

Transport & Engineering Professional Services – Future Delivery

Report of the Chief Officer for Highways, Infrastructure Development and Waste

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.

Recommendations: It is recommended that:

- (a) Cabinet approves the selection of in-house with single top up consultant, for the future delivery of Transport & Engineering Professional Services;**
- (b) the Chief Officer for Highways, Infrastructure Development and Waste, in consultation with the Cabinet Member for Infrastructure Development and Waste and the Cabinet Member for Highway Management, be given delegated authority to invite prospective tenderers who are best qualified to bid following a formal selection process;**
- (c) Cabinet notes that prospective consultants' policies on environmental, social and equality factors connected to this service will be evaluated in the Selection Questionnaire and Invitation to Tender stages of the procurement process.**

1. Background

The current Transport & Engineering Professional Services (TEPS) contract between Devon County Council and the private sector consultant Jacobs UK will end on March 31, 2020. This report is a summary of the review process undertaken to establish the most appropriate future delivery model beyond 2020. The detailed report is at Appendix 1.

2. Introduction

Devon County Council (DCC) currently has an internal engineering services delivery group known as the Engineering Design Group (EDG) who are responsible for the design, project management, procurement, supervision and contract management associated with the delivery of infrastructure schemes across the authority. Such projects are primarily funded from DCC's Capital Programme although revenue schemes are also undertaken.

Since 2001, the EDG has had a Transport & Engineering Consultancy Services (TECS) contract in place which allows it to manage the fluctuating workload resulting from a varying capital programme and to provide specialist services which are not available in-house.

The current contract with Jacobs Engineering commenced in 2010 and was initially for a 5-year period, with the option to extend incrementally until 2020 subject to satisfactory performance. The contract with Jacobs has now been extended to its maximum and is currently due to expire on 31 March 2020.

3. Delivery Model Review

A project was initiated to consider the different delivery models that are available across the UK for the provision of TEPS and to recommend a preferred model for DCC.

The delivery model objectives should reflect the key operating principles of the EDG which, in the 2017/18 Business Management Plan, are identified as:

- **Agility and flexibility** to meet changing needs;
- Delivering **value for money** in programme and project management, design and contract supervision;
- **Understanding, and helping deliver DCC's strategies**, and achieving **high customer satisfaction** levels;
- **Managing DCC's exposure to the risks** associated with changing staff resource requirements and funding changes.

Additionally, the retaining of internal intelligence especially when making value for money procurement decisions and the importance of the two following objectives were identified in discussions with the two principal users of the contract from Highways, Infrastructure Development and Waste (HIDW) and Communities, Public Health, Environment and Prosperity (CoPHEP).

- To provide a stable platform to enable the recruitment, retention, training and development of staff;
- To create an environment which effectively identifies and manages project risks.

To identify a preferred delivery model, the following approach was adopted:

- a) Identify the objectives that the preferred delivery model should seek to achieve;
- b) Identify a broad range of delivery model options;
- c) Undertake an initial 'sift' of delivery model options to create a shortlist for further evaluation – this is explained in depth in the background paper (Appendix 1);
- d) Undertake market engagement with other Local Authorities, who have similar delivery requirements;
- e) Undertake engagement with the supplier market;
- f) Evaluate shortlisted delivery model options in terms of strategic alignment, quality, needs, income opportunity/business growth, setup and operation costs, overall sustainability and resilience;
- g) Recommend a preferred delivery model for DCC;
- h) Consider whether there is any benefit within Devon, or more widely, to commission or undertake services with partner organisations.

4. Delivery model options appraisal

There are various delivery model options open to the Council. These include common industry approaches and part of the review was to assess the relative merits of each, in relation to the Council's likely future needs.

The following delivery models were examples that were considered, in no order of preference:

- 1 Full in-house service delivery
- 2A In-house team with single top-up consultant
- 2B In-house team with several top-up consultants
- 3A Local Authority Trading Company (LATC)
- 3B Public-Public Joint Venture (JV)
- 4 Public-Private Joint Venture (JV)
- 5A Fully externalised service with single external consultant
- 5B Fully externalised service with several external consultants.

For more detail on the delivery models see section 5 of Appendix 1. Following the initial sift analysis the following models were taken forward for additional appraisal:

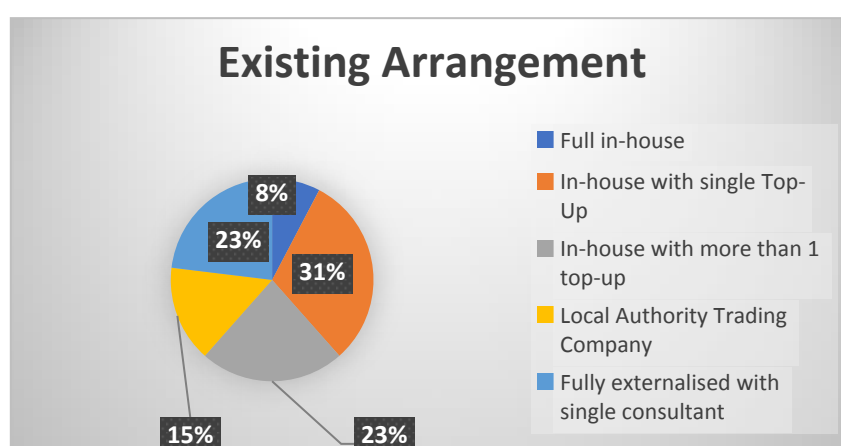
2A and 2B In-house team with top-up consultant(s).

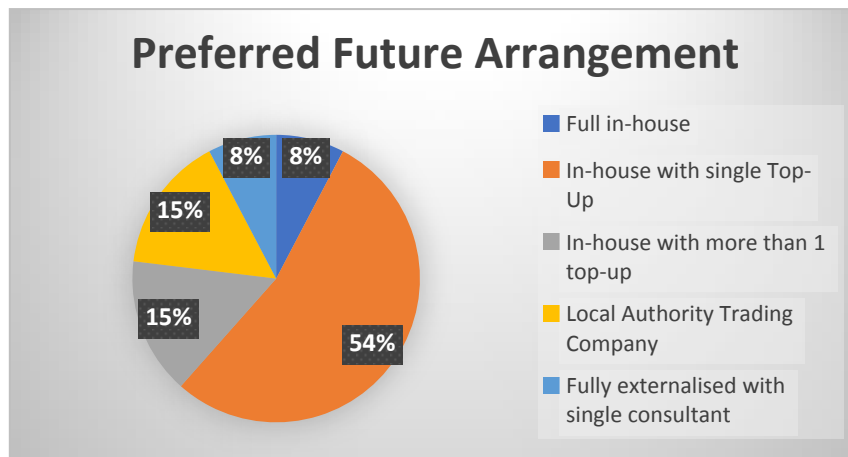
Full details of the reasoning behind the sift is found at Section 6 of Appendix 1. Option 1 Full in-house service delivery whilst aligning well with many of the delivery model objectives was discounted - full detail of the reasoning can be found in section 8.3 of the background paper (Appendix 1), but in summary, there were concerns whether this gave the amount of flexibility required to deal with fluctuating workloads.

5. Consultation

5.1 Other Local Authorities

A survey questionnaire was sent to 16 large councils across the UK with 59% responding. The two tables below show the current models being used and the future 'preferred' models:





5.2 Supply chain

A total of 14 supplier organisations provided feedback, either through face-to-face meetings or in response to an electronic survey. The questions were wide ranging from the simple, “are you interested?”, to the more detailed regarding TUPE. The feedback is at Section 10.2 of Appendix 1.

8 suppliers felt that DCC’s needs would be best served by delivery model 2A whilst 5 suppliers favoured delivery model 2B. It was unclear which option was favoured by one of the suppliers.

5.3 Internal to DCC

Internally within DCC, colleagues from COPHEP, legal services and procurement have assisted in carrying out and advising the review.

5.4 Scrutiny Committee

The Corporate Infrastructure and Regulatory Services Scrutiny Committee considered the Delivery Model review at their 29 January 2019 meeting.

It was MOVED that the proposal to adopt an internal team with top up consultant as the preferred model for delivery of the transportation and civil engineering design services from 2020 onwards be endorsed.

6. Financial Considerations

The proposed model of in-house with top up consultant should have no financial implications for the Authority. The work carried out is on specific projects which have their own funding streams and the vast majority is funded by capital programmes. Consideration of the financial implications of each model was part of the Delivery Model Review report at Appendix1.

7. Environmental Impact Considerations

It is intended to test the prospective consultants’ policies on environmental factors connected to this service through the procurement and specifically through the Selection Questionnaire and Invitation to Tender stages of the process.

8. Equality Considerations

As part of the Conditions of the Contract, specific clauses will be included based on those contained in the Achieving Equality in Commissioning and Procurement document

(<http://www.devon.gov.uk/equalitycommissioning2015.pdf>).

It is also intended to test the prospective consultants' policies on social and equality factors connected to this service through the procurement and specifically through the Selection Questionnaire and Invitation to Tender stages of the process, as highlighted in the document.

9. Legal Considerations

The lawful implications/consequences of the proposals/recommendations/proposed course of action have been considered and taken into account in the preparation of this report/formulation of the recommendations set out above.

10. Risk Management Considerations

No strategic risks have been identified. Where risks have been identified such as completion of current projects beyond the end of the current contract the implications of those have been taken into account in preparing this report by noting that the current contract contains a residual services clause.

11. Options/Alternatives

A summary of the various delivery models considered is included at Para 4 of this report, with the detailed commentary included at Appendix 1. A number of these models were discounted at an early stage in the process, for to various reasons, including inflexibility to deal with fluctuating workloads, employment liabilities for DCC, failure to address the Client's wishes on understanding about value for money, and duration of model.

The two models that were considered in detail were

- in-house with top up consultant;
- in-house with top up consultants.

The former was eventually proposed for a number of reasons, including, agility and flexibility, value for money, understanding of DCC's strategies, stable platform for staff recruitment, feedback from other Local Authorities and market engagement.

