

<b>Committee(s):</b>	<b>Date(s):</b>
Finance Committee Court of Common Council Barbican Centre Board – <b>For information only</b>	10 December 2013 16 January 2013 22 January 2013
<b>Subject:</b> Off-Street Car Park Management Tender	<b>Public</b>
<b>Report of:</b> Director of the Built Environment	<b>For Information</b>

### **Summary**

Earlier this year, the Director of the Built Environment (DBE) began a cross-departmental review of the City's public car parks, the purpose of which was to consider the questions of viability, profitability, policy provision and long-term redevelopment of the car parks.

In parallel, Members agreed for the contracts with APCOA and OCS (DBE's and the Barbican Centre's respective car park management contractors) to be extended to 30 November 2014 to allow time for this review to be completed, and for a subsequent EU tender process to be undertaken.

The following report details a number of actions identified as a consequence of this review, which include:

- Awarding a flexible car park management contract with suitable break clauses for a new contractor to work with the City to place the car parks on a more cost efficient footing.
- Combining the management of DBE's, Smithfield and the Barbican Centre's car parks into one contract to gain economies of scale.
- To include in the tender an allowance for a mid-tender briefing to cover the replacement of the currently failing car park barrier equipment or alternative security/management measures
- Consideration of the business case with Members for moving to the London Living Wage.
- Closing Whites Row car park from April 2014.
- Establishing a detailed asset management plan for all the City's car parks (which will be the subject of a further report to Members early next year).

### **Recommendation(s)**

On behalf of the Planning & Transportation, Markets and Barbican Centre Committees, it is recommended that:

- The Finance Committee and the Court of Common Council approves the re-tendering of the City's car park management function with a start date of 1 December 2014, and agrees the evaluation criteria to be applied in the selection process of 60% Quality and 40% Price.

- The proposed new contract seeks to combine the management of the DBE, Smithfield and the Barbican Centre's car parks into one contract.
- Whites Row car park is deemed surplus to requirements, it transfers to the Property Investment Board and is closed to the public from April 2014.

## Main Report

### **Background**

1. The Department of the Built Environment (DBE) manages five public car parks, namely:
  - Baynard House, Queen Victoria Street
  - London Wall
  - Minorities
  - Tower Hill coach and car park
  - Whites Row (in LB Tower Hamlets)
2. In addition, Smithfield car park is managed by DBE on behalf of the Markets' Department, and further City Corporation car parks are operated in the Square Mile by the Barbican Centre and Barbican Estate.
3. In respect of DBE's car parks, the City Surveyor is responsible for a number of other functions including:
  - Structural inspection & maintenance
  - Mechanical & electrical maintenance and general repairs (at Smithfield, in conjunction with the Superintendent).
  - Corporate property asset and facilities management, including strategic asset management planning, exploring redevelopment potential and other commercial use
4. The parking tariffs for DBE's car parks are set in accordance with the Planning and Transportation policy of discouraging private commuting by car, rather than maximising income or covering costs. The car parks also provide spaces for commercial, over-height vehicle and coach parking, and help deliver a number of City transport objectives, such as facilities for residents, motorcycles, pedal cycles and electric vehicles. These in turn reduce or eliminate the need for the provision of similar facilities on-street, and reflect the wider context of GLA and Government initiatives, including sustainability.
5. DBE and Barbican Centre have separate contractors managing their car parks, whose functions include the provision of car park attendants, customer care services and cash collection, counting and banking operations. Separate vehicle barrier control systems and payment machines are also operated by DBE and Barbican Centre. The Barbican Estate car parks are managed in-house by the Community & Children's Services Department.

6. The following table indicates the approximate annual value of these contracts, together with their current service provider.

<b>Contract</b>	<b>Provider</b>	<b>Contract Value</b>
Public car park management	APCOA	£1.578m
Public car park barriers	Zeag	£131k
Barbican Centre car park management	OCS	£206k
Barbican Centre car park barriers	APT Skidata	£15k

7. In April and May, Members of the Planning & Transportation, Markets, Barbican Centre and Finance Committees, as well as the Court of Common Council, approved the extension of both the APCOA and OCS contracts to 30 November 2014. At the time, it was noted that the additional time would be needed to enable the car park barrier equipment to be assessed, to facilitate a DBE review of its car park provision, and for the City Surveyor to consider closing Whites Row car park as part of the redevelopment of the London Fruit & Wool Exchange. Thereafter, a full EU tender process would also have to be conducted.
8. In addition, the PP2P Soft Facilities Management Category Board recommended that at the time of the next tender, officers should seek to bring together these car park management contracts in order to deliver savings through economies of scale.

