.5. It should be noted that as part of Merton's street lighting tender in 2009, VolkerHighways were one of the 5 potential bidders shortlisted to deliver Merton's Street Lighting Maintenance and Improvement Contract. The financial evaluation as part of this tender showed that VolkerHighways were

28% more expensive than Cartledge and as a result it could be argued that the current contract has the potential to be cheaper than the new LoHAC contract.

## **10 COMPENSATION EVENTS**

- 10.1. The NEC3 form of contract allows for changes to the Service Information and Price List as the contract evolves and matures and these changes are managed through the change process known as the Compensation Event mechanism.
- 10.2. Changes to the routine maintenance service levels from those originally specified in the Street Lighting Maintenance and Improvement contract have resulted in a saving to the Council of £22,715 per annum effective from May 2011. The service changes included:
  - A reduction in bollard washes from 7 to 5 per annum
  - A reduction in routine inspection and cleaning visits to lamp columns from annual to once every 3 years
  - A change to higher rated SOX lamps facilitating the SOX bulk change to occur at a frequency of once every 3 years rather once every 2 years.
- 10.3. In October 2013, Cartledge have reviewed their pricing on 45W and 60W COSMO lamps of which the Authority has approx 1,450 units and have been able to offer a 26% reduction in the price of 45W COSMO lamps and 23% reduction on 60W COSMO lamps. This will result in a saving of £14,490 in the cost of the next COSMO bulk change. As COSMO bulk changes take place at 4 year intervals, this is an annualised saving of £3,735.
- 10.4. Effective from January 2013, a Bi-Party Independent Connections Agreement has been agreed between the Distribution Network Operator (DNO) and the London Borough of Merton which allows Cartledge to carry out electrical service transfers, reconnections, disconnections and installation of new electrical services on the electricity distribution network.
- 10.5. Previously UK Power Networks (UKPN), who are the Distribution Network Operator (DNO), had enjoyed monopoly power over this activity. Cartledge's rates for this work are on average 12% cheaper than UKPN and in the 2012/13 financial year, this resulted in a saving of approximately £18K by using Cartledge rather than UKPN to carry out this work.
- 10.6. During the first 6 months of the 2013/14 financial year Cartledge have carried out 287 services transfers or disconnections with a saving so far of £21K. A further 123 transfers under this arrangement are planned for the remainder of the 2013/14 financial year and are likely to achieve a further saving of £5K come year end.
- 10.7. If the contract were to be extended by a further 2 years, it is anticipated that the contractor would undertake a further 400 transfers, reconnections, disconnections and installations of new electrical services potentially saving the Authority £17K over the term of the extension.

## **11 RESOURCES**

- 11.1. A key issue surrounding the performance of the contract is the level of resource provided by both the client and contractor dedicated to servicing the contract. During the first 3 years of the contract, the contractor has struggled with staff consistency with a high turnover of staff at Contract Manager and Depot Manager level. This period of instability has led to a degree of inconsistent performance and a lack of strategic direction and management. The contractor has now employed a new contract manager dedicated to Merton and a new depot manager to bring stability to the contract, which has resulted in much improved performance. The contractor will also introduce a "floating team" from February 2014 to respond to ad-hoc work requests and peaks in work load.

## **12 CONTRACT NEGOTIATIONS**

- 12.1 Officers have met the contractor to discuss opportunities for further efficiencies and savings that could be delivered during a two year extension of the contract and the following were agreed to date:
- No future indexation increased to be applied to the contract rate for the remainder of the contract extension period. Prices will be frozen at the October 2013 level. The council will however benefit from any negative indexation that may occur during this period. Over the first 4 years of this contract indexation increases have averaged 2.25% per annum. Assuming a future similar increase in indexation over the next two years the freeze will result in price certainty and an avoidance of future increased costs. A 2.25% increase in indexation equates to £ 22.5k over the two year extension period on a revenue budget of £330k and a total of £17k on a core annual capital budget of £250k.
  - The contractor has committed to review the lump sum payment on cyclical schedule work programme (bollard clean, illuminated signs bulk changes) as a result of recent changes to our assets.
  - A further review of prices associated with electrical connections and transfers based on volumes of work. This work has in the past been delivered by UKPN and since January 2013 this work has been included within the scope of this contract and the contractor has undertaken this work at an average 12% cheaper than UKPN. However first year volumes have been higher than anticipated and the contractor has agreed to review his prices to deliver further savings.
  - The contractor has also offered to undertake added value activities at no additional cost to the council. This will give us a more accurate inventory of asset condition to allow better whole life asset management. This will include the mapping of all private cable network in the borough and an assessment of all painting and protective coating on lamp columns.

- The contractor has offered to administer and pursue all third party claims as a result of damage to our street lighting and other highway assets. This work is currently carried out in house and should result in both efficiency savings and an increase in our recovery rate.

### **13 ALTERNATIVE OPTIONS**

- 13.1. There are a number of alternative options available to the Council if the decision is taken not to extend the existing Term Service Contract.
- 13.2. The options outlined below have been considered and the reasons for dismissal have also been provided.

#### Option 1 –Procure a new Street Lighting Contract

- 13.3. There is currently sufficient time to procure a new Street Lighting Maintenance and Improvement Contract however there is insufficient resource, experience
- 13.4. e and funding to enable this to happen. Any future re-procurement will require additional funding to be identified to engage an external resource to draft the new contract and assist with the procurement process.
- 13.5. Since 2010, the Authority has had no dedicated Street Lighting Engineer and currently has limited resources to formally manage the contract. In addition, further proposed cuts to budget and staffing numbers will hinder the Authorities ability to procure a new Term Service Contract.
- 13.6. With the unlikelihood of additional funding or staff and the potential for further cuts it is not recommended to attempt a technical and detailed tender exercise at this time.
- 13.7. In addition, with the imminent departure of the current Network Maintenance Manager, who currently manages this area of work, and the possibility of a complex and wide ranging restructure within Traffic and Highway Services in the next financial year, it is considered sensible to extend the existing contract.