12. Reason for Recommendation/Conclusion

In view of the above considerations, it is proposed that DCC adopt the delivery model (Option 2A) of in-house with single top up consultant) rather than the delivery model (Option 2B) of in-house with several top up consultants) for the following reasons:

- It has the best alignment with the delivery model objectives;
- The majority of other local authorities favour this delivery model;
- The supplier market feel that it would best serve DCC's needs;
- It has played a key role in successfully delivering DCC's significant infrastructure programme since its inception in 2001;
- If the incumbent supplier were to be unsuccessful with their tender, it would potentially allow their staff who have been engaged on DCC projects to TUPE to the new supplier – bringing with them an inherent knowledge of DCC.

Meg Booth
Chief Officer for Highways, Infrastructure Development and Waste

Electoral Divisions: All

Cabinet Member for Infrastructure Development and Waste: Councillor Andrea Davis
Cabinet Member for Highway Management: Councillor Stuart Hughes

Local Government Act 1972: List of Background Papers

Contact for enquiries: Kevin Dentith

Room No. Matford Offices, County Hall, Exeter. EX2 4QD

Tel No: 01392) 383000

Background Paper	Date	File Reference
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Nil

kd210219cab Transport & Engineering Professional Services - Delivery Model Review
hk 02 280219

Transport & Engineering Professional Services (TEPS) Beyond 2020

Delivery Model Review for Committee

Devon County Council
Engineering Design Group
Matford Lane Offices
County Hall
Topsham Road
Exeter
Devon
EX2 4QD



Document Control Sheet

Document Reference:	ENVEDGZ18001-DOC-003
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Rev	Date	Purpose	Author(s)	Project Sponsor Authorisation
0	13/12/2018	Appendix to committee reports.	J Stanley except for Local Authority Feedback (K Dentith) & Market Engagement (M Sullivan).	K Dentith
1				

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1 Background

- 1.1.1 Devon County Council (DCC) currently have an internal Engineering Design Group (EDG) who are responsible for the design, project management, procurement, supervision and contract management associated with the delivery of infrastructure schemes across the authority. Such projects are primarily funded from DCC's Capital Programme although revenue schemes are also undertaken.
- 1.1.2 Since 2001, the EDG has had a Transport and Engineering Consultancy Services (TECS) contract in place which allows it to manage the fluctuating workload resulting from a varying capital programme and to provide specialist services which are not available in-house.
- 1.1.3 The current contract with Jacobs Engineering commenced in 2010 and was initially for a 5-year period, with the option to extend incrementally until 2020 subject to satisfactory performance. The contract with Jacobs has now been extended to its maximum and is currently due to expire on 31 March 2020.
- 1.1.4 The initial TECS contract for the period 2001 to 2010 was with Parsons Brinckerhoff who were taken over by WSP in 2014. Since 2010, a diminishing volume of work has been allocated to WSP, initially through a residual services contract and more recently through a collaboration agreement with Somerset County Council.
- 1.1.5 Over this period, the EDG and its private sector partners (PSP) have worked together to commission a substantial value of infrastructure works as summarised in the table below. This data has been obtained using PPlan reports of Finest year to date.

Financial Year	Commissioned Works (£k)
2002/03	4,896
2003/04	11,755
2004/05	24,375
2005/06	34,279
2006/07	24,218
2007/08	16,735
2008/09	17,836
2009/10	15,004
2010/11	24,412
2011/12	16,787
2012/13	26,763
2013/14	53,627
2014/15	40,446
2015/16	31,859
2016/17	29,630
2017/18	22,596

Table 1: Value of Works Commissioned by EDG and PSP

2 Introduction

- 2.1.1 This report has been prepared in order to consider the different delivery models that are available for the provision of Transport and Engineering Professional Services (TEPS) and to recommend a preferred model for Devon County Council.
- 2.1.2 Whilst the intention of this report is to recommend a preferred delivery model, it will be for the Highways, Infrastructure Development & Waste (HIDW) Senior Management team to make recommendations to Cabinet, and for Cabinet to consider these recommendations.
- 2.1.3 In order to identify a preferred delivery model, the following approach shall be adopted:
 - a) Identify the objectives that the preferred delivery model should seek to achieve;
 - b) Identify a broad range of delivery model options;
 - c) Undertake an initial 'sift' of delivery model options, giving consideration to alignment with delivery model objectives, in order to create a shortlist for further evaluation;
 - d) Undertake market engagement with other Local Authorities, who have similar delivery requirements, and with the supplier market;
 - e) Evaluate shortlisted delivery model options in terms of strategic alignment, quality, needs, income opportunity/business growth, setup and operation costs, overall sustainability and resilience;
 - f) Recommend a preferred delivery model for DCC;
 - g) Consider whether there is any benefit within Devon, or more widely, to commission or undertake services with partner organisations;

3 Infrastructure Programme

Introduction

- 3.1.1 DCC's Capital Programme has become increasingly reliant upon the availability of external funding and will therefore be largely dependent upon the priorities of government departments.
- 3.1.2 The future infrastructure programme is therefore uncertain but is expected to grow and evolve with the passage of time. This statement is supported by the government's funding announcements that have been made since DCC's budget book was prepared in January 2018.
- 3.1.3 At the time of writing, the future programme can be understood by considering DCC's confirmed Medium Term Capital Programme and subsequently announced funding together with the County Council's longer-term aspirations as set out in the Transport Infrastructure Plan to 2030.

Medium Term Capital Programme (MTCP)

- 3.1.4 Devon County Council's Medium-Term Capital Programme was reported to the January 2019 Scrutiny Committee.
- 3.1.5 A number of schemes identified within the MTCP could require transport and engineering professional services, particularly those identified under the following service areas:
 - Planning, Transportation & Environment (PT&E) and
 - Highways, Infrastructure Development & Waste (HIDW).

Housing Infrastructure Fund

- 3.1.6 Additionally, in February 2018, the Ministry of Housing, Communities & Local Government announced the allocation of £44.7m Housing Infrastructure Funding (Marginal Viability Funding) towards schemes in Devon. Although this funding will be allocated to the Lower Tier Authorities it is expected that the County Council, as the Highway Authority, will play a key role in delivering a number of these schemes.
- 3.1.7 A further £2.3b is available nationally through the Housing Infrastructure Fund (Forward Fund) with an announcement expected early 2019. This fund is available until 31 March 2021 and shall be awarded directly to Uppermost Tier Local Authorities such as DCC.
- 3.1.8 More specifically, DCC submitted an Expression of Interest to the Ministry of Housing, Communities and Local Government (MHCLG) for a package of infrastructure developments totalling approximately £45m to the south west of Exeter. This was approved by the MHCLG in March 2018 and DCC have since submitted a full bid totalling £55m for these proposals.

Transport Infrastructure Plan (to 2030)

- 3.1.9 DCC has also developed a Transport Infrastructure Plan which sets out its aspirations to 2030, a copy of which is available in Appendix A.
- 3.1.10 This plan supports the Local Transport Plan and outlines a wide range of major infrastructure schemes across the County which have been identified primarily to facilitate economic and residential growth.

4 Delivery Model Objectives

4.1.1 The delivery model objectives should reflect the key operating principles of the Engineering Design Group which, in the 2017/18 Business Management Plan, are identified as:

- Agility and flexibility to meet changing needs;
- Delivering value for money in programme and project management, design and contract supervision;
- Understanding, and helping deliver DCC's strategies, and achieving high customer satisfaction levels;
- Managing DCC's exposure to the risks associated with changing staff resource requirements and funding changes.

4.1.2 The suitability of these operating principles were discussed with Senior User, Dave Black (Head of Planning, Transportation & Environment), on 30 May 2018 and the following additions were agreed:

- To provide a stable platform to enable the recruitment, retention, training and development of staff;
- To create an environment which effectively identifies and manages project risks;

4.1.3 These operating principles have also been discussed with the Senior User from the Highway Management Service, Joe Deasy, who agreed to these principles whilst emphasising the importance of retaining internal intelligence especially when making value for money procurement decisions.

4.1.4 These delivery model objectives are considered to be aligned with DCC's Operating Model, which encourages commissioning whilst recognising the importance of being flexible, responsive and building a strong base of commercial knowledge (i.e. intelligent client).

5 Delivery Model Options

5.1.1 The following table outlines a range of different delivery models that could be adopted for the provision of transport and engineering professional services.

Option	Description	Internal Provision	External Provision	Example
1	Full in-house service delivery.	Full in-house service delivery.	None, other than occasional ad-hoc commissions.	Devon Property, prior to externalisation in April 2007. EDG prior to TECS contract in 2001.
2A	In-house team with single top-up consultant.	In-house consultancy & client.	Single consultant providing top-up and specialist services.	This is the Engineering Design Group's current operating model.
2B	In-house team with several top-up consultants	In-house consultancy & client.	Consultancy framework providing top-up and specialist services.	Lancashire County Council.
3A	Local Authority Trading Company (LATC)	None, other than Client function.	Local authority owned company, potentially allocated work under regulation 12 of the Public Contracts Regulations (PCR) 2015.	Cormac (for Cornwall Council).
3B	Public-Public Joint Venture (JV)	None, other than Client function.	Consultancy works undertaken by external JV company who are under the shared ownership of DCC and another public-sector organisation. JV company would be awarded works under regulation 12 of PCR2015.	NPS South-West. Via East Midlands.

Option	Description	Internal Provision	External Provision	Example
4	Public-Private Joint Venture (JV)	None, other than Client function.	Consultancy works undertaken by external JV company who are under the shared ownership of DCC and a private sector organisation.	Babcock LDP – range of services for DCC Education & Learning.
5A	Fully externalised service with single external consultant.	None, other than Client function.	Single external supplier providing a fully externalised service.	Atkins for Swindon Borough Council & Jacobs for Worcestershire CC.
5B	Fully externalised service with several external consultants.	None, other than Client function.	Consultancy framework providing a fully externalised service.	Transport for Greater Manchester (TfGM) consultancy framework 2016-2020.