### **Current Position**

9. Earlier this year, the Director of the Built Environment began his review of the City's public car parking functions. The purpose of this was to consider the questions of viability, profitability, policy provision and long-term redevelopment of the car parks, in the context of delivering the City's transport objectives in a changing financial and service environment.
10. This review sought to establish the City's long-term vision for its car parks, to gain the agreement of Members for that vision, and to set out the necessary steps to deliver that vision. At the same time, it was to inform the terms of the procurement of the new off-street parking contract for DBE and the Barbican Centre.
11. That review is coming to a conclusion, and a further report will be brought to Members early in the New Year to summarise its findings. However, in the context of the re-tender of the City's car park management contracts, a number of the review's findings need to be brought to Members now in order to allow that re-tender to proceed. These include:

- The original purpose of the City operating car parks was primarily for long-term daytime business car drivers. This has changed over time to reflect planning, congestion charging and government policy, with motorcycles, pedal cycles, residents, coaches and night-time visitors all now prevalent.
- The limited occupancy in the City's car parks would suggest that the City's well established policy of discouraging commuting by car has been successful. Commercial considerations have been seen as a secondary priority to fulfilling this policy, to the point where DBE's car parks now operate at an overall loss, and in order to break-even, they are funded by the Parking Meter Reserve.
- The car park equipment for both DBE and Barbican Centre are life expired, with excessive reactive maintenance costs, few spare parts available and on the verge of failing. They therefore either need to be urgently replaced, or alternative access and security arrangements introduced such as Automatic Number Plate Recognition (ANPR).
- With most staff currently paid at the minimum wage, moving to the London Living Wage could add up to £350k pa to the cost of the current contract.
- Whites Row car park forms part of the City's redevelopment plans for the London Fruit and Wool Exchange, and as such it is likely to close in the near future. It was also built 40+ years ago and has shown signs of structural issues that will need to be addressed soon if it were to remain open.

## **Options**

12. From the review, two key sets of options remain in relation to framing the new combined car park management contract. These are:
- which tender strategy to adopt;
  - whether any car parks should be closed at this time.

### **Options: Tender strategy**

13. Given the length of time necessary to undertake a full EU tender in time for November 2014, a decision needs to be made now as to the procurement strategy to be followed. A number of options are possible.

#### **Option 1: Traditional tender with no change to the basis of the current contracts**

14. This is effectively the 'Do Nothing' option and would involve:
- DBE and Barbican Centre both retendering their contracts on the current basis
  - The same number of car parks (with Whites Row being taken out as / when the associated development proceeds)
  - A traditional tender with a heavily defined specification
  - The contractor just managing the facilities with no commercial input.

15. This could be completed in time for the November 2014 deadline, but this effectively ignores the declining financial position of the car parks, it is unlikely to deliver any contractual savings over the current contract and it ignores the potential economies of scale of combining the DBE and Barbican Centre services.
16. As a result, this option is not recommended.

#### Option 2: Full competitive dialogue to include all possible contractual arrangements

17. At the other extreme, a competitive dialogue approach could be adopted, where the City seeks to identify through the market whether any of the following contractual approaches might deal with the underlying problems:
  - The current approach where the contractor is required to manage the service but has no control or influence over service levels, tariffs, marketing, promotion or building maintenance.
  - Allowing the contractor more influence in deciding levels of service, thereby allowing the car parks to function on a more commercial basis, and even possibly allowing the contractor to keep a percentage of the income as an incentive.
  - Passing full management control of the building and the service to the contractor, including long-term structural building maintenance, over a much longer period in return for an agreed income to the City.
18. A competitive dialogue approach would allow the City to fully test the market and establish what might be the most appropriate style of contract for it to take forward. However, this approach is extremely resource and time intensive, and even though the current contract ends in just under 12 months, the programme of dialogue meetings and committee dates would suggest there is already insufficient time to complete the process, and a contract extension would be needed.
19. Given the variables involved, it is also unlikely that a contractor working within a competitive dialogue approach would be any better placed to say with certainty what initiatives would be effective. Therefore it is questionable what additional benefit this approach would serve other than to establish what style of contract the market might support. This information could equally be found by a soft market testing exercise, so the time and resources involved in a competitive dialogue approach do not seem justified.
20. As a result, this option is not recommended.