#### Option 2 – Join the London Highway Alliance Contract (LoHAC)

- 13.8. While the benefits of joining LoHAC have been well publicised there is very little evidence to support the claims made by Transport for London.
- 13.9. The LoHAC contracts went live on the 1<sup>st</sup> April 2013 and since this date take up in the South Sector along with the three other areas in the North East, North West and Central areas appears to be low. Authorities appear to be content with their existing contract arrangements or satisfied that they can secure a similar or better deal procuring their own Term Service Contracts.
- 13.10. To date only two Authorities have taken up the street lighting element of the LoHAC contracts, one of which being Transport for London. It is felt that there is currently insufficient evidence to suggest that joining LoHAC would benefit the London Borough of Merton.
- 13.11. In addition, as a result of a lack of resource currently available within Traffic and Highway Services there is a risk, both financially and operationally, if the

Authority fails to fully engage in the proactive management of the LoHAC contract.

- 13.12. It has not been possible to undertake a direct comparison of costs in connection with street lighting operations as the LoHAC contract has a number of 'Price List' items which the London Borough of Merton currently pay as a lump sum.
- 13.13. In addition, many of the 'Price List' items within the LoHAC contract do not include material costs making any comparison of existing prices almost impossible.
- 13.14. As previously mentioned in Section 9 of this report, there is evidence to suggest that the current contract is competitive, offers value for money and is cheaper than the new LoHAC contract.
- 13.15. Officers are continually reviewing the LoHAC arrangements and are discussing the operation of these contracts with other London Boroughs, TfL and a number of the LoHAC contractors.
- 13.16. There are reports of operational difficulties, confusion over the 'Method of Measurement', Price List issues, and problems with the application and assessment of Compensation Events. These issues present additional risks which the London Borough of Merton should avoid.

#### **14 CONSULTATION UNDERTAKEN OR PROPOSED**

- 14.1. The contents of this report were considered by the Sustainable Communities and Overview Scrutiny Panel on 9<sup>th</sup> January 2014 and the following comments were received by the Panel:
- Panel members expressed satisfaction with current contractors; based on personal experience, resident views and information provided in the report to the Panel.
  - Members suggested that officers continue to explore potential for a shared service and/or joint contract in order to improve quality and reduce costs.
  - Panel endorsed officer recommendations regarding the proposed extension of contract

#### **15 TIMETABLE**

- 15.1. If agreed the Authority would need to inform Cartledge of its decision to award the two year extension no later than six months prior to the expiry of the original contract and this would need to be done by 1<sup>st</sup> April 2014.
- 15.2. If Cabinet decide not to extend the existing contract, depending upon its recommended course of action, the Authority will need to mobilise and

commence a full procurement exercise as both of the alternative options available involve an element of procurement.

## **16 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 16.1. By awarding the extension, Cabinet would be committing the Council to a continued budgeted expenditure of £330k per year from the Traffic & Highways revenue budget, together with ad hoc expenditure from other departments such as Parking Services and Greenspaces.
- 16.2. Additional Capital spend may be necessary over the two year of the extension period but this would depend on future Capital bids being approved by the Capital Strategy Group. Traffic & Highways are currently working on a bid to replace approx 3,000 near life-expired lamp columns over a 3 year period with a likely value of £3M. The exact timing of this work is not yet certain and is being worked on.
- 16.3. It is hoped that by awarding the extension to Cartledge, further savings can be made over the life of the extension period however this will be dependant on the level of resource provided by the Authority.

## **17 LEGAL AND STATUTORY IMPLICATIONS**

- 17.1. The original contract was competitively tendered in 2009 and procured and awarded in accordance with the Public Contracts Regulations 2006 (as amended) and the Authority's Contract Standing Orders.
- 17.2. Where a Contract is awarded for a significant length of time and there is an option to extend, such as is the case here, full consideration needs to be given as to whether the contract continues to represent best value and if it would be appropriate to re-open the services to competition. The main body of this report sets out the work undertaken to establish whether extending the Contract is the appropriate course of action.
- 17.3. The Authority has the sole discretion to award a single two year extension which would take the expiry of the contract to the 30<sup>th</sup> September 2016. If the decision is made to extend the Contract this will need to be evidenced in writing between the parties and Legal Services should be involved in drafting or reviewing the form of words.

## **18 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 18.1. The effective maintenance and improvement of street lighting in the borough plays an essential role in providing safe access to and through Merton's thoroughfares, particularly for disadvantaged groups such as those with mobility difficulties and the elderly.

## **19 CRIME AND DISORDER IMPLICATIONS**

- 19.1. Streetlighting plays an important role in reducing crime and the fear of crime and having a competent and experienced streetlighting contractor who understands these issues is extremely important.
- 19.2. Street Lighting maintenance and improvement assists with delivering the Council's ambitions of "A Safe and Secure place to Live" and contributes to



the objectives of the Thematic Partnerships contained in the Community Plan 2009-19 namely the Sustainable Communities and the Stronger Communities strategic themes.

**20 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 20.1. Insurance levels set out in the contract requirements have been assessed by the Council's Risk and Insurance team and have been deemed to be of an acceptable level.
- 20.2. In addition to the insurance limits above, the Council has requested either a parent company guarantee, to be used as specified in Option X4 of the NEC3 Term Service Contract, or a performance bond, to be used as specified in Option X13 of the Terms Service Contractor, to ensure adequate provisions are made should the contractor fail to deliver the service.

**21 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- None

**22 BACKGROUND PAPERS**

- None

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