Table 2: Delivery Model Options

6 Initial Sift of Delivery Model Options

6.1 Option 1 - Full In-House Service Delivery

- 6.1.1 In order to successfully deliver the capital programme through a fully in-house service DCC's current staffing levels would need to be significantly increased.
- 6.1.2 It is likely that a number of staff employed by DCC's current private sector partner would be eligible to transfer to DCC under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).
- 6.1.3 Depending upon the number of TUPE transfers and future workload, it is likely that an initial recruitment exercise would also need to be undertaken and this would need to be funded from revenue budgets.
- 6.1.4 In theory this delivery model could offer good value for money, as it would be non-profit making, although this would be difficult to benchmark without the presence of a private sector comparator.
- 6.1.5 A fully internal team could develop a deep understanding of DCC's strategies, policies and priorities and would offer DCC greatest control over the allocation and prioritisation of resources.
- 6.1.6 However the lack of any 'reach-back', that could be offered by large private sector organisations, would significantly reduce DCC's agility and flexibility. This would compromise DCC's ability to cope with peaks in the infrastructure programme and would make the procurement of ad-hoc specialist services more cumbersome.
- 6.1.7 Adopting this model would also require DCC to significantly increase internal resources which, in the event of a downturn in workload, could leave DCC with employment liabilities. In theory, this risk could be mitigated through the use of short term employment contracts and/or agency workers, however, the offer of such contracts could serve to deter potential applicants.
- 6.1.8 In view of the inherent inflexibility and employment complexities outlined above, it is recommended that this delivery model be discounted from further evaluation.

6.2 Option 2A – In-House Team with Top Up Consultant

- 6.2.1 Since 2001/02 Devon County Council has adopted delivery model 2A which consists of a strong internal team with a single ‘top-up’ professional services partner.
- 6.2.2 During this time a significant programme of construction works have been delivered including most notably the South Devon Link Road, Barnstaple Western Bypass and Crediton Link Road along with a host of infrastructure developments to the East of Exeter.
- 6.2.3 Comparative data suggests that, when compared with the private sector partner, the internal team generally delivers projects more cost effectively and with greater levels of client satisfaction.
- 6.2.4 Procurement of a ‘top-up’ service provider, who has significant reach-back ability and access to specialist services, provides Devon County Council with the flexibility and agility needed to successfully deliver a fluctuating programme of works.
- 6.2.5 The presence of both internal and external teams drives efficiency through comparative performance monitoring whilst also encouraging continual improvement by allowing each party to learn from one another. Appendix B includes the latest Key Performance Indicators (KPI) report for projects delivered across the partnership during 2017/18.
- 6.2.6 The internal team provides a strong understanding of DCC’s strategies, policies and priorities and the presence of a ‘top-up’ consultant helps to minimise the County Council’s employment liabilities in the event of a reduction to the infrastructure programme.
- 6.2.7 The current contract has been in operation for 10 years during which the ‘top-up’ service provider has developed an understanding of DCC’s direction of travel. The contract length has also provided a stable platform for both the internal and external teams to recruit, train and develop professional staff. This is likely to be one of the reasons behind the general upward trend in KPI scores throughout the duration of the partnership.
- 6.2.8 If there was a change to the incumbent private sector partner all HR legislation, including the TUPE Regulations 2006, would need to be adhered to.
- 6.2.9 For the reasons outlined above it is recommended that this delivery model be shortlisted for further evaluation.

6.3 Option 2B – In-House Team with Top Up Consultants (i.e. framework)

- 6.3.1 In high level terms this delivery model would be similar to option 2A albeit with multiple private sector service providers.
- 6.3.2 A procurement exercise would need to be undertaken to procure a framework of service providers. Unless there are exceptional and justifiable circumstances, Regulation 33 (3) of the Public Contracts Regulations 2015 limits the maximum duration of a framework arrangement to 4 years.
- 6.3.3 This relatively short duration would make it difficult for the private sector providers to recruit, train and develop staff for DCC. Furthermore, when combined with a reduced proportion of the work, the contract duration would present a barrier to the service providers from fully understanding DCC's needs, policies and strategies. These considerations would likely result in reduced client satisfaction and a concomitant erosion of KPI scores.
- 6.3.4 The procurement documents would need to set out a clear and transparent procedure for awarding call-offs that would adhere with the Public Contracts Regulations 2015. Three approaches could be used:
- (1) Direct Award;
 - (2) Mini-Competition;
 - (3) A combination of the above.
- 6.3.5 For a direct award, the terms of the framework must set out all of the terms governing the provision of the works and the objective conditions for determining which framework supplier will be awarded the work must be clearly set out in the procurement documents. This must be precise and would require a lot of forward planning in order to remain compliant during the life of the agreement.
- 6.3.6 In practical terms there would be several ways to undertake direct awards. Direct awards on a rotational basis are not considered appropriate as this approach would not demonstrate value for money or be a fair objective criteria. Alternatively, direct awards could be undertaken using a ranked system, with the highest ranked supplier being given first refusal of the work, and then the second highest ranked supplier and so on and so forth.
- 6.3.7 Direct Awards would need to be done in a method that allows for the successful candidate to be identified using the published objective criteria. It is not about whether other suppliers can or cannot meet the requirements and does not allow for self-selection based on subjective opinion and knowledge.
- 6.3.8 Direct Award from framework agreements are considered most suited to simple commoditised products rather than complex services as are being considered here.
- 6.3.9 The mini-competition approach would reduce DCC's agility as the formation of the invitation to mini-compete, preparation and submission of the mini-competition bids and their evaluation would be required for each call-off before the professional services could be awarded. This would increase the consultant's overheads which would need to be recovered through their successful tenders. The mini-competition process would also require greater DCC resources in order to organise, manage and evaluate the mini-competitions whilst also recording each call-off in Contracts Finder.

- 6.3.10 It is also recognised that the mini-competition approach may not always result in good value. Framework providers could be selective about which projects they bid for and thus a competitive value for money exercise may not always be achieved.
- 6.3.11 Lump sum payments may also increase the risk of quality issues, particularly if the tendered price is later found to be unsustainable. This risk can be considerably reduced where payment is made on the basis of time charge as the suppliers do not have to take the risk on the duration of the professional services. Conversely, payment on a time charge basis could equate to higher costs as all work would be charged.
- 6.3.12 The lump sum payment mechanism would also increase demands upon each Project Sponsor as each brief would need to be well developed for pricing purposes and any changes to this evaluated in accordance with the contract (NEC Compensation Events). This approach could potentially lead to an adversarial relationship that would be detrimental to partnership working and continuous improvement.
- 6.3.13 In view of framework duration limitations and operational issues associated with this delivery model, it is recommended that this delivery model option be discounted from further evaluation.

6.4 Option 3A & 3B – Local Authority Trading Company/Public-Public Joint Venture Company

Background

- 6.4.1 In order to establish a company, DCC would need to rely on s4 of the Localism Act 2011 or s93 of the Local Government Act 2003. In either case, DCC would need to prepare a detailed business case to ensure that the company would be viable.
- 6.4.2 The business case would need to consider practical issues including staffing, accommodation, ICT, intellectual property and branding. The complexity in establishing this delivery model would almost certainly require specialist legal support which would need to be budgeted for in the business case.
- 6.4.3 Staff currently involved in the delivery of the county council's professional services would most likely be eligible to TUPE to the company and a Local Government Pension Scheme (LGPS) admissions agreement would be required to protect the pensions of transferred DCC employees. Such agreements allow scheme members who are TUPE transferred from their local government employment, to remain in the Local Government Pension Scheme (LGPS) for so long as they are employed in connection with the delivery of the outsourced service.
- 6.4.4 The differences between a jointly controlled company (public-public joint venture) and a company wholly owned by DCC are, in high level terms, minimal. However, the establishment of a jointly owned company would be more complex and would require close co-ordination, trust and alignment between the partners which would need to be secured through a Shareholder's Agreement. This would set out how risks and rewards are shared between the partners.
- 6.4.5 State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade¹.
- 6.4.6 State Aid is generally not permissible in the EU and it would therefore be essential that the company was not given any advantage over its private sector competitors. This would mean that the company's public-sector owners must recover the costs of any support provided at market rates (e.g. accommodation, equipment, staff, overheads, support services etc) through transparent invoicing systems such that the independence of the company can be demonstrated.
- 6.4.7 In practical terms, this would increase the financial and administrative overheads associated with business operations and/or require the organisation to operate at arms-length from DCC with its own support services (IT, facilities management, HR, administration, legal etc).
- 6.4.8 The company would be subject to Companies House filing requirements. In terms of tax, the company would be subject to corporation tax on its trading profits and would be subject to less generous V.A.T. rules than are available to local authorities.

Procurement

- 6.4.9 Regulation 12 of the Public Contracts Regulations 2015 allows public-sector contracting authorities such as DCC to award contracts directly to other organisations provided that the following three conditions are met:

¹ <https://www.gov.uk/guidance/state-aid>

- the contracting authority exercises over the legal person concerned a control which is similar to that which it exercises over its own departments;
- more than 80% of the activities of the controlled legal person are carried out in the performance of tasks entrusted to it by the controlling contracting authority or by other legal persons controlled by that contracting authority; and
- there is no direct private capital participation in the controlled legal person with the exception of non-controlling and non-blocking forms of private capital participation required by national legislative provisions, in conformity with the Treaties, which do not exert a decisive influence on the controlled legal person.

6.4.10 Such an organisation may be owned by one or more public sector entities.

6.4.11 For procurement purposes, the company would be classed as a 'contracting authority' and be subject to all of the same public procurement rules as DCC.

Evaluation

6.4.12 When comparing this option against options 1, 2A or 2B, the additional set-up costs, operating costs, tax and State Aid considerations need to be considered against the potential benefit of being able to trade with the private sector (up to 20% of the company's turnover).

6.4.13 The benefits of being able to trade with the private sector would be most tangible in circumstances where the County Council's own infrastructure programme is forecast to diminish beyond that which could be accommodated by reducing the professional services undertaken by the private sector.

6.4.14 However, as outlined in section 4, the government's infrastructure investment programmes and DCC's established success in securing external project funding, has created a significant demand for the currently available professional services - with this demand expected to grow as additional funding is announced and existing major projects develop.