#### Option 3: Medium-term review of car park operations with an incumbent contractor

21. In order to establish whether the City's car parks can be operated cost effectively, it would appear sensible to form a contract where this is the explicit objective, with the management contractor in place and actively participating in determining the services.

22. At an appropriate point, informed decisions could be taken for the longer term as to whether the car parks were economically viable, and if not, whether they should continue to be subsidised by the City, redeveloped, closed or sold off.
23. Such a contract could be established in one of two ways; either through a flexible contract with options and break clauses (Option 3a below) or an extension to the current contract (Option 3b).

#### Option 3a: Short duration contract with negotiated procedure for barrier equipment

24. Tendering a flexible contract of perhaps seven years would allow for a number of fundamental actions to be completed before the long-term car park strategy is set. It would allow for changes to be made during the life of the contract and if the long term strategy fundamentally changed the service, break clauses could be exercised with the costs of termination established as part of the tender exercise.
25. Here the views and knowledge of an experienced contractor delivering the services would be of significant value and input to the process, and they would be expected to contribute. These actions would include:
  - A period of 'intelligent contractor engagement' where the City would work with the incumbent contractor to fundamentally review and change any and all aspects of the car park operations, with the aim of setting them onto a more cost conscious basis.
  - Consider the business case with Members for moving to the London Living Wage.
  - Undertake a full tariff review, including residents parking rates, with the results being presented to Members for approval and implementation.
26. An open market tender would re-establish the market cost for delivering these services for the first time in 11 years, and it would allow for a combined DBE / Barbican Centre / Markets contract that could deliver economies of scale. Such an approach could be delivered in time for the end of the current contract, and could involve a mid-tender briefing to cover the inclusion, procurement and replacement of the currently failing car park barrier equipment or provision of alternative access and security arrangements such as ANPR. The briefing is intended to allow bidders to clarify the City's output specification and develop the best proposal.
27. This approach, with an intelligent contractor on board, is likely to better shape the City's long-term car park strategy, than would a lengthy up-front competitive dialogue process when neither party has a full understanding of the true service possibilities.
28. As a result, Option 3a is recommended.

#### Option 3b: Car park review under an extension to the current contracts

29. A similar review process to Option 3a described above could be undertaken with the existing contractors (APCOA for DBE; OCS for Barbican Centre) under a contract extension, but there are a number of factors against this approach, namely;

- The urgent need to replace the car park barrier equipment would not be addressed with an extension.
- The need to demonstrate best value and deliver potential savings by combining the DBE and Barbican Centre contracts would not be met.
- Further extensions to the current contracts would leave the City open to challenge as they would be continuing beyond their original term.

30. As a result, this option is not recommended.

### **Options: Car Park Closures**

31. Other than the tender strategy, the other key option to consider relates to whether any car parks should be closed at this time. Taking such a decision now (rather than deferring it) allows the re-tender to proceed on an accurate basis, rather than building in a distortion created by that uncertainty.
32. If the City Corporation decided not to operate any public car parks in the Square Mile, there would be considerable consequences in terms of the facilitating daily parking for City businesses, visitors, residents, motorcyclists, cyclists and coaches, with insufficient alternative on-street or commercial car parking available to fill the gap. Therefore, it is not currently proposed for the City to stop providing public car parks. However, car park provision must be assessed critically in terms of function and cost, and it is this assessment that will form much of the basis of the report next year. However, in the meantime, there appears to be a pressing case to close Whites Row car park now, prior to the contract re-tender.