6.4.15 It is therefore considered that the ability to trade with the private sector is unnecessary and would be detrimental to the delivery of the County Council's own infrastructure programmes and projects.

6.4.16 It is also recognised that a professional services company owned solely by DCC would be a relatively small organisation that, when compared with the current delivery model, would have reduced flexibility to 'reach back' in the event of an upturn to the infrastructure programme. It would also be uneconomic for a small company to retain the range of specialists that are currently available through the private sector partner.

6.4.17 An external company controlled by DCC could potentially have a weaker understanding of DCC's strategies and policies, which could be further compounded by the company's pursuit of private sector work.

6.4.18 Taking all of the above factors into consideration, it is recommended that these delivery models be discounted from further consideration.

6.5 Option 4 – Private-Public Joint Venture (JV)

Procurement

- 6.5.1 This option would require an OJEU compliant procurement exercise in order to set up a JV company or LLP that is jointly owned by DCC and the private sector provider(s). The duration of this arrangement would need to be clearly stated in the OJEU Contract Notice.
- 6.5.2 The complexity of the contractual arrangements would mean that an 'open' or 'restricted' procurement procedure would be inappropriate, and instead a more complex procedure such as the 'Competitive Dialogue' or 'Competitive Procedure with Negotiation' would be recommended. When compared with the 'open' or 'restricted' procedures both of these procedures would require greater resourcing and longer timescales.

Background

- 6.5.3 DCC would need to be very clear and precise at the procurement launch as to the terms of the arrangement, what DCC is offering, what the partner would be providing and precisely how the JV company would be providing services to DCC. Advanced and detailed market research would therefore be crucial to develop a set of clearly defined arrangements.
- 6.5.4 Staff currently involved in the ongoing delivery of the county council's professional services would most likely be eligible to TUPE to the JV company and a Local Government Pension Scheme (LGPS) admissions agreement would be required to protect the pensions of transferred DCC employees. Such agreements allow scheme members who are TUPE transferred from their local government employment, to remain in the Local Government Pension Scheme (LGPS) for so long as they are employed in connection with the delivery of the outsourced service.
- 6.5.5 State Aid is generally not permissible in the EU and it would therefore be essential that the company was not given any advantage over its wholly private sector competitors. In practical terms, this would require the organisation to operate externally to DCC with its own support services (IT, facilities management, HR, administration, legal etc) and its own premises (or paying DCC market rates for occupying DCC premises offered as part of the procurement process).
- 6.5.6 In theory, when compared with internal service delivery, this delivery model could be more costly as the JV company would need to make a profit, a proportion of which would be lost to the private sector.
- 6.5.7 The company would be subject to Companies House filing requirements. In terms of tax, the company would be subject to corporation tax on its trading profits and would be subject to less generous V.A.T. rules than are available to local authorities.
- 6.5.8 The JV partners would be expected to share the risks and rewards associated with business operations.
- 6.5.9 The complexity of the arrangements associated with this delivery model would almost certainly require specialist legal support which would need to be budgeted for in the business case.
- 6.5.10 Private-Public Joint Ventures can be most beneficial where the public-sector organisation wishes to carry out activities in an area where it has identified a lack of internal expertise. In these circumstances, the public-sector organisation may benefit from working with an experienced commercial partner in the private sector.

Evaluation

- 6.5.11 When comparing this option against option 2A, the additional set-up and operating costs, tax and State Aid considerations need to be considered against the potential benefits of establishing a JV company with the private sector (as opposed to the partnership arrangements established through the current delivery model).
- 6.5.12 The Engineering Design Group is a well-established business unit within the County Council and has successfully delivered many major infrastructure schemes over the years. Internal expertise is considered to be well developed and the benefits of establishing a deeper partnership with the private sector are considered limited.
- 6.5.13 In managing performance of the current delivery model, Key Performance Indicators (KPIs) are sought from Clients on an annual basis and have continually demonstrated higher scores for schemes that are delivered by the internal team.
- 6.5.14 In addition to these KPIs, the cost effectiveness of both the internal and external elements of the current delivery model are benchmarked by comparing professional fees with overall project costs. This data indicates that the internal team are more cost effective than the private sector.
- 6.5.15 The establishment of a JV company, remote to DCC, could result in a weaker understanding of DCC's strategies, priorities and policies which would have a detrimental impact upon Client satisfaction. It would also fail to address the Client's request for an internal intelligence on value for money procurement.
- 6.5.16 When compared with option 2A, this delivery model would be less agile due to the absence of an internal team and the need to allocate projects to the JV company through a contractually defined commissioning process.
- 6.5.17 A JV company would be established for a defined period of time through a procurement process. The defined contract period would provide some stability to encourage the recruitment, training and development of staff but this would need to be considered alongside the need to be flexible for a varying workload. It would also be important for DCC to have an exit strategy in place for the end of the services.
- 6.5.18 In terms risk and issue management, the JV company may be more likely to withhold information about project issues from the Client until the consequences of the issue are properly understood. This may result in an increased frequency of surprises for clients and the potential loss of opportunity to mitigate the issue.
- 6.5.19 Taking all of these considerations into account it is recommended that this delivery model option be discounted from further consideration.

6.6 Options 5A & 5B – Fully Externalised Service

Procurement

- 6.6.1 The procurement of a fully externalised service would involve entering into contract(s) with one of more professional service providers.
- 6.6.2 'Open' or 'Restricted' procurement procedures could be used, although the use of a more complex procedure, such as the 'Competitive Procedure with Negotiation' (CPN), may be desired such that commercial issues can be discussed before tenders are finalised. As previously stated, the CPN procedure would involve greater time and resources than the 'open' or 'restricted' procedures.

Background

- 6.6.3 With option 5A, staff currently involved in the ongoing delivery of the county council's professional services (staff of DCC and the incumbent supplier) would most likely be eligible to TUPE to the successful tender. In these circumstances a Local Government Pension Scheme (LGPS) admissions agreement would be required to protect the pensions of transferred DCC employees. Such agreements allow scheme members who are TUPE transferred from their local government employment, to remain in the Local Government Pension Scheme (LGPS) for so long as they are employed in connection with the delivery of the outsourced service.
- 6.6.4 Option 5A would involve procurement of a single service provider with payment for professional services likely to be made on the basis of tendered hourly rates.
- 6.6.5 Contrastingly, option 5B would most likely involve a framework of service providers receiving work through direct awards, mini-competitions or a combination thereof.
- 6.6.6 As suggested in the evaluation of option 2B, the framework option with mini-competition does not necessarily guarantee best value, and a lump sum payment mechanism may result in over inflated quotations depending upon the complexity and risk associated with each commission.
- 6.6.7 In theory, delivery models 5A and 5B could both be more expensive than internal service provision as the commercial organisation(s) would need to generate profit. Appendix D summarises turnover and profit margins for a random selection of professional services suppliers, with profit margins ranging from negative values up to 12.64%.
- 6.6.8 Lump sum payments may increase the risk of quality issues, particularly if the tendered price is later found to be unsustainable. This risk is considerably reduced where payment is made on the basis of time charge as the tenderers do not have to take the duration risk. Conversely, payment on a time charge basis could equate to higher costs as all work would be charged.
- 6.6.9 The procurement of a single or multiple service providers would provide considerable 'reach back' to additional resources or specialisms.

Evaluation

- 6.6.10 Complete outsourcing of DCC's professional services would result in a loss of intelligence to the private sector, which would reduce DCC's ability to act as an intelligent client.
- 6.6.11 In terms of flexibility, these delivery models would offer access to significant 'reach back' resources and specialisms however, when compared with option 2A, the lack of an internal team would reduce agility due to the contractual commission process inherent with external service provision.
- 6.6.12 The adoption of a framework arrangement would reduce agility due to the mini-tender process that would be involved unless a carefully prepared direct award procedure was incorporated within the procurement documents. This would be detrimental to DCC, particularly in emergency situations where a rapid response is required (e.g. Grand Western Canal failure or Slapton Line erosion).
- 6.6.13 Competitive procurement processes would ensure that value for money was achieved however this could, in theory, remain more costly than internal service provision. This statement is supported by KPI and cost data gathered since establishment of the current operating model in 2001.
- 6.6.14 When compared within internal service provision, a fully externalised service would be less aligned with DCC's strategies and could have a weaker understanding of DCC's policies and priorities. This would be further compounded by the external service providers other commitments which would be balanced across multiple clients, rather than being solely focused on DCC.
- 6.6.15 Following the procurement process, the external organisation would carry the risk associated with changing staff resource requirements although DCC's transfer of this risk would effectively be built into the successful tenderers rates.
- 6.6.16 A framework arrangement would likely be limited to 4 years and would not provide a stable platform from which to encourage the recruitment, retention, training and development of staff. This would undoubtedly have an adverse impact on client satisfaction levels and associated KPI scores.
- 6.6.17 Creation of a long-term relationship with a single supplier would allow for the creation of a more stable platform, although this would be less stable than that offered by internal provision through options 1 or 2A.
- 6.6.18 In terms risk and issue management, an external provider may be more likely to withhold information about project issues from the Client until the consequences of the issue are properly understood. This may result in an increased frequency of surprises for clients and the potential loss of opportunity to mitigate the issue.
- 6.6.19 In view of the reduced agility, reduced value for money and lower client satisfaction levels that would likely result from implementation of this delivery model, it is recommended that options 5A and 5B be discounted from further evaluation.

7 Delivery Models Objectives Alignment

- 7.1.1 The table below sets the current delivery model as the baseline, and compares each of the alternative delivery models against this baseline.
- 7.1.2 For each delivery model, each objective has been scored on a scale of -1 to 1. A score of 1 represents a benefit over the baseline, a score of 0 represents a minor difference with the baseline and a score of -1 represents a dis-benefit over the baseline.
- 7.1.3 The scores for each delivery model are then totalled to identify if any of the alternative delivery models have better alignment with the objectives. A positive score indicates greater alignment whilst a negative score indicates less alignment.

Delivery Model Objective	Delivery Model							
	2A (Baseline)	1	2B	3A	3B	4	5A	5B
Agility & Flexibility	0	-1	-1	-1	-1	-1	-1	-1
Value for Money	0	1	-1	-1	-1	-1	-1	-1
Understanding DCC's strategies & client satisfaction	0	1	-1	-1	-1	-1	-1	-1
Managing DCC's exposure to the risks associated with changing staff resource requirements and funding changes	0	-1	0	-1	-1	0	0	0
Stable platform for staff recruitment, retention, training & development	0	-1	-1	1	1	-1	-1	-1
Effective project risk management	0	-1	0	0	0	-1	-1	-1
TOTAL	0	-2	-4	-3	-3	-5	-5	-5

Table 3: Alignment of Delivery Models with Objectives

- 7.1.4 Table3 indicates that the current delivery model, option 2A, has the best alignment with the delivery model objectives followed by delivery model option 1. However, it would be inappropriate to shortlist delivery models on the basis of this table alone as delivery model objective alignment is just one of the many factors that need to be considered. Shortlisting of the delivery models is considered in the following section of the report.

8 Shortlisted Delivery Models

8.1.1 The Project Board met on 18 July 2018 and considered the above sections of this report in draft format.

8.1.2 During this meeting it was decided to shortlist delivery model options 2A and 2B for further evaluation whilst also discounting delivery model option 1. The reasons for these decisions are summarised in the following sections.

8.2 Delivery Model Options 2A and 2B – In-house Team with Top Up Consultant(s)

8.2.1 Delivery model option 2A was shortlisted for the reasons set out in section 6 of this report and because it offers the best alignment with the delivery model objectives as demonstrated by Table 3.

8.2.2 This decision recognises the valuable role that the current delivery model has played in successfully delivering a significant infrastructure programme since its establishment in 2001, together with the importance of remaining an intelligent client.

8.2.3 The Project Board also decided to shortlist delivery model 2B which, at a high level, is most similar to option 2A such that further investigations around the framework option could be undertaken.

8.3 Delivery Model Option 1 - Full In-house Service Delivery

8.3.1 It was decided against shortlisting delivery model option 1, despite it having second best alignment with the delivery model objectives, for the following reasons:

Agility and Flexibility:

8.3.2 Full in-house service delivery would reduce DCC's ability to cope with a fluctuating infrastructure programme.

8.3.3 It is recognised that external providers can complement internal resources whilst also providing significant reach-back potential and specialist services that are not currently available in-house.

Managing DCC's exposure to the risks associated with changing staff resource requirements and funding changes:

8.3.4 The agility and flexibility issues outlined above could be mitigated through the expansion of the internal team however this would increase DCC's exposure to employment liabilities in the event of a downturn in the infrastructure programme.

8.3.5 To limit this exposure, temporary employment contracts could be used however this could detract potential applicants in what is currently a challenging recruitment market. Agency workers could also be considered for short term assignments however this would adversely affect quality, due to an increased staff turnover, and would also add cost due to the associated agency fees.

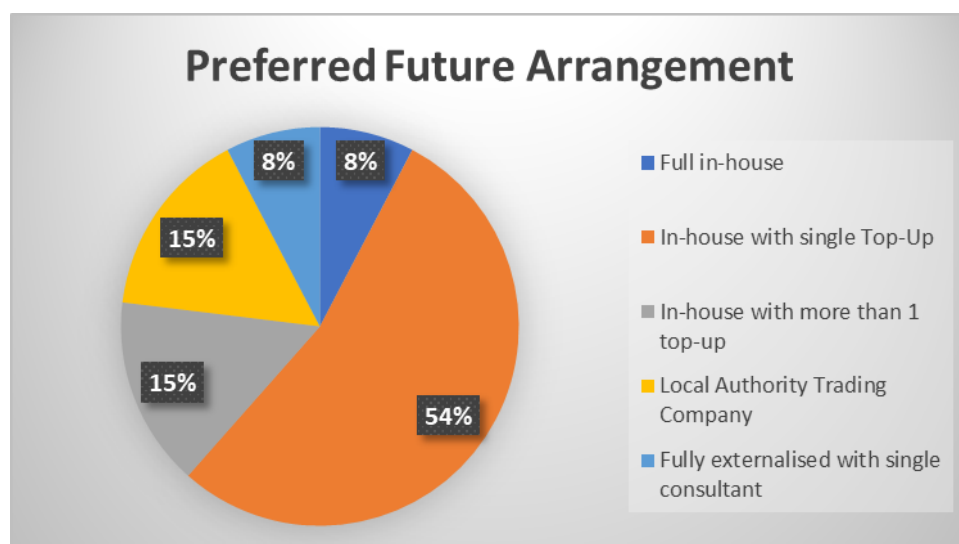
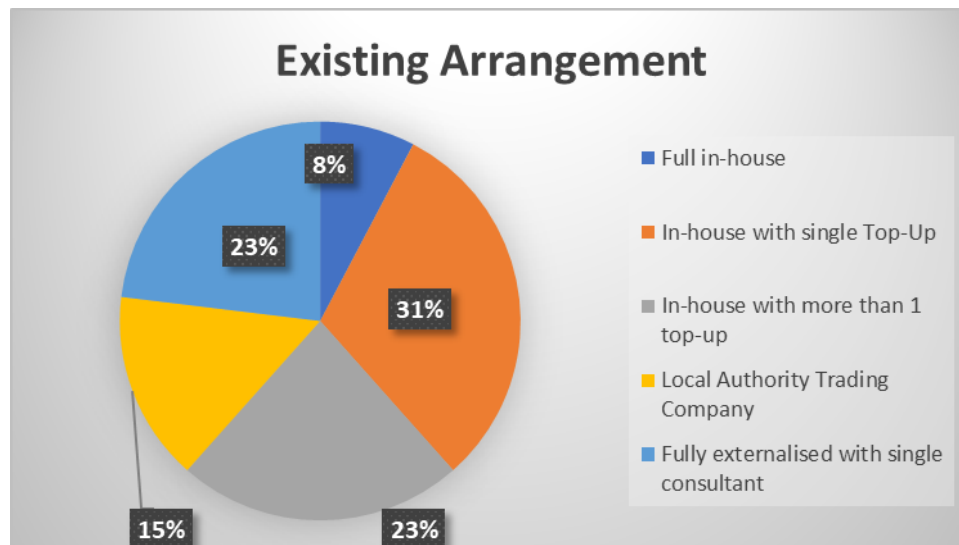
Stable platform for staff recruitment, retention, training & development

8.3.6 Provision of a stable platform for staff recruitment, retention, training and development is important to enable organisations to plan for the future and to support staff recruitment and development in what is currently a challenging recruitment market.

-
- 8.3.7 Whilst delivery model option 1 would avoid the need for a cyclical change of external providers, there are many other considerations.
 - 8.3.8 The fluctuating infrastructure programme is largely dictated by central government's funding priorities over which DCC has very little control.
 - 8.3.9 Selection of delivery model option 1, would require the EDG to take on significantly more staff in order to meet the demands of DCC's current infrastructure programme. Staffing levels would need to be constantly monitored and aligned with the anticipated demands of the forthcoming infrastructure programme, and the outcomes from DCC's funding bids could result in the need for drastic changes within short time periods.
 - 8.3.10 Adoption of delivery model option 1 would therefore be detrimental to this delivery model objective.

9 Feedback from Other Local Authorities

- 9.1.1 The Project Board agreed at an early stage that engagement with other Local Authorities would be beneficial in helping to identify the most appropriate delivery model.
- 9.1.2 The Association of Directors of Environment, Economy, Planning and Transport (ADEPT) provides an ideal network for establishing contacts with other Local Authorities.
- 9.1.3 The questionnaire that is shown in Appendix E was sent to a number of ADEPT contacts, with responses being received from the following organisations.
1. Cumbria Council
 2. East Essex County Council
 3. Gloucestershire County Council
 4. Gwynedd Council
 5. Hampshire County Council
 6. Lincolnshire County Council
 7. Newcastle City Council
 8. Nottinghamshire County Council
 9. Perth & Kinross Council
 10. Salford City Council
 11. Somerset County Council
 12. South Gloucestershire Council
 13. Sussex County Council
 14. Transport for London
 15. Warrington Borough Council
 16. Worcestershire County Council
- 9.1.4 Response to the survey was 59%.
- 9.1.5 The pie chart below shows the spread of options and indicates Option 2A as the model used by most responders and the preferred model for future delivery.



- 9.1.6 A face to face meeting with Worcestershire County Council (WCC) was also undertaken when we identified that WCC use a NEC3 Term Service Contract which is one option we will be considering. The delivery model at WCC is different from DCC's current one as the professional and technical service has been fully externalised. The discussions did reveal that WCC use Target Cost (as opposed to Time Charge) for much of their scheme delivery which is something the evaluation team will investigate.

10 Market Engagement

10.1 Scope of Market Engagement

- 10.1.1 As part of the Market Engagement exercise, the evaluation team developed a questionnaire template for completion by interested organisations, a copy of which is available within Appendix F.
- 10.1.2 The purpose of the questionnaire was to identify any issues which could deter the market from expressing an interest in the planned procurement and to identify issues which the market could or could not provide solutions to. This would assist the Council in determining the most appropriate procurement strategy to use and to ensure that the specification and tender documents would be written in a way that would bring as much interest as possible to the procurement opportunity.
- 10.1.3 The initial market engagement plan was to meet face to face with up to 8 suppliers of different sizes to work through the questionnaire. In the event, the evaluation team met separately with 6 supplier representatives during the period 30 August – 19 October 2018.
- 10.1.4 To enable the market to provide feedback electronically, a Prior Information Notice (PIN) with the market engagement questionnaire was also published through the ProContract procurement portal. The PIN was published on the portal on 6th September 2018, and the closing date for submissions of the completed questionnaires was 8th October 2018.
- 10.1.5 Devon County Council obtained a total of 14 questionnaires, with 3 of these completed by EDG and Procurement Officers following face-to-face meetings with those organisations.