### **Whites Row**

33. Whites Row car park is currently losing around £140k pa, its annual repairs have already been scaled back by the City Surveyors due to its likely closure as part of the Fruit and Wool Exchange redevelopment, and its long-term structural repairs have also been postponed.
34. Due to its location in LB Tower Hamlets, its benefits to the City Corporation's local transport policy are limited. Its regular customers are generally limited to around 200 motorcyclists, seven City resident season ticket holders and Petticoat Lane Market visitors.
35. The concept of closing Whites Row has already been approved by Members as part of the London Fruit and Wool Exchange development, and although a closure date of April 2014 is currently expected, this could be extended to 2015 dependent on the developer's plans. Season ticket holders are already on limited notice periods as a result.
36. Therefore, given the above position, it is recommended that Whites Row be deemed surplus to requirements and is transferred to the Property Investment Board. A firm date should be agreed for it to close to the public, which could be from as early as April 2014, regardless of the development position.
37. This would serve to reduce DBE's operating costs (although shared overheads in the region of £39,000 will have to be transferred to other car parks), and there would be a reduction in the current central funds subsidy transfer.

38. A detailed closure action plan would need to be developed between DBE and the City Surveyors, but there would be limited City stakeholder impact due to the car park's location outside the City, with parking likely to relocate to other facilities also outside the City. City residents would be relocated to their next nearest car park, but the City Surveyor has already asked DBE to place season ticket holders on notice that the closure is likely to happen, so this would not be unexpected.
39. The City Surveyor would also have to secure and maintain the building until such time as the proposed London Fruit & Wool Exchange redevelopment proceeds. This may involve a transfer of budgets to the City Surveyor, which will be detailed in the further report early next year.

### **Soft Market Testing**

40. In preparation for the re-tender process, officers from DBE and the CLPS undertook a soft market testing exercise with several suppliers in the car parking field to help understand the market's viewpoint. For Members' information, some of the common themes from these discussions included:
  - Market expectations suggest parking demand will continue to decline in the long-term.
  - If correctly incentivised (eg through revenue share or extension years), suppliers can help drive down costs or increase income through marketing and benchmarking.
  - Long-term contracts are more attractive to suppliers than short-term ones.
  - Tariff changes cannot be made with any certainty as to whether they will result in income going up or down. Flexibility to adapt to circumstances is needed.
  - Managing barriers within the car park management contract can typically generate benefits as the supplier can leverage efficiencies from barrier companies.
  - Barrier asset life plans need to be based on an 8-10 year profile, with a payback typically over the first four years being ideal.
  - Some suppliers considered the management of access and security by ANPR to be more cost effective and a real alternative to barriers.
  - Suppliers can actively market spare capacity in car parks for non-parking uses in order to help raise revenue for the client.
  - Suppliers prefer outcome-based specifications which allow them the flexibility to innovate (eg to include joint control rooms for CCTV monitoring), rather than constrained prescriptive contracts.
  - Adopting London Living Wage is likely to improve the type of person you attract into the market.
  - A competitive dialogue approach has its benefits, but it is resource intensive.

## Proposals

41. In summary, the City's car park review and PP2P tender evaluation process has reached a number of conclusions. These are:
- Under Option 3a above, award a flexible car park management contract with suitable break clauses for a new contractor to work with the City to place the car parks on a more cost efficient footing.
  - To combine the management of the DBE, Smithfield and Barbican Centre car parks into one contract to gain economies of scale
  - In line with the recent on-street parking contract tender, to recommend that the evaluation criteria applied in the tender process be 60% Quality and 40% Price.
  - To include in the tender an allowance for a mid-tender briefing to cover the replacement of the currently failing car park barrier equipment.
  - Consider the business case with Members for moving to the London Living Wage.
  - Close Whites Row car park from April 2014.
42. Finally, in order to ensure the effective progress of the actions outlined above, a cross-departmental car park management oversight group of senior officers would also be established. They would be tasked with developing the strategy, to drive and monitor this change in commercial emphasis, and to ensure the final review effectively meets its aims and objectives.

## Corporate & Strategic Implications

43. The proposed strategy is anticipated to deliver efficiency savings and provide long term value for the Corporation. It will also deliver a flexible contract that allows the City to adapt its contractual position to respond to its developing long-term parking strategy.

## Implications

44. In order for the tender to be completed by the current contract expiry date, approval from the Finance Committee is sought on behalf of the respective spending committees.

## Conclusion

45. Given the City's changing needs for car park provision, the approach outlined in this report seeks to deliver a more efficient, responsive and effective service.

## Appendices

- Car Park Location map
- Whites Row car park dashboard

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