10.2 General Trends emerging from Market Engagement

10.2.1 The following Market Engagement questions are considered pertinent to selection of the most appropriate Delivery Model. General trends emerging from each of these questions shall be summarised within this section of the report.

Question Category:	Question Reference:
Delivery Model	D1, D2, D3, D4
Contract	C1, C3
Risks	R1
Location	L1, L3
Innovation	I1

D1. Would you be interested in tendering for this work with DCC?

All suppliers that the Council met face to face and those that submitted questionnaires stated that they would be interested in expressing an interest in this opportunity. One supplier indicated a willingness to tender as part of a consortium with a Tier 1 supplier or lead a consortium that includes a Tier 1 supplier.

D2. Do you have any thoughts on our proposed delivery model objectives?

There was a mixture of thoughts here. Some suppliers considered that the Option 2A model would provide the best outcome to the Council, while others considered Option 2B would provide more scope in terms of skills, value for money and flexibility.

Other thoughts to include under the objectives were:

- Add 'safety' as a key requirement when delivering value for money.
- Place some emphasis on providing a platform to enable the recruitment, retention, training and development of locally based staff.
- Consider including further thinking around partnership/collaboration, safety & wellbeing, innovation and social value.
- Place some emphasis on continuous improvement.
- Suggest an objective to support SME's.

Overall, the objectives were considered to be in alignment with those produced by other public-sector organisations.

D3. How would your organisation cope with potential peaks and troughs in workload from DCC?

The majority of responses accepted that the nature of the business across the wider public sector resulted in fluctuations of workload. Many of the responses referred to the use of resource management tools to identify how best to allocate resources at appropriate times. Others stated they had dedicated staff at a senior level that would take an overview to allocate resources as required.

It was interesting that nearly all the responses stated that they would be able to transfer work across their organisation in the event of workload fluctuations. In the case of a number of suppliers that favoured Option 2B (internal team with framework of suppliers),

it was considered this could be a very flexible approach to manage those resources as required.

D4. Do you have a view on whether the Council's business need would be best suited by a single 'top-up' consultant or a framework of multiple consultants?

From the 14 questionnaires, 8 favoured Option 2A, 5 favoured Option 2B, while one was undecided.

Those that selected Option 2A were consistent in their reasons:

- Early engagement.
- Rapid commissioning.
- Cost and Quality consistency.
- Ability to develop long term and mutually beneficial relationships.
- Frameworks would reduce the amount of investment to be made locally.
- Limited pipeline of opportunities with frameworks.
- Different values and approaches would make collaborative working challenging and inconsistent.

Those that selected Option 2B were also consistent in their reasons:

- Price and quality competitiveness
- Alternative supplier options in the event one supplier's performance deteriorates
- Access to a larger and diverse resource pool through multiple suppliers
- Allows DCC to be flexible in its approach as individual opportunities may require specialisms unavailable to a main supplier

C1. What are your thoughts on contract duration and extension options? Would, for example, an initial 5 years duration with an option to extend annually to provide an overall 10 years be appropriate? What extension options would incentivise consultants to deliver an ever-improving service?

From a procurement perspective, it was interesting to note that for those suppliers that favoured Option 2B (internal team with framework of suppliers) there seems little appreciation of the current Public Contracts Regulations (2015) which generally limits the use of frameworks as defined by Regulation 33 to a maximum of 4 years, as a number of these supported durations of frameworks in excess of that stated in Regulation 33.

For Option 2A, the general view is that an initial duration of 5 years is the minimum that would make the opportunity effective, as there needs to be an adequate period to allow any successful tenderer time to recoup any investment costs and to make a reasonable profit.

In regard to any extension periods, these ranged from 3 to 6 years. Generally, if the initial contract period is 5 years, then there should be the possibility to extend by up to an equal duration subject to satisfactory performance based on effective key performance indicators.

C3. The fluctuating infrastructure programme would make it very difficult for DCC to guarantee a minimum workload? What are your thoughts on this?

All bar one of the responses indicated that they all had experience of working in this sector where there was no guarantee of a minimum workload. Many suppliers indicated that they would be able to redeploy staff or transfer work across their organisations to ensure the right allocation of resources at the appropriate time using various resource management techniques.

A key issue to assist with the management of resources would be the exchange of information relation to the Council's pipeline of planned works.

R1. Has your organisation any experience of TUPE and what do you think are the key considerations for both the Client and Professional Services Provider?

The majority of suppliers have extensive experience in TUPE management however two responses indicated a lack of experience in implementing TUPE.

Key considerations for a successful TUPE implementation were identified as follows:

- Provision of accurate TUPE data at tender stage from the incumbent supplier.
- Clear and consistent communications through the tender stage and during the mobilisation period.
- Robust consultation with affected staff by both the incumbent & incoming supplier.

L1. What would your organisations thoughts be on co-locating within DCC's offices?

Co-location at DCC offices was generally considered to be the best approach to develop strong working relationships, but mainly on a project-by-project basis rather than having a full-time presence at DCC offices. This would enable building strong business relationships.

Some suppliers expressed their strong presence within the Exeter area which would provide a greater level of flexibility in support of projects.

L3. Do you see a remote location being an advantage, disadvantage or would make no impact on delivery?

Generally, there seemed to be no consensus as to whether this was an advantage or disadvantage. However, many of the suppliers indicated that remote working would have no impact on service delivery and would not be a barrier in delivering results. One supplier provided an example of undertaking design work in the UK for a client in Australia.

The issue of making potential savings based on working locally was questioned as rates may have to include costs relating to travelling time and associated costs for staff that may have to travel to Devon to perform their role in a co-location environment.

I1. Are there any innovations or efficiencies that you think DCC should be considering as part of this project?

There were no consistent innovations or efficiencies that suppliers identified. As such, a number of those identified were:

- Weight the tender scoring to promote and encourage innovation, added value and efficiencies.
- Use the principles of the [Highways England Lean Maturity Assessment](#).
- Use of drone surveys to save time and improve safety.
- Use of virtual reality to test environments and review designs.
- Integration of asset database into a 3D BIM compliant environment.
- Implementation of BIM and digital systems.
- Establishment of a continuous improvement forum to share lessons learned on DCC projects and the wider industry.

11 Detailed Evaluation of Shortlisted Delivery Models

11.1 Introduction

- 11.1.1 Section 5 of this report identified a range of delivery model options which were subsequently sifted in section 6 and then compared against their alignment with the delivery model objectives in section 7.
- 11.1.2 Based upon this analysis and for the reasons documented in section 8, the Project Board decided to shortlist the following delivery models for further evaluation as part of the market engagement exercise:
- Delivery Model 2A – In-house team with top-up consultant;
 - Delivery Model 2B – In house team with top-up consultants (i.e. framework).
- 11.1.3 In addition to the market engagement exercise outlined in section 10, the project team have obtained feedback from a range of other local authorities. The results of this feedback are presented in section 9.
- 11.1.4 This section of the report therefore focuses on the shortlisted delivery models, taking into consideration the following:
- Alignment with Delivery Model Objectives;
 - Feedback from other Local Authorities;
 - Findings from Market Engagement;
 - Other Relevant Factors

11.2 Alignment with Delivery Model Objectives

Agility and Flexibility

- 11.2.1 When comparing the shortlisted delivery models, option 2A was found to offer greater agility and flexibility than option 2B. The reasons for this are as follows:
- Agility - the commissioning of work packages under option 2A could be done more swiftly, without the need for a fully developed brief or mini-competition process.
 - Flexibility – option 2B could require work packages to be awarded following a mini-competition process. This would require the scope (i.e. design brief) to be more fully developed by the Clients in advance of the mini-competition, and would require the cost and time implications of every scope change to be assessed (i.e. multiple NEC Compensation Events).

Value for Money

- 11.2.2 Delivery model 2A is considered to offer better value for money than delivery model 2B for the reasons outlined below:
- Option 2B would involve additional resources. DCC would need additional resources to manage the mini-competition process, to evaluate the tender submissions and to publish each call-off on Contracts Finder. Similarly, the mini-competition process would involve framework consultants spending time and

money bidding for work which they may not win, with these costs being recouped from the Client through their successful tenders.

- Option 2B is more likely to involve the use of a lump sum payment mechanism. Use of this payment mechanism could adversely affect quality of the professional services which would affect whole life costs. During construction, design changes would be compensation events and during operation maintenance issues may arise.

Understanding DCC's strategies & client satisfaction

- 11.2.3 Alignment with this delivery model objective is more likely to be achieved by establishing a long-term relationship with a single partner, rather than by commissioning a range of suppliers to undertake smaller values of work.
- 11.2.4 Delivery model 2A is therefore better aligned with this objective, particularly seeing as the Public Contract Regulations 2015 limit framework arrangements to a maximum of 4 years unless there are exceptional and justifiable circumstances.

Managing DCC's exposure to the risks associated with changing staff resource requirements and funding changes

- 11.2.5 Delivery models 2A and 2B are considered to offer similar alignment with this objective. Both options would retain a similarly sized internal team and would secure the additional 'top up' resources from the private sector.

Stable platform for staff recruitment, retention, training & development

- 11.2.6 Delivery model 2B would involve a framework arrangement which, as previously stated, would typically be limited to a maximum of 4 years whereas delivery model 2A could enable the establishment of a longer-term partnership.
- 11.2.7 The framework constraint, along with the smaller proportion of DCC's professional service work, would make it harder for framework suppliers to recruit, train and develop staff for DCC's benefit.

Effective Project Risk Management

- 11.2.8 On balance, delivery models 2A and 2B were considered to offer similar alignment with this delivery model objective.
- 11.2.9 A single supplier who has a long-term relationship with DCC is more likely to gain a better understanding of DCC's risk management strategy and its appetite for risk whilst also feeling more willing to share project issues with DCC's Client teams.
- 11.2.10 Conversely, a framework of suppliers may offer a greater pool from which to resource projects which could help to minimise the risk of insufficient project resources.

11.3 Feedback from Other Local Authorities

- 11.3.1 Sixteen other Local Authorities completed questionnaires about their current and preferred future delivery models.
- 11.3.2 From the responses received, 31% of these authorities currently use delivery model 2A whilst only 23% use delivery model 2B.
- 11.3.3 When asked to advise which would be their preferred future delivery model, 54% of the Local Authorities would favour delivery model 2A whilst only 15% would favour delivery model 2B.

11.4 Findings from Market Engagement

- 11.4.1 A total of 14 supplier organisations provided feedback, either through face-to-face meetings or in response to the advertised PIN.
- 11.4.2 8 suppliers felt that DCC's needs would be best served by delivery model 2A whilst 5 suppliers favoured delivery model 2B. It was unclear which option was favoured by one of the suppliers.
- 11.4.3 Importantly, none of the suppliers that favoured delivery model option 2B seemed to appreciate the maximum time period for framework arrangements imposed through the Public Contract Regulations 2015.

11.5 Other Relevant Factors

Moving from Delivery Model 2A to 2B

- 11.5.1 Should DCC chose to alter their current delivery model then all appropriate HR legislation would need to be followed.

11.6 Recommendation for DCC

- 11.6.1 In view of the above considerations, it is recommended that DCC adopt Delivery Model 2A (internal team with top up consultant) rather than Delivery Model 2B (internal team with top up consultants) for the following reasons:
 - It has the best alignment with the delivery model objectives;
 - The majority of other local authorities favour this delivery model;
 - The supplier market feel that it would best serve DCC's needs;
 - It has played a key role in successfully delivering DCC's significant infrastructure programme since its inception in 2001.
 - If the incumbent supplier were to be unsuccessful with their tender, it would potentially allow their staff who have been engaged on DCC projects to TUPE to the new supplier – bringing with them an inherent knowledge of DCC.

12 Consideration of Wider Synergies

12.1 Opening up Contract(s) to Other Local Authorities

- 12.1.1 Some of Devon's other Local Authorities (LAs) are likely to require professional services, such as those offered by the EDG, on an occasional basis depending upon the scale of their infrastructure programme and assets.
- 12.1.2 The Local Authorities (Goods & Services Act) 1970 allows local authorities to trade in goods and services provided that the trade is with a public body. This has previously enabled the EDG to provide professional services to other public bodies such as Highways England and Exeter City Council.
- 12.1.3 It would also be possible for other LAs to access DCC's professional services contract(s) provided that certain conditions are met, although there are practical considerations that need to be weighed up.
- 12.1.4 The procurement documents, including the published contract, would need to clearly set out / reflect the arrangements with the LAs, which would basically consist of one of two options:
- Option A - LAs will be able to access the services being procured only if they enter into their own contracts with the successful bidder (which would be on equivalent terms); or
 - Option B - DCC will enter into the contract(s) on behalf of itself and the LAs.
- 12.1.5 In terms of risk exposure, Option A would be preferable from DCC's perspective – the supplier and LA would have a direct contractual link and DCC could expressly carve out its own liability in relation to the LA contract(s). The OJEU Contract Notice would need to clearly state which other LAs could access the contract and the advertised value would need to include an allowance for their spend. This approach has been adopted for Torbay Council's involvement in both the current and previous partnerships.
- 12.1.6 Option B would make DCC the contracting authority and the LA would not have a direct contractual relationship with the supplier. DCC would therefore need to establish a back-to-back user/access agreement with each LA, to protect DCC and to govern the arrangement between DCC and the LA. In this scenario, the TEPS Specification should make it clear that from time to time DCC may be providing engineering support to other local authorities and, as part of that support, DCC may require the TEPS Provider to deliver certain services to DCC to enable/assist DCC in providing those engineering support services to the other local authorities. It would also be advantageous to make mention of this in the OJEU Contract notice.
- 12.1.7 For both Options A and B, all relevant Procurement Legislation would need to be followed in order to achieve a compliant process.
- 12.1.8 If DCC wished to open up its contract to other Local Authorities, the recommendation from DCC's Legal Services team is for DCC to enter into a legally binding Pre-Procurement Collaboration Agreement with each LA. This would help to mitigate some of the issues outlined above by setting out each parties obligations, levels of commitment and the consequences of failing to comply (e.g. indemnities). This would add additional complexity and risk to the project.

- 12.1.9 Allowing Devon's other LAs to access DCC's contract(s) would increase the local workload of the professional services supplier(s) which could mean that projects commissioned by other LAs are given priority over some of DCC's lower priority projects. This should be considered against the backdrop of skills shortages and recruitment difficulties within the profession.
- 12.1.10 Conversely, a greater workload may allow the successful provider(s) more stability and the opportunity to expand local service provision with positive impacts for DCC itself.

Recommendation

- 12.1.11 The current professional services contract is due to expire in March 2020 and the procurement of a replacement supplier(s) is of strategic importance to DCC, particularly when considered alongside its emerging capital programme and its ongoing recruitment difficulties.
- 12.1.12 Opening up the contract to other local authorities in the region, such as District councils, may be beneficial to Devon when commissioning works. In these instances, a legal agreement with the relevant district council(s) would be needed to indemnify DCC.
- 12.1.13 Torbay Council have been part of a tripartite arrangement with DCC and the top-up consultants since establishment of the current delivery model in 2001. The Project Board may therefore wish to make special dispensation to include this LA or they may be treated similarly to other LAs described in paragraph 12.1.12.

12.2 Wider Collaboration

- 12.2.1 DCC have procured professional services, for delivery model 2A, on two previous occasions and have successfully managed these contracts since 2001. The organisation is therefore considered to have a substantial base of knowledge, experience and documentation which can be used throughout the project.
- 12.2.2 In addition to this, there is the potential to collaborate with Hampshire County Council (HCC). HCC currently deliver their professional services through the following Delivery Model:
- Internal Engineering Consultancy (approximately 100 staff, c. £7m/annum);
 - Strategic Supplier currently Atkins, (c. £5m/annum. Due to expire in 2020 with option to extend by a further 2 years, extension to be decided in 2019);
 - Technical Resources Framework (TRF) (c. £5m/annum, due to expire in 2020).
- 12.2.3 It is understood that HCC are not undertaking a review of their current delivery model, and that they shall be seeking Cabinet Member approval to commence re-procurement of their TRF in November 2018.
- 12.2.4 HCC's Contract's Team have advised that their current Gen3 TRF comprises 17 no. SMEs who are available to support its in-house team through bespoke commissions and secondments across a variety of disciplines.
- 12.2.5 It has been agreed with HCC to share documentation at the various stages of our respective projects and a copy of HCC's procurement documents from their 2012 to 2016 TRF have been received. DCC have also requested a copy of HCC's contract documents for their Strategic Supplier.

- 12.2.6 Lancashire County Council have also provided DCC with copies of their procurement documents for their Professional/Technical Services framework contract. This commenced in May 2017 and is due to expire in 2020, with the option to expend until May 2021.

Appendix A - Transport Infrastructure Plan

Approved by Cabinet on 8 March 2017 (Minute *167(e) refers)

Plan is available from the following page:

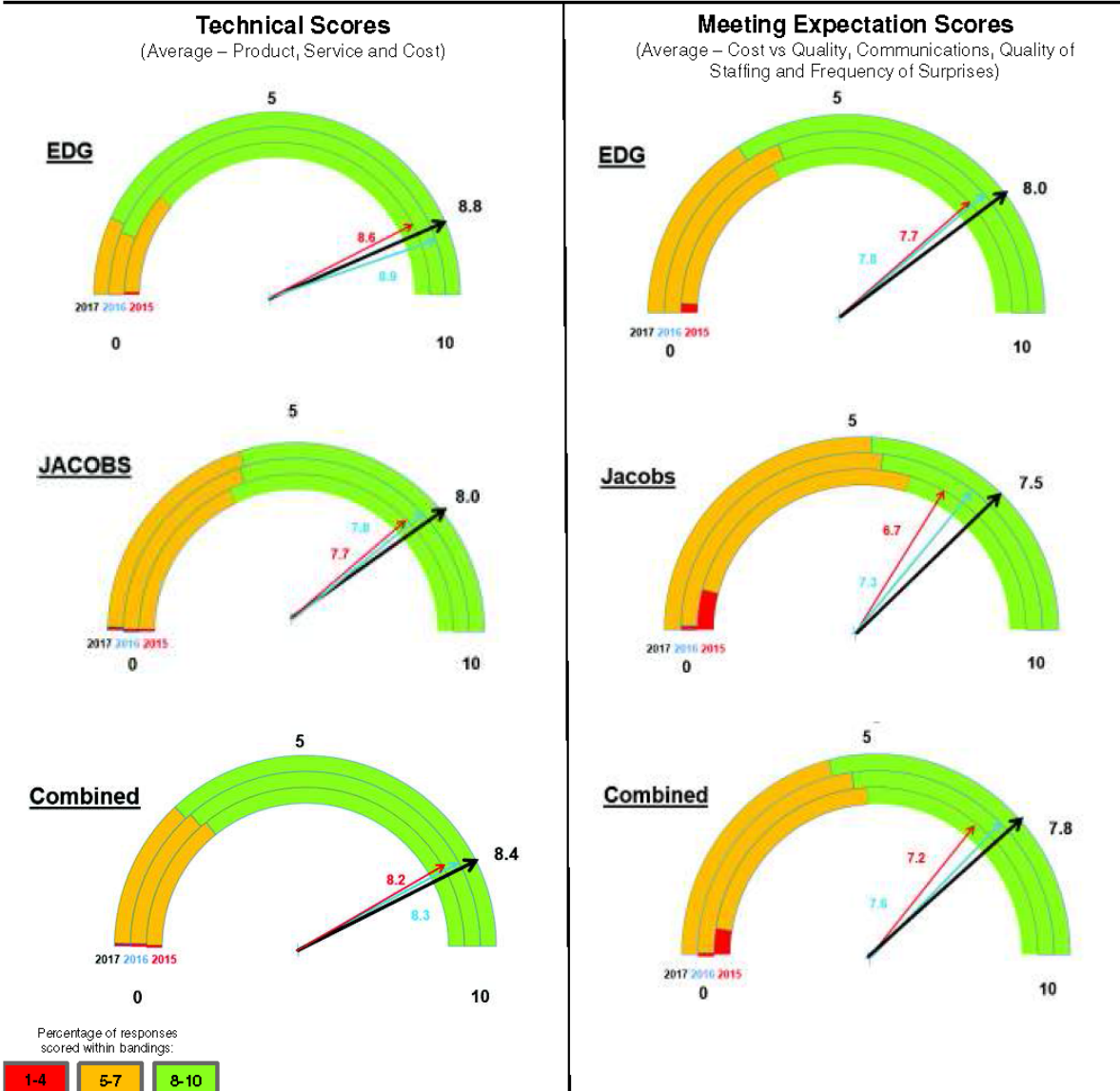
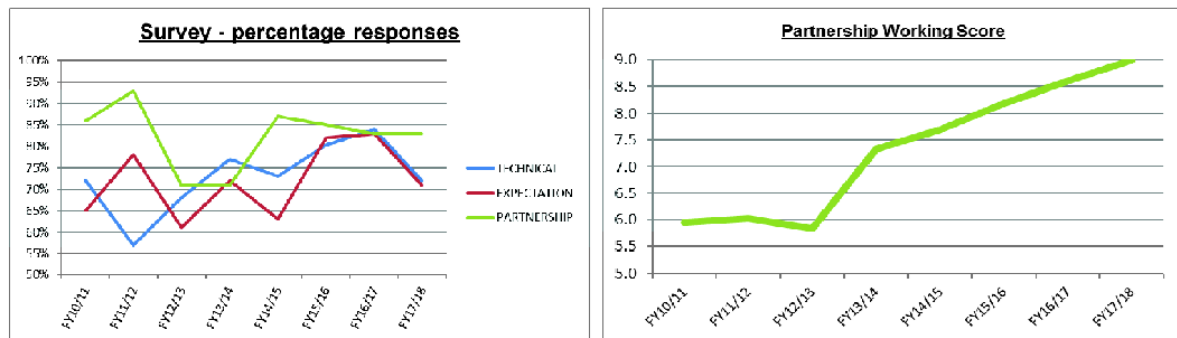
<https://democracy.devon.gov.uk/mgAi.aspx?ID=4435>

Appendix B – 2017/18 KPI Report Executive Summary

Devon County Council and Jacobs Partnership
Transportation and Engineering Consultancy Services (TECS) Contract



KPI Executive Summary



Appendix D – Company Profit Margins

Company	Summation of 5 years Accounts*		Profit Margin (%)
	Profit/Loss before Tax (£k)	Turnover (£k)	
A	70,480	N/A	N/A
B	145,831	4,272,276	3.41
C	35,252	1,156,195	3.05
D	274,600	4,205,300	6.53
E	188,422	2,971,354	6.34
F	18,924	446,380	4.24
G	2,557	20,226	12.64
H	142,463	7,492,347	1.90
I	-30,385	N/A	N/A
J	-22,084	853,596	-2.59
K	21,359	361,224	5.91
L	5,747	96,311	5.96
M	-60	480,084	-0.01

(* Information supplied by DCC Procurement Services from Mint credit reports)

Appendix E – Local Authority Feedback

Devon County Council

Transport & Engineering Professional Services (TEPS) Contract

Introduction

Devon County Council's current Professional Services Contract ends in 2020 and this information gathering exercise is to assist in determining which professional services delivery model provides the best option for Devon County Council. A number of local authorities of similar size to Devon will be asked to complete a short questionnaire asking what delivery model they currently use and, if they were to change in the next two years, what their preferred option would be and why.

Background to current delivery model

Devon County Council (DCC) currently have an internal Engineering Design Group (EDG) who are responsible for the design, project management, procurement, supervision and contract management for a range of infrastructure schemes across the authority. Such projects are primarily funded from DCC's Capital Programme although revenue schemes are also undertaken. The EDG consists of 83 full-time professional and technical staff capable of delivering a wide range of highway related engineering activities.

Since 2001, the EDG has had a Transport and Engineering Consultancy Services (TECS) contract in place which allows it to manage the fluctuating workload resulting from a varying capital programme and to provide specialist services which are not available in-house (mainly relating to railways, environmental assessments and hydraulic & transport modelling)

The current contract commenced in 2010 and was initially for a 5-year period, with the option to extend this incrementally until 2020. The contract with has now been extended to its maximum and is currently due to expire on 31 March 2020.

Why a questionnaire? The purpose of the questionnaire is to establish from others within the industry if the current delivery model remains the best option for Devon County Council and will continue to deliver the key operating principles of:

- **Agility and flexibility** to meet changing needs;
- Delivering **value for money** in programme and project management, design and contract supervision;
- **Understanding, and helping deliver DCC's strategies**, and achieving **high customer satisfaction** levels;
- **Managing DCC's exposure to the risks** associated with changing staff resource requirements and funding changes.
- To provide a **stable platform to enable the recruitment, retention, training and development of staff**;
- To create **an environment which effectively identifies and manages project risks**

Option	Description	Please indicate your Current Model	Please indicate Your preferred model if you were renewing in 2020	Reasons for stating preference
1	Full in-house service delivery.			
2A	In-house team with single top-up consultant.			
2B	In-house team with several top-up consultants			
3A	Local Authority Trading Company (LATC)			
3B	Public-Public Joint Venture (JV)			
4	Public-Private Joint Venture (JV)			
5A	Fully externalised service with single external consultant.			
5B	Fully externalised service with several external consultants.			
6	Other.....(please state)			

Specific Questions

1) How satisfied are you with the performance of your current delivery model?	Not satisfied Satisfied Very satisfied
2) What were your organisations reasons for adopting your current delivery model?	
3) What do you consider to be the key considerations if DCC were to consider adopting your current delivery model?	
4) Which of the other delivery models has your authority previously used and what was your experience of it/them?	
5) Please provide any other comments you feel would be appropriate for this assessment	

Survey Results

Existing Arrangement		Preferred Future Arrangement	
Model	Number	Model	Number
1	1	1	1
2A	4	2A	7
2B	3	2B	2
3A	2	3A	2
5A	3	5A	1

Responses Received

Local Authority	Current Model	Preferred Model 2020
1	No response	
2	2A	2A
3	No response	
4	No response	
5	3A	3A
6	2A	2A
7	2B	
8	2B	2A or 2B
9	2A	2A
10	2B	2B
11	3A - Teckal	3A
12	1 In-house when possible	Assume 1
13	No response	
14	No response	
15	No response	
16	No response	
17	5A	2A
18	No response	
19	No response	
20	2A	2A
21	5A	2A
22	5A	5A

Appendix F – Market Engagement Questionnaire

TEPS – Market Engagement Questions

Introduction to DCC

- EDG is DCC's in-house engineering service with approx. 80 engineers and technicians – we deliver schemes with values from a few thousand to multi-million highway improvement projects. We also have a large structures team who have an asset management function so undertake bridge inspections and assessments. The current consultant is heavily involved in these areas. We also have a Waste management and flood risk management role and will deliver new recycling centres and flood defence schemes
- Clients are Planning and Transportation, Highway Management, Bridges asset Management and Waste Manager
- This will be the third Professional services Contract we have let and the purpose is really to provide flexibility for the Council so as well as being a top-up service for EDG it also provides access to skillsets that we may not have, ie Railways expertise.
- Other information will be available with the ITT

Delivery Model:

D1	Would you be interested in tendering for this work with DCC?
D2	Do you have any thoughts on our proposed delivery model objectives?
D3	How would your organisation cope with potential peaks and troughs in workload from DCC?
D4	Do you have a view on whether the Council's business need would be best suited by a single 'top-up' consultant or a framework arrangement of multiple consultants?

Procurement:

P1	Which of the procurement procedures described in the Public Contracts Regulations (2015) do you consider to be most appropriate and are there any of those procedures that may deter you from bidding?
P2	Are there any other potential risks or issues that we should be aware of that may deter you from bidding?

Tender Evaluation Criteria:

T1	What are your thoughts on tender evaluation criteria (i.e. cost and quality split)? What, in your view, is the most appropriate percentage split, e.g. 50/50 or something different, and why?
T2	Are there any areas that you think we should explore as part of a quality questionnaire?

Contract:

C1	What are your thoughts on contract duration and extension options? Would, for example, an initial 5 years duration, with an option to extend annually to provide an overall 10 years be appropriate? What extension options would incentivise consultants to deliver an ever-improving service?

C2	DCC is considering using the NEC3 or NEC4 Professional Services or Term Service contract. Which standard form of professional services contract do you consider to be most appropriate and why?
C3	The fluctuating infrastructure programme would make it very difficult for DCC to guarantee a minimum workload. What are your thoughts on this?
C4	From your experience in delivering these services elsewhere, what do you consider to be the appropriate Key Performance Indicators to use and why? What do you consider are appropriate levels of performance that would determine if DCC would offer an extension to the initial contract duration?

Risks:

R1	Has your organisation any experience of TUPE and what do you think are the key considerations for both the Client and Professional Services Provider?

Payment:

P1	What should DCC consider when deciding upon the payment mechanism?

P2	If payment were to be made on the basis of hourly rates, how do you think DCC could best structure this arrangement?
P3	Are there any specialisms or circumstances that you think should warrant special rates (e.g. railways, night working etc)?
P4	Are there any specific indices that you consider should be used in determining price increases during the lifetime of the contract?

Location:

L1	What would your organisations thoughts be on co-locating within DCC's offices?
L2	How do you think this would affect the cost effectiveness of your tendered rates?
L3	Do you see a remote location being an advantage, disadvantage or would make no impact on delivery?

Transition Arrangements:

T1	Do you have any suggestions as to how DCC could best handle the transition to a potentially new consultant?
T2	What sort of mobilisation timescales do you consider appropriate?

Innovation:

I1	Are there any innovations or efficiencies that you think DCC should be considering as part of this project?
I2	How does your organisation manage both professional fees and total project costs?
I3	What opportunities do you consider there are to offer apprenticeships to people as part of delivering these services to DCC? How would you advertise these and where?

James Stanley
6 September 2018